Journal of Economics and Business Review
ISSN 3065-176X
Vol. 2, No. 3, 2025
Published by STSL Press

Original Paper

Exit Scenarios from the CFA Franc Arrangement[1]

Julius A. Agbor, Yollande Tankeu & Idrissa M. Ouedraogo

Julius A. Agbor, Ph.D. (Corresponding Author), Professor of Economics & Finance (Vanguard University of Southern California) and Nonresident Fellow at Nkafu Policy Institute. Email: Julius.agbor@vanguard.edu

Yollande Tankeu, Ph.D., Economic Affairs Division, Nkafu Policy Institute, Yaounde, Cameroon

Email: ytankeu@foretiafoundation.org

Idrissa M. Ouedraogo, Ph.D., Professeur Titulaire, Agrégé des Facultés des Sciences Economiques

Directeur de l'Ecole Doctorale de l'Université Aube Nouvelle (U-AUBEN)

Président du Centre de Formation, d'Orientation et de Recherche pour la

Gouvernance Economique en Afrique (FORGE-Afrique)

Ouagadougou Burkina Faso. Email: idriss_mo@yahoo.fr

Abstract

The CFA Franc, a currency used in about 15 African countries, has long been the subject of controversies due to its historical ties to colonialism and its perceived constraints on economic sovereignty. This study explores the complex dynamics and considerations involved in transitioning from the century long arrangement to a better alternative that provides ample policy levers to help address the immense developmental challenges facing these economies. We have outlined three possible scenarios namely, the conservative, progressive and radical schools of thoughts for exiting from the CFA zone. The conservative scenario maintains the fixed exchange regime framework and can follow two routes: either maintaining the French Treasury or switching to the U.S. Federal Reserve as foreign nominal anchor. As discussed, the conservative scenario largely fails to provide enough policy levers to advance the development of CFA countries and thus represents a *worse-case* scenario. The radical scenario on its part, involves complete disintegration of the CFA zone and countries pursuing their independent national currencies. While potentially offering countries a full array of policy tools to effectively address their individual developmental challenges, it comes at a higher cost, in terms of the risks of mismanagement, undermines the benefits of regional economic integration and also runs contrary to the pan-African vision of a future continental trade and monetary union. In that sense, it constitutes a *second-best* scenario. The *first-best* scenario thus appears to be the progressive scenario whereby CFA countries strive in the first instance to achieve total monetary and financial independence from French monetary authorities (by implementing fully independent regional currency boards) and then progressively strive towards monetary union at the regional/continental level. This progressive strategy incrementally provides access to more development policy levers (fiscal, monetary, exchange rate, trade and industrial policies), regardless of whether those are implemented within the framework of sub-regional, regional or continental bodies. This paper advances the literature on CFA economies by taking the conversation beyond the merits and demerits of the existing framework to actually proposing best-case, second-best and worse-case scenarios of a possible exit. The strength of our contribution lies in the progressive transition—anchored in currency boards and regional cooperation—which seems the

[1] This research is part of the Nkafu Policy Institute's reflections on strengthening the effectiveness of monetary policy in Francophone Africa, thanks to the financial support of the Templeton World Charity Foundation (TWCF). Grant ID#: TWCF-2022-30501

most viable strategy as it balances the need for monetary autonomy with stability, paving the way for eventual continental integration.

Keywords: CFA Franc, transition strategies, monetary arrangement, sovereign currency, dollarization, currency board

1. Introduction

The CFA franc, the common currency used by several West and Central African countries, has been the subject of debate and criticism in recent years due to its historical links to the colonial era and the perceived limits it imposes on economic development (Sylla, 2020). As the global economic landscape continues to evolve, and as new challenges, notably, climate change, food insecurity and cross-border terrorism arise, the imperative of optimizing all available development policy tools is forcing many CFA member countries to seriously consider alternatives to the current monetary and exchange rate framework. Also, within the civil society space in African countries, there has been increasing concerns and calls for either profound reforms or complete abandonment of the CFA regime. This study contributes to on-going scholarship, notably by (Mignamissi & Kembeng, 2024; Zafar, 2021; Amin, 2022; Nubukpo, 2016; Sylla, 2020; Dembélé, Nubukpo, & Martial, 2015) on the merits and demerits of transitioning from the CFA franc arrangement.

Since 1948, the CFA Franc zone has existed as the monetary arrangement between France on the one hand, and on the other hand, two regional African bodies: CEMAC (Central African Economic and Monetary Union) currently comprising six countries – Cameroon, Gabon, Central African Republic, Congo, Equatorial Guinea, and Chad; and WAEMU (West African Economic and Monetary Union) comprising eight countries – Benin, Burkina Faso, Ivory Coast, Senegal, Togo, Mali, Niger, and Guinea-Bissau. The Comoros Island became the fifteenth member of the CFA Franc zone in 1981 but has since ran its own independent Comorian Franc. The CFA Franc currency board arrangement (CBA) thus links three currencies to the Euro namely: the two CFA francs issued separately by the central banks of CEMAC (BEAC) and WAEMU (BCEAO), and the Comorian franc. All but two of these countries—Equatorial Guinea and Guinea-Bissau—are former French colonies. Through its entire history, the fixed exchange rate has been modified only three times, respectively in 1948, 1994 and 1999. Since January 1, 1999; the parity of the CFA Franc has been fixed at 1 euro = 655.957 CFA Franc.

One of the main limitations of the fixed CFA exchange regime has been the inability of these developing countries to effectively utilize monetary and exchange rate policies to address the ever-increasing and multifaceted development challenges facing them (Zafar, 2021; Amadou & Kebalo, 2018; Amin, 2022; Nzaou-Kongo & Biankola, 2020; Pigeaud & Sylla, 2021). From a traditional perspective, adopting a monetary and post-keynesian approach, Pouemi (1980) denounced the monetary repression in Africa, highlighting that many economic problems have a monetary source and 40 years after, Pouemi's thesis still holds. Over the past years, a range of perspectives have emerged from these discussions, including proposals to creating new regional currencies, to pegging to other global currencies, or moving away altogether from the notion of a common currency (Nubukpo, 2016; Jacquemot, 2018; Zafar, 2021). Numerous studies have examined the economic implications of transitioning away from the CFA franc arrangement. For instance (Kangami & Akinkugbe, 2021) conducted an empirical analysis of the effects of adopting a common currency on bilateral trade flows between member states of the Central African Economic and Monetary Community. Their findings suggest that transitioning to a regional currency could facilitate increased intra-regional trade, leading to higher levels of economic integration and growth. Additionally (Colliac & Ble, 2019) employed a gravity model to explore the effect of the CFA franc peg on competitiveness and reveal that exiting out of the CFA arrangement could enhance the competitiveness of countries, promote export diversification and reduce external vulnerabilities. Furthermore (Coulibaly, 2014; Zafar, 2021), have articulated the importance of a competitive CFA currency in spurring sectoral growth and industrial policy critical to economies that are facing multifaceted development challenges.

Exiting from a currency, especially one with a very long history could be expected to be challenging with several interesting perspectives or schools of thoughts. Proponents of the conservative school (notably, Ouattara-Macron reforms) militate for nominal changes in the operative rules governing the

CFA regime, leaving its basic architecture unchanged. Proponents of the progressive school advocate instead for a gradual transition to a managed floating exchange rate regime, citing the experience of the East Caribbean currency board. Yet, another school, described as radical, argues for the complete abandonment of the present regime and the adoption of new independent monetary regimes, either collectively or individually.

The lack of comprehensive research on the various transition strategies poses a significant knowledge gap inhibiting informed decision-making. As the rallying cry for economic independence continues to intensify, it is imperative to examine the evidence and perspectives related to transitioning away from the CFA franc arrangement taking into account regional and global perspectives. Accordingly, this paper aims to contribute to the existing body of knowledge by examining the strategies and challenges associated with different exit scenarios from the CFA franc arrangement and explores potential pathways towards the establishment of new monetary frameworks in the CFA franc countries. By analyzing the monetary, economic, political, and social considerations associated with each exit scenario, the paper informs the decision-making process of CFA economies. By consolidating empirical evidence and lessons learned from previous currency reforms, this research will shed light on effective strategies and considerations for countries seeking to achieve greater monetary autonomy. The paper is organized as follows. First, we present a historical overview of the CFA franc zone. We then summarize the main characteristics of CFA economies, their constraints and opportunities from a development policy perspective. Subsequently, we analyze the different exit scenarios, articulating the merits and demerits of each and then conclude with a proposition of the first-best and second-best case scenarios for CFA franc countries.

2. Historical Overview of the CFA Franc Zone

Established on December 26, 1945 by French colonial authorities, the CFA franc ("Colonies Françaises d'Afrique")[2] was created with two concurrent goals in mind, namely, to solidify France's control over the economies of its African colonies and to strengthen trade relations with them. Since inception, the currency continues to be printed by the French Central Bank (Banque de France) in the French town of Chamalières, and there is no record of CFA countries receiving seigniorage revenues from France.

At its launch, the CFA franc was pegged to the French franc at a fixed exchange rate, providing stability and facilitating trade between France and its African colonies (Guillaumont & Guillaumont Jeanneney, 2017). This represents a hard peg that can only be adjusted through devaluation or revaluation. As per the CFA conventions, France has the final authority in parity adjustment, thus making France the underwriter of the zone's exchange regime. Another important and unique feature of the CFA arrangement is the requirement for CFA countries to pool together foreign reserves in a so-called Operations Account with the French Treasury. The two regional central banks are required to pool 50% of their net foreign assets. Initially, the BCEAO and the BEAC were required to deposit 100% of their external reserves in their operational accounts. However, this reserve requirement has gradually decreased and now stands at 50% (Guillaumont & Guillaumont Jeanneney, 2017). Another interesting puzzle is that, convertibility of the currency to the French Franc (and subsequently the euro) is guaranteed by the French treasury, yet the two CFA francs are not directly convertible. The guarantee of full convertibility is offered to CFA central banks on the condition that governments commit to conducting monetary management in accordance with the parity of the euro currency. The monetary cooperation agreements under the Franc zone's operating mechanisms state that France can use the operational accounts' credit funds freely. In case of the balances on Transaction Accounts in debit and if there are consistent balance of payments difficulties, the CFA franc countries should adjust in order to ensure stability. When they are creditors, France pays interest to them (Avom & Noumba, 2019). This is a general principle for the BCEAO. However, at the BEAC, specific automatic restrictive measures are in place. Refinancing ceilings should be lowered by 20% for countries with an operating account and 10% for countries that remain creditors but have external assets that are less than 15% of the Central Bank's sight liabilities (as per article 11.2 of the BEAC statutes).

[2] Meaning the Franc of French African colonies

3. Challenges, Constraints and Opportunities facing CFA Franc Economies

To better understand the challenges CFA Franc Zone (CFA-FZ) countries face, we perform a natural experiment with comparable Sub-Saharan African (SSA) countries that do not implement a fixed exchange regime of the type that CFA countries do or export similar primary commodities. Thus, we compare the oil/mineral rich CFA-FZ countries of CEMAC with their comparable SSA oil/mineral exporting counterparts (CEMAC-C). We also compare the largely agricultural CFA-FZ economies of WAEMU with their comparable SSA agriculture-based counterpart economies (WAEMU-C). Table 1 below presents key macroeconomic indicators for both sets of countries. The table compares CEMAC (Central African Economic and Monetary Community) and WAEMU (West African Economic and Monetary Union), both using the CFA franc (fixed exchange rate regimes), against comparable African countries with flexible exchange regimes (CEMAC-C and WAEMU-C).

Table 1. Comparative Macroeconomic Indicators: CFA-FZ versus Comparable SSA

CFA-FZ FIXED EXCHANGE REGIME (CEMAC & WAEMU) versus **COMPARABLE AFRICAN FLEXIBLE EXCHANGE REGIMES**					
	INDICATOR	**CEMAC**	**CEMAC-C**	**WAEMU**	**WAEMU-C**
1	Inflation, Consumer Prices (annual %)	4.25%	154.86%	5.84%	15.13%
2	GDP per capita Growth (annual %)	1.81%	0.88%	0.94%	0.72%
3	Real Effective Exchange Rate Index (2010 = 100)	114.29	200.36	105.63%	124.96
4	Total Reserves in Months of Imports	1.87	3.38	-	2.91
5	Youth Unemployment Rates (ages 15-24; % of total labor force; ILO estimates)	18.61%	12.04%	4.13%	9.16%
6	Labor Force Participation Rates (% of total population ages 15+; ILO estimates	65.57%	74.18%	65.95%	67.57%

Source: Author's computation from World Development Indicators. All data are averages, spanning 1960-2023

Understanding the Labels

• **CEMAC / WAEMU** represents actual data under **fixed exchange regimes** (CEMAC for Central African Economic and Monetary Community; WAEMU for West African Economic and Monetary Union). CEMAC countries (6) include: Cameroon, Chad, Congo Republic, Gabon, Equatorial Guinea, Central African Republic. WAEMU countries (8) include: Ivory Coast, Senegal, Mali, Burkina Faso, Niger, Guinea Bissau, Benin, Togo

• **CEMAC-C / WAEMU-C** are counterfactual or **comparable flexible exchange regime** countries' data for the same regions. CEMAC-C (6) refers to CEMAC comparable countries (countries that do not implement a fixed exchange regime like CFA-FZ but also have huge exports of minerals and/or oil): Congo DRC, Angola, Ghana, Nigeria, Sierra Leone, Mozambique. WAEMU-C (14) refers to WAEMU comparable countries (countries that do not implement a fixed exchange regime like CFA-FZ and also do NOT export minerals and/or oil): Madagascar, Guinea, Malawi, Zimbabwe, Ethiopia, Kenya, Tanzania, Gambia, Liberia, Rwanda, Sudan, Zambia, Burundi and Mauritania.

The data presented in Table 1 is consistent with the conventional wisdom that fixed exchange regimes (CFA-FZ) generally maintain much lower inflation than their flexible-exchange peers. For instance, CEMAC inflation is about 36 times lower than CEMAC-C. On per capita GDP growth, CFA-FZ countries also generally performed better, although not spectacularly high; suggesting only minimal economic benefit from monetary stability. In regards to the real effective exchange rate (REER), CFA-FZ regimes show more stable and closer-to-par REER values, while flexible regimes experienced much greater exchange rate swings. In particular, CEMAC-C's REER at 200.36 indicates substantial long-term overvaluation/depreciation cycles, highlighting if anything, the benefit of exchange rate realignment imposed by the CFA peg. Unsurprisingly, CFA-FZ countries have lower import cover reserves, largely due to reliance on the French Treasury guarantee rather than building large foreign reserves. Non-CFA comparators tend to maintain more reserves as buffers against shocks. The youth unemployment data presents a mixed picture. While youth unemployment is much higher in CEMAC than in CEMAC comparators; it is much lower in WAEMU than in WAEMU comparators, suggesting that labor market outcomes depend also on local structural factors, and not just on the currency regime. Labor force participation rates are comparable across groups, though CEMAC has slightly lower participation than its peers. This suggests that labor force participation is shaped by other factors like demographics, education, and social norms, and less by the exchange regime. Overall, Table 1 suggests that CFA-FZ fixed exchange regimes have better control of inflation, modestly higher per capita GDP growth and greater exchange rate stability than their comparable flexible exchange regime peers. They also rely less on foreign reserves due to French backing. Finally, the CFA franc arrangement seem to provide monetary stability (low inflation, stable currency), but structural challenges (youth unemployment, low reserves) remain significant.

In Table 2 below, we present comparative development indicators for both sets of countries.

On food imports: WAEMU countries under the CFA fixed regime are far more dependent on food imports (almost 25%) compared to their flexible-regime counterparts (17.42%). CEMAC shows a smaller difference but still slightly higher dependence. This suggests potential vulnerability in food security under the CFA regime, particularly in WAEMU.

On energy imports: The negative values for CEMAC indicate it is a net exporter of energy, and a huge exporter at that, compared to CEMAC comparable, reflecting CEMAC's heavy oil-export dependence. By contrast, WAEMU is a modest net importer of energy, but less so than its flexible peers.

On children out-of-school: School exclusion is worse in CFA regimes, especially in WAEMU, where nearly half of primary-age children are out of school versus 31% in comparable flexible exchange countries. This indicates structural weaknesses in education access.

On ease of doing business: CEMAC significantly lags behind its peers in business climate (39 vs 49). WAEMU performs relatively better, though only marginally below peers. This suggests the fixed CFA regime may constrain institutional/business environment reforms in CEMAC.

On immunizations: Both CFA blocs trail slightly in immunization compared to peers. The gap is most noticeable in CEMAC, reflecting weaker public health outcomes.

On urbanization rates: CEMAC countries are far more urbanized than their peers, likely due to oil-driven economies concentrating populations in cities. WAEMU is closer to its peers. This could reflect faster structural transformation in CEMAC but also rural neglect.

On educational attainment levels: Adult educational attainment is significantly lower in CFA regimes, especially WAEMU, suggesting persistent underinvestment in human capital despite decades of the CFA system.

On human capital index: Human capital outcomes are slightly weaker in CFA zones compared to flexible peers, reinforcing evidence of structural educational and health gaps.

Key insights from Table 2:

1. **CEMAC (oil-rich):** Strong in energy exports and urbanization but lags badly in ease of doing business, education, and immunization, suggesting a resource-driven economy with weak institutions.

2. **WAEMU (agrarian):** More dependent on food imports, higher school exclusion, and lower adult education levels than flexible peers, revealing clear institutional weaknesses and human capital deficits.

3. **CFA vs Flexible Regimes:** On average, the CFA fixed exchange rate blocs show **greater dependence on imports (food), weaker human capital outcomes, and poorer institutional performance**, despite some resource-driven advantages (CEMAC).

The greater dependence of CFA-FZ countries on food imports has been blamed on the fixed regime system that disproportionately favors imports. Food insecurity in the CFA-FZ is reinforced by conflict-driven rural migration, the lack of agricultural innovation, and climate change, which in turn significantly undermines fiscal space, placing priority on the use of independent monetary and exchange rate policies, thus effectively militating against continuing with the fixed exchange regime.

Table 2. Comparative Development Indicators: CFA Franc Zone versus Comparable SSA

CFA-FZ FIXED EXCHANGE REGIME (CEMAC & WAEMU) versus **COMPARABLE AFRICAN FLEXIBLE EXCHANGE REGIMES**					
	INDICATOR	**CEMAC**	**CEMAC-C**	**WAEMU**	**WAEMU-C**
1	Food Imports (% of merchandise imports)	18.78%	16.57%	24.79%	17.42%
2	Energy Imports, net (% of energy use)	-544.34%	-107.51%	19.86%	4.7%
3	Children Out-of-School (% of primary school age)	32.25%	27.24%	43.1%	31.03%
4	Ease of Doing Business Score (0 = lowest performance to 100 = best performance)	39.44	49.08	51.05	52.24
5	Immunization, HepB3 (% of one-year-old children)	60.98%	71.49%	79.32%	80.23%
6	Urbanization Rates	42.03%	30.03%	27.76%	24.05%
7	Educational Attainment, at least completed primary, population 25+ years, total (%)	33.91%	52.91%	28.6%	42.72%
8	Human Capital Index (scale 0-1)	0.36	0.37	0.37	0.39

Source: Author's computation from World Development Indicators. All data are averages, spanning 1960-2023

One could easily argue that the combination of import dependence, especially on food, rising urban population, weaker education and health outcomes, poor business environment and an ever-growing youth population, presents a serious development debacle for CFA-FZ countries, going forward. For CFA-FZ economies, the rising urbanization trend (CEMAC) is directly associated with an overvalued CFA Franc that has favored manufactured imports at the expense of the agricultural sector (Zafar, 2021). Rising urbanization in the context of poor urban planning, low domestic credit to the private sector and lack of job opportunities is a recipe for disaster, suggesting an ever more increasing need for a full array of development policy levers at the disposal of CFA Franc economies. The bottom line is that CFA-FZ economies can no longer afford the luxury of sacrificing any development tool at their disposal and going forward, they will not only need a full array of development policy levers (fiscal, monetary, exchange rate and industrial policies) but also, much more *flexibility* in the use of those levers, if they must effectively address the daunting development challenges facing them. Some authors, notably, Zafar (2021) have likened efforts at delivering on the development promise in CFA FZ economies (by relying solely on fiscal policy) to running a marathon with a refrigerator on your back.

One further important factor that cannot be underestimated, especially for the WAEMU countries is the rising socio-political, ethno-religious conflict and instability provoked by youth bulge, climate change, cross-border terrorism and deficient governance. One wonders how CFA-FZ countries would be able to effectively address these multi-faceted, multi-dimensional challenges without access to more development policy levers. It seems thus, that the optimal exit strategy must provide access to independent fiscal, monetary, exchange rate, trade and industrial policies, whether or not that is conducted within the context of a set of countries or sub-regional countries facing symmetric shocks.

4. Exit Scenarios from the CFA Arrangement

A stigma that hangs over the Franc Zone is the idea that there are no viable alternative options and countries that have exited the zone have not performed relatively better, citing the example of Guinea (Zafar, 2021). In light of the challenges facing CFA countries, outlined above, three schools of thought have emerged namely, the conservative, progressive and radical, in regards to the way forward. Keep in mind that the CFA zone is far from being a homogenous set of countries, thus, what may apply for CEMAC countries (which are largely oil exporters), might not apply to WAEMU countries (which are largely oil importers). This section discusses, assesses and evaluates the exit scenarios.

4.1 Conservative Scenarios: Maintains a Fixed Exchange Regime Framework

There are two strands within the conservative scenario namely, revision of the existing monetary arrangements or dollarization (changing the nominal anchor from the French Treasury to the U.S. Federal Reserve).

4.1.1 Revision of Existing Monetary Agreements

Proponents of revisions to the existing operational rules of the Franc Zone see the perceived benefits of low stable inflation and exchange rate stability as important gains of the monetary arrangement that must be preserved at all costs. The revisions proposed notably by Ouattara-Macron in 2019[3] do not aim at fundamentally altering the system architecture and include the following superficial changes: a currency name change to Eco, the closing of the “operation account” at the French Treasury, an end to the requirement that the West African regional central bank (BCEAO) deposit 50% of its foreign reserves at the Banque de France and an end to French representation on the West African central bank’s board. However, Paris will continue to guarantee convertibility of the new eco with the euro at a fixed rate, will continue to print the currency (and earn seigniorage revenue) and remain the underwriter of the zone’s exchange rate. There were also indications that the eco-euro peg could be more adjustable than before, implying that reserve levels need no longer be fixed in the WAEMU subzone.

What remains unclear in the Outtara-Macron Plan is the suggestion that WAEMU would continue providing only partial (and not full) reserve coverage of base money – as mandated by a traditional currency board. Since its inception, the requirement of full reserve coverage has been substituted by French Treasury guarantees of “unlimited convertibility” from the CFA franc to the French Franc and now to the euro, leading analysts to assert that the continued survival of the CFA franc fixed exchange regime from speculative attacks is largely thanks to the credible pledge by the French Treasury to support the fixed regime. However, going forward with plans of reserves being pooled at BCEAO in Dakar, it appears that the system will only be safer from speculative attacks if WAEMU countries provide full reserve coverage or a much higher reserve coverage of their base money. In other words, French Treasury guarantees of unlimited convertibility would henceforth be less credible.

[3] Needless mentioning that these changes in operational rules targets mainly the WAEMU subzone and not the CEMAC subzone.

Relocating foreign reserves of WAEMU from Paris to Dakar offers both advantages and disadvantages in the context of the aforementioned proposed reforms. The benefits could potentially include availability of financing sources for not just imports in good times but also greater fiscal space to address contingencies posed by cross-border terrorism, climate change or natural catastrophes. On the flip side, WAEMU countries will have to hold far more reserve coverage than the 50% previously allowed to minimize risks of speculative attacks on the fixed regime that undermines exchange rate stability. Of course, holding higher reserve coverage raises the opportunity costs of having a fixed exchange regime, by sacrificing important development goals. Overall, it seems that the conservative approach potentially helps accomplish important macroeconomic stability but at the expense of broader development goals, as observed in the data in Tables 1 and 2.

4.1.2 Dollarization

The transition from pegging the CFA franc to the Euro to pegging it to the US Dollar offers an opportunity to evaluate economic stability, trade relations, and macroeconomic indicators in WAEMU and CEMAC countries. It's crucial to assess the impact on inflation, exchange rates, interest rates, and other economic variables. Traditionally, countries dollarize in response to macroeconomic imbalances, high inflation and the need for a strong foreign nominal anchor (by "importing" the credibility of U.S. monetary institutions), (Mecagni et al. 2015). Considering the fact that CFA countries have characteristically low stable inflation, the benefits from dollarization might well be minimal. Scholars have debated the advantages and disadvantages of full dollarization, notably (Swiston, 2011; Özyurt & Cueva, 2020).

Dollarization could bring stability to an economy by adopting a strong, internationally recognized currency like the US dollar, help reduce exchange rate volatility and attract foreign investment (Sikwila, 2013). It enhances monetary policy credibility, boosts liquidity, simplifies international trade, and facilitates cross-border transactions. According to Agbor (2013), maintaining a dollar peg can provide access to the US capital market, stabilize capital inflows from abroad, and serve as a hedge against exchange rate risks.

Regarding seigniorage revenues, dollarization or not, under the present framework, CFA countries will not have access to seigniorage revenues, which could negatively impact financial stability, prompting the need for alternative revenue sources or increased reliance on taxation. Additionally, adopting dollarization limits a country's ability to independently conduct monetary policy to manage inflation and economic growth (Özyurt & Cueva, 2020). Control over interest rates, money supply, and exchange rate adjustments shifts to the US Federal Reserve, reducing the country's flexibility to respond to economic shocks or implement policies. Dollarization also exposes countries to external shocks from the US, affecting their financial stability and economic resilience.

4.2 Progressive Scenario: Gradual Move towards Monetary Sovereignty and Autonomy

Within the progressive scenario, CFA countries could strive first to achieve total independence from French monetary authorities (by implementing full independent regional currency boards) and then progressively strive towards monetary union at the regional/continental level. We will thus examine step one in the process (achieving full independent regional currency boards) and then step two (move towards a regional/continental currency).

4.2.1 Achieving Fully Independent Regional Currency Boards

A binary currency system (or full currency board) is a financial mechanism which maintains a fixed exchange rate between a country's domestic currency and one or more stable foreign currencies. It could be a peg to two carefully chosen foreign nominal anchors (desirable for CEMAC countries) or to a basket of foreign currencies (desirable for WAEMU countries). The rationale being that the current single peg to the euro is too rigid, negatively affecting the price competitiveness of CFA exports which are increasingly denominated in US dollars, and the region's trade is shifting towards countries trading in US dollars, notably, China and Turkey.

The binary currency provides a sense of stability and predictability for investors and exporters. Consequently, it can boost trade and investment and also attract foreign direct investment (FDI).

Moreover, a binary currency system mandates a central bank to maintain a 100% reserve coverage of the domestic currency with the anchor currency. This means that the central bank cannot print currency without having adequate reserves to support it. As a result, inflation rates in countries with currency boards (or binary currency) are generally lower than those in countries with flexible exchange rates.

The binary currency proposal suggests fixing the CFA franc's value to a basket of currencies from countries or regions with significant commercial ties, such as the Chinese Yuan or Turkish lira. This aims to accumulate reserves in these currencies to strengthen the CFA franc's stability (Berenger, 2018). The binary currency would strengthen stability of the CFA zone by increasing reserve accumulation and offer some measure of flexibility not currently available through the single euro peg (Zafar, 2021).

In the CEMAC region, this option is relevant due to the greater trade shocks linked to oil, while in the WAEMU region, the basket peg is fundamental due to the different shocks faced and changing trade patterns with Europe and Asia (see OEC, 2023). Binary currency can provide a stable exchange rate regime, provides the benefits of enhanced credibility and stability, with the flexibility to adapt to local economic conditions. It involves constraints on individual country's ability to conduct independent monetary policy and also requires significant institutional capacity building.

Potential benefits of a binary currency for CFA zone countries

Currency boards focus on fiscal and monetary stabilization, and were more dominant in British colonies, with over 70 nations adopting this system. Mauritius was the first to adopt it in 1849, followed by countries in the Middle East, Africa, Asia, and the Caribbean, as well as Argentina, Estonia, Lithuania, Bosnia, and Bulgaria (Walters & Hanke, 1992). Currency boards were widely used in the 1990s (Kydland & Prescott, 1977).

The main reasons supporting currency boards are that they help resolve time consistency issues and prevent self-fulfilling runs and undesirable multiple equilibria.

Another potential benefit of a currency board is that it promotes fiscal discipline by limiting the government's ability to finance its deficits through money creation. This helps to maintain macroeconomic stability and reduces the risk of currency devaluation (Taylor, 2001). Additionally, a stable and predictable exchange rate can make a country more attractive to foreign investors. This can lead to increased foreign direct investment (FDI) and economic growth (Kumar, 2013).

Constraints of Binary Currency for CFA zone countries

Although a binary currency system has many advantages, it also has some disadvantages that are discussed in the literature. Firstly, such a system limits the central bank's ability to conduct independent monetary policy as it must maintain a fixed exchange rate with the anchor currency. This means that the central bank cannot adjust interest rates or the money supply to respond to domestic economic conditions (Mundell, 1961). Secondly, a binary currency does not allow for exchange rate adjustments in response to changes in market conditions, which can make it difficult for a country to respond to external shocks such as changes in global commodity prices or economic crises (Hanke & Schuler, 1999). There is also a risk of overvaluation of exchange rate which can make a country's exports less competitive and reduce its trade balance (Taylor, 2001). In addition to that, the system may limit the country's ability to manage capital flows, as it must maintain a fixed exchange rate with the anchor currency. This can make it difficult for a country to respond to sudden stops or reversals of capital flows, which can lead to financial instability (Kaminsky & Reinhart, 1999).

Adopting a currency board also entails significant budgetary adjustments, meticulous transition management, and restrictions on some macroeconomic adjustment methods, as seen in the case of Lebanon (Böwer, 2021; Williamson, 1995).

The binary/basket peg currency option appears a promising first step towards monetary and financial sovereignty of CFA countries, as they continue to experience greater trade shocks due to its heavy reliance on oil (Agbor, 2013), limited economic diversification, evolving trade partners, climate change shocks and continuing cross-border terrorism. As already insinuated, WAEMU would benefit from a basket peg due to asymmetric shocks it faces in West Africa and its changing trade patterns with Europe and Asia, whereas CEMAC would benefit from a binary currency peg (Zafar, 2021).

4.2.2 Move towards Monetary Union at Regional/Continental level

Successful implementation of stable sub-regional currencies could be a necessary step towards a regional common currency as convergence criteria might easily be met subsequent to the discipline imposed by fully functional currency boards. After establishing sound institutions for the sub-regional currency boards, the next step towards monetary and financial sovereignty is the establishment of a regional or African sovereign currency.

However, the success of this plan requires some prior economic coordination, particularly in budgetary policies, to prevent the negative impacts of weak fiscal policies. As stated by (Gnimassoun, Avom, & Massil, 2018) the Brexit experience provided valuable lessons, revealing the challenges that can arise from an mismanaged exit.

Let's now summarize the necessary steps in implementing the progressive scenario towards full monetary and financial sovereignty in West and Central Africa. This scenario entails countries staying together within their respective sub-regions, CEMAC and WAEMU, instead of going their separate paths, and could be sequenced as follows:

Step 1: Institutional reforms leading to fully independent regional currency boards

This step will render both CEMAC and WAEMU fully autonomous with powers to print the local currency, relocating foreign reserve to the respective regional central banks, devising policies related to reserve pooling, renaming the sub-regional currencies, setting convergence criteria, and removing France from the board management. Building strong institutional and technical capacity is crucial for managing a local currency. Sub-regional governments should invest in developing their central banks' capabilities, including monetary policy frameworks, foreign exchange management, and financial stability surveillance (Agbor, 2013). They should also develop contingency plans to address potential risks and challenges associated with the transition. This could involve establishing crisis management frameworks, strengthening financial sector regulation, and building foreign exchange reserves.

Step 2: Choosing a binary or basket peg

CEMAC authorities explore implementation of the binary peg option while WAEMU explores the basket peg option while exploring mechanisms for direct convertibility between the two sub-regional currencies (akin to a managed float system). The benefits of this approach are twofold: firstly, it acknowledges the asymmetric shocks that make the CEMAC and WAEMU different, particularly due to their dependence on oil; secondly, it maintains the strengths of the current system. This also provides a foundation for adopting a common regional currency in the future.

Step 3: Transition to a floating system (managed float)

This final phase aims at removing the constraints posed by monetary and exchange rate inflexibility in a currency board and is an attempt at transitioning into a full monetary union. It addresses problems of asymmetric shocks facing these economies as well as provides a wider array of policy tools essential to achieving broader development goals. Given the evolving nature of the global economic system, further details on how to implement this stage can only be known when these countries attain this point. It seems however, basing on the experience of the Asian Tigers, that a managed floating system would be a good starting point for these economies.

4.3 Radical Scenario: Immediate Move to Sovereign National Currencies

The radical scenario involves the complete disintegration of the CFA zone as we know it, culminating in independent sovereign national currencies. Proponents of this scenario base their arguments on the need to disentangle CFA economies from the yoke of French neocolonialism (Aboubakary & Eryigit, 2021; Kohnert, 2023). Public opinion in several CFA zone countries also seems to favor a transition from the CFA regime to local currencies. This shift offers benefits like increased monetary policy autonomy, allowing countries to set policies tailored to their specific economic needs (Kounkou, 2008). Currently, the fixed exchange rate with the euro limits their flexibility (Koddenbrock & Sylla, 2019). Transitioning to local currencies reduces dependence on France (Pouemi, 1980), as countries regain control over their foreign reserves, thus enhancing financial sovereignty (Sylla, 2016). Examples of independent African countries that have pursued independent national currencies with much degree of success such as Morocco, Tunisia, and Algeria, inspire this scenario.

A sovereign national currency requires stability as a standard of measurement, exchange, and saving, as well as flexibility in relation to foreign currencies to accommodate trade deficits. It provides monetary policy autonomy to respond to economic shocks through interest rates and exchange rate management, and eliminates the need for foreign reserve deposits, increasing financial sovereignty, (Aizenman 2010). Theoretically, a sovereign currency allows countries to implement independent monetary policies tailored to their economic conditions and to manage exchange rates more effectively to respond to external shocks and promote export-led growth (Eichengreen, Mehl, & Chitu, 2017). However, abandoning the CFA franc could expose these countries to exchange rate volatility, negatively impacting trade, investment, and financial stability. It could also lead to higher inflation if not properly managed, and newly established central banks may struggle to gain credibility, resulting in higher interest rates and reduced access to international capital markets (Bénassy-Quéré et al., 2018).

Thus, the key factors to consider in transitioning to independent national currencies include risks of mismanaging monetary independence culminating in high inflation, exchange rate volatility, the impact on trade and capital flows, regional integration, and economic synchronization among participating countries. It also requires robust institutional frameworks, including sound governance and effective monetary policy management, to ensure stability and mitigate inflationary risks. Thus, rising inflation could become a major concern post CFA, exchange rate variability may threaten capital flight, undermining foreign direct investment, credit availability, thus, and adversely impacting economic growth. Additionally, intra-regional trade and economic integration might be jeopardized with negative repercussions on industrialization and development. Furthermore, the impact on domestic credit and policy efficiency is also a crucial consideration. Domestic credit availability has not always improved policy efficiency, and past devaluations have shown to reduce monetary policy effectiveness (Samba & Mbassi, 2015). While a fixed exchange rate regime like the peg to the euro can enhance policy efficiency in the CFA Franc zone, lessons from previous crises and risks of excessive currency appreciation and reserve accumulation must be carefully examined and managed during the transition process.

4.4 Summary of Exit Scenarios and Policy Recommendations

a) Exit Scenarios

- **Conservative**: Maintain fixed peg, stability remains, very limited development policy levers, and dependency continues.

- **Progressive (Recommended)**: Transition to national/regional **currency boards** as stepping stones toward an African currency.

- **Radical**: Immediate exit to national currencies. Full sovereignty, but with risks of instability.

b) Policy Recommendations

- **Acknowledge Political Economy Constraints**: CFA countries have decades of institutional weaknesses, which are further compounded and/or entrenched by French influence and elite incentives. Thus, technical monetary solutions alone cannot succeed without addressing these political economy issues.

- **Pursue Progressive Reform**: Adopt **currency boards** under regional oversight (e.g., ECOWAS) as transitional mechanisms, balancing autonomy with stability.

- **Strengthen Regional Institutions**: There is need to support ECOWAS and CEMAC in developing governance structures that can credibly manage currency regimes.

- **Align Incentives for Reform**: Link reforms to **elite and public interests**—for instance, by demonstrating that regional monetary sovereignty can preserve rents while expanding fiscal space.

- **Long-term Vision**: Anchor monetary reforms within the **African Union's Agenda 2063**, positioning them as essential for continental integration.

5. Conclusion

While the CFA Franc system has no doubt delivered stability, it has constrained long-term growth and monetary sovereignty. We have outlined three possible scenarios namely, the conservative, progressive and radical schools of thoughts for exiting from the CFA zone. The conservative scenario maintains the fixed exchange regime framework and can follow two routes: either maintaining the French Treasury or switching to the U.S. Federal Reserve as foreign nominal anchor. As discussed, the conservative scenario largely fails to provide enough policy levers (lack of monetary policy and exchange rate flexibility) to help CFA countries address the immense developmental challenges and external shocks facing them and thus represents a *worse-case* scenario. The radical scenario on its part, involves complete disintegration of the CFA zone and countries pursuing their independent national currencies. While potentially offering countries a full array of development policy levers to effectively address their individual developmental challenges, it comes at a higher cost, in terms of the risks of mismanagement, undermines the benefits of regional economic integration and also runs contrary to the pan-African vision of a future continental trade and monetary union. In that sense, it constitutes a *second-best* scenario. The *first-best* scenario thus appears to be the progressive scenario whereby CFA countries strive in the first instance to achieve total monetary and financial independence from French monetary authorities (by implementing fully independent regional currency boards) and then progressively striving towards monetary union at the regional/continental level. This progressive strategy incrementally provides access to more development policy levers (fiscal, monetary, exchange rate, trade and industrial policies), regardless of whether those are implemented within the framework of sub-regional, regional or continental bodies.

This paper advances the post-CFA debate by classifying potential exit pathways into best-, second-, and worst-case scenarios, thereby offering a structured typology missing from much of the literature. The strength of our contribution lies in the progressive transition—anchored in currency boards and regional cooperation—which seems the most viable strategy as it balances the need for monetary autonomy with stability, paving the way for eventual continental integration.

Beyond technical monetary issues, it is important to highlight that the CFA Franc arrangement is also sustained by France's geopolitical interests and African elite incentives, which complicate reform prospects (Sylla, 2017; Chafer, 2002; Boone, 2003).

Our analysis in this paper largely abstracts from these political economy issues. Further research could incorporate these political economy dynamics in understanding why reforms of the CFA arrangement generally stall.

References

Aboubakary Nulambeh, Ndzembanteh, & Kadir Eryigit. (2021). *The Role of Renewable Energy and Ecological Footprint on Economic Growth in Francophone African Countries in Presence of Institutions*. https://doi.org/10.21203/rs.3.rs-529167/v1.

Agbor, Julius. (2013). 'The Future of the CEMAC CFA Franc'. *Eurasian Journal of Economics and Finance*. https://www.semanticscholar.org/paper/THE-FUTURE-OF-THE-CEMAC-CFA-FRANC-Agbor/ec8de7d33be1cd3b67c530bcd88cbeb1a8f8fcd1.

Akilou Amadou, & Léleng Kebalo。 (2019). La politique monétaire de la BCE affecte-t-elle celle des pays africains de la zone franc CFA? : le cas de la BCEAO. *Revue CEDRES-ETUDES*, 2018, N°66 série économie, pp.80-106. ffhal-02277677

Aizenman, Joshua. (2010). *The Impossible Trinity* (Aka The Policy Trilemma). May. https://escholarship.org/uc/item/9k29n6qn.

Amadou, Akilou, & Léleng Kebalo. (2018). La Politique Monétaire de La BCE Affecte-t-Elle Celle Des Pays Africains de La Zone Franc CFA? : Le Cas de La BCEAO. *Revue CEDRES-ETUDES*

N°66 série économie (December), 80–106.

Amin, A. A. (2022). The development cost of maintaining price and economic stability in Central and West African CFA Franc Zone. In A. A. Amin, & R. N Tawah (Eds.), *Monetary and Financial Systems in Africa: Integration and Economic Performance* (pp. 185-216). Springer International Publishing.

Asongu Simplice. (2013). New Empirics of monetary policy dynamics: evidence from the CFA franc zones *AGDI Working Paper*, No. WP/13/016, African Governance and Development Institute (AGDI), Yaoundé.

Aversa, D. (2023). Scenario analysis and climate change: a literature review via text analytics. *British Food Journal*, Vol. ahead-of-print No. ahead-of-print. https://doi.org/10.1108/BFJ-08-2022-0691

Avom, **D., & Bobbo, A. (2013).** La BEAC en quête de son autonomie Revue d'Economie financière 2013/2 (N°110) pp. 125-144.

Avom, **D., &** Noumba, **I. (2019)**. La résilience de la zone Franc à l'épreuve des critiques persistantes. Revue Interventions économiques. http://journals.openedition.org/interventionseconomiques/5466

Berenger, V. (2018). Franc CFA : Un consensus est en train d'émerger autour de l'ancrage à un panier de devises. *Jeune Afrique*, 13 April.

Biankola, M., & Nzaou-Kongo, A. (2020). International law and monetary sovereignty. The current problems of the international mastery of the CFA Franc and the crisis of sovereign equality. *SSRN Working Paper* No. 3642376.

Bodjongo, M. J. M. (2023). Analysis of Citizens' Preference for a Single Currency: The Case of the Economic and Monetary Community of Central Africa. *Journal of Economic Integration*, *38*(3), September 2023, 411-438.

Boone, C. (2003). *Political Topographies of the African State: Territorial Authority and Institutional Choice*. Cambridge University Press.

Chafer, T. (2002). *The End of Empire in French West Africa: France's Successful Decolonization*?

Coulibaly I. (2014) Competitiveness and growth within the CFA franc zone: does the switch to the Euro matters? *Int. Econ*, *139*, 1-18.

Frimpong, B. E., Sunindijo, R. Y., & Wang, C. (2020). Towards improving performance of the construction industry in Ghana: A SWOT approach. *Civil Engineering Dimension, 22*(1), 37-46.

Hanke, S. H., & Schuler, K. (1999). *A dollarization blueprint for Argentina*.

Guillaumont, Patrick et Sylviane Jeanneney Guillaumont. (2013). Les accords de coopération monétaire de la zone Franc : atouts et contraintes. *Document de travail de la Fondation pour les Études et Recherches sur le Développement International, 65*, février.

Guillaumont, Sylviane Jeanneney. (2013). Conduite de la politique monétaire en union monétaire : défis et perspectives : Cas de l'UMOA. *Document de travail de la Fondation Internationale pour les Études et Recherches sur le Développement International*, (62).

Guillaumont, Sylviane Jeanneney et Patrick Guillaumont. (2017). La zone Franc en perspective. *Revue d'Économie du Développement, 25*(2), 5-40.

Jacquemot, P. (2018). Le vrai-faux procès de la zone Franc », *Revue Internationale et Stratégique, 1*(109), 48-58.

Kangami, Divine Ngenyeh, & Akinkugbe, Oluyele F. (2021). Common currency and intra-regional trade in the Central African Monetary Community (CEMAC). *Journal of African Trade, 8*(1), 13-22. https://doi.org/10.2991/jat.k.210521.001

Koddenbrock, Kai, & Sylla, Ndongo Samba. (2019). Towards a political economy of monetary dependency: The case of the CFA franc in West Africa, *MaxPo Discussion Paper*, No. 19/2, Paris.

Kounkou, Dominique. (2008). Monnaie africaine – La question de la zone Franc en Afrique centrale. *Paris, L'Harmatta*n, 346 pages.

Lelart M. (1996). L'origine du Compte d'opérations. Communication avec Actes au Colloque organisé par le Comité pour l'Histoire économique et financière, Nov 1996, Bercy, France. pp. 529-545.

Mecagni, M., & Corrales J.B. et al. (2015). *Dollarization in Sub-Saharan Africa: Experience and Lessons*. Washington: International Monetary Fund.

Mignamissi, Dieudonne & Kembeng, Ulrich. (2024). 'The Future of the CFA Franc: A Game Theory Approach'. *Asian Journal of Economics, Business and Accounting, 24*(11), 190-209.

Mundell, R. (1961). A Theory of Optimum Currency Areas. *The American Economic Review*, *51*(4), 657-665.

Na, N., & Ky, E. (2021). *The Role of Renewable Energy and Ecological Footprint on Economic Growth in Francophone African Countries in presence of Institutions*. https://scite.ai/reports/10.21203/rs.3.rs-529167/v1

Nubukpo, K. (2016). Le Franc CFA et le financement de l'émergence en Zone Franc, dans Nubukpo Kako et al. Sortir l'Afrique de la servitude monétaire. À qui profite le Franc CFA ? *Paris, Éditions La Dispute*.

Nzubechi, A. C., Oyinmiebi, P. T.,& Chima, C. J. (2022). *ECOWAS Common Currency Postponed Again: Will the Currency Ever be Launched*?. https://scite.ai/reports/10.52589/ajsshr-r6zmvi8l

Obeng-Odoom, F. (2022). Africa's Last Colonial Currency: The CFA Franc Story. *African Review of Economics and Finance, 14*(1), 14-32.

Özyurt, S., & Cueva.s. (2020). Twenty years of official dollarization in Ecuador: a blessing or a curse? Working Paper 19795ea3-88a3-4f85-af90-a, Agence française de développement.

Pouemi, J. T. (1980). Monnaie, servitude et liberté, la répression monétaire de l'Afrique. *Paris, Éditions Jeune Afrique*, 263 pages.

Samba, M., & Mbassi, C. (2016). Does financial development spur macroeconomic policy efficiency in the cemac countries? An empirical evaluation. *Business and Economics Journal, 7*(2), 1-7.

Swiston. A. (2011). Official Dollarization as a Monetary Regime: Its Effects on El Salvador. *IMF Working Paper*.

Sylla, N. S. (2016). Émerger avec le Franc CFA ou émerger du Franc CFA ? Dans.

Nubukpo Kako et al. Sortir l'Afrique de la servitude monétaire. À qui profite le Franc CFA ? *Paris, Éditions La Dispute*.

Sylla, N. S. (2020). Moving forward to African Monetary Integration: Lessons from the CFA Franc *Africa Development* (Volume XLV, No. 2, pp. 39-58). Council for the Development of Social Science Research in Africa, 2021.

Sylla, N. S. (2017). The CFA Franc: French Monetary Imperialism in Africa. Review of African Political Economy. Blog, available at: https://roape.net/2017/05/18/cfa-franc-french-monetary-imperialism-africa/

Sylla, N. S. (2018). It's time to end the CFA franc, Africa is a country June 2018 Available online at https://africasacountry.com/2018/06/its-time-to-end-the-cfa-franc

Walters, A. A., & Hanke, Steve H. (1992). Currency Boards, the New Palgrave Dictionary of Money and Finance, Vol. 1. London: The Macmillan Press Limited, 1992, Available at SSRN: https://ssrn.com/abstract=2206424

Zafar, Ali. (2021). *The CFA Franc Zone: Economic Development and the Post-Covid Recovery*. Cham: Springer International Publishing. https://doi.org/10.1007/978-3-030-71006-4.