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Paris and the CFA Franc of Former French, sub-Saharan Africa

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Paris and the CFA Franc of Former French, sub-Saharan Africa

The CFA (African Financial Community) franc is, at this writing, the unit of monetary value in thirteen French-speaking African republics as well as in miscellaneous French possessions (where the acronym still stands for "Colonies Francaises d'Afrique"). Since January 1, 1960, the CFA franc has equaled 0.02 NF (freely and fully convertible ^{1/}); thus U.S. \$1 = 246.853 CFA francs. There are, in fact, six different CFA francs currently issued by five banks of issue which maintain their headquarters in Paris. Each of these six different CFA francs is legal tender only in the area for which it is issued -- they do not interchange with each other. For example, Malagasy /Madagascar/ CFA francs are not acceptable in Senegal. The six areas are (1) West Africa, (2) Equatorial Africa and Cameroon, (3) Malagasy Republic, (4) the Comoro Islands, (5) Reunion, and (6) St. Pierre and Miquelon.

Three of the five institutions are of special interest and it is to them that the attention of this paper will be directed. They are (1) the central bank of most of the former Federation of French West Africa, i.e., the areas north and west of Nigeria, and Togo ^{2/}: the BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest); (2) the central bank of all of former French Equatorial Africa and the Federal Republic of Cameroon: the BCEAEC (Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun); and (3) the Institut d'Emission Malagache which is, at present, functioning via its agent, the BMC (Banque de Madagascar et des Comores).

These "central banks", in reality, perform only limited central banking functions. In general, they issue currency, rediscount for and make advances to commercial banks in the countries they serve, and, especially since the watershed date of November 1, 1962, have been authorized to make loans to the governments concerned. After a short historical summary, the discussion will turn to a review of one means by which the French still exercise a good deal of control over the economies of their former colonies and trusteeships on the African continent south of the Sahara.

Historical background

The BCEAO was established on April 4, 1959, with its capital provided by the French Caisse Centrale de la France d'Outre-Mer (Central Fund for Overseas France). It took over the note-issue function previously performed by the Institut d'Emission de l'Afrique Occidentale Francaise et du Togo (Institute of Issue for French West Africa and Togo); which was partly privately capitalized. Until World War II the

1/ Within limits. See discussion of drawing right accounts below.

2/ Togo did not sign the treaty of May 12, 1962, but remains a de facto participant in this monetary arrangement.

franc of the Federation of French West Africa -- which was issued by the Banque de l'Afrique Occidentale (B.A.O.)^{3/} -- had the same value as the franc circulating in France. The new CFA franc was created by a decree of December 25, 1945, and fixed at a ratio of 1.7 to the French franc. On October 17, 1948, it was made equivalent to 2.0 old French francs, and it was maintained at this parity as the metropole's franc went through successive devaluations. The B.A.O.'s monopoly on currency issue expired in 1949. It was not until January 20, 1955, however, that its function in this field was assumed by the Institut d'Emission, a public institution under the control of the French Ministry of Finance.

The BCEAEC has a fairly similar history. Until 1941 the B.A.O.'s notes also circulated in French Equatorial Africa and the French Trusteeship of Cameroun and, as has been stated, were at par with the French franc. But while French West Africa continued to be dominated by the Vichy government, French Equatorial Africa chose the banner of the Free French under Charles de Gaulle. Thus, in July 1942 note issuing was taken over by the Caisse Centrale de la France Libre which had been set up in December 1941 (and in 1944 renamed Caisse Centrale de la France d'Outre-Mer). Then, as in French West Africa, on October 1, 1955, an Institut d'Emission de l'Afrique Equatoriale Francaise et du Cameroun took over the note issue. This was followed almost nine years later by the establishment of the BCEAEC (in accordance with the ordinance of April 4, 1959).

The BMC, which functions in the thirteenth country we are interested in, the Malagasy Republic, was created under a law of December 1925 and received the note issue privilege in 1927. It was entirely privately-owned, but the French government held certain profit sharing rights. Its original right to issue currency expired in 1946 but was continued through March 1962 on a provisional basis. The French, Malagasy and Comoro Island governments have held 51 per cent of the Bank's shares since 1950. Last year, the Malagasy Republic, in cooperation with France, established a new Malagasy organization for note issue, the Institut d'Emission Malagache, which was to take over the currency emission responsibilities of the BMC on April 1, 1962. However, the Institut has not yet been provided with personnel or facilities, and as an interim measure its functions continue to be exercised by the BMC, under a management contract. Thus the BMC conducts operations of a central-banking nature as agent of the Institut.^{4/}

^{3/} The B.A.O. -- at one time the B.F.A.O. (French Bank of West Africa) -- was the successor in 1901 to the Banque du Senegal which had been established in 1853. Although a commercial bank, the B.A.O. (initially capitalized at 50 million francs with the French government holding 30 per cent of the equity) was given the exclusive privilege of issuing paper currency in French West Africa.

^{4/} The present arrangement is supposed to terminate on December 31, 1963. However, it probably will run through June 1964, at the least. It appears that the BMC, even after the actual creation of the Institut, will continue to serve as the note-issuing agency for the Comoro Islands.

Two further events are of interest. On July 1, 1962, Mali -- the former French Sudan -- withdrew from the BCEAO and substituted the Malian franc for the CFA franc. In doing so, it decided to maintain its links with the Franc Zone. In all probability, Mali did not want to repeat the experience that had been encountered by Guinea. On March 1, 1960, without warning, Sekou Toure had announced the departure of that country from the Franc Zone. He went on to say that residents would have until March 31 to exchange their French-backed CFA francs for the new Guinean francs on a 1:1 basis (the deadline was later changed to March 15). At the same time the Guinean government seized the BCEAO branch in Conakry along with its liquid assets which served to back most of the initial reserve of 500 million Guinean francs. From then on the Guinean franc's acceptance was restricted to Guinea. The French government retaliated by suspending all payments between the Franc Zone and Guinea. Since then the value of the Guinean currency has continuously depreciated. Nevertheless, with a change in political outlook there is the possibility that Guinea may soon rejoin the Franc Zone. Indeed, on May 22, 1963, France and Guinea concluded an agreement which settles the financial differences between these two nations. The claims of individual French nationals against the Guinean government, on the other hand, are still outstanding.

Functions

Since all three banks -- the BCEAO, the BCEAEC, and the BMC -- are quite similar in operations, this paper will focus on the BCEAO, which serves the largest number of countries, seven. Where differences exist, they will be noted.

Prior to November 1, 1962, the BCEAO was primarily a bank of issue. However, it was also a banker's bank in the sense that it rediscounted paper for, and made advances to, the commercial banks operating in the seven states. It was, and is, therefore more than a mere currency board. On the other hand, the BCEAO could not lend to the governments of these states. This was a source of some dissatisfaction, though it no doubt contributed to the stability of the CFA franc. Since November 1, 1962, the BCEAO has been able to make limited advances to governments.^{5/} Thus, with France applying the brakes, a gradual transition is being brought about.

The BCEAO has the power to influence the volume of credit in the various countries it serves through its rediscounting operations. Since there are no money markets in any of these countries, there never has been any possibility of monetary control by open market operations. All the major decisions are made in Paris, but the six local branch managers -- for the time being Dakar serves Mauritania as well

^{5/} The BCEAO can now rediscount or accept Treasury bonds of the seven states, so long as these transactions do not exceed 10 per cent of the country's internal revenue recorded during the previous fiscal year. The treaty for the new monetary arrangements is dated May 12, 1962. The BCEAEC and the BMC do not yet have the limited authorization, although they may rediscount Treasury bills purchased by commercial banks. However, the BCEAEC countries have not yet issued Treasury bills.

as Senegal -- have the power to determine ceilings on the volume of credit to be provided, depending on local conditions. Since French commercial banks with head offices in Paris operate in these countries, the import or export of banking capital by them can supplement or offset the policies of the BCEAO. Because the CFA franc enjoys free convertibility with the French franc, the BCEAO is powerless to control directly the movement of short-term capital to and from France, and thence abroad under the same controls facing the French themselves.

The BCEAO does not yet accept deposits from the public or other banks, and does not yet fix reserves requirements for the commercial banks, although it appears about to do so. Nor does it exercise supervision over them.

Organization

Until Mali withdrew from the monetary union, France and the eight African nations together had equal representation on the BCEAO's Board of Directors. Now, since November 1962, France's proportion of the total membership on the Board of eighteen is one-third; each African country has two representatives. France's representatives usually are on loan from the Bank of France, the Ministry of Finance and Economic Affairs, and the Ministry of (Economic) Co-operation, although the French directors do not perform other government functions while they are members of the BCEAO Board. The African members are appointed by the governments concerned and the great majority of them are Africans.

Each of the African countries also has a Monetary Committee with little power of its own. Possibly they will have more of a voice in the future. For the time being their major task is that of executing the policy decisions of the Board of Directors of the BCEAO in their respective countries. Each Committee has five members: two being from the main Board of Directors and three being appointed by the country. Finally, it may be noted that the majority of the local branch managers of the BCEAO -- a technical position rather than a policy position -- are still French.

Foreign exchange reserves

All foreign exchange acquired by the BCEAO against the issue of CFA francs is converted into French francs. The French franc holdings of the Bank are all lumped together and are not apportioned among each of the countries which it serves. The Bank's statutes apparently do not prescribe any particular type of investment as backing for the note issue. As of the end of September 1962, the total CFA note issue by the BCEAO amounted to 12 billion CFA francs (equivalent to \$170 million). Its assets consisted of French government $2\frac{1}{2}$ per cent bonds, in an amount equivalent to

6/ This is one way the BCEAEC has differed from the BCEAO. By custom, the former had apportioned the reserves between Cameroon and Gabon et al. The Treaty establishing a West African Monetary Union which came into force on November 1, 1962, calls for (in Cooperation Agreement Between France and the Seven States see Article 2) an equal division of the reserves of the present establishment plus the 500 million Metropolitan francs France allocated to the BCEAO.

26 billion CFA francs (= \$106 million), and 16 billion CFA francs, invested, for the most part, in rediscounted short-term commercial paper generated in the African countries -- primarily export bills, which usually are paid off in three to six months.

In addition to these assets, the note issue is backed by a guarantee of the French Treasury. Theoretically, the BCEAO has unlimited overdraft privileges from its "Operations Account" at the Treasury. (This allows the unlimited convertibility of CFA francs into French francs). But this is in theory only, since France through the French managers, controls the credit policy of the BCEAO. At this time, the BMC is the only one of the three that actually has an outstanding overdraft (which, incidentally, is interest-bearing).

While the CFA franc is freely convertible into French francs, there is some limitation on its conversion into other currencies. (Payments and receipts of the West African nations in non-franc currencies are settled through the Paris exchange market.) Foreign currency quotas are assigned the various countries. The Ivory Coast, being a net earner of foreign exchange, has the right to convert CFA francs into foreign currencies, other than French francs, without limit, but the others have fixed amounts. Should these six require more than the amount allotted, they may or may not be permitted to purchase additional amounts of the desired currency from the French Exchange Equalization Fund, depending upon the circumstances.

The central banks will pay these countries' gold quotas at such time as they become members of the IMF.

Drawing right accounts

Quite often the "drawing right account" (compte droit de tirage) is confused with the operations of the BCEAO. It is, however, completely separate from the operation of the BCEAO. Actually, the drawing right account is nothing more than a statistical account maintained by the Exchange Equalization Fund of the Bank of France. It serves to establish each country's net record as an earner or user of non-franc-area foreign exchange. Since each African member has access to foreign exchange within the established limits,^{7/} whether or not the drawing right account shows a surplus or a deficit, this record is only used in connection with the annual bilateral negotiations -- the "Foreign Trade Programs" -- which France carries out with each of these countries. So, import restrictions on non-franc-area goods result from commercial policy: the effort to protect the African markets for French goods which in many cases are non-competitive.

Future of BCEAO and BCEAEC

There seems to be no prospect of a breakup of these regional central banks occurring in the near future, although some of the states, from time to time, have indicated a desire for more financial independence. Should the BCEAO or BCEAEC be dissolved, the members would divide their assets and liabilities. The assets to be

^{7/} And the ceiling can be changed by the French if an African country reaches it.

apportioned to each country would equal the note circulation in that country. 8/ Each country would presumably first receive the commercial paper of its own residents that had been rediscounted; the excess of the respective note issue over this amount would be settled in foreign exchange assets, mainly the 2½ per cent French government bonds already mentioned. The Ivory Coast, for example, would receive the largest part of its assets in the form of rediscounted commercial paper, since it has made heavy use of this facility of the BCEAO.

Conclusion

It may be said that the BCEAO and the BCEAEC are two of several French quasi-currency boards. The BMC, for the time being, acts as agent for a third such institution. There is no legal reserve of gold or foreign exchange required against the circulation. However, the CFA franc does have the guarantee of the French Treasury behind it. There is thus an indirect link between the CFA franc, on the one hand, and gold and non-franc-area convertible currencies, on the other.

8/ The BCEAO branches are now putting identification marks on the bills issued by each country. Thus, for the first time the flow of currency between the states will be checked.