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MONETARY AUTONOMY REFORM OPTIONS IN THE CFA FRANC ZONE: A SCENARIO ANALYSIS

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Abstract: The study explores reform options for the CFA franc arrangement through a comparative analysis of three monetary frameworks: the European Union, the South African Common Monetary Area, and Estonia's monetary reforms. Using a narrative research approach, we examine three scenarios: unilateral exit by a lone member, a smaller common currency area formed by a few exiting members, and a comprehensive reform of the CFA arrangement with all the members. The third option with continued French/EMU partnerships was the most viable and realistic way forward (best-case scenario). Results indicate successful reform requires strengthening intra-zone trade, merging the West and Central African CFA zones, attracting new members, developing a banking union, and investing pooled reserves in transnational infrastructure. It is suggested further that a post-reform CFA framework should prioritize Pan-African solutions while maintaining beneficial links to the Eurozone through French partnership, at least in the immediate and medium term.

Keywords: *Monetary autonomy, CFA franc reform, Currency unions, Exchange rate policy, and Economic integration in Africa.*

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Introduction

The CFA franc arrangement faces serious criticisms due to the persistent underdevelopment of its member countries, which remain among the world's poorest despite decades of monetary cooperation. Hence a desire to explore what reforms are needed and how the post-reform CFA framework should be configured. The following specific concerns are noteworthy:

1. The CFA franc is overvalued: In 2020, the West African CFA franc (XOF) was 20% overvalued, and the Central African CFA franc (XAF) was 30% overvalued. The stability of the CFA franc was achieved at the expense of promoting import addiction and penalizing exports.
2. Low intra-zone trade and investment: Few transnational investments exist within and between the XAF and XOF zones. The CFA countries trade more with countries outside the zones than within.
3. The 50% reserve deposit obligation: Many critics feel it is exploitative and should be abolished.

Accordingly, the study sought to assess and rank 3 reform pathways as third best, second-best, and best-case scenarios.

Research Questions and Hypotheses

The research questions and corresponding hypotheses are presented below:

Individual Member Exit

- Research Question 1 (RQ1): Can a lone member country create and maintain its national currency successfully?
- Hypothesis 1: An individual country can successfully exit to have its national currency.

Few Members Exit to form a CMA

- Research Question 2 (RQ2): Can a few members successfully exit to establish a common monetary area?
- Hypothesis 2: A group of countries can exit to form a common monetary area.

CFA Zone Comprehensively Reformed

- Research Question 3 (RQ3): Can the CFA zone be reformed for self-sustainability?
- Hypothesis 3: The CFA zone can be reformed for self-sustainability.

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Research Methodology

The study employs narrative inquiry, a qualitative method of analyzing experiences and phenomena through documented narratives. The approach is particularly suited for examining social, personal, cultural, and policy issues. We analyze publications on the CFA zone, Estonia's reforms, South African CMA, and European Monetary Union to evaluate and rank our three scenarios as best case, second best, and third best scenarios. Narrative inquiry has been used to study monetary policies and reforms. For instance, Angelopoulou (2007) reviews 22 years of UK monetary policy in the pre-inflation targeting period (1971-1992) using official Bank of England Quarterly Bulletin records. Her findings demonstrate how monetary policy and exchange rate volatility caused substantial output fluctuation over four years. Similarly, Ellen, Larsen, and Thorsrud (2021) quantified narratives from textual data and identified “narrative monetary policy surprises” as the difference in narrative focus in central bank communication accompanying interest rate meetings and economic media coverage before those meetings. Equally, Romer and Romer (2023) explain how information from qualitative sources, such as newspapers or government records, can establish causal relationships.

The remaining part of this work is divided into seven sections. Section 1 makes a case for reform of the CFA zone. Section 2 discusses Estonia's successful lone exit from the Soviet monetary system; Section 3 examines the South African CMA, and Section 4 the European Monetary Union (EMU). The scenarios are analyzed and ranked in section 5. Section 6 is a discussion of findings. Section 7 summarizes key findings, policy recommendations, and conclusion.

REFORM AGENDA FOR THE CFA ZONE

The CFA franc zone, comprising the West African Monetary and Economic Union (WAEMU) and the Central African Economic and Monetary Community (CEMAC), stands at a pivotal juncture in its over half a century history. The member countries face daunting development challenges, including climate change, poverty traps, demographic pressures, and natural resource management hurdles. High energy costs, financing constraints, and expensive transportation remain their major competitiveness barriers. The average annual per capita growth in the CFA franc zone is less than that in the non-CFA African countries, and the CFA countries are among the poorest in the world (Zafar, 2023).

Notwithstanding, the CFA zone arrangement has several advantages, including enhanced resilience to macroeconomic shocks, better inflation control, and a stable exchange rate. For instance, the IMF reported in 2021 that during the 2020 COVID-19 crisis, the CFA franc countries experienced 0.3% growth compared to a 1.7% recession in sub-Saharan Africa. Pegging the CFA franc to the Euro does not necessarily hinder exports if the member states are committed to growing productivity (BrightAfrica, u.d). Moreover, in response to requests from the member countries, a new monetary cooperation agreement was signed on December 21, 2019, during a French presidential visit to Côte d'Ivoire. The agreement includes four significant upsets:

1. New Currency Name: UEMOA authorities expressed their desire to change the currency's name from "CFA franc" (XOF) to "ECO."
2. Abolition of Exchange Reserve Centralization: The obligation to centralize exchange reserves in a financial account at the French Treasury was removed.
3. France's Withdrawal from Governance Bodies: France's participation in the governing bodies is now limited.
4. Creation of Dialogue and Risk Monitoring Mechanisms: New dialogue and risk monitoring mechanisms, including reporting, were established.

Furthermore, France's aid and periodic intervention to stabilize the CFA franc exchange have been the zone's saving grace. Had France not thrown its weight to support the CFA arrangement, the EU would have demanded tougher conditions to sustain the CFA peg, given the poor export performance of most member countries. While it is true that France's exports constitute about 44% of the zone's total imports, for France, it amounts to a paltry 3% of her total exports, making the economic case for France’s commitment to maintaining the CFA-euro peg very weak. It can rightly be argued that France's continued support for the CFA franc arrangement is more political than economic.

Benefits of Belonging to the CFA Zone

Being linked to the Eurozone offers the CFA member states several benefits that the non-CFA African countries do not enjoy, including preferential trade possibilities, foreign aid, low-interest credit, and a cocktail of technical and cultural assistance from France and the EEC (Signe, 2019). Moreover, today's exiters from the franc zone will face more challenges than the earlier exiters - Morocco, Algeria, and Tunisia – in the 1960s after their independence. The earlier exiters benefitted from the stabilizing influence of the Bretton Woods system, which was abolished in the 1970s. Today’s global financial environment is more uncertain for net produce exporters to exit the CFA zone without anchoring their new currency on a globally convertible currency or currency union. Moreover, the government of a prospective exiting member state would need to secure popular support for the reform from its citizens, considering the painful fiscal adjustments necessary to secure a credit lifeline and debt restructuring from the IMF, World Bank, and other institutional creditors. If poorly managed, salary cuts, rising costs, and unemployment may cause disruptive backlashes.

Possible Exit benefits

Epstein (2023), Zafar (2023), Wilson (2021), Ross (2023), and Pettinger (2019) identify the following challenges faced by the current CFA arrangement:

1. Exchange Rate Rigidity: The exchange rate does not adjust in tandem with the economy's performance, causing the nominal exchange rate to diverge from the real exchange rate and supporting the Dutch Diseases syndrome.
2. Limited Monetary Policy Control: Member states are unable to adjust exchange rates to manage trade shocks, forcing reliance on fiscal measures. This causes CFA countries to charge high taxes, impoverishing citizens and stifling business growth.
3. Credit Constraints: High interest rates and strict borrowing conditions constrain private sector growth. In most CFA countries, firms pay as much as 27% interest rate on loans.
   High interest rateson loans prevent startups from accessing financing from a formal lending institution.
4. Inefficient Reserve Management: The 50% reserve requirement yields suboptimal returns for member states while providing better rates for France. For instance, in

2014, France paid the CFA countries interest of 0.75% on their operations accounts, well below the prevailing base rate of 0.92% to 2.38% in France. This implies that the CFA states were effectively paying France to hold their money.

Economic Integration Imperatives

Prioritizing economic integration is a necessary condition for the growth and sustainability of the CFA zone. Intra-zone trade and investment is currently low (Njinkeu and Fosso, 2006). Zafar (2023) suggests the following considerations to be taken into account for promoting economic integration in the CFA zone:

1. Alternative exchange rate frameworks that enable greater monetary flexibility while improving firm competitiveness.
2. Aggressive diversification of member states' economies to promote trade creation.
3. Realigning incentives for agricultural producers.
4. Mainstreaming the AfCFTA while wooing other African countries to join the CFA zone.
5. Consider pegging the CFA franc to a basket of currencies and oil prices for improved market sensitivity.

The French Convertibility Guarantee

Zafar (2023) opines that the French convertibility guarantee for the CFA franc should be modernized to provide a financial buffer during the transition period and downturns. For Sylla (2023), the so-called unlimited "convertibility guarantee' of the CFA franc by France is superfluous by the rules to which the BCEAO and the BEAC are bound. Over the period 1960-2022, the "guarantee" was only activated for the BCEAO and BEAC during the 1980s when African countries were experiencing a debt crisis. He notes that France has two windows of opportunity that allow it to evade the convertibility guarantee. First, it ensured that the BCEAO and BEAC have built up adequate foreign exchange reserves by its representation in their bodies and that it usually holds half of their foreign exchange reserves. Also, instead of playing its contractual role as a lender of first resort, France often falls back on the IMF when CFA countries encounter balance of payments problems rather than activate its guarantee. He submits that the accumulated foreign exchange reserves of the CFA franc member states that sustain the peg against the Euro remain the effective guarantee and not the so-called France guarantee.

Sylla (2023) reports a study indicating that the credit balances of the operations accounts where the reserves of the CFA franc countries are lodged are among the resources used by the French Treasury to finance the liabilities resulting from overdrafts in executing the Finance Acts and amortizing public debt. Given that the mandatory 50% reserves of the CFA countries are the effective guarantee for sustaining the CFA value, Sylla (2023) opines that a dirty float of the CFA franc can be achieved without France and the Euro peg. Based on this analysis, he submits that the CFA franc peg against the Euro is explained by France's desire to maintain the franc zone at all costs and continue exerting its influence by acting as the CFA-euro peg guarantor.

Regardless of the merit of Sylla's argument on the 50% reserve guarantee, Fofack and Zafar (2023) argue that it should be retained and invested in transnational projects like roads, railway lines, and optic fiber laying that supports the zone's economic integration, and yielding returns at the same time. Where economically viable, extending the infrastructure to contiguous non-CFA African countries can be negotiated on win-win countries. For instance, Nigeria may be willing to co-finance a transnational railway line connecting the CEMAC region with the WAEMU region. The reserve can equally help to recapitalize promising transnational manufacturing firms and banks to support the emergence of a banking union and an investment union in the zone. Productively utilized, the pooled reserve can support the production of "Made in Africa" goods comparable to the highly popularized 'Made in Europe' goods, directly supporting the growth of the AfCFTA.

ESTONIA'S REMARKABLE MONETARY REFORMS

Estonia escalated a successful disruptive exit from the Soviet Union's monetary arrangement, standing out among all the post-communist countrieswith a business environment that is remarkably democratized, and a government focused on the welfare of its nation (Aslund, 2011). Estonia's bold introduction of a currency board to float the Kroon against other currencies, although causing initial traumatic upsets, helped her to maintain a balanced budget, achieving a key requirement for obtaining a life-saving IMF facility and joining the EU. Remarkably, Estonia achieved a financial surplus yearly from 1991 to 1995.

Dealing with Shocks

The immediate effect of the escalated exit from the disintegrating Soviet Union was runaway inflation. However, Estonia was able to build resilience against shocks, such that while the median inflation rate in former republics of the Soviet Union stood at 880% in 1993, Estonia's inflation was at a comparatively moderate 36%. By 1996, inflation in Estonia had declined to 15%, compared with a median of 40%. Estonia joined the EU in 2004, introducing the Euro in 2011. As an EU member nation, Estonia could attract foreign firms, and new jobs were created to aid quick recovery from the initial crisis. The EU membership increased access to liquidity assistance programs that filled gaps created by low private capital inflows, an advantage reforming country outside the Eurozone lacked. Moreover, when the coronavirus shock hit in early 2020, the Eurosystem's emergency measures helped stabilize the Estonian financial system.

Lessons For a Prospective Lone Exiter from the CFA Zone

For the post-CFA reforms, the Estonian experience teaches four main lessons a prospective lone exiterfrom the CFA zone must take into consideration:

1. The Benefit of Credible Institutions and Sound Domestic Policies: Estonia remained committed to maintaining budget surpluses from 1991-1995, meeting IMF facility requirements and EU entry criteria. Also, technology sector Investments such as the "Tigers Leap" project computerized public services and supported IT sector growth, making Estonia a leading startup hub. Estonia equally implemented entrepreneur-friendly policies, including trade liberalization, rapid privatization, tax-free reinvested profits, and Scandinavian banking system integration.
2. The Benefit of International Cooperation: Estonia gained from mutually beneficial relationships with bigger economies and influential networks. Joining the Eurozone helped Estonia with mechanisms and preventive policies to cope with external shocks and enhance resilience. This underlines the value added by supervisory coordination and cooperation in a monetary union. For the post-CFA framework, eliminating the

supervisory role of France despite its shortcomings without finding credible alternatives may amount to "throwing away the baby with the dirty water".

3. The Benefits of Carrying the Population Along: The Estonian government sought and obtained the population's buy-in through a popular referendum conducted on September 14, 2003, in which Estonians overwhelmingly voted to join the European Union. Consensus building helped the population endure the austerity measures with assurances of better days ahead from EU membership.
4. The expediency of economic diversification: Sorg (2004) notes that investment in the IT sector helped Estonia's quantum leap to global competitiveness. Of particular importance were the "Tigers Leap" and e-government projects and banking digitalization. Moreover, Estonian software firms provided services to other sectors nationally and internationally. Credit rating agencies like Fitch affirmed the combined results of these measures by shifting the country's rating from BBB+ in early 2010 to A+.
5. Incentivizing FDI and Youth Startups: Starting businesses, resolving insolvency, and enforcing contracts were simplified. Wall Street Journal reported that Estonia produced more startups per head of population than any other European country. Friedrich and Reiljan (2015) explain how the Estonian government responded to the financial crisis with attractive, entrepreneur-friendly policies. The taxation of profits was low, and reinvested profits were kept tax-free. As a result, Estonia managed the financial crises differently from the neighboring countries, including Finland and Sweden.

Summarily, a lone exiter from the CFA zone seeking to succeed needs to:

1. Prioritize investing in technology goods to modernize agriculture, industry, and public service, increasing the overall economy's output.
2. Retain existing links with the Eurozone or replace it with another globally influential monetary union.
3. Secure popular support for monetary reform from the citizens, with those at the helm of affairs willing to lead by example.
4. Incentivize FDI and youth startups with business-friendly policies.

THE SOUTH AFRICAN COMMON MONETARY AREA (CMA)

The South African Common Monetary Area (CMA) has four (4) members: South Africa, Lesotho, Namibia, and Swaziland. South Africa plays a dominant role. However, Lesotho, Namibia, and Swaziland (LNS) have their national currencies that are valued and exchanged at par with the South African Rand. The South African Rand is legal tender in Lesotho and Namibia alongside their national currencies.

The South Africa CMA is largely a product of geopolitical and historical exigency. Lesotho is surrounded by South African territory and has depended heavily on South Africa for its export market and remittances of its citizens working there. Swaziland is also landlocked, surrounded by South Africa on all sides but the north-east, depending heavily on the South African market. South Africa is Namibia's major export market. The South African CMA is Africa's only existing South-South monetary cooperation (Metzger, 2006; Seleteng, 2013).

Key features of the South African CMA are summarized below:

1. Members have independent central banks, with the South African Reserve Bank (SARB) setting the monetary policy framework.
2. The South African CMA also operates as an investment and banking union, with few restrictions on cross-border investments and Banking. However, normal immigration procedures and labor mobility requirements apply to CMA members.
3. South Africa makes compensatory payments to the other contracting parties as imputed return on the Rand currency estimated to be circulating as legal tender in their areas.

Although not meeting all the criteria for an optimal currency area, the South African CMA has an estimated combined GDP of US$224 billion, about 43% of that of sub-Saharan Africa in 2004 (IMF, 2007)

Lessons For CFA zone Members Contemplating an Exit to form a CMA

1. As a prelude to forming a successful CMA, prioritize becoming a free trade area, a banking union, and an investment union in addition to diversifying the economies of the exiting nations.
2. In the absence of a dominant country like South Africa to lead the CMA, consider pooling funds to create transnational banking institutions to fund the growth of enterprises within the zone.
3. The South African CMA has been successful because of South Africa's stabilizing role. The absence of a more advanced country, like South Africa, among the prospective exiters may pose a major leadership challenge.
4. Without a leading member or external party playing a supervisory role, there may be no assurances of fiscal discipline by the prospective exiters.
5. It has to be decided whether to create a new currency for the group or adopt a member state’s currency, and create a common monetary authority with clear responsibility for formulating and conducting monetary policy for the entire CMA.

THE EUROPEAN MONETARY UNION (EMU)

The European Monetary Union (EMU), or the Eurozone, stands out as the archetype of monetary unions despite its peculiar challenges. It comprises 20 EU member states (as of 2023) with Euro (€) as a common currency, introduced in 2002. The European Central Bank (ECB) manages the monetary policy of all member states. The Eurozone is a vastly integrated regional economy with a banking union. However, some members still have their national currencies. The adoption of the Euro facilitates trade, travel, and economic integration among EU member countries, providing stability and easing transactions within the Eurozone. However, serious challenges exist due to member countries’ inability to adjust their monetary policies independently, as seen in the Greek debt crisis (Beattie, 2021; McBride, 2022; Liberto, 2024).

Lessons from the EMU in Consideration of a Comprehensive CFA Framework Reform

1. Promoting Trade: The reformed CFA zone must first prioritize being a strong free trade area, a banking union, and an investment union, where, like the EU, traveling within is eased, currency exchange risks are removed, and labor and goods flow across borders seamlessly.
2. Mutual Support: The reformed CFA zone arrangement should have mechanisms to support distressed members. For instance, the European Central Bank consistently buys up enough debt in afflicted countries to keep interest rates relatively low. Also, France and Germany supported a recovery fund worth over 500 billion euros.

However, the reformed CFA zone arrangement should avoid a major weakness of the EMU, particularly the rigid monetary policy framework that limits the ability of the member states to optimize the benefits of monetary sovereignty. A flexible monetary policy environment that accommodates member countries having their national currencies (that are convertible to the reformed CFA franc) is apt.

The reformed CFA franc (or by whatever name it will be called) can be a digital currency pegged to a basket of currencies. It will serve as a numeraire for the respective national currencies of the member nations and a unit of account used for their international transactions.

ANALYSIS OF THE SCENARIOS

Hypothesis 1: Lone Exit

A lone exit from the CFA zone is theoretically possible, especially where it is benign. Eijffinger, Kobielarz, and Uras (2018) distinguish between a benign exit that may not significantly hurt investors' expectations and an escalating exit that causes a general loss of confidence. For example, the exit of Morocco, Tunisia, and Algeria from the franc zone around when they gained independence was benign and could not have hurt investors' expectations much (Rose, 2007). However, a lone exit from the CFA zone now would most likely escalate, inviting multiple crises, if not well negotiated.

In theory, the benefits of exiting a monetary union include regaining control of inflation, redenominating loans issued under domestic law by fiat, and being able to borrow money internally from the central bank (Kriwoluzky, Müller, and Wolf, 2019; Kobielarz, 2021; Keuschnigg, Kirschner, Kogler, and Winterberg, 2023). However, Grauwe (1991) argues that small, poorly diversified economies (like the 14 CFA zone countries) should remain in monetary unions linked to stronger currencies until they can diversify their economies and become globally competitive. Fritz and Metzger (2006) observe that joining a monetary union benefits open and economically diversified countries equally.

Eijffinger, Kobielarz, and Uras (2018) add that a country having severe unemployment challenges associated with the trilemma of high public debt, weakened banks, and stagnant growth can benefit from a lone exit if the government is committed to fiscal discipline. Rose (2007) adds that creating a new central bank and managing it appropriately is an expensive venture that a lone exiter should consider.

In particular, Estonia's successful escalated exit from the Soviet monetary system points to the following success factors for a lone exit from the CFA zone:

1. Negotiate the exit with France/EU, the CFA zone central banks, the IMF, the World Bank, creditors, and other key stakeholders to reach workable win-win agreements.
2. Upon successful negotiation, ensure strict compliance with the terms of agreements reached to avoid backlashes.
3. Secure the support of the majority of citizens for the monetary reforms. Where the legal regime permits, a referendum may be conducted for citizens to express popular support for the reform.

The CFA countries are generally poorly diversified, so a lone exit can only be achieved at a very high cost. Hence, as Zafar (2023) rightly opines, it is preferred for the member states to remain and support a comprehensive reform of the CFA zone, taking advantage of the opportunities it offers to diversify their economies. Hence, Hypothesis 1, "An individual country can exit the CFA franc zone to create its national currency and assume full currency sovereignty successfully," is rated as the 'Third Best Scenario.'

Hypothesis 2: Some Members Exit to Form a CMA

Some countries may want to exit together to form a common currency area (it appears the trio of Niger, Burkina Faso, and Mali are contemplating that). However, Nitsch (2004) argues that there is no objective reason for a member state or group of members to exit the CFA zone now, opining that calls for the dissolution of the CFA franc are more political than economic. He contends that the failures of the current CFA arrangement are due more to the member states and the independent central banks' not taking full advantage of the opportunities offered by the monetary arrangement. For instance, statistics show that exports from the CFA zone to Europe fell from 50% to 25% in the last 20 years despite the preferential trade agreement. The CFA countries have failed to diversify their economies or produce competitive export goods (IMF, 2008).

Tchatchouang (2014) and Yehoue (2006) note that nearly all CFA countries are primary produce exporters, making their earnings vulnerable to frequent price fluctuations and creating a need for them to require exchange rate stabilization advantage of the current arrangement, especially in the absence of standard shock absorbers, such as labor mobility, intra-zone trade, capital mobility, and fiscal transfers. Rather than quit or have the CFA arrangement dissolved, member countries should prioritize taking advantage of the convertible currency and preferential trade arrangement to grow their economies and promote trade among themselves.

After more than half a century of existence, CEMAC and WAEMU have performed poorly regarding trade creation and product diversification. Fiscal discipline performed better in the CFA countries than the non-CFA countries, largely due to the 100% CFA franc devaluation and introduction of France-supervised prudential surveillance arrangements in 1994. Before then, fiscal discipline was not rigorously followed. Implementing the fiscal policy surveillance system since 1994 caused the average deficit to reduce from 4.8% of GDP to about 1.2% in 1995-2004. Thus, fiscal discipline attributed to the CFA zone comes less directly from the peg and more from the surveillance criteria.

Lessons from the experience of the South African CMA suggest the following imperatives for some members to exit to form a common monetary area:

1. Before considering forming a common monetary area, the exiting members should first prioritize forming a common trade area, a banking union, an investment union, and an infrastructure union. The success of the South African CMA and the EMU lies in the financial and infrastructural connectedness of the member states.
2. It has to decide whether to create a new group currency or adopt one of its currencies for the group.
3. To help stabilize their national and group currencies, partnerships and linkages with stronger currencies or currency zones should be built.
4. Dialogue with the CFA central bank on how their indebtedness may be restructured would be necessary.

Considering the above points, realizing hypothesis 2 would require several time consumingpreparatory activities that are necessary for the success of a common monetary area. Moreover, the South African CMA is successful largely because of the sacrifices of South Africa, and the bond that it shares with LNS. These conditions that make the South African CMA successful are not readily applicable to any group of CFA zone countries. Hence, Hypothesis 2, “A group of countries can exit to form a common monetary area,” is rated as the Second-Best Scenario.

Hypothesis 3: Comprehensive Reform of the CFA Arrangement

The CFA arrangement can be comprehensively reformed to render the currency union self-sustaining and able to support the development of member countries and Africa at large. Sirpe (2019) identifies promoting intra-CFA zone trade and investment as key imperatives for a successful post-reform CFA arrangement. It is also important to de-colonize the CFA zone by incentivizing non-CFA African countries to join. As Nana (2024) rightly notes, the CFA zone should transform from a clique of former French colonies to a North-South cooperation, connecting Europe (North) with countries of Africa (South). The bigger the economies admitted into the reformed CFA zone, the better. This view aligns with the gravity trade model, which stipulates that the trade volume between two countries is proportional to the size and distance between them (Rose, 2000). Kangami and Akinkugbe (2021) opine that member countries should set the reform goals and pace, not France/EU, and to enjoy improved scale economies and ease policy harmonization, WAEMU and CEMAC could be merged.

Considering lessons from the EMU experience discussed earlier, we rate Hypothesis 3, that the CFA zone arrangement can be reformed to ensure the sustainability and development of the member countries, as the Best-Case Scenario.

DISCUSSION OF FINDINGS

We analyzed three scenarios for the CFA zone currency autonomy reform and rated hypothesis 3, "The CFA zone can be reformed to become self-sustaining and effective," as the best-case scenario. In doing so, we assumed that the member countries are committed to the growth and diversification of their respective economies and that France’s partnership will henceforth be on a win-win basis.

Prioritizing a comprehensive reform of the CFA arrangement agrees with the views of Yaduma and Khan (2020), Zafar (2023), Epstein (2023), and Tallinn (2022).

The debate on how to reform the CFA zone should be depoliticized. This study has shown that the member countries can enjoy substantial monetary autonomy while the zone still subsists with all the scale economies of a currency union intact. We argue here that the current failings of the CFA zone have more to do with the inability of the member countries and the zone’s central banks to do the needful, particularly in diversifying member states' economies and promoting integration. Disbanding the CFA arrangement in the immediate and medium term will amount to “throwing the baby away with the dirty water.”

SUMMARY OF KEY FINDINGS, POLICY RECOMMENDATIONS, AND CONCLUSION

Summary of Key Findings

The key findings of the study are summarized below:

1. A comprehensive reform of the CFA zone is long overdue. Maintaining the status quo is not an option, and disbanding the CFA arrangement will hurt the member countries more.
2. A post-reform CFA framework where lone member states exit (the third-best scenario) or form smaller CMAs (the second-best case scenario) is possible, but not optimal.
3. The optimal post-reform CFA framework is where the current arrangement is reformed to promote economic integration of the zone (the best-case scenario). This option aligns with the goals of the AfCFTA and the African Union's Vision 2065.

Policy Recommendations

1. The WAEMU and CEMAC should be merged, and the XOF and the XAF replaced with a single currency, preferably a digital one.
2. The member states can issue their national currencies to exit alongside the zone’s currency, to enable them exercise monetary sovereignty within their national borders. The national currencies are freely floated against the zone’s currency, which remains the numeraire.
3. The members can use domestic borrowing to fund capital development. However, excessive monetary expansion will cause the exchange rate of any particular currency to fall relative to the zone’s currency.
4. The pooled reserve should be retained and used to fund transnational infrastructural projects on cost-recovery basis, and returns on such investments shared proportionately according to members' contributions.
5. A special stabilization fund should be maintained to support member states' economies from the effects of external shocks and unforeseen crises and provide special support to the poorest member countries.
6. Wooing new members to join the post-reform CFA zone should be prioritized to free it from the shackles of colonialism, aligning it rather with the AfCFTA and the AU's Vision 2065 agenda.
7. African political and intellectual elites should seize from seeing France/EU as the problem and prioritize the benefits of North-South cooperation.
8. Intra-zone trading and convergencies of banking, investment, infrastructural development, security,

immigration, communication, and payment systems, among others, should be prioritized.

Conclusion

The CFA zone should be comprehensively reformed to render it more supportive of development in the member countries. Although possible, dismembering the zone by the lone exit of members or some members opting out to form a new common currency area will yield suboptimal outcomes that ultimately hurt the CFA member countries more. The CFA states and Africa at large will benefit from a post-reform CFA that serves the development needs and aspirations of the member state while mainstreaming the AfCFTA and Africa Vision 2063 project.

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