Evolution of African Currencies

Part I: The Franc Area

With the coming of independence, African countries have been confronted by the need to organize and concert a rapid evolution in their currencies. In this article an account is given of developments in the franc area. An account of the sterling area, and of unattached currencies, will appear in the December issue of Finance and Development.

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IN 1944, at the time when the monetary future of the world was being discussed at Bretton Woods, the map of Africa showed four independent countries—Egypt, Ethiopia, Liberia, and the Union of South Africa. The bulk of the continent consisted of colonies, protectorates, trusteeship territories, and departments administered by six European powers and the Union of South Africa.

Africa at that time presented a rich variety of currency arrangements. Egypt and South Africa had national currencies and were full members of the sterling area. Ethiopia had created its State Bank and was preparing the introduction of the Ethiopian dollar, replacing foreign currencies and the long-used Maria Theresa thaler. Liberia, which, despite the law of 1935 creating a Liberian dollar, in fact depended on the use of foreign currencies, had just replaced the West African pound by the U.S. dollar as the main medium of payment. In each dependent territory a traveler would find either a European currency or a special local currency issued by one of a variety of agencies, some of them located in Europe.

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Under the colonial regimes, the dependent territories were closely linked with the metropolitan financial, banking, and monetary systems. Metropolitan countries were the major sources of investments and credits, but also depositories for the dependencies' assets; the values of "dependent" currencies were anchored in metropolitan currency units and, with some exceptions, followed the adjustments of the metropolitan currencies' rates. The finan-

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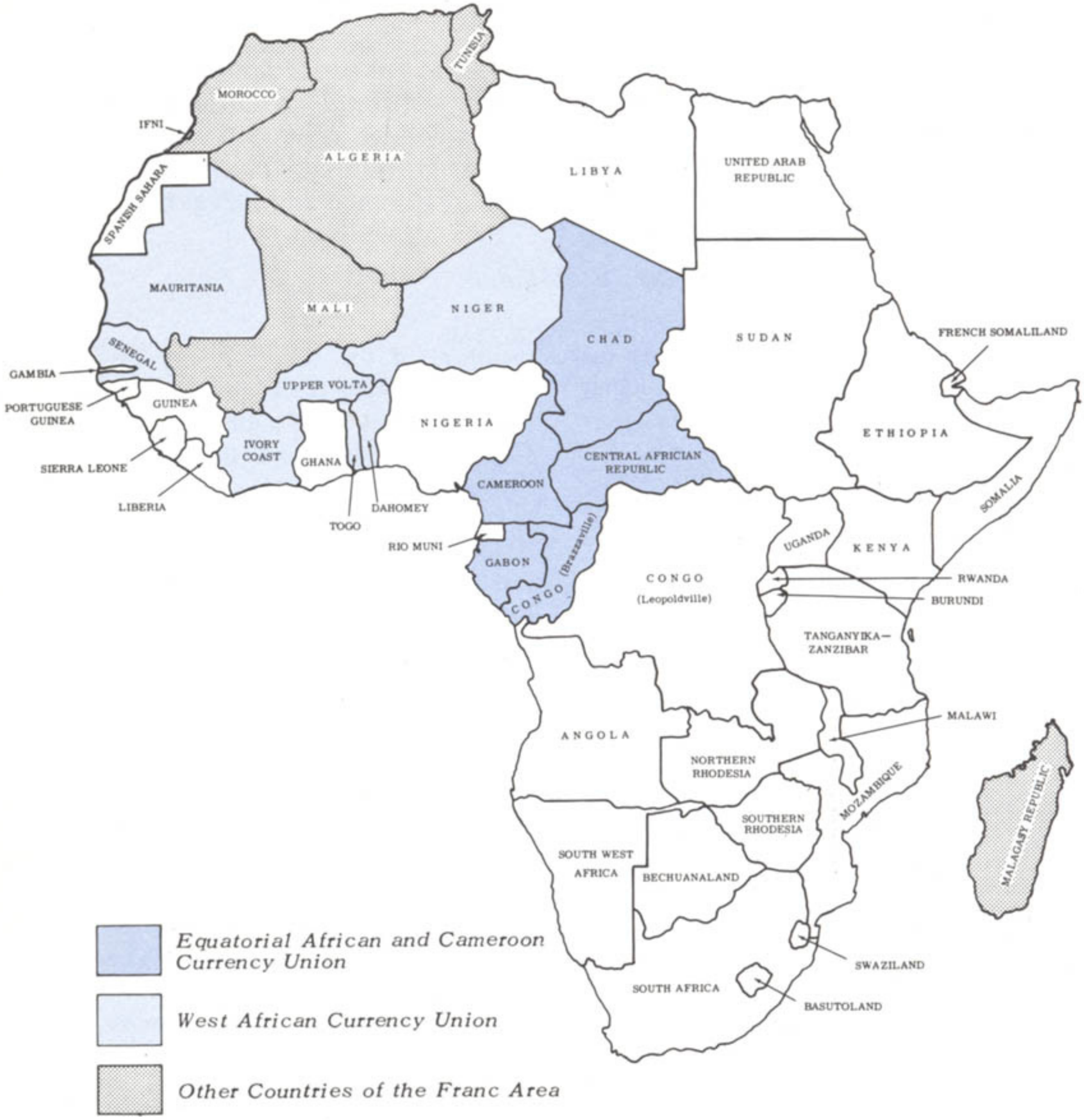

cial ties were not the only factor responsible for the channeling of an important proportion of each area's trade toward its metropolitan market. In many dependent territories the trade organization itself was an offspring of metropolitan firms, or consisted of agents whose experience was limited to their country of origin. The tastes and habits of the European expatriates and settlers, sometimes adopted by a part of the indigenous population, kept up a demand for metropolitan products.

The concentration of trade and payments in the intra-area channels had assumed a new significance in the 1930's, when international trade began to struggle with formidable obstructions of import and payments restrictions and tariffs. Viewed against this growth of barriers in international transactions, the monetary areas continued to enjoy internal liberal trade and payments regimes. After the war, when the world was even more severely partitioned by payments and import restrictions, the relative freedom of payments between the members of each area and the preferential treatment of imports originating in it was one of the most relevant features of the monetary areas. The discriminatory aspects of import regimes varied, however, from one area to another and in some instances from one territory to another. Certain territories, for instance, enjoyed a particular international status forbidding discrimination in foreign trade.

The Coming of Independence

The 1950's witnessed the first accessions to independence in Africa. Libya became sovereign in 1951, Morocco and Tunisia in 1956, Ghana in 1957, and Guinea in 1958. The majority of the African countries have attained independence in the last five years, 1960-64. Some of the new countries emerged with currency systems already modernized, but with the advent of independence the monetary relationship between the metropolitan countries and the new states has been subject to further mutations. At present, Africa is in the midst of a transition marked by a search for new formulas reflecting various postulates, some of them rather conflicting.

It is not the purpose of this article to discuss projects which themselves are as yet somewhat vague and uncertain. The aim is simply to describe the changes which have already occurred, the dissolution or adaptation of institutions, and creation of new ones, and to point out—hopefully without resorting to a crystal ball—some trends that appear to come to light.

Two kinds of monetary organization are particularly typical in Africa, and we shall pay particular attention to the question of how they are affected by recent developments. These two kinds of organization are monetary areas and currency unions. Currency unions are arrangements under which two or more countries share the same currency; monetary areas are groups of countries having special relationships with a currency not their own—in Africa, the French franc or the pound sterling. At present, out of the 35 independent states, 27 are members of monetary areas. About a half of the African states are members of currency unions. All countries and territories belonging to currency unions are also members of a monetary area.

We shall, first, examine relationships within the areas and unions, and later describe the history of currencies which have been detached from such multinational organizations. This review will be confined to independent countries, although it is impossible to avoid mentioning certain dependent territories which have monetary arrangements with sovereign African states.

FRANC AREA

At present 17 African countries are members of the franc area. French Somaliland is not part of it, the Djibouti franc being freely and directly convertible into any currency; as a result, in French exchange regulations this territory is included in the dollar area.

The natural subdivision in the African part of the franc area appears to be between the North African (Maghreb) group of countries, the CFA franc sub-area, Madagascar, and Mali.

Maghreb Group

Although *Algeria* acceded to independence six years later (1962) than Tunisia and Morocco (1956), the currency regimes in these three countries already show considerable similarity. Each of the three countries started with all the characteristics of full-fledged membership of the franc area: free transferability within the area, free trade with the area, restrictions on payments to, and imports from, the countries outside the area, settlements of foreign exchange transactions through the Paris exchange market, reserves held in French francs (the Banque d'Etat du Maroc was under statutory obligation to hold a part of its reserves in gold), and exchange rates pegged to the French franc. All the three units were at par with the French franc.

For about two years after *Tunisia's* accession to independence, the Tunisian and Algerian currencies continued to be issued by the same bank, with headquarters in Paris: the Banque de l'Algérie et de la Tunisie. In the autumn of 1958 Tunisia created a bank of its own, the Banque Centrale de Tunisie, and issued its new currency, the dinar, equal to 1,000 old Tunisian francs.

Independent *Morocco* lived for a while with its internationally organized Banque d'Etat du Maroc created by the Treaty of Algeciras. The Moroccan franc was substituted for the peseta of the Spanish Northern Region, and Tangier was stripped of its free exchange privileges. In 1959 a new institute of issue, the Banque du Maroc, fully owned by the Moroccan state, was created and began to issue the dirham, at the rate of 1 dirham per 100 Moroccan francs.

Both the new Tunisian and Moroccan central banks faced from the very outset serious balance of payments crises which had been building up for some time. In the postwar years French loans, grants, and expenditures had been strongly underpinning the balance of payments position of the two countries, and so for several years had private capital imports. After 1953, the tide changed. Private funds began to flow out and the balance was maintained more and more precariously by French spending and aid, and later by U.S. aid. The strong tensions prevailing in North Africa, the war in Algeria, the exodus of the European population, the tapering off of French aid, the reduction in French expenditures, and the devaluation of the French franc at the end of 1958, all contributed to a heavy imbalance in the two countries' payments with France. Tunisia preferred not to follow the devaluation of the franc, whereas Morocco did devalue after some delay. Both countries, however, in 1959 introduced restrictions on payments to the franc area, other than on those connected with trade. Certain imports from the franc area are now restricted, but the import regime favors the area exporters. A number of Tunisian and Moroccan products continue to enjoy preferential treatment in the French market. (At the time of writing, a dispute has flared up between the French and the Tunisian authorities regarding the transfer of French-owned land in Tunisia to Tunisian nationals, and the French financial support and preferential treatment of imports from Tunisia has been suspended.) The two countries maintain a part of their reserves in gold and currencies other than francs, but carry out most of their transactions through the Paris exchange market.

Four years later events repeated themselves, only more rapidly, in Algeria, where the exodus of population was a good deal larger. At the end of hostilities independent Algeria became the beneficiary of large French financial aid, and it continues, like its two neighbors, to receive preferential treatment for certain of its exports to France. Yet, like Tunisia and Morocco a few years earlier, Algeria has considered it necessary to impose restrictions on outward payments to the franc area and on certain imports from the area. A new bank of issue, the Banque Centrale d'Algérie, has replaced the Algerian franc by the dinar, which is at par with the new French franc.

The CFA Franc Currency Unions

The territories of French-governed Africa, including a few rather distant insular dependencies, were using a currency unit which was termed the CFA (Colonies Françaises d'Afrique) franc. Today the CFA francs (or, in the Malagasy Republic, a unit equal to the CFA franc) are issued by six institutions and are legal tender only within each area of issue. As this article is concerned with currencies of independent states only, we shall leave out of our survey the three currencies circulating in French insular dependencies. The various CFA franc currencies have two common characteristics. They are mutually at par and equal to two old French francs, or to two new French centimes. All areas using the CFA franc practice a very liberal regime of payments with the franc area; in relation to countries outside the franc area they apply restrictions of a similar type.

The territories of sub-Saharan Africa under French rule were for a number of years grouped in two currency unions: French West Africa and French Equatorial Africa. The independent states of these two areas, with the exception of Guinea and Mali, decided to continue the unions on a reorganized basis.

The *West African Currency Union* counts among its members Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta. The highest organ of the Union is the Council of Representatives of each member country at ministerial level. It meets at least once a year in the presence of the President and Director General of the central bank, the Banque Centrale des Etats de l'Afrique Occidentale (BCEAO). The Bank has a temporary headquarters in Paris and has branches in each member state.

A Treaty of Cooperation between the West African Currency Union and France changed the name of the currency unit to Communauté Financière Africaine franc, thus conserving the CFA abbreviation. The notes issued by the BCEAO are legal tender in all the member states, but not in any other part of what is termed the CFA franc area. Serial markings make it possible to identify the state where the notes have been issued, and notes issued in one member state that are intercepted by the bank of issue or governmental agencies in other states are returned to the branch of BCEAO which originated them. The amounts of notes thus returned are recorded in the credits and debits between the states concerned.

The *Currency Union of Equatorial Africa and Cameroon* is formed by Chad, the Central African Republic, Congo (Brazzaville), Gabon, and Cameroon, and its central bank is the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (BCEAEC). This Bank issues two types of banknotes: one is issued in Cameroon and another in the other four member states. The headquarters of the Bank are located provisionally in Paris, and there is at least one branch in each member state.

In both Currency Unions, each member state is represented on the central Board of the Bank, and so is France, although the composition of the Boards is not identical for the two Banks. The role of the Boards is to lay down general policies and establish credit ceilings for each country. In each member country there is a national committee endowed with authority to redistribute credits between the institutions that are eligible to borrow from the Central Banks. (Chad, the Central African Republic, and Congo (Brazzaville) have a common regional committee.)

Relations with Other Countries

The external relations between the two foregoing Currency Unions can be described by saying that each acts like a full-fledged member of the franc area. Transfers to any part of the area are entirely free, and France guarantees by treaty the convertibility of CFA francs into French francs. Exchange reserves are held exclusively in French francs, and exchange transactions are carried out through the Paris exchange market. With some exceptions for protective reasons, imports from the franc area, which means mainly from France, are free from quantitative restrictions, though not necessarily from tariffs. France reciprocates by granting free admission to most products of the member countries of the two unions. For certain products free entry into the French market results in a price subsidy, as France protects the market against the rest of the world through restrictions and tariffs. Countries producing coffee, groundnuts, groundnut oil, and sugar have been the main beneficiaries of these arrangements. Cotton producers receive a subsidy through a stabilization fund financed by France. Certain countries, producing competitive goods, do not share in such subsidies, but altogether some two thirds of exports from the CFA countries enjoy preferences, the value of which is close to 10 per cent of total export proceeds. The CFA countries also receive direct French aid in various forms and for various purposes; the amount of this aid equals about one half the total imports from the franc area. With the assistance of the countries of the European Economic Community (EEC), plans are being made to render the CFA countries' production more competitive, and it is expected that preferential trade relations between France and the CFA countries will progressively disappear, initially at least as far as the other EEC countries are concerned.

Each state in the two Currency Unions restricts imports from, and payments to, the rest of the world, and the volumes of transactions are governed by agreements with

France. The discrimination against the outside world is considerable, but is less severe with regard to the members of the EEC. It is perhaps not incorrect to say that these discriminatory restrictions have the effect, at least in part, of tying the massive French aid to procurement and spending in France, in the same way that much aid in recent years has been tied to purchases in the donating or lending countries. The aid agreements themselves do not contain any provision tying the loan funds to procurement in the metropolitan territory.

The members of the two Currency Unions have also established two Customs Unions which aim at removing customs barriers between the members and establishing a common external tariff. (At present Cameroon is not a member of the Equatorial Customs Union.)

While certain countries in these Unions show a trade surplus with the franc area and with third-party countries, the balances of payments of the two Unions show a heavy trade deficit with the rest of the franc area and a deficit in private invisibles. Transactions outside the franc area provide only a slight surplus, and the over-all deficit is covered mainly by French public aid.

Among the conditions requisite for any currency union, the basic one seems to be a reasonable degree of uniformity in credit policies. The statutes of the two Central Banks ensure this kind of common pace in the expansion of credits, by reserving to the central Board the setting of credit ceilings for each state's economy. As regards credits to the public sector, the West African Central Bank (BCEAO) is further protected by provisions limiting the duration of such credits and relating their permissible volume to ordinary government revenues. The Bank, however, is not limited in extending credits to public enterprises, although such credits would be governed by the central Board's ceilings. The Bank of the Equatorial African Union (BCEAEC) can extend credit to the governments only indirectly through the discount of government paper submitted by commercial banks. The statutes impose no limits on credits to the governments, but they are subject to ceilings established by the central Board.

The two Currency Unions undoubtedly represent achievements in the field of interstate monetary cooperation. An oft-repeated phrase says that in that part of Africa they have an institutional arrangement which for more developed countries is still a remote goal. Without detracting from the merits of the two systems, it should be remembered that the Unions were not so much created, as adapted from pre-independence years. There is a helpful element of habit and tradition already well engrained. Another element favoring monetary unity is the fact that former French Africa was split into a number of relatively small states, rather insecure as to their economic future and their ability to uphold their own currencies. The difficulties which certain other small African states ran into seem only to have strengthened the cause of those who believe in joining forces. The concept of a "zone" as a cooperative organization, equipped with some lifesaving funds coming from outside, has a considerable appeal. The volume of French aid and the elasticity with which it can be distributed are, of course, instrumental in relieving a great deal of pressure which otherwise would be directed at the Banks, causing critical strains.

Yet the negotiations on the West African Currency Union and the accompanying conventions were not entirely smooth in the West African Union, and it would be too sanguine to assume that the concept of currency unions has no opponents and that these unions will not be exposed to attacks. The political climate prevailing in the area will undoubtedly be the main factor determining the success or failure of the two Unions. It should be noted that Guinea and Mali seceded from the Unions for political reasons rather than by way of criticism of their economic shortcomings. This is equally true of threats of further secessions.

The *Malagasy Republic* has a currency unit of its own, the Malagasy franc, equal to the CFA franc. The Institut d'Emission Malgache established in Tananarive has a mixed Malagasy-French Board of Directors. Relations with the franc area and France are analogous to those of the above two Currency Unions.

Mali, since mid-1962, has had a central bank of its own, the Banque de la Republique du Mali, issuing Mali francs. In February 1960 Mali separated from Senegal and in September 1960 the country established its own exchange controls covering not only transactions with non-franc area countries (as before), but also current and capital transactions with the franc area (which until then were not subject to exchange control). Since 1961 all foreign transactions have been subject to increasing restrictions, and a good part of Mali's foreign payments has been channeled through newly concluded bilateral payments agreements. Mali's membership in the franc area seems to be a borderline case, as none of the usual conditions seem to be fulfilled. France, however, in practice still treats this country as a member of the area, allowing free transfers toward Mali and extending preferential treatment to those Mali exports which continue to be shipped to France.

TO BE CONTINUED

A detailed paper on the CFA Franc system was published in the November 1963 issue (Vol. X, No. 3) of the International Monetary Fund Staff Papers.