IBSBMUN 2022

Study Guide Economic and Social Council

The impact of the CFA franc monetary union on Central and West African states' development

Table of Contents

Welcoming Letter

Dear prospective delegates,

We are honoured to welcome you to the Economic and Social Council of IBSBMUN 2022! We are confident that this committee will exceed your expectations, no matter how much you know about economics, and that by the end of the conference, you will have a more in-depth understanding of the concepts that shape the global economy.

We are glad to see that this year's topic, *The impact of the CFA franc monetary union on the Central and West African states' development*, sparked your interest. Despite the fact that it might seem complex and very specific in nature, we strongly encourage you to approach it with an open mind and stay optimistic about it.

Remember that the Study Guide is only the first step in your research process and you should conduct thorough research on your own. The better you know your country's stance, the easier it will be for you during the heated debate. Also, make sure to read about other countries' involvement and do not be afraid to bring up your findings during the committee sessions. We also recommend that you familiarise yourself with the economic terms described in this document before proceeding to understand more complex matters.

We are eager to see the result of your research and so we are looking forward to reading your Position Papers. Keep in mind that before getting to work, reading the Study Guide carefully will make your life a lot easier. We advise you to write in a concise and structured manner, following the guidelines you have received. Rather than using complicated words, consider employing more simplistic vocabulary, but still adequate to the academic context.

When having the floor, be aware of the time constraints and use the allocated minutes to communicate relevant proposals. We encourage you to participate as much as you can and to raise your placards enthusiastically. We also recommend yielding to Points of Information as much as possible and for those who aren't very familiar with the structure of MUN conferences, we strongly suggest reading the rules of procedure carefully and thoroughly before the conference begins.

We are looking forward to meeting you all and to debating together. We see it as our mission to make each one of you feel comfortable and supported in this exciting economic adventure. If you have any questions or simply want to chat, do not hesitate to contact us via email or Whatsapp. See you in March!

All the best,
Cristian and Mihnea - *Chairpersons of the ECOSOC, IBSBMUN2022.*

Committee Outline

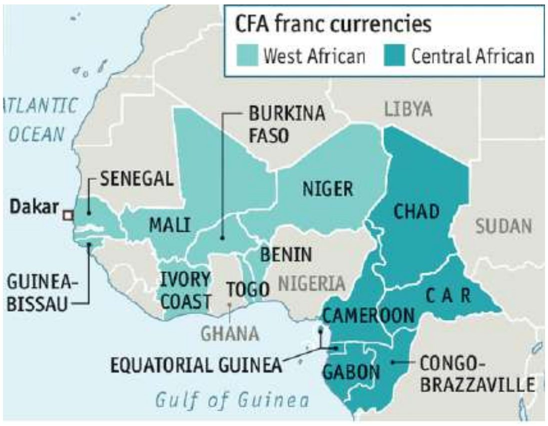
The Economic and Social Council (ECOSOC), established by the UN Charter, is the principal organ that coordinates the economic, social, and other related work of the United Nations. It also manages the specialised agencies and institutions in related fields. Voting in the Council is by simple majority, with each member having one vote. The Council is made up of *54 members*. The ECOSOC also contains various subsidiary bodies that produce various types of documents.

ECOSOC has the following functions and powers:

- ✓ To serve as the central forum for discussions on international economic and social issues,
- ✓ To promote higher standards of life, employment and economic and social progress,
- ✓ To find solutions to international economic, social and health-related problems,
- ✓ To facilitate international cultural and educational cooperation,
- ✓ To encourage universal respect for and observance of human rights and fundamental freedoms,
- ✓ To assist with the organisation of major international conferences in economic, social, and other related fields,
- ✓ To make or initiate studies and reports concerning international economic and social matters,
- ✓ To prepare draft conventions for submission to the General Assembly,
- ✓ To coordinate the work of the specialised agencies and programmes and their functional commissions and five regional commissions,
- ✓ To make arrangements for consultations with non-governmental organisations.

Although all resolutions passed in this Committee are non-binding, ECOSOC can make recommendations and propose research and study initiatives. Organisations such as the International Monetary Fund (IMF) and The World Bank collaborate with the council to push its agenda forward and further stress the need for responsible economic and social development.

Overview of the topic



The **CFA Franc** is the currency of 14 states in Western Africa, being split in

- West African CFA (8 countries)
- Central African CFA (6 countries)

Both currencies are managed by the *French Treasury*.

When France changed from the franc to the euro, the currencies retained parity, so the currencies currently trade:

- 100 CFA *francs* to 0.15 €, or
- 1 € equals 655 CFA *francs*.

The CFA has its origins in **France's colonial empire in Africa**. From the middle of the XIXth century until the middle of the XXth century, France reigned over much of West and Central Africa.[1]

French Equatorial Africa, a federation of French colonial territories in Equatorial Africa spanning northwards from the Congo River into the Sahel, was founded by the French government in 1910.

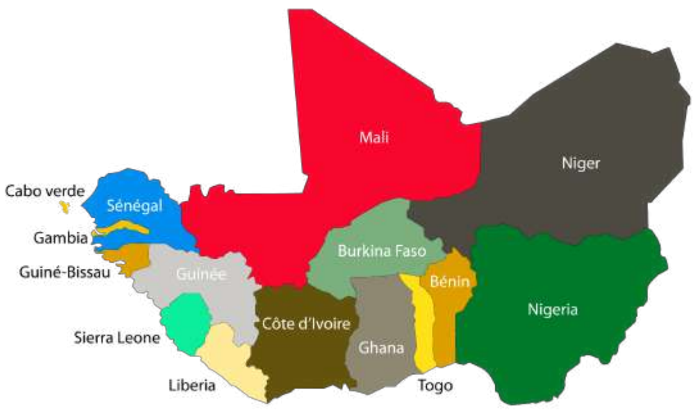
Because the CFA's value is pegged to the euro, it has been criticised for making economic planning for emerging countries in French West Africa nearly difficult.

Despite being distinct currencies, both CFA francs are interchangeable since they have the same financial value when compared to other currencies. The French government or monetary unions that use the currencies may, in principle, decide to modify the value of one or the other. Because the French treasury is responsible for supporting the CFA franc, it holds half of the currency reserves of all 14 CFA franc-using nations.

[1] [Understanding XAF - Investopedia]

Key terms

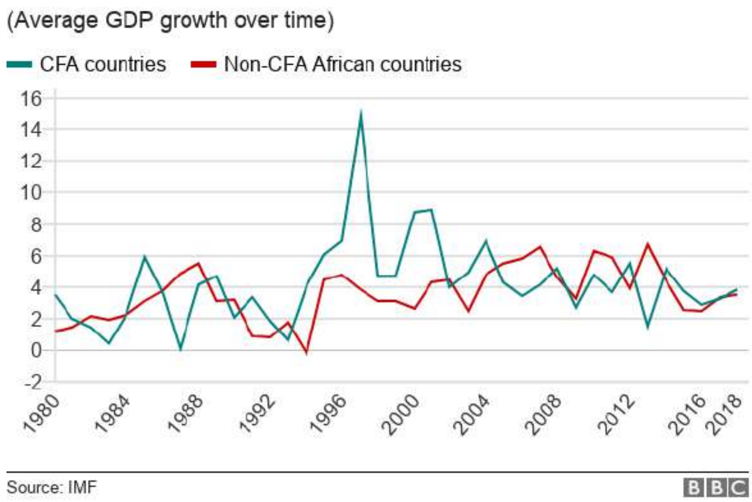
- ➔ Parity = exchange rate
- ➔ Treasury = the government department responsible for financial matters such as spending and taxes
- ➔ UEMOA = Union Economique et Monétaire Ouest Africaine (The Economic and Monetary Union of East Africa) - *see the figure on the right.*
- ➔ BCEAO = Central Bank of West African States
- ➔ WAMZ = West African Monetary Zone
- ➔ IMF = International Monetary Fund
- ➔ Gross Domestic Product (GDP) = the monetary value of all finished goods and services made within a country during a specific period, used to measure economic growth
- ➔ Capitalism = an economic system based on the private ownership of the means of production and their operation for profit
- ➔ Neocolonialism = a further development of capitalism that enables capitalist powers to dominate subject nations through the operations of international capitalism rather than by means of direct rule
- ➔ Monetary Union = agreement between two or more states creating a single currency area. A monetary union involves the irrevocable fixation of the exchange rates of the national currencies existing before the formation of a monetary union
- ➔ Pegging = the practice of attaching or tying a currency's exchange rate to another country's currency and often involves preset ratios.



- ➔ **ECOWAS** = Economic Community of West African States

Past Actions

Founded in 1945,[2] the CFA Franc zone was initially created as a measure to keep the economy of the former French colonies as stable as possible while facilitating their economic growth. However, it is a currency that has sparked a lot of controversy and criticism over the years, especially after France artificially devalued it. In one night, the value of one French Franc rose from 50 CFAF to 100 CFAF. The IMF and other institutions had a consultative role in this decision and ultimately, France decided to ratify this decision, which went into force on the 1st of January 1994.

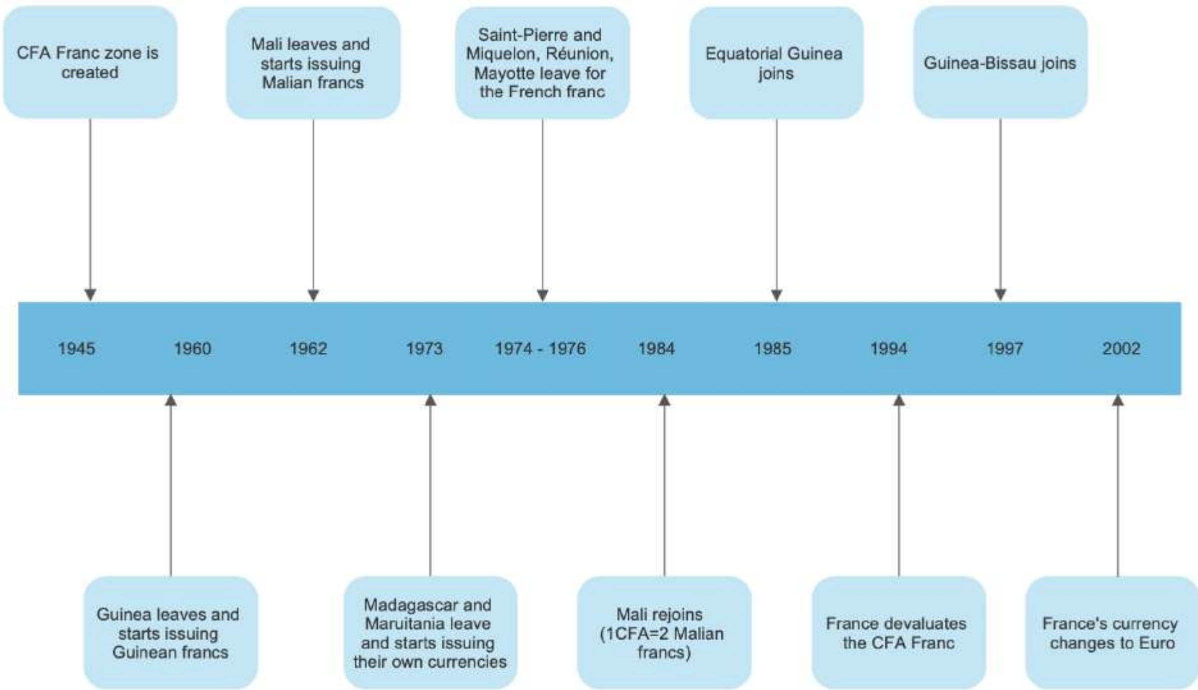


Considering the number of natural resources available in most African countries, this was a measure meant to put them back on the path of economic growth since it encouraged exports at the expense of imports; however, it was quickly met with doubt, since it had immediate side effects, the most notable one being the rise of prices, which leads to a decreased standard of living. However, since the reform, the economies of the CFA countries have actually grown by 5 per cent every year.[3] The employment rate has also grown, especially in the agricultural sector, which is the backbone of most African countries.

"Since these countries' products have become more competitive in world markets, they have increased their exports and improved trade balances, in the process revitalising industries such as logging and textile manufacturing. Trade within the CFA franc zone has also increased. After an initial surge, inflation has also been brought under control." IMF writes.[4]

[2] A brief history of the CFA zone
[3] Charts showing the mentioned economic growth
[4] Article by IMF on the 1994 reform

Overall, the CFA Franc has been a way for the African countries to avoid high levels of inflation and to stay connected with the European continent from a financial point of view, but a the same time many countries consider it to be a form of neocolonialism, hence the ever-changing member states of the union, as outlined by the timeline below.



Current Situation

Anti-CFA campaigners won a milestone victory in December 2019, when the West African CFA franc underwent revisions after years of criticism. France agreed to eliminate the provision that 50% of the assets be held in the French Treasury and to remove the French representation from the board of the UEMOA central bank, among other key adjustments tackling the most criticised features of the monetary arrangement.

The West African CFA franc is also anticipated to be called the **Eco**, which was formerly promoted as a common currency for the Economic Community of West African States (ECOWAS), a political and economic union of 15 West African nations. Despite these remarkable developments, there is little reason to believe that France's relationship with the continent will change significantly. *The currency will maintain its stable parity rate with the euro, which France has promised.*[5]

[5] End of the CFA franc: A possible turning point in Francafrique?

It is up to the nations who have proposed to adopt the single currency, whether to continue using the name 'eco' or not. France has declared that it will guarantee *a fixed exchange rate* of 1 euro to 655 West African CFA francs. However, this arrangement is very likely to change once the new currency is introduced.

In June 2021, The Heads of State of the Economic Community of West African States (ECOWAS) adopted a roadmap for the launch of the common currency "Eco". He predicted its launch in the year 2027, as announced by the final press release of the 59th ordinary session of the Assembly of Heads of State and Government of ECOWAS.[6]

Main Actors

➢ *French Republic*

France is the country that originally created the CFA zone in order to provide its former colonies with financial stability and to avoid high levels of inflation, as is currently happening in South America. After more than half a century of activity and multiple economic reforms, anti-CFA advocates scored a victory in 2019 and brought France to the negotiation table with the purpose of loosening their control over the monetary union. Some of the key points to which France agreed include cancelling the requirement that 50% of the reserves of the CFA members have to be kept in the French Treasury, and the withdrawal of the French representative from the board of the UEMOA central bank.

Recently, France began the wiring of 5 Billion Euros to BCEAO as part of a broader CFA reform.[7] Furthermore, the Eco currency is an effort of the African countries to replace the

[6] ECO - Currency
[7] 5 Billion Euros for reforming the CFA franc

CFA Franc, but so far no concrete measures have been taken towards the implementation of the currency, which would still be fixed to the Euro.[8]

In the past years, France has shown its willingness to cooperate for improving the situation of the African countries and its determination to keep tight relations with the African continent, remaining one of the main investors and trade partners of most countries in West and Central Africa.

➢ *Mali*

Mali is the only country that left the CFA zone only to rejoin some decades later, which is a clear example of the fact that leaving the union can be hard to manage. During the 22 year period when they were not in the CFA zone, Mali has seen their greatest period of instability, inflation and financial difficulties, leading to the Malian franc depreciating in 1967.[9]

Finally, they decided to rejoin the union, which has seen their country become more stable economically in the past years, and the level of inflation has gone down. The CFA franc zone is one of the most stable financial unions in the world currently, and Mali has taken great benefit in that.

➢ *Guinea-Bissau*

Guinea-Bissau was ruled by the Mali Empire and afterwards by the Portuguese Empire, gaining its independence in 1973 (and recognised in 1974). Guinea-Bissau has a history of political instability since independence, and only one elected president (José Mário Vaz) has successfully served a full five-year term. More than two-thirds of the population lives below the poverty line.

Guinea-Bissau joined the CFA franc monetary union in 1997, providing some fiscal sustainability to the country after several decades of financial recession and political upheaval.

[8] Eco currency and criteria for implementation
[9] How leaving the union is risky

➢ *Republic of Senegal*

Senegal recently became the world's second country to launch a blockchain-based virtual currency. The digital money, dubbed eCFA, will be legal tender in the same way that the present currency, the CFA Franc, is.

The eCFA in Senegal is the result of a collaboration between Banque Régionale de Marchés (BRM) and eCurrency Mint Limited, in which BRM will issue the digital tender currency, the eCFA, in accordance with the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), the Central Bank of the West African Economic and Monetary Union's e-money regulations.

Further Research

- ✓ CFA franc to be replaced by the 'eco' but will stay pegged to euro - Documentary
- ✓ Why is Africa taking its money back? - Short Video
- ✓ The CFA Franc zone
- ✓ The CFA Franc Zones: Neocolonialism and Dependency

Questions to be addressed

- Q If eco were to be adopted, what exact changes will it bring?
- Q Is eco the same currency (CFA), but renamed?
- Q Does the CFA Franc Monetary Union resemble a form of neocolonialism?
- Q Is France truly ready to loosen the control over past colonies?
- Q Why are African economies dependent on the French economy? (Take into consideration the labour force, imports, exports, foreign affairs etc)
- Q What is an alternative African officials could come up with to make their countries' economies work with other world economies?
- Q What were the treaties signed by both parties (African & French) - what is the basic principle they all base on?
- Q What is the main income of African countries? What could be improved to extend efficiency?

This study guide is meant for you to get familiar with the topic. Nonetheless, you have to do more advanced research, taking into consideration your country's stance and policy.

Should you have any inquiries, do not hesitate to email us at alexcristidinuta@gmail.com, or andrei.mihneapasere@gmail.com.

Best of luck and see you at IBSB MUN 2022!