

REFORM OF THE CFA FRANC IN WEST AFRICA – INTRODUCING THE "ECO"

On 21 December 2019, the French Minister of Economy and Finance and the President of the Council of Ministers of the West African Economic and Monetary Union (the "WAEMU") signed an agreement which provides for a reform of the CFA Franc used in the eight countries of the WAEMU zone (Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo) (the "FCFA Reform"). As of 2020, the CFA Franc is intended to become the "Eco".

THE FCFA REFORM - A PRELIMINARY REFORM WITHIN THE ECOWAS UNION MONETARY REFORM

In June 2019, the Economic Community of West African States ("ECOWAS"), which is composed of the WAEMU countries as well as Nigeria, Ghana, Gambia, Liberia, Guinea, Cape Verde and Sierra Leone, decided to create a monetary union with a single currency called the "Eco". According to the final statement of the 55th ordinary session of the authority of the ECOWAS heads of state and government held on 29 June 2019, the single currency of the ECOWAS will be implemented gradually. Indeed, only the countries that meet the so called "convergence criteria" which include (i) a 3% limit on budget deficit, (ii) a 10% inflation limit and (iii) a debt limit of 70% of the GDP will be able to join the ECOWAS monetary union but its implementation is intended to start as soon as 2020.

The FCFA Reform which was announced on 21 December 2019 is therefore a preliminary and parallel reform to the single currency reform which is envisaged by the ECOWAS – a transitional phase between the CFA Franc and the future ECOWAS "Eco" that is envisaged to facilitate the integration of WEAMU into the future ECOWAS monetary union.

Key issues

- An agreement was signed in December 2019 to reform the CFA Franc (XOF) and its legal framework
- The FCFA Reform will apply to WAEMU country
- The FCFA Reform is implemented in parallel to the ECOWAS union monetary reform
- The FCFA Reform is intended to be implemented by the end of 2020

WHAT ARE THE IMPACTS OF THE FCFA REFORM ?

The FCFA Reform agreement provides the following:

- **Name of the currency**

Pursuant to the FCFA Reform agreement, the CFA Franc will be renamed the "Eco" - the name that was also chosen for the future single currency of the ECOWAS monetary union.

- **End of the obligation to deposit foreign exchange reserves in France**

Pursuant to the FCFA Reform agreement, the Central Bank of West African States (the "**CBWAS**") will no longer be required to deposit half of its foreign reserves with the French Treasury. Until now, as a result of Article 2 of the Cooperation agreement signed on 4 December 1973 between France and WAEMU (the "**Cooperation Agreement**") and Article 1 of the Transaction account agreement signed on 4 December 1973 between France and WAEMU (the "**Transaction Account Agreement**"), the CBWAS was required to deposit 50% of its foreign exchange reserves into the operational account opened with the French Treasury (excluding certain sums such as the sums used for its current treasury and the sums relating to its transactions with the International Monetary Fund). Such account will be closed and the reserves will be transferred back to the CBWAS. The CBWAS will therefore be entitled to freely invest its foreign exchange reserves in, for example, other central banks or with the Bank for International Settlements.

- **Withdrawal of France from governance bodies**

Pursuant to the Articles of Association of CBWAS, the Convention relating to the WAEMU banking commission and the Cooperation Agreement, representatives of France were appointed to the CBWAS Board of Directors, the CBWAS Monetary Policy Committee and the WAEMU Banking Commission. As a result of the FCFA Reform agreement, France will no longer be appointing representatives in these monetary governance bodies.

However, a French official stated that France will have the right to appoint an independent member of the Monetary Policy Committee to monitor the reserves of the CBWAS and that a representative of France will be reintroduced on the Monetary Policy Committee if the level of reserves falls too low.

- **French Treasury Guarantee**

Before the FCFA Reform agreement, Article 1 of the Cooperation Agreement provided that France would assist the WAEMU in ensuring the free convertibility of its currency. The guarantee was granted in return for the deposit of half of the foreign exchange reserves of the CBWAS with the French Treasury. This "unlimited" convertibility guarantee meant that the CBWAS could benefit from unlimited advances from the French Treasury. In exchange, the

CBWAS had to fulfill certain requirements, including ensuring a cover rate of 20% for each advance, so that the transaction account would not be in permanent debit.

The FCFA Reform agreement provides that France will remain the "financial guarantor" of the "Eco" in the WAEMU zone but the free convertibility of the currency will no longer require the deposit of half of the foreign exchange reserves of the CBWAS with the French Treasury but instead, be guaranteed by a credit line granted by France.

- **Fixed parity with the Euro**

Pursuant to the FCFA Reform agreement, the parity between the "Eco" and the Euro is maintained. As a reminder, the fixed exchange rate to the Euro is EUR 1 = CFA 655.96.

NEXT STEPS

The FCFA Reform is intended to be implemented in 2020 and the "Eco" is expected to appear in the WAEMU zone by no later than July 2020. However, in order to fully implement the FCFA Reform, the current monetary agreements will need to be abrogated and replaced. For example, a new monetary cooperation agreement between France and the WAEMU will need to replace the existing Cooperation Agreement. The Transaction Account Agreement will need to be replaced by a guarantee agreement governing the convertibility guarantee. The withdrawal of France from monetary bodies also implies changing the rules governing these monetary bodies. A clear timeline for the implementation of these changes has however not yet been made public.

The FCFA Reform marks the first step towards a new monetary union. With the FCFA Reform, the main features of the FCFA are maintained (i.e: the free convertibility guaranteed by France and the pegging of the FCFA to the EUR). However, the FCFA Reform will only be temporary until the future ECOWAS "Eco". With seven additional countries joining in the ECOWAS Union Monetary Reform, we can only expect the legal framework of the ECOWAS "Eco" to be different from that of the WAEMU and query whether the free convertibility guaranteed by France and the fixed parity with the Euro will be maintained.

What has changed

- The CFA Franc will be renamed "Eco"
- The CBWAS will no longer be required to keep half of its foreign exchange reserves with the French Treasury
- France will no longer be represented in the monetary governance bodies

What has not changed

- The free convertibility of the currency is still guaranteed by France
- The "Eco" continues to be pegged to the Euro

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