**Explanatory Notes on the Revised Protocol on the Establishment of the African Monetary Fund and the Revised Statute of the African Monetary Fund[[1]](#footnote-1)**

These notes provide the economic intuition behind revisions in the *Protocol on the Establishment of the African Monetary Fund (“Protocol”),* and the *Statute of the African Monetary Fund (“Statute”)*. Revisions to the Protocol and Statute are required because in its current form, the African Monetary Fund (the AMF or the “Fund”) is set up as a “bank” that supports countries’ balance of payment needs, not as “monetary fund” that allows the convertibility of currencies of its Member States. One should note that the International Monetary Fund (IMF) does not “lend” money to countries in the usual sense. The IMF converts countries’ currencies into other currencies such as the Euro, US dollar through “purchases” (i.e. countries “purchase” US dollars and Euros with their own currencies). The Fund should perform a similar job, but with African currencies.

Revisions are guided by the fact that all currencies are equivalent (up to the exchange rate), and there is no “superior”, “inferior” or “hard” currency (see the definition and properties of currencies below). Therefore, the Fund should primarily facilitate the convertibility of African currencies (without going through non-African currencies such as the US dollar or the Euro) and thus support intra-African trade and implementation of the African Continental Free Trade Area (AfCFTA).

Revisions are also guided by the fact that the Fund should become operational as soon as it has the minimum amount of resources to finance its operations, even if the number of Member States is minimal. The Fund being a financial institution whose usefulness will only be understood progressively, it is important that those Member States that already believe in it launch and finance its operations as soon as possible. Explanatory notes are only provided for Articles of the current *Protocol* or current *Statute* that are revised.

Some of the articles we propose for the revised Protocol and Statute of the African Monetary Fund are new and would help achieve the purpose of AMF. Some others are copied from the Articles of Agreement of the International Monetary Fund ([The International Monetary Fund Articles of Agreement, 2020 version (imf.org)](https://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf)), with adjustment made where needed to adapt them to the African context.

# What is a currency and a monetary system?

A **currency** is a legally binding financial obligation created by an entity against itself or jointly created by entities against themselves (state or non-state) that has the following properties:

the obligation is created by an entity or is jointly created by entities that have the legal authority to do so;

the obligation is expressed in a given unit (e.g. US dollar, euro, SDR, CFA franc, etc…)

 the unit of the obligation can be used as a “unit of account” (e.g. used as a unit of account to express other obligations in contracts);

 the unit of the obligation can be used as a “store of value” (e.g. bank accounts denominated in US dollar, euro, SDR, CFA franc, etc…);

the obligation itself can be used as “mean of exchange” (e.g. entities buying goods and services from other entities using that obligation);

 the obligation itself can be used as an “instrument of monetary policy” (i.e. the entity or entities that create the obligation can increase or decrease its volume).

It is important to note that “crypto-currencies” are not currencies because they are not legally binding financial obligations of entities (“miners”) that create them.

Currencies are created as entries in a ledger, or a network of ledgers held or controlled by the entity or entities creating them. It is this entry in a ledger that creates legally binding financial obligation. Even when currencies are in “paper forms”, such currencies correspond to entries in a ledger or a network of ledgers. The same currency can be created in different ledgers (e.g. onshore and offshore currencies). Movements of currencies between these different ledgers may or may not be restricted by entity or entities creating the currencies.

The usage of a currency can be restricted by the entity or entities that create it. For example, the IMF SDR is a currency as a legally binding financial obligation of the countries of the IMF and that has all the six properties above. However, its usage is restricted to the entities that are “participants” or “holders” in the IMF SDR ledger.

The value of a currency is either is freely determined by its users or is set by the entity or entities that create it, using other currencies or non-currency items such as gold. The value of the US dollar or euro is freely determined by their users. However, an entity that creates a currency can peg this currency to another currency (e.g. US dollar, euro, etc…), to a basket of currencies or to a non-currency item such as gold. The IMF SDR was initially pegged to gold. Now it is pegged to a basket of currencies comprising the US dollar, the euro, the British pound, the yen and the yuan.

A **monetary system** is a legally binding network of currencies. The obligations of members of this network are specified in the legal documents that give legal existence to the network.

# Explanatory Notes on the Revised Protocol on the Establishment of the African Monetary Fund

**Article 1**. The Fund should not only include the Member States of the African Union, but also States of the African diaspora, even if they are not Member States of the African Union. The inclusion of the States of the African diaspora will not only repair a historical injustice, it will also help reflect the true economic clout of the African people in the World.

It is important to note that the Arab Monetary Fund includes all Arab countries. The African Monetary Fund should also include all countries of the African Union and the African diaspora.

**Article 3**. The Fund should have a more focused purpose and not try to replicate the purposes of the International Monetary Fund (IMF). A key obstacle to higher economic growth in Africa is the lack of convertibility of African currencies, which is a major non-tariff barrier that is seriously hindering intra-African trade, much more than tariff barriers. The Fund’s main purpose should be to remove this non-tariff barrier and unlock intra-African trade. The mechanism used by the Fund to facilitate the convertibility of African currencies (see below) can also facilitate the convertibility of African currencies with non-African currencies and help promote trade between African economies and non-African economies.

**Article 9**. The threshold for the number of countries having to ratify the Protocol and Statute of the Fund should be low to facilitate its establishment and quickly show its usefulness, which should later help attract other countries. What is key is that countries’ contributions through quotas should first reach at least a minimum level that guarantees the “Minimum Annual Income of the Fund”, which would make the Fund operational. The minimum “Minimum Annual Income of the Fund” should be set such that the annual interest income on the quotas paid by State Parties amount to at least the annual expenses of the Fund.

**Article 10**. Once the Fund is established, the Protocol and Statutes could be modified by Member States based on their voting power. There is no need to require that at least 15 Member states ratify it. Such a requirement can only delay the implementation of important amendments.

# Explanatory Notes on the Revised Statute of the African Monetary Fund

**Article 1**. An “African Unit of Account” is not needed, as an “African Drawing Right”, which is similar to the “Special Drawing Right” of the IMF, but valued using a basket of African currencies, would be the unit of account of the Fund. Moreover, the Fund should not be set up as a “bank” with a capital to which Member States must subscribe. Therefore, the terms “First Round of Share Purchasing”, “Second Round of Share Purchasing”, and “Shareholders” are not needed. All countries’ contributions should affect their voting rights as defined in the Statute if they so request. This would encourage countries to financially support the Fund and allow it to have increasing resources, even when some other countries refuse to financially contribute. Countries could still give grants to the Fund and not request that it count toward their votes. “Voting Rights” should be defined in dedicated Article(s).

**Article 2**. The Fund should focus on promoting the convertibility of African currencies, building African financial markets, and building capacity in the design and implementation of sound macroeconomic policies. Once African currencies become convertible and macroeconomic policies become sound, BOP challenges, which are in fact challenges in converting local currencies into foreign currencies, will no longer exist.

**Article 5 [New]**. This article highlights the fact that all currencies that are well managed (i.e. have low inflation rates and no big difference between the official exchange rate and parallel markets exchange rates) should be freely used by all just like the “US dollar”. This is because all currencies are equivalent (up to the exchange rate), and there is no “superior” or “inferior” currency. Countries should just establish a framework that facilitates the convertibility of well-managed currencies. The framework used by the IMF through the Special Drawing Right has introduced a “perception bias” in favor of some currencies (US dollar, Euro, Yen, Yuan, British pound) and against other currencies. The African Monetary Fund should correct this bias.

**Article 6 [New]**. Just as with the IMF Special Drawing Right[[2]](#footnote-2), this article establishes the African Drawing Right as a simple entry into a special ledger established and maintained by the Fund. The method of valuation of the African Drawing Right will only use African currencies that are well managed. For example, if the Fund decides that at the launch of the African Drawing Right, 1 African Drawing Right = 1 IMF Special Drawing Right, then the basket of African currencies used for the valuation of the African Drawing Right could be set using the formula:[[3]](#footnote-3)

**“Amount of Currency 1 at intro of ADR” x “IMF SDR/Currency 1” + “Amount of Currency 2 at intro of ADR” x “IMF SDR/ Currency 2”+…+ “Amount of Currency n at intro of ADR” x “IMF SDR/ Currency n”) = 1 IMF SDR**.

Where

**The “Amount of Currency k at intro of ADR” is determined such that “Amount of Currency k at intro of ADR” x “IMF SDR/Currency k” is equal to the weight wk of currency k at intro of ADR,** with w1, w2, …,wn being the weights given to the *n* currencies of the State Parties of the Fund that are designated as “freely usable currencies”. The weights are set according to varying economic and financial criteria (e.g. export criterion) and can be reviewed periodically. The criteria used by the Fund need not be those used by the IMF for its SDR basket. For example, the formula used to compute weight of currencies in the ADR basket could seek to reduce the weight of currencies that are too volatile. This would help reduce the volatility of the value of the ADR and thus improves its attractiveness as a store of value. For example, once could have:

**wk = (“weight of currency k based on sales in currency k to non-residents” x “volatility adjustment of currency k”)/( “weight of currency 1 based on sales in currency 1 to non-residents” x “volatility adjustment of currency 1”+…+ “weight of currency n based on sales in currency n to non-residents” x “volatility adjustment of currency n”)**

Where

The **“weight of currency m based on sales in currency m to non-residents”** is the relative share of sales in currency m to non-residents of State Parties having currency m as legal tender of goods, services and Fund-approved financial instruments during the period of [three] years preceding the year of the decision to review the ADR basket. The share for currency m is relative to total sales in all currencies of the ADR basket. This approach would encourage countries of the AMF to sale to non-residents in their own currencies (and not in foreign currencies such as the US dollar or the euro). This would enhance the values of these currencies and help strengthen the ADR.

The **“volatility adjustment of currency k”** could be given by the following formula:

**“volatility adjustment of currency k” = 1/(1+“relative volatility of currency k”)”.**

With the **“relative volatility of currency k”** given by the following formula:

**“relative volatility of currency k”=**

 **“standard deviation of the distribution of the value of currency k over period xxx” / ( “standard deviation of the distribution of the value of currency 1 over period xxx”+… “standard deviation of the distribution of the value of currency n over period xxx”)**

“**period xxx**” could be the period covering the [three] years preceding the year of decision to review the ADR basket. Currencies of the ADR basket that are too volatile would end up with a lower weight and therefore limited influence in the value of the ADR. For a given exchange rate, the amount of volatile currencies in the ADR basket will be reduced.

Whenever the weights or currency composition are changed during reviews of the basket, the “amounts of currencies” could be used to ensure that the value of the new and old basket in terms of the IMF SDR are the same on the day the new basket is launched. In other words, the new basket should not by itself change the value of the ADR on the day the basket is introduced (“equality condition”). More formally, the equation below must hold:

**“Amount of Currency 1 after basket change” x “IMF SDR/Currency 1” + “Amount of Currency 2 after basket change” x “IMF SDR/ Currency 2”+…+ “Amount of Currency n after basket change” x “IMF SDR/ Currency n”**

**=**

**“Amount of Currency 1 before basket change” x “IMF SDR/Currency 1” + “Amount of Currency 2 before basket change” x “IMF SDR/ Currency 2”+…+ “Amount of Currency n before basket change” x “IMF SDR/ Currency n”**

 “**IMF SDR/Currency i**” is the exchange rate of Currency i at the introduction of the new basket of currencies used to value the African Drawing Right. It is important to note that this exchange rate should be market determined. Currencies that show significant differences in value in the official and parallel markets should not be included in the ADR basket.

It will be important for the Fund to help its Staff members and its Directors have bank accounts denominated in African Drawing Rights in their various duty stations. This could be done through agreements with selected banks at various duty stations. It will also prevent some staff from being penalized in duty stations where the exchange rate depreciates too rapidly.

**Article 7 [New]**. Since the Fund is mainly about promoting trade within Africa by facilitating the convertibility of African currencies through African Drawing Rights, all States Parties of the Fund must accept to be participants in the African Drawing Rights Ledger. As such, they will supply their currency to other State Parties and receive allocations of African Drawing Rights (i.e. newly created African Drawing Rights) and use them to obtain the currencies they need for their trade with other African countries or non-African countries that are holders in the African Drawing Rights Ledger.

Unlike the IMF, which is not a “participant” in the “IMF SDR Department”, the African Monetary Fund should be a “participant” in the African Drawing Rights Ledger to allow it to receive allocations of African Drawing Rights and boost its capacity to assist State Parties when they need its financial support.

All non-African countries and central banks such as the ECB should be allowed to be holders in the African Drawing Rights Ledger to boost the availability of non-African currencies to State Parties of the Fund. This would be another attracting feature of the African Drawing Right.

In fact, the African Drawing Rights will expand the toolkit available to central banks that are participants or holders in the African Drawing Rights Ledger. If they want to boost demand for their products and stimulate their economies, these central banks could now conduct “open market operations” by buying African Drawing Rights. The availability of their currencies in Africa will facilitate imports of African countries from these economies.

**Article 8 [New]**. There should always be enough African Drawing Rights to facilitate trade among African countries and between African countries and non-African countries that are prescribed holders of African Drawing Rights. This will also encourage non-African countries to accept the African Drawing Rights in exchange of their national currencies, which will also help boost their exports to Africa.

However, the decision to allocate new African Drawing Rights must be transparent and based on credible indices of scarcity of African Drawing Rights. Such indices will also help isolate the creation of African Drawing Rights from political manipulations. Examples of African Drawing Rights (ADR) scarcity indices are below:

**ADR Scarcity Index 1= (Total Stock of ADRs at the end of year “t”)/(Sum of estimated (or projected) purchases of goods, services, and Fund-approved financial instruments of State Parties from other State Parties in years “t”, “t-1”, “t-2” (or year “t+1”))**

**Note**. “ADR Scarcity Index 1” is aimed at encouraging African countries to import from other African countries.

**ADR Scarcity Index 2= (Total Stock of ADRs at the end of year “t”)/(Sum of all “NRHi” at the end of year “t”)**

**NRHi= Holdings of currency of State Party i by non-residents of that country.**

**Note**. “ADR Scarcity Index 2” is aimed at encouraging the usage and holding of African currencies, even by non-residents of the country issuing the currency. For example, this will encourage airlines to accept African currencies, knowing that there will always be enough African Drawing Rights to help them convert the currencies into other currencies.

**ADR Scarcity Index 3= (Total Stock of ADRs at the end of year “t”)/(Sum of estimated (or projected) purchases of goods, services, and Fund-approved financial instruments of State Parties from other State Parties or Non-African countries that are “holders” of African Drawing Rights in years “t”, “t-1”, “t-2” (or year “t+1”))**

**Note**. “ADR Scarcity Index 3” is aimed at encouraging African countries to import from African countries or non-African countries that are “holders” of African Drawing Rights. Imports from the latter countries will encourage many non-African countries to hold African Drawing Rights by purchasing or “swapping” them with their national currencies, which will increase the availability of non-African currencies in the Fund.

Unlike what is done in the IMF, the allocation of African Drawing Rights should not be based on “quotas”. African Drawing Rights are created primarily to promote the convertibility of African currencies and thus boost intra-African trade. Allocations must mainly go to State Parties that need them the most given the structure of their trade. Ideally, these allocations should be done by consensus. If such a consensus cannot be found, the African Drawing Rights must be allocated to those African countries that import the most from other African countries. More precisely, the indicator to be used should be:

**(Purchases of goods, services, and Fund-approved financial instruments of State Party “i” from other State Parties during period “x”)/(Sum of purchases of goods, services, and Fund-approved financial instruments of State Parties from other State Parties during period “x”)**

where

**period “x” could be the period of 3 years preceding the year of the decision to allocate African Drawing Rights.**

Just like accommodative monetary policies, allocating African Drawing Rights in this manner will help ensure that new allocations help boost intra-African trade. Moreover, African Drawing Rights are like “loans” or “credit lines” and their usage is actually costly as interest is paid on holdings and allocations of African Drawing Rights. As a result, countries that use them too much to finance their balance of payments (BOP) needs will pay an increasing interest cost to other participants and holders in the African Drawing Rights Ledger. They will be forced to adjust down the road. Therefore, tying their allocation to quotas is equivalent to tying the Fund’s support to countries to their respective quotas.

Cancellation of African Drawing Rights can only be applied to participants since they are the entities that receive new African Drawing Rights. These cancellations can lead to negative balances for some participants, which will then be urged to reconstitute their African Drawing Rights balances. Holders in the African Drawing Rights Ledger will not be affected by decisions to cancel African Drawing Rights.

**Article 9 [New]**. African Drawing Rights must remain attractive to all as an asset that pays interest, which is based on financial instruments issued in African currencies that are designated as “freely usable”. In fact, the African Drawing Right interest rate will be a weighted average of financial instruments issued by State Parties. The weights used will be the weights w1, w2, …, wn mentioned above and used in the valuation of the African Drawing Right. Since interest rates are still relatively high in Africa, the African Drawing Right interest rate will be attractive, making the African Drawing Right an attractive and safe asset. The interest paid on African Drawing Rights will come from the charges levied on State Parties that receive allocations of African Drawing Rights. These charges and interest will be applied to holdings of African Drawing Rights, which could become negative for some participants. In any case, since interest are paid and charges are levied at the same rate, the African Drawing Right interest rate, the total sum of holdings of African Drawing Rights in the African Drawing Rights Ledger, including negative holdings, will always be equal to the total sum of net cumulative allocations of participants.

Fines should be allowed in the African Drawing Rights Ledger to encourage participants and holders to fulfill expectations and obligations under the Statute. This would be an easy-to-apply and powerful tool in the hands of the Fund to ensure that expectations and obligations under the Fund’s Statute must be taken seriously by all.

**Article 10 [New]**. Operations and transactions in African Drawing Rights must first benefit intra-African trade and trade between Africa and the rest of the World. African Drawing Rights must not be used for speculative purposes. African and non-African countries could use African Drawing Rights to acquire currencies from other African and non-African countries to purchase goods from these countries or to provide their currencies to other countries to promote their exports and sale of Fund-approved financial instruments to other countries. In this sense, African and non-African countries wanting to boost economic activity in their own countries can in fact use African Drawing Rights as an integral part of their monetary policy toolkit. This would help make the African Drawing Right a global reserve asset that can be used by all countries for the World.

**Article 11 [New]**. A Monetary Fund is actually not a lending institution, but rather an institution that primarily facilitates currency convertibility and provides international liquidity. Therefore, it must have a reliable source of income, which should be set in its founding document. Hence the “Minimum Annual Income of the Fund”, which is the annual income needed to finance the Fund’s operations. In order to maintain it low, the Fund’s economists must be based in the country they follow to better understand developments. However, their mission chiefs must remain at the HQ of the Fund to ensure that they keep a certain distance with country authorities. The Fund could build residences for these economists and local offices near these residences. With housing costs eliminated, the Fund could attract talented economists at reasonable salaries, which should be expressed in African Drawing Rights (used as a unit of account only) and paid in bank accounts denominated in African Drawing Rights in the countries where the salaries are received.

**Article 12 [New]**. State Parties of the Fund should be free to set their quotas since they can pay them in their own currencies. This can only increase the resources of the Fund and make it a credible global monetary institution. Moreover, quotas do not have to depend on the size or GDP of State Parties as such an approach could delay the launch of the Fund. African countries that are willing to see the Fund established quickly can start paying quotas that would guarantee the minimum annual income of the Fund. Other countries will progressively join the Fund as they understand its importance.

All Quota Accounts must be denominated in African Drawing Rights to ensure that the Fund is not exposed to exchange rate risks stemming from State Parties. The latter should keep the exchange rate risks from their currencies. However, State Parties can pay their quota in their own currency and stipulate that the underlying currency of their Quota Accounts is their own currency.

Countries should not be able to decrease their quotas to force them to think carefully before setting their quotas. Since quotas will also be the base of voting powers, countries should not be allowed to play with their level at will. This is also why quota increases will only be allowed on one day of the year, on January 1.

Quota Accounts must pay interest to guarantee a minimum flow of income to the Fund. When the African Drawing Rights interest rate is not sufficient, the Board of Directors shall have the power to impose a surcharge that will guarantee that minimum flow of income to the Fund.

**Article 13 [New]**. Quota Accounts must be distinguished from Operations Accounts, which will help the Fund finance its daily operations. Operations Accounts are also used to perceive interest from Quota Accounts. Quota Accounts will only be used for currency swaps. The balance of the Quota Account of a State Party could only change if the currency underlying that Quota Account is given to another State Party in a currency swap operation or is paid back in a reverse swap operation.

**Article 14 [New]**. Investment Accounts may have to be opened by the Fund to supplement its source of income.

**Article 15 [New]**. As noted above, a Monetary Fund does not “lend” but does swap of currencies to facilitate transactions among its State Parties. The African Monetary Fund should provide such swap facilities to its State Parties. All currencies of State Parties will now be treated equally in swap operations and in the Currency Ledger of the Fund. They will all be included in other State Parties’ reserve position.

**Article 16 [New]**. The Fund shall always have enough resources to finance its expenses. Whenever its income exceeds its expenses, all or part of this excess income must be paid back to State Parties. The share of dividends each State Party shall receive must equal to the relative share of its quota.

**Article 17 [New]**. The Fund shall have a simple and flexible decision-making process. Voting rights must primarily go to State Parties that want to support a Fund that is financially credible by increasing their quota regularly. This will help the Fund maintain a volume of resources that keeps increasing and keeps pace with the economic growth of Africa. Unlike what is done in the IMF, the increase in quotas should NOT be the decision of the Board of Directors of the Fund. This decision should be left to each State Party, which will have to show their support to intra-African trade by supporting the Fund.

The approach used in the current Statute of the Fund gives equal weight to State Parties’ GDP and population in setting quotas and voting rights. Such an approach runs the very high risk of having the Fund remain hostage of “big countries”, which may end up blackmailing the rest of Africa through the Fund. For these same reasons, no country should have a veto power on the decisions of the Fund to avoid issues seen in the IMF decision-making process.

**Article 18 [New]**. This Article gives flexibility to the Fund to impose additional obligations to members when necessary.

**Article 19 [New]**. This Article is extremely important as it is the one that will make African currencies accepted throughout Africa, thus reducing the need for reserves in “dollars” or other “hard currencies”.

**Article 20 [New]**. Furnishing of information will have to be an important obligation of State Parties. Only accurate information will allow the Fund to fulfill its duties as required by the Statute.

**Article 21 [New]**. This Article will help ensure that State Parties manage other State Parties’ currencies in a collaborative way. It implicitly encourages State Parties of the Fund to rely more on the African Drawing Right in managing their reserve assets, which can now include other State Parties’ currencies.

**Old Chapter III [Deleted]**. This Chapter must be deleted as it sets up the Fund as a bank that must lend to finance BOP deficits. As noted above, a Monetary Fund is not a bank but an institution that facilitate the convertibility of currencies.

**Old Chapter IV [Deleted]**. This Chapter must be deleted as it sets up the Fund as a bank that must lend to finance BOP deficits. See comment above.

**Old Chapter IX [Deleted]**. This Chapter is not needed since State Parties can pay their quotas in accounts in the name of the Fund in their own central banks. There is no need for capital subscriptions.

1. Prepared by Jacques Bouhga-Hagbe [↑](#footnote-ref-1)
2. An online course on the IMF SDR is available at: [Course | IMF Financial Operations: Special Drawing Rights | edX](https://learning.edx.org/course/course-v1%3AIMFx%2BFIN-SDRx%2B1T2024/home) [↑](#footnote-ref-2)
3. The formula used for the IMF SDR can be found at: [Currency Amounts in the SDR Basket - Proposed Changes to the Rounding Methodology (imf.org)](https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Currency-Amounts-in-the-SDR-Basket-Proposed-Changes-to-the-Rounding-Methodology-PP5055) [↑](#footnote-ref-3)