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A watch on the international financial and monetary system

A SAFETY NET FOR AFRICA: TOWARDS AN AFRICAN MONETARY FUND?

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After the Second World War, the establishment of the United Nations was completed, in the financial area, with those of the IMF for financing the balances of payments, and the World Bank for financing infrastructure and investment projects. The European Union has created the European Stability Mechanism (ESM) for financing the member States who are dealing with payment problems, which can be compared to the IMF, and the EIB for financing the investment project which can be compared to the World Bank. China numerous entities for financing investments, such as the China Development Bank, Export-Import Bank, and many funds and development banks dedicated to a specific purpose such as the ABII (Asia Bank for Infrastructures and Investments) to support the OBOR policy (One Belt One Road, i.e. the New Silk Roads). Beyond their aim of financing investments, China uses these financial organizations and others such as the sovereign fund, China Investment Corp., and the state banks, for buying government bonds to countries such as Greece and Portugal during the 2008 crisis, that are dealing with payment problems. The African Development Bank grants loans to finance infrastructure and investment projects, but Africa has no financial institution such as the IMF or the ESM.

Why should Africa build up a financial institution of this kind while the Africain countries have so far called upon the IMF for their financial needs?

- the IMF does initiate a financial package but does not provide the whole amount of funds needed. IMF involvement is only a way to trigger the involvement of other sources of financing,
- even though the IMF involvement is based upon economic and financial grounds and the assessment of the borrower’s repayment capacity, the final decision is basically political. Some IMF members may request that it is part of a broader agreement on its economic or financial sustainability.

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- IMF loans are subject to economic and fiscal conditions that may be justified by purely financial reasons, but they should also be implemented in a politically and socially sustainable way, as part of a development strategy.
- the creation of an African Safety Net meeting the emergency financial needs of the African countries, would be a critical step toward further economic and political integration of the continent.

According to its Statute (2002), the African Union's objectives are:

- to achieve a greater unity and solidarity between the African states and peoples,
- to defend the sovereignty, the territorial integrity and the independance of the member States,
- to deepen the political and socio-economic integration of the continent.

The creation of an African Safety Net will be part of the ongoing negotiations of an African Free Trade Area (ACFTA) and a common currency. In 2020 the creation of a common currency – eco – between 15 countries from West Africa (CEDEAO) should be a first step in this direction.

The world-wide recession, the fall of the commodity prices, the lack of diversification among the African economies, the drop of the foreign direct investments and more generally the exodus of foreign investors, the fall of migrant remittances (from 80 to 90%) will critically affect the African economies, raise unbearable political and social tensions that may further deepen the economic crisis.

Furthermore the development policies of the 54 African countries continue to be adversely affected by a fragmented market which makes the construction of value chain difficult : Africa is exporting crude oil and importing refined oil. Intra-African trade amounts to 17% as opposed to 60 or 70% in Asia and Europe. A study by UCTAD (United Nations Conference for Trade and Development) concluded that the cancellation of internal customs tariffs would increase the annual growth rate by 1%. The increased trade with the neighbouring countries would allow the African economies to become more specialised and more competitive. For far too long it was assumed that Africa could not emerge from under-development for as long as it had not built up an industrial base producing export related products. However the service sector has been growing threefold over the last 15 years to reach 16% of the workforce, leading to a more balanced development model. In 2019 venture capital companies have invested $1.3bn in African start-ups (from $200m in 2015), i.e. a 600% growth rate in five years.

Over the last 10 years, the African continent has experienced a 5 to 6% growth rate, meaning that the African economies were about to be liberated from the vicious circle of development characterized by an economic growth rate chronically lower than the demographic growth rate. The current crisis may push the African countries back below the take-off growth rate.

The creation of an African Safety Net

In the months and years to come, African countries will be facing severe payment problems, and some of them may default. Thus it is essential that the African countries build up a common financial institutions to meet such a payment crisis. From $16.3bn in the sixties, the overall debt of the African countries has reached $365bn in 2019, of which a third is owned by China. Following the current crisis, this amount is expected to reach unsustainable levels. The G20 countries have decided to postpone the payment of interest charges for 6 months, but it applies only to the public debt. The situation requires a much more important package of measures to meet the oncoming crisis. In such a situation the African countries must get together to strenghen their bargaining power, put together their resources, and take back control of their economic and monetary policies.

With this aim, the African countries may create a Fund managed by the African central banks. The contribution of each member state could be made through transferring all or part of their SDR rights and may be an agreed part of their foreign exchange reserves. Some foreign creditors may contribute as well such as the European Union and China. In accordance with the IMF statutes regarding the transfer of SDR, this regional financial institution may be granted the status of « prescribed holder ». In a first stage, the African Fund may be formed by a limited number of the members of the ACFTA trade agreement, while the other may join in a further step. Using the initial capital as a leverage, the new African fund may raise up to 5 to 10 times more from the markets.

In addition to its core function, the new Fund may operate a clearing system of the foreign currency payments between the member states with the aim of lowering their needs in strong currencies. The proposed African Monetary Fund may also provide technical assistance to member States for the management of their foreign debt. The bargaining power of the African countries facing a debt renegotiation or restructuring process would be significantly strenghened.

The proposal to raise a new issue of SDR which has been turned down by the USA, may be taken over by the European countries, this new issue being allocated to the African Safety Net. Given that the African Fund will be formed by central banks to strengthen the African financial system and manage a payment system, it may be operated with the assistance of the Bank of International Settlements, which has already a very long experience in the matter as it was involved in the European Payments Union, the Fonds Européen de Coopération Monétaire (FECOM) and the ECU clearing system.

SDR QUOTAS

(millions of SDRs - as of April 2020)

AFRICAN UNION

Algeria	899,20
Angola	203,94
Benin	71,01
Botswana	59,28
Burkina Faso	32,15
Burundi	6,44
Cabo Verde	0,05
Cameroon	15,49
Central African Rep.	0,56
Chad	0,17
Comoros, Union of	9,22
Congo, Democratic Rep.	27,50
Congo, Rep. Of	50,70
Cote d'Ivoire	422,98
Djibouti	0,20
Egypt	140,58
Equatorial Guinea, Rep.	20,80
Eritrea	3,40
Eswatini, Kingdom of	48,88
Ethiopia, Federal Democratic Rep.	3,54
Gabon	117,03
Gambia, The	0,34
Ghana	7,48
Guinea	64,09
Guinea-Bissau	18,16
Kenya	31,68
Lesotho, Kingdom	11,13
Liberia	140,07
Lybia	1660,09
Madagascar, Rep.	1,99
Malawi	4,48
Mali	183,69
Mauritiania, Islamic Rep.	5,90
Mauritius	90,14
Morocco, Kingdom	537,86
Mozambique, Rep.	162,35
Namibia	1,51
Niger	111,14
Nigeria, Federal Rep.	1498,72

EUROPEAN UNION

Austria	1686,53
Belgium	3900,06
Bulgaria	613,43
Croatia	304,07
Cyprus	47,79
Czech Rep.	457,44
Denmark	1380,97
Estonia	24,61
Finland	1125,17
France	8360,12
Germany	11887,02
Greece	9,47
Hungary	3,50
Iceland	113,37
Ireland	668,99
Italy	15070,00
Latvia	120,82
Lithuania	137,61
Luxembourg	250,26
Malta	87,52
Netherlands	4865,38
Poland	293,37
Portugal	539,39
Romania	1811,40
Slovak Rep.	314,67
Slovenia	199,34
Spain	9535,50
Sweden	2278,08
TOT	**66085,88**

Rwanda	53,62
Sao Tomé and Principe	0,42
Senegal	1,10
Seychelles	3,57
Sierra Leone	103,02
Somalia, Federal Rep.	28,70
South Africa	1497,03
South Sudan, Rep.	0,14
Sudan	123,79
Tanzania	6,48
Togo	112,87
Tunisia	39,04
Uganda	43,94
Zambia	134,66
Zimbabwe	1,70
TOT	**8814,02**

NB Sahrawi Arab Democratic Rep. is not a member of the IMF

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