

Agpaytech's Research  
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# Golden Horizon

Africa's Path to Stability through Digital  
Gold-Backed Currencies



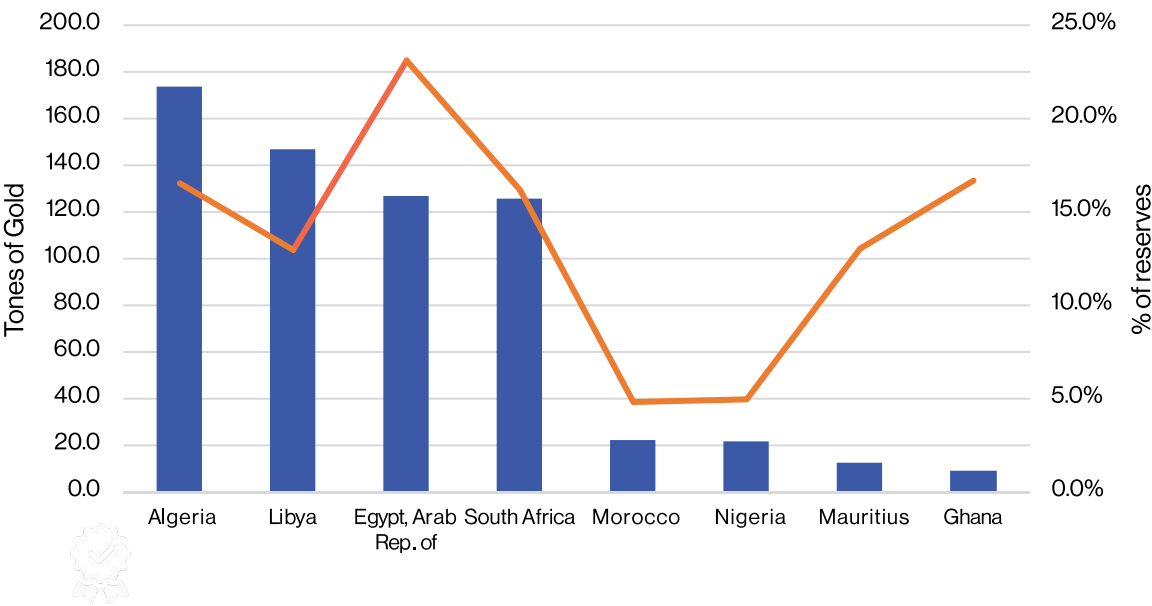
# Turning to Gold for Financial Stability

In an era of economic uncertainty and the rapid digitization of financial systems, many African nations are exploring alternative monetary frameworks to stabilize their economies. Digital gold-backed currencies have emerged as a prominent solution for addressing currency instability, inflation, and economic volatility.

Two countries leading this innovative approach are Ghana and Zimbabwe, both of which have recently implemented gold-backed initiatives in their financial systems. Central banks across the continent are increasingly considering gold as a tool to bolster monetary stability, particularly as fiat currencies face volatility.

Amid global economic uncertainty, rising inflation, and fluctuating exchange rates, African countries are looking at gold to provide an alternative that can mitigate risks associated with fiat currency depreciation and global market shifts. Zimbabwe made a bold move in July 2022 when the country introduced gold coins into the market as a store of value. Following, Ghana, Uganda and Nigeria have hinted to use gold reserves as an additional source of investment and monetary tool.

Fig 1: Gold holdings by selected African countries



Source: Agpaytech [Data from World Gold Council]

# The Appeal of Gold-Backed Currencies

Historically, gold has been viewed as a stable store of value, immune to the inflationary pressures that often plague fiat currencies. This intrinsic stability makes gold-backed currencies an attractive option, especially in regions where local currencies experience frequent devaluation. The renewed interest in gold-backed systems in Africa stems from the continent's need to:

- **Stabilize national currencies:**

Several African currencies, such as the Zimbabwean dollar and the Sudanese pound, have faced significant depreciation due to hyperinflation and macroeconomic challenges.

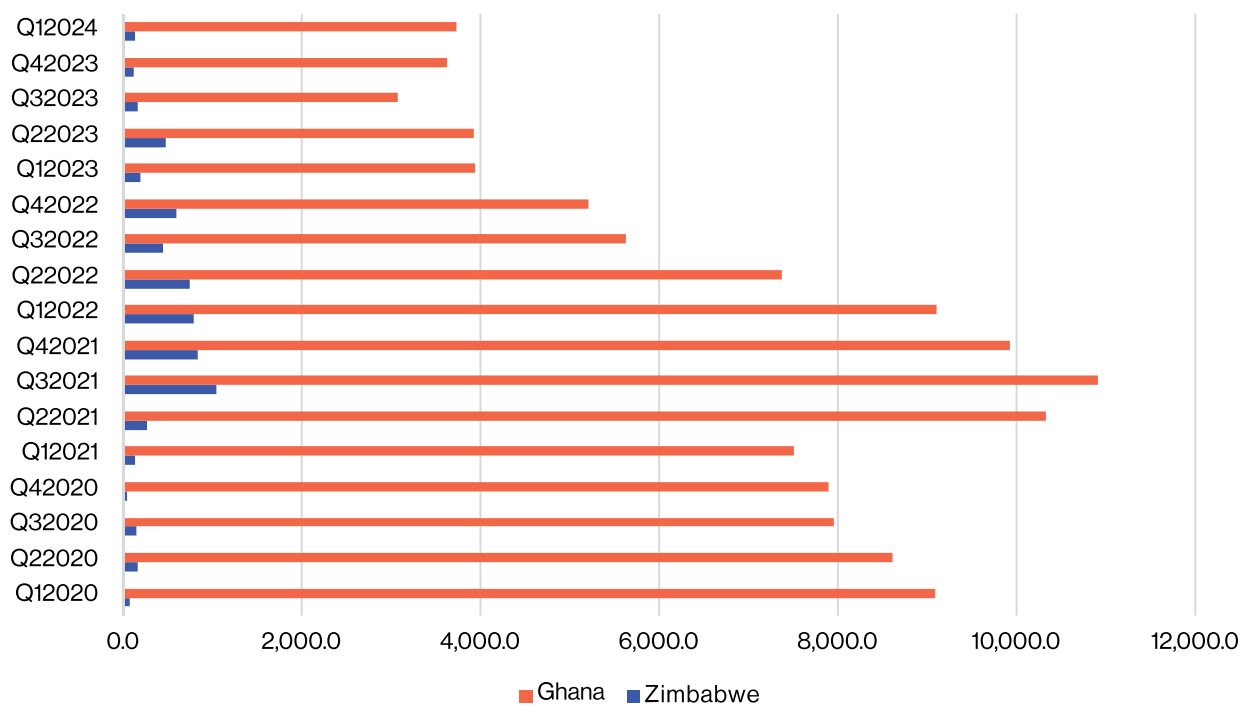
- **Reduce reliance on foreign currencies:**

Many African economies rely heavily on foreign currencies like the U.S. dollar for trade and foreign reserves, leaving them vulnerable to global economic trends. A gold-backed currency provides an opportunity for greater economic independence.

- **Leverage Africa's gold resources:**

Africa is one of the world's richest regions in terms of natural resources, including gold. Countries like South Africa, Ghana, and Sudan have significant gold reserves, making a gold-backed currency a feasible and attractive option for these nations.

Fig 2: Total Reserves (US\$ millions)



Source: Agpaytech [Data from World Gold Council]



## Zimbabwe's Gold-Backed Digital Currency

In July 2022, Zimbabwe launched a gold-backed digital currency to curb inflation and restore public trust in the national currency. The Reserve Bank of Zimbabwe (RBZ) used its substantial gold reserves to back the new currency, dubbed "Mosi-Oa-Tunya Gold Coin," which was available both as physical gold coins and digital tokens. By pegging the currency to the value of gold, Zimbabwe aims to reduce reliance on foreign currencies and stabilize the Zimbabwean dollar. The RBZ issued gold coins as an investment vehicle, allowing citizens to store wealth in a more stable asset, thereby reducing demand for foreign currencies. Additionally, the gold-backed digital token facilitates smoother international trade and financial transactions, as a collateral security for loans and credit facilities as well as for transactional purposes.

The gold coin is available in local currency (ZW\$) and United States Dollars (US\$) (and other foreign currencies) at a price based on the prevailing international price of gold and the cost of production. The coins will be sold through the Bank and its subsidiaries, Fidelity Gold Refinery (Private) Limited and Aurex (Private) Limited, local banks and selected international banking partners. Entities selling the coins shall be required to apply Know Your Customer (KYC) principles.

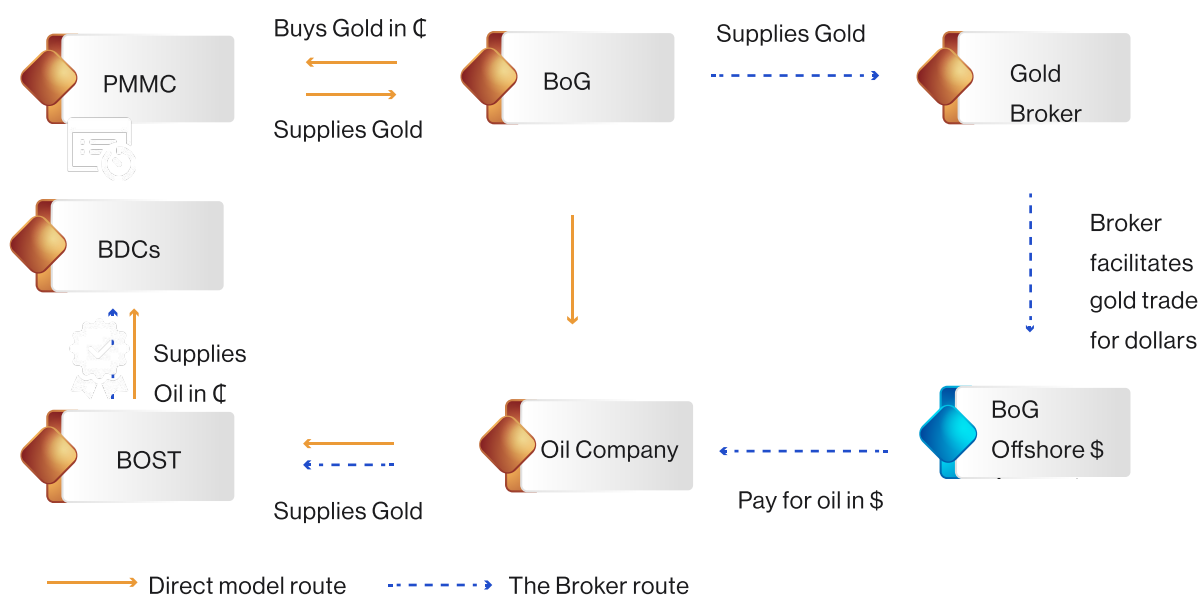


## Ghana's Gold-for-Oil Program

Ghana, another key player in Africa's gold industry, introduced a gold-for-oil program in 2022 to strengthen its currency and reduce pressure on foreign reserves. Under this program, the Bank of Ghana uses the country's gold reserves to purchase oil, reducing the need for U.S. dollars in such transactions. This innovative strategy helps stabilize the Ghanaian cedi by minimizing fluctuations in demand for foreign currencies and capitalizing on the country's gold resources. While not directly a gold-backed currency, this program illustrates how gold can play a critical role in stabilizing national economies. Ghana's approach highlights the potential for gold to be used as a currency stabilizer in key sectors like energy.

There are the direct barter trade system and broker-assisted model. With the direct barter trade exchange model, the Oil Company abroad must be willing to accept Ghana's gold directly in return for oil by using the international gold price and oil price indicators at the time of transaction. That's the value of gold can purchase what volume of oil with regards to the price of oil/petroleum at the time of the deal. On the contrary, the broker exchange model is where the Bank of Ghana (BoG) and Oil Companies abroad agree and appoint a Gold Broker (a gold dealer/agent) who will take Ghana's gold, help sell and provide dollars which will then be used to pay for the petroleum products. In this process, the dollar plays a role in the exchange model, unlike the first approach.

Figure 3: The broker and direct gold for oil payment framework



Source: Agpaytech

## Direct Exchange Model


In the Directly Exchange Model (DEM), the sole distributor of gold to the Bank of Ghana (BoG), which is the Precious Minerals Marketing Company (PMMC), sells gold to BoG in Ghanaian Cedis (¢). BoG directly looks for oil oil-selling company abroad (UAE as speculated) that is ready to accept gold and provide oil in return. With this model, the two parties (BoG and Oil Company) used the international price of gold at the time of the deal to value the quantity of gold and volume of oil in a fair. The oil company then ships the gold-purchased oil to Bulk Oil Storage and Transportation Co. (BOST). Upon arrival, BOST sells the oil in Ghana Cedis to Bulk Distribution Companies (BDCs). This direct barter gold for oil model therefore automatically eliminates the need for dollars which has been a major source of worry to importers in Ghana.

## The Broker Exchange Model

The Broker Exchange Model has a similar but extended approach to the DEM. With the Broker model perspective, BoG buys gold from PMMC and finds a middleman (Broker) who facilitates the selling of gold in USD Dollars. The Dollars are deposited in an offshore account in the name of BoG which is therefore used to pay the Oil Company. After payment of the oil in dollars, BOST receives products and sells them to BDCs in Ghanaian Cedis. This second approach does not eliminate the use of dollars to acquire oil but removes the burden of importers to exchange ¢ for \$ before ordering oil in the international market.

## Gold-backed Currency

The Central Bank of Ghana launched a gold-backed currency known as the Ghana Gold Coin (GGC). According to the Governor of the Bank, the GGC is a coin manufactured from dore gold that has been refined to 99.99% purity, which gives the coin the original gold colour. The GGC is issued and guaranteed by the Bank of Ghana and is available in three different sizes: namely 1 oz Coin, 1/2 oz Coin and 1/4 oz Coin to suit different investment needs. Each coin has the Ghana Coat of Arms in front and the Independence Arch at the back. The packing includes the gold coin, a wooden storage box, a transparent coin holder and a certificate of ownership. The GGC issuance enables the BOG to mop up extra cedi liquidity in the banking sector and will supplement the use of the Bank of Ghana Bills and overnight deposits for open market operations. Gold used for the manufacture of the GGC is from traceable, responsibly mined sources in Ghana in line with the BoG's Responsible Gold Sourcing Framework.



## Comparing Zimbabwe and Ghana Gold-Backed Currencies

While both Zimbabwe and Ghana aim to stabilize their economies by introducing gold-backed coins, they differ in aspects such as weight variety, pricing mechanisms, and gold purity. Zimbabwe's Mosi-Oa-Tunya Gold Coin offers flexibility with dual currency purchasing options and a consistent one-ounce weight, whereas Ghana's Gold Coin provides investors with more variety and a higher purity of gold. Ghana's higher purity provides additional value in terms of the gold content, appealing to investors seeking greater assurance of quality, while Zimbabwe's 22-carat coin offers a balance between durability and value. Moreover, the price of the ZIG is based on the prevailing international price of gold as well as the cost of production, making it dependent on global market dynamics and local manufacturing. The GGC is priced according to the Bullion Marketing Association (LBMA) Auction PM Price, aligning the coin's value with internationally recognized standards.

Table 1: Comparing Zimbabwe and Ghana gold-backed currency

	<b>Zimbabwe</b>	<b>Ghana</b>
<b>Issuer</b>	Reserve Bank of Zimbabwe	Bank of Ghana's
<b>Name</b>	Mosi-Oa-Tunya Gold Coin (ZIG)	Ghana Gold Coin (GGC)
<b>Currency for buying</b>	Local currency (ZW\$) and US Dollars	Ghana Cedi
<b>Pricing basis</b>	The prevailing international price of gold and the cost of production	Bullion Marketing Association (LBMA) Auction PM Price
<b>Weight</b>	one troy ounce	1 oz Coin, 1/2 oz Coin and 1/4 oz Coin
<b>Purity</b>	22 carats	99.99% purity
<b>Identification</b>	Each coin will have a serial number	Each coin will have a serial number
<b>Ownership and placement</b>	Take physical possession Place it with a bank	Take physical possession Place it with a bank
<b>Intermediate</b>	Central and commercial banks	Central and commercial banks
<b>Liquidity and tradability</b>	liquid asset status	liquid asset status
<b>Buy back arrangement</b>	Central /commercial Bank and buy/sell	Central /commercial Bank and buy/sell

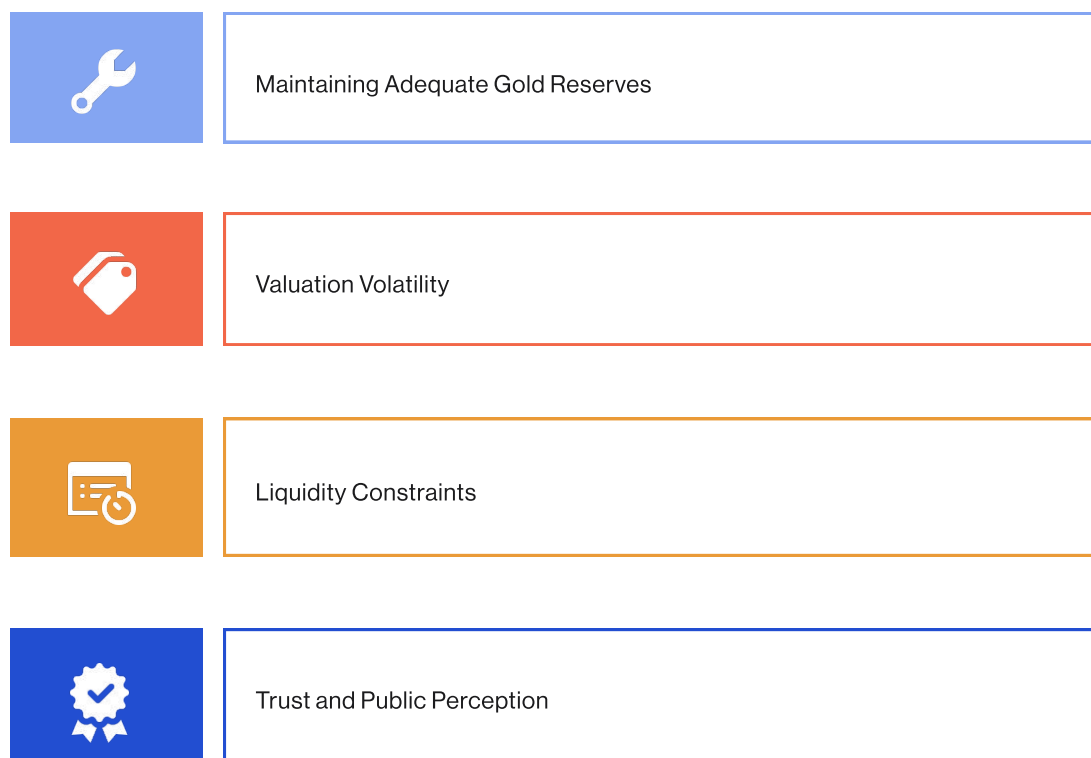
Source: Agpaytech



# Would Gold-Backed Currency Face Challenges?

While gold-backed currencies present many advantages, they also come with several challenges. The most significant challenge for central banks issuing gold-backed currencies is the need to maintain sufficient reserves to support the currency in circulation. A sudden increase in demand for gold-backed currencies or a sharp decline in gold prices could strain reserves and destabilize the economy. Though gold is relatively stable compared to fiat currencies, its value is not entirely immune to market fluctuations. Economic shocks, geopolitical events, or shifts in global demand for gold can affect its price, impacting the stability of a gold-backed currency. A gold-backed currency may face liquidity issues, particularly if the central Bank needs to quickly convert gold into cash for transactions. This challenge is especially pertinent for digital gold-backed currencies that rely on both gold reserves and technology infrastructure to maintain their value. For gold-backed currencies to succeed, public trust in the central Bank's ability to maintain gold reserves and uphold currency stability is essential. In countries like Zimbabwe, where past hyperinflation has eroded trust in the national currency, central banks face the uphill task of convincing citizens and investors of the reliability of new, gold-backed systems.

Fig 4: Challenges of gold-backed currency



Source: Agpaytech





# Future Prospects for Gold-Backed Currencies in Africa

As African nations continue to discover strategies for achieving economic stability, gold-backed currencies will remain a critical consideration for central banks. With the continent's abundant gold reserves, the potential for greater monetary stability is significant. However, to ensure the success of such currencies, African central banks will need to address challenges related to reserve management, valuation, and public trust. Some possible strategies to enhance the success of gold-backed currencies in Africa include:

## ■ International Collaboration:

African nations with substantial gold reserves can collaborate to create regional gold-backed currency systems or stabilize trade through mutual support. This could reduce reliance on external currencies and promote stronger regional economic integration.

## ■ Technological Innovations:

Digital currencies backed by gold are gaining traction. By leveraging blockchain technology, central banks can create secure and transparent gold-backed digital currencies, improving liquidity and market confidence.

## ■ Diversifying Reserve Management:

While gold-backed currencies are promising, it is important for African central banks to diversify their reserve management strategies, ensuring that gold is part of a broader portfolio that includes other valuable assets.

The re-emergence of gold-backed currencies in Africa signifies an innovative attempt by central banks to stabilize national currencies and mitigate the effects of global economic turbulence. Countries like Zimbabwe and Ghana are leading the way, using gold reserves creatively to ensure monetary stability. However, the challenges of managing gold reserves, ensuring liquidity, and maintaining public trust are significant. As Africa continues to explore gold-backed solutions, the success of these efforts will depend on robust reserve management strategies, technological adoption, and regional collaboration.





## Conclusion

The re-emergence of gold-backed currencies in Africa signifies an innovative attempt by central banks to stabilize national currencies and mitigate the effects of global economic turbulence. Countries like Zimbabwe and Ghana are leading the way, using gold reserves creatively to ensure monetary stability. However, the challenge of managing gold reserves, ensuring liquidity, and maintaining public trust are significant. As Africa continues to explore gold-backed solutions, the success of these efforts will depend on robust reserve management strategies, technological adoptions, and regional collaboration.



# About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech space with a focused approach to building robust technologies for e-commerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service (RaaS), Banking-as-a-Service (BaaS), Foreign Exchange, Cross Border Payments, and digital currency technology.

We also provide practical white paper research support to central banks, government and private institutions, economic organizations, and NGOs in Africa. Our services expand from research projects, state-of-industry reports, project assessment, data collection, and consulting services in the fintech space.

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