

Can digital currencies jump-start Africa's economies?

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Much has been made about the risks and rewards of digital currencies. For the emerging economies of Africa, though, the question is whether digital currencies can create new economic opportunities, especially in harnessing the potential of the African Continental Free Trade Zone.

The use of stablecoins, tokens and other payment cryptocurrencies have been explored across Africa as well as the Middle East as means to combatting liquidity challenges, currency devaluation, asset value erosion, and fraudulent remittances. They are, after all, systemic challenges in most emerging markets.

The status of CBDC and blockchain in Africa today

Much of Africa has adopted a “wait and see” approach to crypto, with only a handful including Nigeria and Kenya taking the lead to explore acceptable regulatory frameworks for crypto-currencies and digital assets. Whilst this top layer is grinding its way through to conclusion, Cameroon, Senegal, Ivory Coast, and other nations have seen the rise of a growing cohort of young tech savvy groups operating independently who are emulating western crypto traders. Their inspiration comes from day trading and the platforms which provide up-to-the minute trading information and quick settlement.

Digital solutions that leverage blockchain and offer alternatives to centralized and traditional systems have a particular allure for Africa. They are seen not to be at the mercy of traditional trust-based systems that rely on regulators who balance the need to provide security for consumers and protect the fragile fiat economy.

Africa’s innovative approach to smartphone technology is a good indicator of the continent’s readiness to adapt the opportunities presented by digital currencies. Access to opportunity is fast becoming just as critical as access to finance, and with the required infrastructure as well as the Digital solutions and APPs that can regulate and digitize multiple services simultaneously via smartphones, geography is now less of a hindrance. The use of blockchain and CBDCs offer an opportunity to disrupt key financial services such as payments, remittances, access to finance, funding, as well as notary and registry services. These are the bastions that central banks and regulators are stumbling over.

Decentralization is at the heart of digital currencies. Africa's financial landscape, however, differs significantly from the rest of the world. The continent's financial system started out as a manual, socially vetted process driven by the need for compliance, trust, transparency and speed. It does not at first blush seem compatible to the digital-first process worldwide. Community-led liquidity pools such as Saccos in East Africa, Gameyas in Egypt, Tontines in West Africa and Njanghis in Cameroon have been almost immune to digital disruption. But decentralized finance is now being adopted rapidly by small businesses across Africa. Businesses motivated by growth and profitability cobble solutions together on an "intrapreneurial" basis; this has been the case on the continent.

A small cashew nut business in Ivory Coast, for instance, has adapted to financial innovation for efficiency and profit by converting manual receipts to digital receipts at warehouses, and listing them on private or public Blockchains as well as commodity exchanges. This allows that business to be part of the value chain contracts with global off-takers. Through direct knowledge of global commodity prices as well as access to soil and weather evaluations needed for insurance and pricing, farmers are able to organize capital to plug the cash flow gap whilst waiting for final contracts to pay out. Small businesses in Africa have thus acquired the ability to choose how to engage in global and continental business.

CBDCs and stablecoins, coupled with the appropriate regulatory oversight could open up access to capital and lead to greater financial transparency. Hopes too are high that financial innovation could push back against fraud and corruption.

The financial health of the continent could be improved too. Bank portfolios often trail poor performing loans on their balance sheet which skews the economic outlook for Africa's banking system because debt cannot be easily moved. CBDCs, stable coins and a correctly implemented DeFI structure would go a long way to creating secondary markets to unlock liquidity. Decentralization provides yield generation and healthy liquidity pools for secondary investment and sector development. It also offers borrowers better financing options for opportunities neglected by traditional lending and capital sources.

New opportunities abound in Africa

CBDCs and stablecoins are gateway offerings to non-volatile and non-speculative financial products that fully leverage smart contracts, and can help reach underserved small businesses. Multiple blockchain solutions already existing in Africa could help regional businesses. Nigeria, for instance, is developing a roadmap for the adoption of blockchain technology in public administration and payments on a national scale. The Nigerian Exchange stated it will use blockchain for settling trade transactions.¹ Meanwhile, the government of Nigeria together with Binance and Talent City are planning to establish a domestic digital economic zone. There is speculation too that ExxonMobil will start a pilot program of selling excess natural gas to crypto mining rigs in Nigeria and other countries.

Meanwhile in 2018, Ghana partnered with IBM to create a Blockchain Land Administration System.² Simultaneously, they are also piloting their CBDC solution. With land being the primary choice of collateral for lending, these solutions will go a long way to addressing fraudulent land titles and theft.

In East Africa, Tanzania's Central Bank is looking to legalize and regulate digital currencies, with the Tanzanian Central Bank Governor publicly stating that CBDCs are a safer alternative to cryptocurrencies and the country is now on its way to issuing its own digital currency. This could be a way for Francophone African nations to reduce the impact of devaluation and post-colonial strangleholds on their economies.

In Uganda, the Central Bank weighed the issuance of a CBDC and followed in the footsteps of Nigeria by welcoming firms into their regulatory sandbox to allow for crypto innovation to take place in a controlled regulated setting.

Ethiopia too has become an adopter. Cardano partnered with the Ethiopian Ministry of Education to build a blockchain-based universal student credentialing system that would benefit around 5 million students. In August 2022, the Ethiopian government announced legislative changes that will position the Information Network Security Administration (INSA), an agency in charge of Ethiopia's cyberspace security, as the main certifying body

1 Article published by Business Insider Africa.

2 2019 Paper published by the OECD Global Anti-Corruption & Integrity Forum.

“to regulate and control cryptographic products and their transactions” to pave the way for their legal use.

It is Kenya, though, that undoubtedly led the way with Mpesa. The country launched multiple blockchain powered solutions in key areas including voting and social housing. Kenya's Central Bank Governor Patrick Njoroge, has been upfront about seeking to introduce a regulatory framework for crypto, which could potentially be the model for the rest of Africa.

Many African governments have turned back on their initial opposition to crypto and are starting to look for a way forward as it pertains to regulatory clarity and adoption. Consumers have certainly been eager to adopt the technology in the wake of the pandemic

Most small businesses in Africa are looking to tap into the value chain of trade or are trying to access global and domestic suppliers. In the past, controlling the levers of these drivers was completely out of the hands of small businesses, leaving them to the mercies and vagrancies of supply and demand, and currency dynamics.

The above data demonstrates the opportunity for using CBDCs and Blockchain in offering disruptive solutions that can elevate pressures and help with creating more opportunities for MSMEs to start operations again.

With the African Free Trade Agreement in place and global supply chain problems on the rise, opportunities for disruption at the continental level relies heavily on payments, remittances, trade finance, logistics, export/import operations, and the like. Regulatory transparency will be key for the technology to be adopted.

Should enterprise blockchain solutions start emerging within individual countries over the next few years, how well they resolve cross-border interoperability will be a significant challenge. Regulating crypto adoption locally will be the first step towards having a working policy regionally. Regulators have been setting up Regional Working groups by Central Banks and Capital Markets Regulators across the continent in order to work together in coming up with regulations that fit the requirements at hand, but that's for the use of blockchain and smart contracts on a general basis.

Digital Currencies, blockchain and other distributed forms of value creation are the vehicle for efficiency as well as the interoperability needed for cross border trade and investment. Growth and gains from the application

Crypto adoption

Country	Avg. GDP pre-pandemic	GDP 2021	% of MSMEs to GDP	% of Unbanked People	Is Crypto-currency used by the general population?
Egypt	262.84 B	404.14 B	Circa. 80%	Circa. 70%	Yes
Morocco	145.26 B	132.73 B	Circa. 90%	Circa. 71%	Yes
Tunisia	42.19 B	46.84 B	Circa. 40%	Circa. 63%	Yes
Nigeria	65.35 B	77.59 B	Circa. 50%	Circa. 60%	Yes
Ghana	407.02 B	77.59 B	Circa. 60%	Circa. 70%	Yes
Cameroon	38.58 B	45.24 B	Circa. 36%	Circa. 80%	Yes
Tanzania	57.15 B	67.78 B	Circa. 30%	Circa. 77%	Yes
Uganda	33.01 B	40.43 B	Circa. 75%	Circa. 40%	Yes
Ethiopia	87.32 B	111.27 B		Circa. 65%	Yes
Kenya	91.54 B	110.35 B	Circa. 3%	Circa. 44%	Yes

The GDP data shows the overall GDP (pre-Covid and post-Covid), there needs to be a more in-depth look at each economy to derive the effects of Crypto/Blockchain-Friendly policies on GDP growth

Crypto and CBCE development

Country	CBDC Project Status	Legal status of Crypto-currencies	Do Banks accept digital currencies?
Egypt	Inactive	Absolute Ban	No
Morocco	Research	Progressive	No
Tunisia	Research	Absolute Ban	No
Nigeria	Launched	Progressive	No
Ghana	Pilot	Progressive	No
Cameroon	N/A	Progressive	No
Tanzania	Research	Absolute Ban	No
Uganda	Research	Progressive	No
Ethiopia	N/A	Progressive	No
Kenya	<u>Research</u>	Progressive	<u>No</u>

of digital currencies will become a challenge if criminal statutes and legal frameworks to deal with cybercrime and digital theft are not addressed properly at the same time.



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