Dynamics and future potential of crypto-asset markets in Africa

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Digital Asset Taxonomy

- **Convertible Virtual Currency**: Convertible (or open) virtual currency has an equivalent value in real currency and can be exchanged back-and-forth for real currency. Examples include Bitcoin. (Financial Action Task Force)

- **Digital currency**: A digital representation of either virtual currency (non-fiat) or e-money (fiat) currency (Financial Action Task Force)

- **Cryptocurrency**: A virtual currency that utilizes cryptography to validate and secure transactions that are digitally recorded on a distributed ledger, such as a blockchain. (Internal Revenue Service)

- **Stablecoin**: A fungible token that is pegged to or redeemable for one or more underlying assets (e.g., a fiat currency).
Features of cryptocurrency in Africa

- Sub-Saharan Africa has the smallest crypto economy of all regions
- One of the fastest-growing crypto markets in the world
- Kenya, Nigeria, and South Africa have the highest number of users; broader uptake across the region is limited.
- Unclear if activity is retail driven or by professional and institutional investors.
- A larger share of transaction volume from transactions under $1 million in value
- Activity is both speculative (for investment) and for cross-border payments
- Growing share of stablecoins

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Positive uses for crypto in Africa

- Improves financial inclusion
- Facilitate cross-border trade leveraging AfCFTA
- Lower transaction costs in transfer of remittances and aid funds together with faster speeds
- Offer alternative revenue options through taxation of cryptocurrency
- Protect savings of households and businesses against rising inflation (stablecoins)
- Enable innovative models for financing biodiversity
African government attitudes to crypto

About 20% of sub-Saharan African countries have banned crypto assets.

Financial Sector Regulator Concerns

- Volatility
- Capital outflow vulnerability
- Illicit and illegal activity
- Undermine monetary sovereignty and transmission
- Financial instability: Particularly countries with a relatively weak financial system.
- BUT the Central African Republic (CAR) adopted Bitcoin as legal tender (after El Salvador)
- Even in countries with outright bans on the use of crypto-assets, including Tanzania, Gabon and Cameroon-- crypto-asset activity inflows continue.
- Dedicated crypto-asset regulatory frameworks in Mauritius, Nigeria and South Africa has issued guidance.


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**Stablecoins**

- A stablecoin is a type of cryptocurrency designed to have a stable value as compared with other types of cryptocurrency (Office of the Comptroller of the Currency)
- Stablecoins can be pegged to the US dollar, investment securities, or commodities etc.
- Stablecoin volume **represented over 50%**, more than $30 billion, of the total crypto volume attributed to Africa between June 2022 - July 2023.

Source: Milken Institute (2021), *A Taxonomy Of Digital Assets*

OECD (2023), *Blockchain Adoption In Africa: Trends In Market Activity And Policy Development*
Positive uses for Stablecoin in Africa

- Relative Stability
- Enhanced USD access
- Efficient remittances
- Affordability
- Value retention
- Saving tool
- Accelerate DeFi
Challenges with Stablecoin in Africa

- Destabilization
- Currency Substitution
- Dollarization
- Difficulties in tax collection
- Peg-loss
- Loss of policy control
Outlook for Crypto and Stablecoins in Africa

Regulation and Permissions

- Continued regulatory uncertainty and **divergent policy stances** on crypto and sub-asset classes
- **Update** regulatory guidance/standards to consider cryptocurrency
- Key regulators taking different crypto-focused action—within and between countries
- **Regulatory leadership** led by Mauritius, Nigeria, South Africa
- Growing focus on **stablecoins**
- **Regulatory Sandbox** approach: Recommend financial sector-wide approach

OECD (2023). *Blockchain Adoption In Africa: Trends In Market Activity And Policy Development*
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Usage and Adoption

- Continued growth driven by stablecoin adoption
- Continued separation of stablecoin from other cryptoassets, especially by institutional users
- Increased African private sector with crypto solutions—some linked to local currencies and assets tested in local markets
- Instability of the cryptocurrency market makes African financial institutions wary of cryptoassets and decentralized finance—30% see cryptoassets as opportunities, compared to 63% in the previous year.

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