



# AFRICA'S CRYPTOCURRENCY BOOM: The Bitcoin Craze



July 2018



Centre for Democracy & Development

Centre pour la Démocratie et Développement

A background graphic consisting of a network of interconnected nodes and lines, resembling a blockchain or a complex data network. The nodes are represented by small grey circles, and the lines are thin grey lines connecting them. The overall style is clean and modern, with a light grey color palette.

# **AFRICA'S CRYPTOCURRENCY BOOM: The Bitcoin Craze**

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**CRYPTO**



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## INTRODUCTION

Cryptocurrency as a digital asset is designed to work as a medium of exchange that uses cryptography to anonymously secure its transactions, control the creation of additional units and to verify the transfer of assets. Cryptography - the process of converting legible information into an almost uncrackable code to track purchases and transfers - has evolved into a key way to secure communications, information and money online in the digital age. Although the impact of cryptocurrency in Africa may not be commercially significant yet, there is a growing demand for it in the region.

An assessment of the of the cryptocurrency market in Africa, suggests that for widespread adoption of this model to occur in the region, it will require a mechanism for on-the-fly exchanging of cryptocurrency to a value of the fiat money. This is on the basis that services, and stock providers, continue not to accept cryptocurrencies as payment.

## The Bitcoin craze

Bitcoins, the first decentralized cryptocurrency, valuation has grown and fluctuated from \$1 to \$1,000, back to \$200 and then to \$16,000. This high rate of volatility can put off prospective investors but for those who want to buy, and can hold over an extended period, there is opportunity for high returns. Cryptocurrencies are set to change not only how transactions occur, but also how value is stored and how business is conducted.

Central to the appeal and function of Bitcoin, is the blockchain technology it uses to store an online ledger of all the transactions that have ever been conducted. Every new block generated must be verified by the ledgers of each user on the market, making it very difficult to forge transaction histories. Experts see this blockchain technology as having important uses in online voting, crowdfunding and in making payment processing more efficient.



Despite every transaction in the Bitcoin blockchain being publicly accessible numerous systems have emerged to try and anonymize transactions. Mixers, are used to mix bitcoins from one person to another, making it difficult to know what belongs to whom, or where is it coming from. This is for the most part achieved by “shuffling” bitcoins - transferring them through an anonymous spidery network of micro transactions before returning them. After which, the same amount of bitcoin is returned but mixed with bitcoins from other individuals making it significantly harder to track, as the transaction history of any client is not visible in the blockchain. This method has been adopted and been used for money laundering in Nigeria, according to a research report from Dark Web that looked at cryptocurrencies impact on Africa and use in corrupt practices.

## Africa's cryptocurrency boom

The surge in popularity of cryptocurrencies has spurred the opening of at least 15 trading venues across Africa within the past year. These peer-to-peer marketplaces recorded a spike in trading volumes as bitcoin's price skyrocketed last year. In Kenya on localbitcoins.com, trading volumes increased to \$8.1 million in December 2017, whilst cryptocurrency Luno reported 2000 Bitcoins worth of transactions in November 2017; when its price was hovering in the \$10,000 range. 37% of those transactions occurred in South Africa. Having started operations in 2013, Luno, which is based in South Africa, boasts 1.5 million users spread across 40 countries across. By 2025 it plans to reach 1 billion customers.

Cryptocurrency has grown in popularity across Africa despite its unclear legal status. Nigeria does not recognize it as legal tender and recently issued a firm statement reminding banks of this. In Zimbabwe, the government is skeptical, but it has licensed BitMari, a pan-African cryptocurrency payment service. Morocco recently banned their use entirely, designating them an illegal means of payment. In South Africa, Bitcoin has no legal status, although the government is working towards achieving a 'balanced approach' to regulating the market. In 2017 Senegal appeared on the verge of launching its own cryptocurrency, the eCFA franc, with

Nonetheless, with more than 30 million Africans working abroad and sending money home, cryptocurrencies offer an opportunity to further circumvent the traditional banking system and get around fees charged by monopolistic money transfer companies. According to World Bank stats, roughly 250 million global migrants transferred \$601 billion to their home countries in 2016. More than half, \$441 billion, went to developing countries: \$39 billion to Africa and \$20 billion to Nigeria. Alternative money transfer systems are already very popular. M-Pesa, a mobile money service, is now the means through which over 25% of gross national



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a plan to extend it to **Cote d'Ivoire, Benin, Burkina Faso, Mali, Niger, Togo and Guinea-Bissau**. But the initiative has since stalled. However, the threat of government regulation, which has roiled global cryptocurrency markets recently, is still relatively low in Africa. While they have warned about the dangers of investing in cryptocurrencies, regulators have broadly taken a hands-off approach to monitoring trading at exchanges.

product (GNP) of Kenya is transferred, according to The Economist. The penetration of mobile money services within the continent has helped its population adapt quickly to cryptocurrency technology. In the evolution of its financial services ecosystem, Africa skipped step the setup of physical banking infrastructure and moved to a decentralized mobile money platform.



This setting is proving to be fertile ground for cryptocurrency startups. Recent ventures have been started in South Africa, Botswana, Ghana, and Zimbabwe. In 2015, Kenyan based Bitsoko, a company offering a cryptocurrency transfer service across Ghana, Zimbabwe, Uganda, Rwanda and Sierra Leone, won a \$100,000 grant from the Bill and Melinda Gates Foundation.

The growth of BitPesa tells of the region's interest in digital currency. In 2014, the Nairobi based start-up enabled the purchase of bitcoins using Kenyan shillings with the aim of entering the remittance market dominated by Western Union and Moneygram. In 2015, Rossiello reported that BitPesa's user base was growing by 60% monthly. It later expanded its service to Nigeria, Uganda and Tanzania, and in March 2018 it signed a partnership with Bitbond, a German Bitcoin firm, to improve access to small business financing. According to the CEO of Bitbond "10% of our global user base comes from Africa".

## Cryptocurrency - Use in Nigeria

While Bitcoins and other cryptocurrencies have suffered precipitous falls in the past few months, the units remain popular in Nigeria, where they make it easier to do business. West Africa's biggest economy and the world's third-largest bitcoin holdings as a percentage of gross domestic (GDP), behind Russia and New Zealand, according to Citigroup.

That may be because blockchain technology — public, online ledgers that underpin cryptocurrencies — is liberating Nigerians, side-lined by the global financial system by dramatically improving the ease of doing business, particularly across borders. It's so hard to send money from Nigeria to Zimbabwe, or from the United States to Sudan, Banks are tedious and payment companies are generally exploitative. SureRemit - a global non-cash remittance service enabled by blockchain - developed its own virtual token, a kind of custom cryptocurrency like bitcoin



The tokens are used to buy vouchers, which may be used to purchase goods and pay bills at participating merchants anywhere in the world, cutting out cumbersome middlemen and eliminating fees.

In January 2018, SureRemit held its initial coin offering (ICO), a form of online crowdfunding where people purchased the tokens to be put in circulation for use in eight countries, mostly in Africa and the Middle East. The 500 million tokens, each worth two US cents, sold out in just two days and were snapped up by major cryptocurrency players, including South Korea's Hashed, raising \$7 million for the company. Should the token system work, SureRemit stands to become a player in the world's remittances market; valued at \$429 billion by the World Bank in 2016.

## Future Potential

The surge in value of digital currency has not been matched by their everyday utility. Payment processor stripe cut off Bitcoin support early this year, citing slow transaction times and high fees. However, "virtual currencies might just give existing currencies and monetary policy a run for their money" according to International Monetary Fund director Christine Lagarde. Speaking in 2017 she stated her belief that "citizens may one day prefer virtual currencies, since they potentially offer the same cost and convenience as cash — no settlement risks, no clearing delays, no central registration, no intermediary to check accounts and identities".

Cryptocurrency has a potentially a huge market in Africa. Businesses are recognising the significance of cryptocurrencies in fostering cross-border trade and payment across the continent. Moreover, the infrastructure for the take-off of digital tokens is largely in place thanks to telecommunication liberalisation across the continent.



On the regulatory side, with solutions like SureRemit, there's less risk of their crypto token product being used for money-laundering compared to other block-chain payments systems, such as Bitcoin. Since the tokens are not cash redeemable or tied to a particular merchant, transforming tokens to cash might be tedious. Thus, makes it an unattractive and unappealing for money laundering channel or other nefarious schemes.

In Africa, there is potential for cryptocurrencies to overtake some of the existing fi-

nancial services, in the same way that many Africans skipped owning a cumbersome and expensive landlines and went straight to mobile devices. However, large scale adoption is still slow. Awareness, education and user experience are some reasons why the take-up is taking time as a result of scepticism on the part of the government especially in countries like Nigeria. But it can offer a new way for individuals and groups (End-user and businesses) to subvert the state, disrupt the status quo and operate outside the control of the state.

## Further Reading

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