CRYPTO IN AFRICA

Eugene Yiga reports on the take-up of cryptocurrencies in Africa, which is being hampered primarily by security concerns.

As cryptocurrency adoption begins to spread across Africa, so too do the regulations governing the trading platforms people use. And while some traders and investors have been scared off, others believe that cryptocurrencies could provide a stable store of value for people across the continent.

"If you look at some of the challenges affecting adoption across Africa, it's still early days," says Marius Reitz, general manager for Africa at Luno, a platform that lets people buy, sell, store and trade cryptocurrencies. "We exchanges often think that most people know about cryptocurrencies, but that's not the case."

One of the main challenges for people in Africa is a lack of safe access points. Because infrastructure is still a big issue, it seems that a large portion of the cryptocurrency space is dominated by scammers, who many people fall for out of desperation in these difficult times.

"We're in a low-trust environment with little regulation," Reitz says. "And because consumers and banks don't trust an unregulated industry, it takes a long time from starting a discussion to having a legitimate business with strong compliance controls."

The result is that banks have become the de facto regulators, which Reitz considers a big risk for cryptocurrency businesses. And while it might be easy to launch a fintech start-up that solves a problem in another part of the world, doing so in Africa can be hard.

"Companies dealing in cryptocurrencies face a lot of hurdles," he says. "And in emerging markets, relationships take a long time to establish. These are a couple of the challenges we're facing across the continent."

And yet there are examples of how cryptocurrency use is becoming more widespread across Africa, with some companies even paying employees in cryptocurrency when doing so ends up incurring less in fees than would otherwise be the case.

"No one has said that someone can't be paid their salary in Bitcoin," says Marvin Coleby, co-founder and chief executive of Raise, a platform that offers simple fundraising solutions for African founders, and co-trustee at the African Digital Asset Foundation. "But I think it's difficult to know which of all the different platforms to use, because there's always going to be the threat of [a cyber] attack."

All this emphasises the need for more regulation. However, Coleby is concerned that regulators may go too far and ban cryptocurrency transactions altogether.

In February, the Central Bank of Nigeria issued a circular to banks that "facilitating payments for cryptocurrency exchanges is prohibited", which sent a wave of panic through the Nigerian cryptocurrency sector. In April, Al Jazeera reported that the central bank had clarified its position, saying the circular "was not aimed at discouraging people trading in cryptocurrencies, but served to enforce orders in place since 2017. "The 2017 directive did not prohibit crypto exchanges from using banking and payment channels. It simply required banks and financial institutions to ensure their crypto-exchange customers have effective anti-money laundering and 'anti-terrorism' financing controls in place," Al Jazeera reported.

Part of making cryptocurrencies more mainstream depends on consumer education and training into how they work. This depends on the kind of user – for example, there's a growing class of technology-enabled individuals who work at start-ups and will probably be quick to understand the jargon of the crypto world.

Building trust

Trust is a scarce asset in today's world. The growing number of scams (which Coleby says could "bankrupt people for generations") is crippling confidence in the industry, while the need for instant gratification when it comes to investment returns makes scams more likely to happen in the first place.

"People expect cryptocurrency to instantly be better than the existing financial system," Reitz says. "They want it to be safer, cheaper, and more secure. But the reality is that Rome wasn't built in a day. The existing financial system was built over hundreds of years, so we've got to start right at the beginning."

Reitz has seen a new class of people across Africa investing for the first time. These aren't necessarily sophisticated individuals or institutions; they're just first-timers who perhaps want better returns or a safer place to store the value of weakening currencies. Getting them set up and comfortable with the platforms requires building the right kind of infrastructure that makes it easy to use.

"If you look at the data, only 20% of people in sub-Saharan Africa use mobile money services," he says. "That's still a low percentage. Companies are trying to run with crazy ideas and solve problems that you'll only face 50 years down the line, when you just have to focus on the basics, especially across Africa."

This once again emphasises the need for regulation. "I think in the crypto community we spend a lot of time vilifying regulation instead of intelligently building around it," Coleby says. "We see it as this great threat, and it is. But we don't have a choice. Regulation is inevitable, so we might as well just build and design around it. There are other things that we can do in the meantime to protect ourselves."

Ultimately, it's about understanding and accepting the responsibility that comes with being a part of the cryptocurrency world. "We're building a new financial system," Reitz says. "We've been sharing some of our learnings from other markets where the regulators have put controls in place. I've acknowledged that if we don't regulate, the volume will move underground where there's no way we'd be able to track it. So, even though it's a long and slow process, it's something we have to keep doing."