

Dynamics and future potential of crypto-asset markets in Africa

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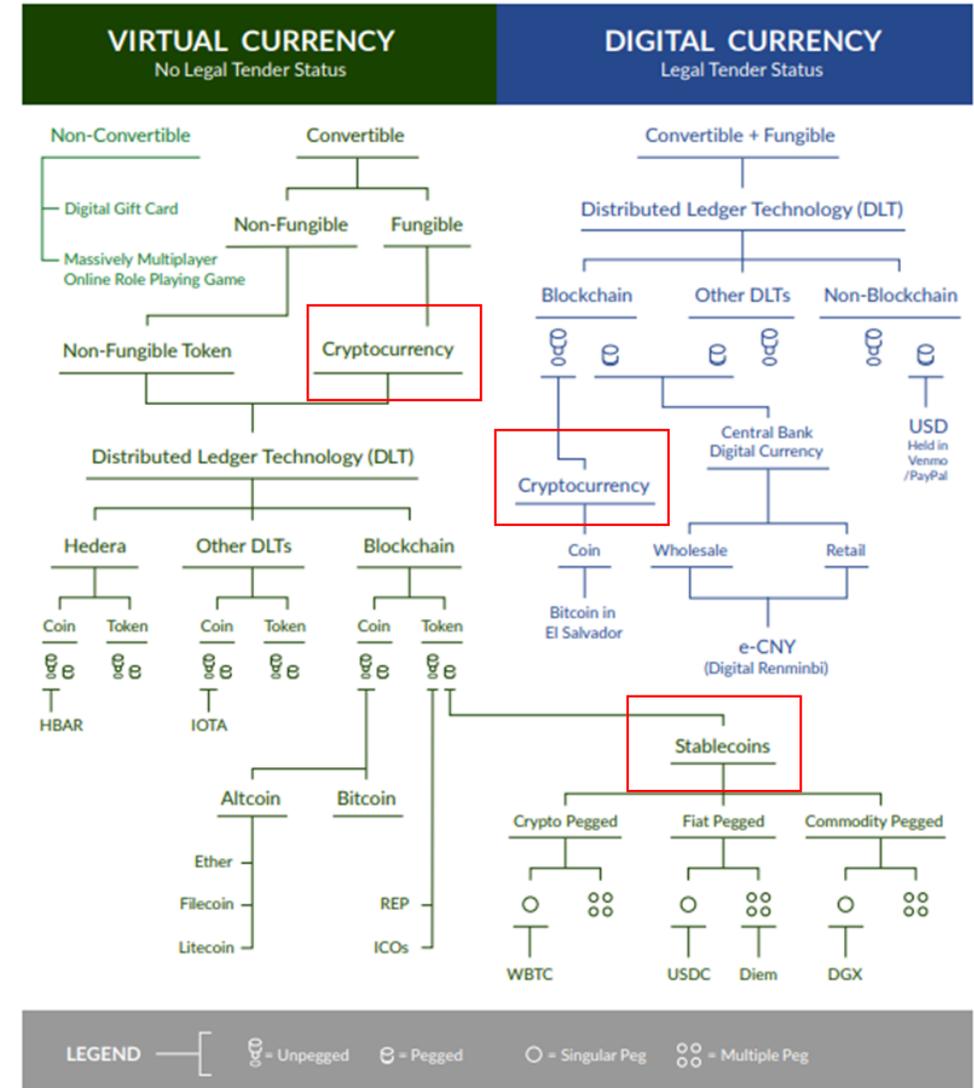
Digital Finance in Africa Workshop convened by the Regional Centre of Excellence of the Financial Services Commission (Mauritius) in collaboration with the OECD and the Bank of Mauritius

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).

Note: Different definitions can be held by different bodies

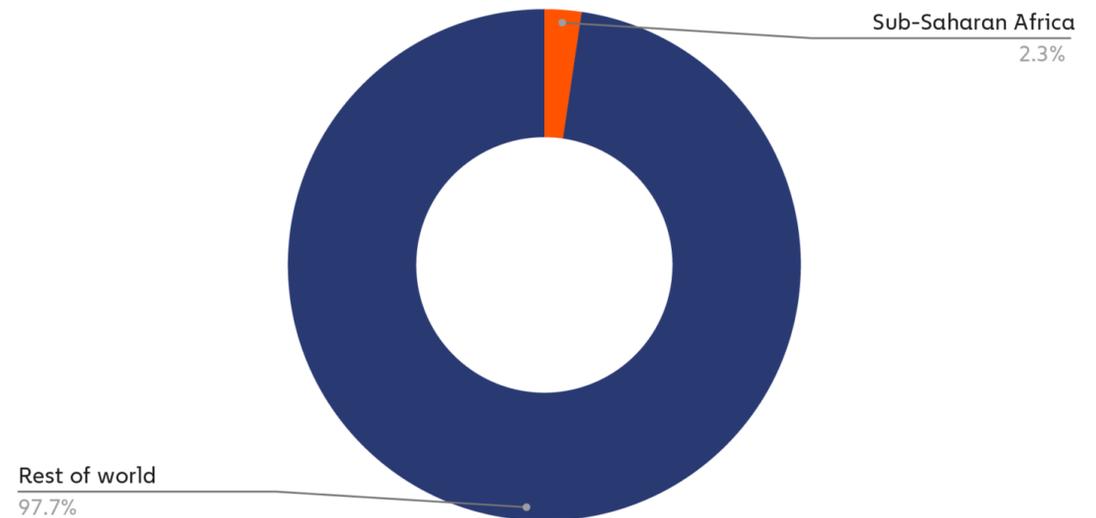
Digital Assets



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

Cryptocurrency value received by Sub-Saharan Africa
Compared to rest of world, Jul 2022 - Jun 2023



© Chainalysis

Chainalysis (2023), [Cryptocurrency Penetrates Key Markets in Sub-Saharan Africa as an Inflation Mitigation and Trading Vehicle](#)

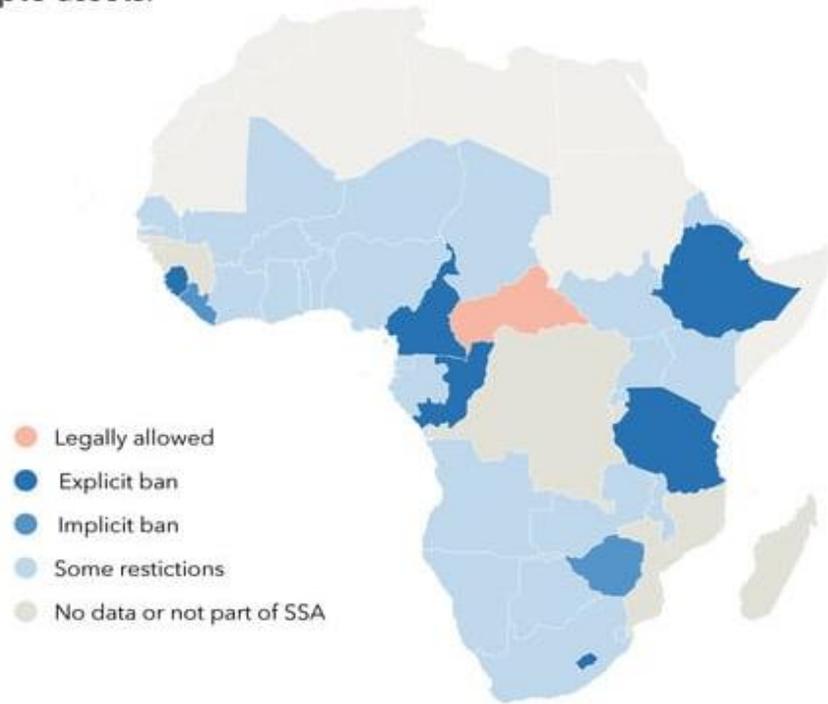
Positive uses for crypto in Africa

- Can improve financial inclusion
- Can facilitate cross-border trade leveraging AfCFTA
- Lower transaction costs in transfers with faster speeds
- Can 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.



Source: IMF internal survey, and staff calculations.
Note: The boundaries, colors, denominations, and any other information shown on the map do not imply, on the part of the IMF, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

IMF

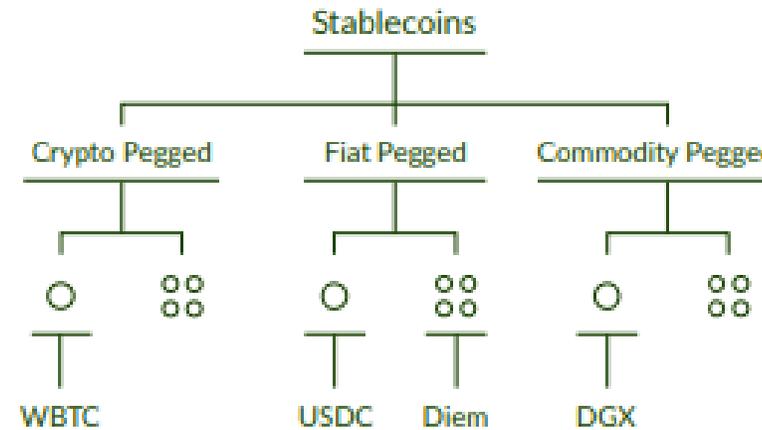
Source: IMF (2022), [Africa's Growing Crypto Market Needs Better Regulations](#)

Financial Sector Regulator Concerns

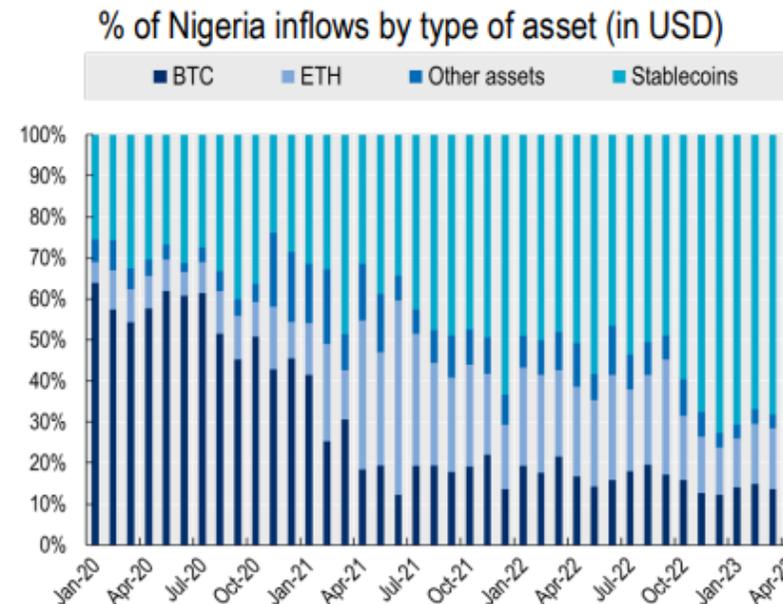
- Volatility
- Capital outflow vulnerability
- Illicit and illegal activity
- Undermines monetary sovereignty and transmission
- Financial instability: Particularly countries with a relatively weak financial system.
- BUT the Central African Republic (CAR) adopted Bitcoin as legal tender (after El Salvador)
- Even in countries with outright bans on the use of crypto-assets-- crypto-asset activity inflows continue.

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](#)

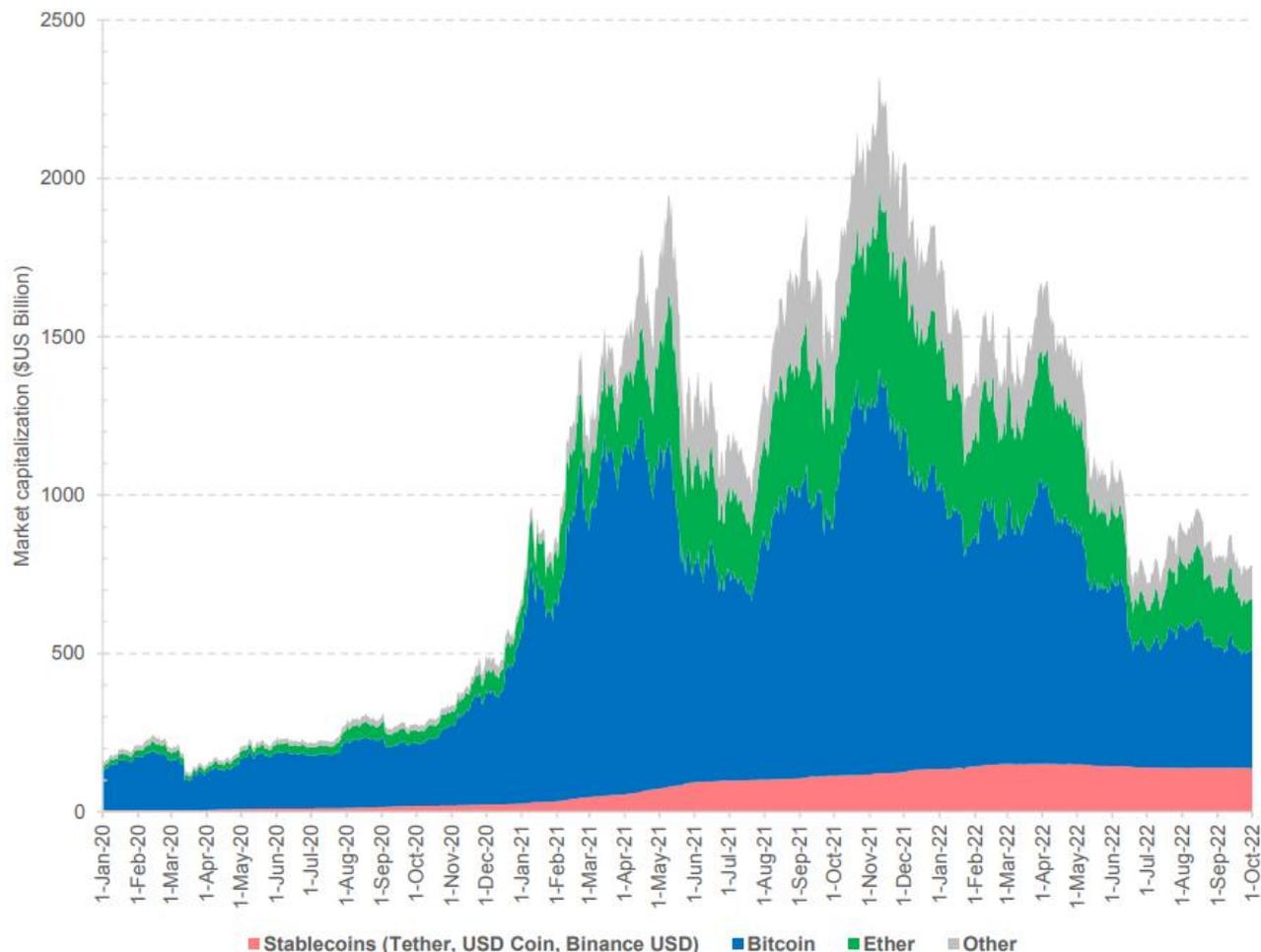


OECD (2023), [Blockchain Adoption In Africa: Trends In Market Activity And Policy Development](#)

Positive uses for Stablecoin in Africa

- **Relative Stability:** compared to other cryptocurrencies (see chart)
- **Enhanced USD access** in the context of limited access to USD and strict currency controls in some countries.
- **Efficient and affordable remittances:** Low transaction costs while maintaining low price fluctuations to retain most of the users' monetary value.
- **Value retention:** Stablecoins pegged to a stable fiat currency can offer some protective buffer against the negative effects of inflation.
- **Saving tool:** Store savings from local currency in dollar-backed stablecoins while earning interest on savings.
- **Accelerate DeFi:** Use of stablecoins, in transactions can accelerate DeFi.

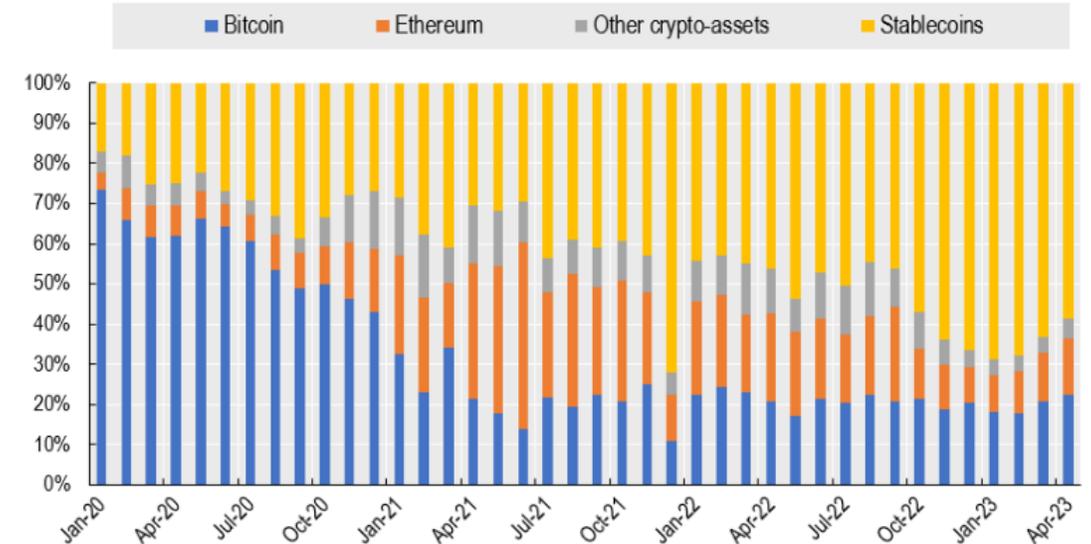
Figure 1: Market capitalization evolution of top 10 cryptocurrencies



Challenges with Stablecoin in Africa

- **Destabilization:** Can accelerate the disintermediation effect on the banking sector which needs to be managed.
- **Currency Substitution:** Stablecoins backed by a stable foreign currency (e.g., US\$) provide a store of value against depreciating currencies, rather than facilitating payments.
- **Dollarization:** Mass stablecoin adoption can lead to de facto adoption of a USD-backed asset that displaces the domestic currency, driven by the preferences of residents.
- **Difficulties** in tax collection
- **Peg-loss:** Stablecoin's value can plummet if it loses its peg to the underlying asset, often the US dollar.
- **Loss of policy control:** Undermine the countries' effective control over monetary policy and transmission.

Figure 2.2. Composition of flows in focus countries by type of crypto-asset

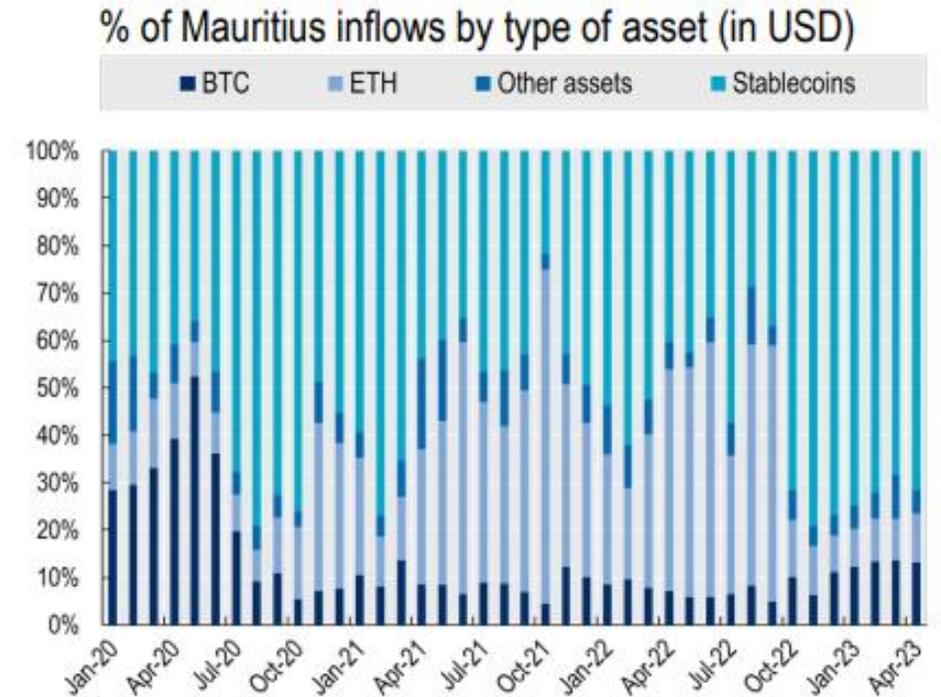


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Outlook for Crypto and Stablecoins in Africa

Regulation and Permissions

- Continued regulatory uncertainty and **divergent policy stances** on crypto and sub-asset classes.
- **Updating** of 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.



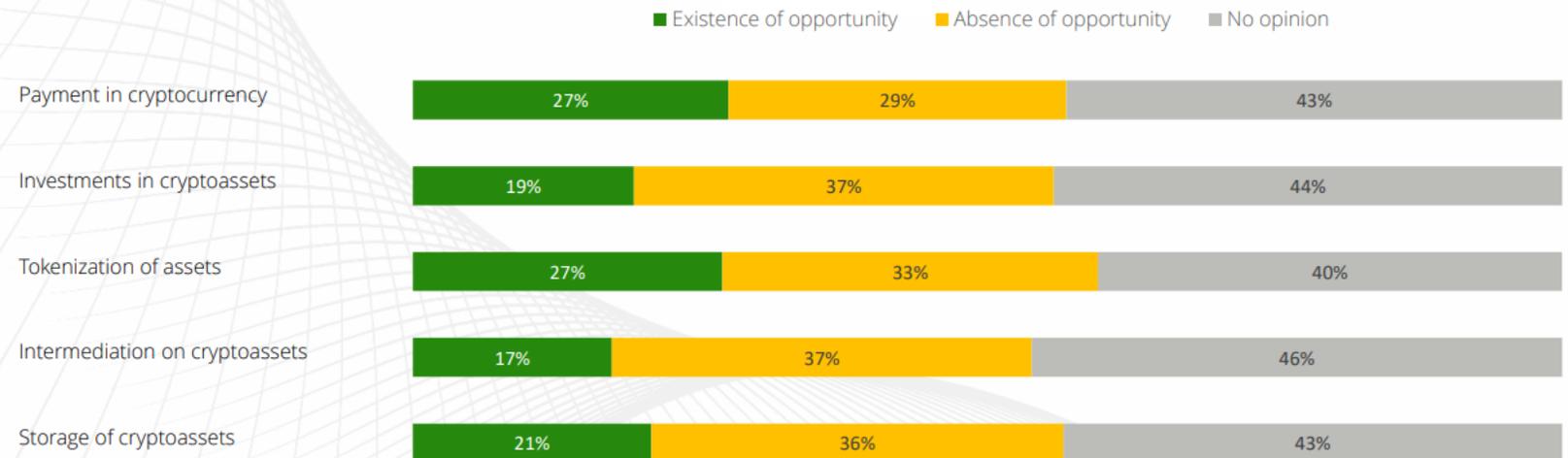
OECD (2023), [Blockchain Adoption In Africa: Trends In Market Activity And Policy Development](#)

Outlook for Crypto and Stablecoins in Africa

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.

1.11 What are the opportunities that cryptoassets and decentralized finance (DeFi) bring to your business?



Deloitte (2024), [African Financial Industry Barometer – 2023 Edition](#)

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