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CRYPTOMANIA IN AFRICA

A. GENERAL ASSESSMENT

I. Introduction to the African Bitcoin Ecosystem

a) Definition

Cryptocurrencies, also known as virtual currencies, are a digital medium of exchange that is unlike our normal fiat currency that exists in the form of physical bank notes or coins, or commodity money, backed by gold or other precious stones. More specifically, it is a decentralised digital cash system supported by blockchain system.

Blockchain uses cryptography to create (mine) and store units, secure transactions, transfer tokens and effect payments. These processes metamorphose a crypto from being a mere digital token into a digitised asset with an economic value. That is to say, users can earn it, store it, trade it, transfer it and sell it.

In Africa, there are now several exchanges that offer Africans the opportunity to buy and sell bitcoin and other cryptocurrencies using local currency.

Although trading in cryptocurrencies in Africa has not spread widely enough to reach people at the bottom of the social pyramid, their use is spiralling upward like a whirlwind in tandem with ICT technological advancements, high mobile penetration, growth in literacy, financial inclusion and consumer sophistication. The surge in popularity of Bitcoin and other cryptocurrencies has led many experts to believe that Africa will once again leapfrog the digital divide, bypassing traditional banking much like it did with the fixed-line telephone. Cryptocurrency also has an impact on the remittance industry, since Africa represents one of the number-ones countries for remittance transactions.

b) Local Exchanges

Luno, Ice3X, Golix, and NairaEx are the longest-standing and most established exchanges on the continent. Since the start of 2017, several other exchanges were launched to service the African bitcoin community including Remitano, Belfrics, and CoinDirect. Regardless of the success of Africa's local exchanges, one of the most popular ways to purchase bitcoin using local African currency is still the peer-to-peer exchange LocalBitcoins. There is also a range of international exchanges that offer Africans the opportunity to trade cryptocurrencies.

c) High volume Bitcoin location

The main bitcoin economies in Africa are located in Ghana, Kenya, Nigeria, and South Africa. This can be determined based on their local bitcoin trading volumes, the number of startups located in the region, as well as community activity such as meetups and conferences.

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Furthermore, there are more and more cryptocurrency-based startups emerging across the continent and notable bitcoin communities have also emerged in countries such as Zimbabwe and Botswana.

II. Legal Framework

Most countries in Africa are still mulling over cryptocurrency and blockchain related regulations and we are still to find out what the reaction of African governments and regulators will be. To this date, there is not a single African country that has yet developed a proper regulatory crypto framework in place. In many countries the issues of virtual currencies are not addressed at all. Although most of the governments have not yet clear regulations and rules for using virtual currency, things could be changing soon. It seems that monetary authorities are preparing for the next technological wave.

Most of the African governments have not officially banned cryptocurrencies. Hence, the crypto community is awaiting regulatory direction from banks and other regional regulators.

III. Bank evaluation

African central banks by and large do not recognise cryptocurrencies as money, mediums of exchange or legal tender, but link cryptocurrencies to price volatility, fraud, money laundering, tax evasion, exchange control circumventions, terrorism financing and other criminal activities fuelling illicit financial transactions. While some of these concerns are genuine, others tend to be rhetorical and hyperbolic, as traditional financial systems are also fraught with similar risks.

B. OVERVIEW BY COUNTRIES

1. South Africa

Blockchain and cryptocurrencies are popular in South Africa, where financial institutions are taking notably progressive steps towards involvement in the industry. The Blockchain Africa Conference has convened every year since 2015 in Johannesburg, and partners with IBM and Microsoft, which have been the biggest contributors to Africa's technological development over the past century.

The South African Reserve Bank (SARB), i.e. the central bank in the country, does not officially recognise cryptocurrencies as money but as cyber-tokens; yet it is considered one of the pioneers in Africa over the use of cryptocurrencies. SARB has preferred to adopt a more cautious but pragmatic approach to ensure that the use of cryptocurrencies complies with relevant financial surveillance and exchange-control regulations. Already a sizeable number of merchants in South Africa have embraced cryptocurrencies and accept Bitcoin for payments. South Africa's central bank trialled a system called Project Khokha, which used blockchain technology to process interbank payments and settlements.

South Africa's National Treasury published the draft virtual currency law in July 2018, in response to rising public interest in bitcoin and other cryptocurrencies. The bill is the country's first attempt to regulate the use of crypto assets, which have been largely unregulated until

now. Although the government has not set clear regulations and rules for using virtual currency, the South African Revenue Service considers cryptocurrencies intangible assets that are subject to normal income tax rules.

2. Nigeria

In Nigeria - home to the continent's largest Bitcoin market, where more than \$4m-worth is traded daily - regulators have taken a much stronger stance than their South African counterparts. The country's Senate ordered an investigation into Bitcoin trading and the central bank labelled Cryptocurrency a gamble and warned against it. Cryptocurrencies are not recognised as currency as they do not belong to the category of currencies or coins issued by the Central Bank of Nigeria (CBN).

The CBN first announced a commissioned study on virtual currencies in August 2017, with an objective to gather stakeholders to brainstorm and exchange ideas and proving the country to be a leader in blockchain and Bitcoin regulation in Africa.

Shortly thereafter, the Blockchain Education Network of Nigeria and Blockchain Nigeria User Group hosted the country's first blockchain conference, where ten startups and countless industry leaders were present and discussed incentives to bring blockchain startups to Nigeria.

In April 2018 the lower chamber of the Nigerian National Assembly adopted a bill titled "Need to Regulate Blockchain Applications and Internet Technology," and called on the Central Bank to assist in creating regulatory framework for blockchain developments and other fintech.

Former Vice President and now Nigeria's leading opposition presidential candidate has promised to work towards constituting blockchain and cryptocurrency regulation if elected as the country's next head of state. Launching his policy document ahead of the February 2019 general elections, the plan is to make blockchain and crypto an integral part to stimulate the economy.

3. Uganda

The Bank of Uganda issued a warning to investors about the risks associated with cryptocurrency in March 2017. However, this has not stopped global investors from opening exchanges in the country and pursuing opportunities to strengthen the Ugandan economy.

Reports show that the Ugandan government is interested in using blockchain technology to provide basic public services and to position Uganda within the global marketplace - which is largely driven by technological innovations - and has consequently decided to set up regulations to govern all crypto operations. According to reports, the government seeks to establish rules that will protect its citizens from illegal activities in the space.

The Ugandan blockchain organization, Crypto Savannah, partnered with the global crypto exchange Binance in April 2018, in an effort to support economic development in the country, which is considered one of the poorest countries in the world, with a population where 70% of Ugandan citizens are unbanked.

Despite global market doldrums, demand for cryptocurrency appears to be booming across Uganda. Binance Uganda signed up 40,000 users in the first week since the world's largest cryp-

to exchange launched its local subsidiary in October 2018. Binance Uganda plans to work with local banks.

4. Rwanda

The Transform Africa Summit in Kigali, Rwanda took place in May 2018; it was attended by over 4,000 delegates, including heads of state, fintech companies, blockchain experts, government regulators, AI firms, investment banks and venture capitalists.

The diverse turnout with representatives of both public and private sectors, and the conference's theme, "Accelerating Africa's Single Digital Market," is exemplary of the collective effort by leaders to ensure that Africa is not left behind in the oncoming digital revolution.

Earlier this year, the National Bank of Rwanda published a document detailing the bank's position on cryptocurrency and the potential risks associated with the new cryptocurrency market with regard to established financial institutions. The bank concluded that its preparations for mainstream adoption of cryptocurrency include creating and regulating a bank-owned currency.

The Kenyan-based blockchain payments platform Bitpesa has expanded over East Africa since it was established in late 2013, yet the cryptocurrency trend hasn't been confronted with a regulatory response from the governments in the region. The forewarning from the National Bank of Rwanda, however, proves that monetary authorities in these places are preparing for the next technological wave.

5. Zimbabwe

At the end of 2017, Zimbabwe's central bank, the Reserve Bank of Zimbabwe (RBZ), announced that Bitcoin is not considered a legal currency. During a period marked by political turbulence, the bank claims to be engaging in research and development of possible regulations for crypto markets, but the future of Bitcoin is still uncertain, as there have been no proposed regulation.

The central bank's announcement came days after a military coup successfully overthrew the Zimbabwean government, causing Bitcoin's price to surge by 10 percent on Golix, the country's largest cryptocurrency exchange.

Golix reportedly opened Bitcoin ATMs in the capital city and loaded them with U.S. dollars in April 2018. Zimbabwe has some of the worst recorded inflation levels in modern history, and recently shelved its national currency for a multi-currency system that heavily relies on the U.S. dollar.

The RBZ issued in May 2018 a notice warning the public against the use of cryptocurrencies and directing all banking institutions in the country not to provide banking services to facilitate any person or entity in dealing with or setting up cryptocurrencies.

6. Tanzania

The increase of Bitcoin use in Tanzania is a significant indicator that cryptocurrency is expanding from African crypto hotspots like Nigeria to rural nations.

The Central Bank of Tanzania commented on the Bitcoin price surge in March 2018 by linking it to market speculation and cautioned investors who are buying and selling in the high-risk market. Bitcoin first caught the bank's attention in December 2017, and it has been studying Bitcoin carefully in order to create future viable regulations.

The Tanzanian government has not officially banned cryptocurrencies, and the crypto community in the country is awaiting regulatory direction from the bank and other regional regulators.

7. Botswana

Although there is no Bitcoin exchange present in Botswana, the country maintains a small but active cryptocurrency and blockchain community. Many traders travel to neighbouring countries like South Africa to use exchanges or utilize online trading groups.

However, Botswana has taken an interest in blockchain and has held the country's first ever Bitcoin and Blockchain Summit in 2016. The country currently has three blockchain startups, all of which aim to serve the needs of the largely unbanked population.

The Bank of Botswana has not issued any regulations for the market and claimed at the end of 2017 that it had no interest in studying cryptocurrencies in general.

8. Mauritius

In September 2018, the Financial Services Commission (FSC) released a document that stated that cryptocurrencies were an "asset-class for investment by Sophisticated and Expert Investors" that does not have legal tender status.

Recently the FSC of the Republic of Mauritius has released a draft regulatory framework for crypto custodian services. The island country aims to establish regulation for custodian services for digital assets in order to enable users of crypto custodian services to have a due level of safety.

According to the draft regulation, the FSC will issue a custodian service license that will allow an entity to operate as a holder of digital assets as well as to function as a safe keeper of the assets. In order to acquire the license, the holder will be required to comply with anti-money-laundering and counter-terrorism-financing laws, as well as the country's Financial Intelligence and Anti-Money Laundering Act.

9. Kenya

The Central Bank of Kenya issued a warning to banks in April 2018, urging them to reject crypto related transactions and entities, and likened Bitcoin to a pyramid scheme. Kenyan crypto investors have yet to see any clear regulatory guidelines. Authorities in Kenya, however, have not been forthcoming in stating their stance with regard to cryptocurrencies. In July 2018, the country's finance minister was given two weeks to establish regulations for cryptocurrencies in the country. Several months have passed, and still no regulatory system has been put in place in the country.

The central bank's governor expressed support of blockchain technology, though banks have maintained a cautious and sceptical attitude towards digital currency since 2015. Cryptocurrencies are currently not recognised as currency as they do not belong to the category of currencies or coins issued by the Kenyan Central Bank (KCB).

A blockchain task force was created under the president's directive in March 2018. Many enthusiasts hope to see distributed ledger technology be utilized for land ownership registry, and for strengthening existing mobile money services.

Kenya's largest mobile network operator is responsible for launching M-Pesa, the mobile phone money transfer and payment service, which boasts 30 million users and increasingly challenges the dominance of traditional banking. However, regulatory uncertainty in Kenya led M-Pesa to deny services to Bitcoin trading platforms.

10. Egypt

By mid-2017, when reports surfaced with claims that the first Bitcoin exchange had been launched in the country, the Central Bank of Egypt reiterated the legal status of cryptocurrency and denied that any exchanges had been authorized.

The legality of cryptocurrency is addressed by Egyptian law, which stipulates that transactions with foreign entities will be limited to official banks only, and also bans electronic banking.

Egypt's government does not support the use of cryptocurrencies, although it hasn't outlawed them. The government consistently rules against cryptocurrency, but it allowed the Central Bank of Egypt to join the American-based R3 blockchain consortium to experiment with evolving technologies.

11. Ghana

Ghanaian banks are restricting the use of cryptocurrency out of concern for its use in illegal activity, like money laundering and terrorist funding. The central bank of Ghana announced Bitcoin is not legally recognized earlier this year, but hinted at an interest in blockchain tech to enhance payment and settlement systems.

A bill called the Settlements and Payments bill is planned for the near future, which will cater to the use of cryptocurrencies.

12. Morocco

The Moroccan Foreign Exchange Authority and central bank officially outlawed cryptocurrency transactions in late 2017; sending and receiving payments is punishable by fine. The Foreign Exchange Authority insisted all foreign payments must pass through authorized intermediaries and the Central Bank.

In 2017, Morocco has promulgated a law banning the usage and ownership of virtual currencies.

13. Algeria

Algeria too has promulgated a law in 2018 banning the usage and ownership of Bitcoin and other virtual currencies.

Other provisions of the bill address the potential of cryptocurrencies to be used for illegal activities, such as for drug trafficking and tax evasion, which is likely to be the cause of concern and the reason behind the strict response from the government.

C. OUTLOOK

A report in 2018 found that South Africa ranked sixth globally for the highest amount of bitcoin holders per capita, Kenya came in the fifth position and Nigeria came in third, therefore confirming the high popularity of digital currency use. There are many reasons why Cryptocurrency use has become so popular throughout Africa. Limited access to traditional banking methods, unstable national currencies and limited employment positions have prompted people to move towards technology in an attempt to evade these problems.

As most African fiat currencies are very volatile and unstable and do not hold value against major currencies such as the US-Dollar, Africans are becoming attracted to cryptocurrencies, not only as speculative investments, but as alternative and cheaper payment and settlement methods, conduits for capital investments and options for savings and storing value. Technological innovations underlying cryptocurrencies such as blockchain should be embraced by central banks as they have the potential to improve efficiency in financial services.

Instead of throwing tantrums at technological innovations, African central banks should be pragmatic and set up specialised units dedicated to researching cryptocurrencies and emerging blockchain and other digital and artificial intelligence technologies to enable them to come up with informed and guided practical policy and regulatory interventions that work for Africa.

The banning of trading in cryptocurrencies from mainstream financial systems does not seem to be either practical or effective. Such prohibitions force consumers to use black market trading avenues or simply resort to peer-to-peer (P2P) digital trading platforms.

MENA LEGAL will remain attentive to the development and keep you informed.

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