

How bitcoin is moving money in Africa

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It's OK to admit that you still don't know what bitcoin is — but you may now officially be behind the curve. Because all of Africa could soon be getting onboard.

The virtual currency — straight up: computer money — created by an anonymous hacker in 2009 has captured hard-core geeks' hearts. Its appeal? It enables bank-free (aka middleman-free) anonymous purchasing and, crucially, it's a global currency that's not tied to any central bank and not much different than a dollar or a euro. The key characteristics of this digital cash also happen to make it a great fit for people who aren't so down with advanced digital technology: the 326 million Africans who lack access to basic banking services.

This isn't such a crazy idea. Mobile payments that work on standard-feature phones have already made strong inroads in Africa, with 16 percent of Africans using the services. The largest provider of such payments, M-Pesa, already operates in Kenya, Tanzania and South Africa, as well as India and Afghanistan.

But if you were a member of the large and expanding African diaspora, and you wanted to send money home to grandma or the hubby left behind, you couldn't count on mobile payments. M-Pesa, for instance, lets foreign-dwelling folk send money through a partnership with Western Union — but the latter tends to charge onerous fees. Which makes bitcoin super-appealing, if you can get past the expensive [exchange rate](http://www.bitcoinexchangerate.org/) (<http://www.bitcoinexchangerate.org/>) — as of publication, one bitcoin was worth nearly US\$500.

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It'd be a huge loss for Western Union if bitcoin cut into its business: Africans throughout the diaspora send home \$32 billion a year, according to the [World Bank](http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief22.pdf) (<http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief22.pdf>). Right now, they pay dearly for the privilege: 12 percent of each transaction, on average. Mobile money also doesn't much address larger economic woes back home, such as inflation and scarcity.

According to bitcoin advocates, the cryptocurrency could help solve both problems.

Companies like Kipochi and BitPesa have already begun to use bitcoin for those home-to-grandma payments, known as remittances. For now, bitcoin users need an Internet connection, but these companies are developing platforms for the standard-feature phones commonly used in Africa (rather than building apps for smartphones, which are more rare).

So far, bitcoin activity in Africa has picked up most among young tech-savvy men in urban centers such as Nairobi, says Pelle Braendgaard, the CEO of Kipochi. But it could be spreading. Lately, Braendgaard has seen an increase in exchanges among friends and family members.

His goal: to expand access to women managing household expenses. They're the most common recipients of remittances. "My goal is to make bitcoin usable by ordinary people all over the world, so that even my grandma can use it," he says.

Still, the challenge remains: There's no system to cash out bitcoins for government-issued currency. Unlike a euro or a dollar, you can't hold a bitcoin in your hand or pop it into your wallet to use at the local merchants. There's also still an unsettled debate about whether bitcoin is a currency or payment protocol — a crucial legal distinction that has made regulators especially wary, says Bill Maurer, director of the Institute for Money, Technology and Financial Inclusion at the University of California-Irvine. China, for instance, has barred its financial institutions from carrying out bitcoin transactions. African countries have also been hesitant, due to concerns about money laundering.

African banks have started warming up to Bitcoin — but they've stopped short of a full embrace. In February, South Africa's Standard Bank [tested a bitcoin trading system](http://www.coindesk.com/africas-largest-bank-trials-bitcoin-integration-system/) (<http://www.coindesk.com/africas-largest-bank-trials-bitcoin-integration-system/>), but hasn't yet offered the service to customers. Braendgaard, however, remains hopeful. He says he's in talks with several banks in African countries — including Kenya, Nigeria and Zimbabwe — to enable the conversion of bitcoin into local currencies using Kipochi's service. He expects to launch the first such partnership within six months.

One of bitcoin's strangest facets may be one of its biggest challenges on the continent: the way it's produced through a process called mining. Developers use computer clusters to solve complex mathematical equations and verify transactions, thereby earning, or "mining," bitcoin. But given the computer processing requirements, most people in Africa can't easily mine bitcoin — instead, they receive bitcoin from someone else, often from outside the continent. Receiving the currency from outside "creates dependency," says Will Ruddick, the co-founder of Koru, a nonprofit based in Mombasa, Kenya.

Yet it's tempting to think about the inflationary troubles bitcoin could solve. Specifically, a broader application of bitcoin — as a complementary currency — could appeal to African consumers who are leery of their country's inflationary troubles, which are a constant threat to economic stability. Hyperinflation in Zimbabwe once rendered the country's currency nearly worthless, halting commercial activity. By contrast, because the circulation of bitcoins is capped at 21 million, the cryptocurrency is — at least theoretically — inflation-proof. As a result, [proponents argue](http://mobile.nation.co.ke/lifestyle/From-Bangla-Pesa-to-bitcoin-alternative-money-goes-global/-/1950774/2201270/-/format/xhtml/-/yw4s2x/-/index.html) (<http://mobile.nation.co.ke/lifestyle/From-Bangla-Pesa-to-bitcoin-alternative-money-goes-global/-/1950774/2201270/-/format/xhtml/-/yw4s2x/-/index.html>), it could serve as a trustworthy store of value in periods of economic distress.

It's not the first time Africa's seen an alternate currency, and in the past, new currencies have managed to open up informal economies to broader markets. Take Koru, Ruddick's nonprofit, which developed Bangla-Pesa for a slum in Mombasa called Bangladesh. Small-scale business operators, such as fruit sellers and tailors, join the currency's network upon receiving endorsements from four current members, and then receive 200 Bangla-Pesa (equivalent to 200 Kenyan shillings). The members then use the currency to purchase goods from one another, while reserving shillings for commerce outside the community, such as paying school fees. It's an indirect barter system, says Ruddick. Bangla-Pesa allows economic activity to continue even in periods of scarcity. Using bitcoin could help by providing an easier way to execute and monitor transactions.

But getting to that sort of system would still be a challenge.

Convincing people to put their trust in new money systems takes significant effort. And bitcoin's emphasis on anonymity runs counter to traditional means of doing business in Africa, in which relationship-building is critical. "Bitcoin comes with this notion of pseudo-anonymity, but do people want that?" Maurer asks.

Still, if Africans can get past bitcoin's cloak-and-dagger, mask-and-cape front, the cryptocurrency could get its shot at making good on its promise.

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