

ARTICLE SERIES

THE ROLE OF CRYPTOCURRENCY AND BLOCKCHAIN TECHNOLOGY IN FOSTERING GROWTH AND PROMOTING TRADE WITHIN THE AFCFTA

An abstract digital graphic featuring glowing blue and yellow geometric shapes, possibly representing a blockchain or cryptocurrency network, set against a dark blue background with a grid pattern.

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INTRODUCTION

Theories are rife on the pivotal role technology will play in reshaping the architecture of intra-African trade and the convergence of cryptocurrency and blockchain technology holds unique promise as accelerators in achieving the objectives of the African Continental Free Trade Area (AfCFTA) Agreement. As member nations embark on a journey of unprecedented economic integration, decentralised digital currencies and the immutable ledger of blockchain can serve not only as a means for optimising trade transactions, but also act as a catalyst for revolutionising trade across the continent.

The commitment of 54 African countries to the AfCFTA game plan and the audacious resolve to create the largest free trade area in the world both bolster the argument that the AfCFTA will succeed far more than other regional agreements have managed in the quest for economic integration, pan-continental economic development and significant increase in the volume of intra-African trade. However, the challenges to be surmounted are complex and the jury is still out on whether the technological elixir offered by cryptocurrency and blockchain will be sufficient.

Successful implementation of the AfCFTA will include a progressive elimination of tariffs, removal of technical and non-tariff barriers to trade (TNTs), promotion of trade facilitation measures, diversification of exports and increased economic growth. In this context, technology must become an enabler of trade as well as a solution to the challenges militating against actualisation of the goals of the AfCFTA.

It is therefore expedient to examine in detail the specific areas that will benefit from the deployment of cryptocurrency and blockchain in the architecture of the AfCFTA and then analyse how these technological additions may improve the current paradigm.



USE CASE FOR CRYPTOCURRENCY AND BLOCKCHAIN ADOPTION UNDER THE AfCFTA

The AfCFTA Agreement is one of the most modern free trade agreements in the world and contemplates strategies for optimising trade transactions and payments. It is useful to properly situate the current plans for ensuring that goods and services move across borders efficiently within the continent against the quest for a single currency in Africa which the African Union has been advancing since its formation decades ago. Trading across sovereign borders is never the easiest thing in the world, but variable geometry, differing financial systems, multiplicity of currencies, infrastructural challenges and exchange losses contribute to making it so much more difficult.

The trading environment in African countries increases the jeopardy by that much when you factor in political instability, underdeveloped markets, dependence on foreign imports from Europe and Asia, dominance of third party currencies like the dollar, significant size of informal trading by women, youth and SMEs among other factors. The reality of tariff elimination and removal of TNTs is that there will be winners and losers in the resulting trading system. Countries without developed exports, inefficient tax and regulatory regimes, and unhealthy dependence on tariff revenue will be among the losers and will therefore be reluctant to fully implement the AfCFTA Agreement in letter and spirit.

Therefore, a system that reduces high transaction costs, lengthy processing times, the risk of fraud and ensures long term gains will secure more trust and co-opt more participants in the type of trading sought under the AfCFTA framework. One of the areas where cryptocurrency adoption is most likely to be impactful is the area of facilitating payments. Cryptocurrency is a digital and decentralised form of money that utilises cryptographic techniques to secure transactions and control the creation of new units. Using cryptocurrency for trade benefits from features like immutability, traceability, encryption level security and decentralisation (which eliminates the requirement for a bank or other financial institution to verify transactions).





It is important to note that a secure payment platform has been created specifically to address this challenge called the Pan-African Payments and Settlement Systems (PAPSS). PAPSS which was developed by the African Export-Import Bank (Afreximbank) in collaboration with the AfCFTA Secretariat uses a digital, cloud-based platform developed by StoneX. By facilitating the settlement of payments, PAPSS aims to support increased African trade under the AfCFTA. African Central Banks oversee the governance and daily operation of PAPSS, which is headquartered in Cairo, Egypt.

While PAPSS provides much more efficiency in settling transactions between countries with different currencies, significantly, PAPSS is only an exchange for legal tender, not digital assets like cryptocurrencies or Central Bank Digital Currencies (CBDC). CBDCs may serve as either a monetary instrument for storing value and means of exchange or as essential infrastructure for clearing and settling transactions. The international Monetary Fund is a proponent of the idea that CBDC provides safety, alleviates counterparty risks and provides liquidity in payments. As an infrastructure, CBDC is vindicated by its features of interoperability and efficiency among private networks for digital money and even assets.

Cryptocurrencies and the blockchain offer some of these advantages and a little more in terms of the confidence and trust which its transparent architecture provides. A blockchain is a decentralised, distributed record or “ledger” of transactions in which the transactions are stored in a permanent and near inalterable way using cryptographic techniques. A much touted view within the World Trade Organisation is that blockchain is an ‘intricate tool’ that would facilitate business-to-government (B2G) and government-to-government (G2G) processes at the national and international level”.

In Africa, blockchain is fast becoming the electronic “ledger” of choice thanks to its transparent, decentralised, and nearly fraud-proof structure. In Ghana, for example, the national reserve bank recently launched a regulatory “sandbox” that will allow banks and other financial institutions to develop and test new blockchain-based products for merchant payments and remittances.

If you understand the intricate and chaotic processes involved in trading successfully across borders in Africa, you would immediately see several areas where deploying blockchain technology is a no-brainer. One immediately apparent area is in transportation/logistics. The possibilities for automated and paperless transportation of goods and services are high limitless through the application of blockchain technology. A multitude of documents have to be submitted in the context of international trade transactions with attendant risks and delays. Blockchain represents an option for truly secure and paperless transactions.

Other areas likely to benefit from the introduction of blockchain technology are border control, rules of origin, digital and digitalised trade, and strengthening of intellectual property rights. Insurance is another area where the automation of processes through the use of smart contracts could help reduce administrative procedures and costs, ensure efficiency in the handling of claims, and enhance the administration of multinational insurance contracts.

It is interesting to note, particularly for international trade, a few projects are currently being piloted in the maritime insurance sector globally. For instance, Maersk, has been working actively with IBM for a few years to develop a blockchain-based global trade platform, called TradeLens that aims to connect the various parties involved in international trade – from freight forwarders to government authorities – and to digitalise the supply chain from end to end, with a view to streamlining and facilitating customs procedures.

The inference that may be drawn from all of this is that while the AfCFTA has contemplated and legislated to solve specific challenges with payments, logistics and trade infrastructure, mainstreaming cryptocurrencies and blockchain technology will improve the system by a great margin. However, making this shift will not come without significant kinks. It is important to examine these challenges to ascertain if adopting the technology will amount to a net-positive improvement in the implementation of the AfCFTA.

POTENTIAL CHALLENGES TO THE ADOPTION OF CRYPTOCURRENCIES AND BLOCKCHAIN TECHNOLOGY

It is not uncommon to experience difficulties in the adoption of any major technology and trading under the AfCFTA is not likely to be an exception. While many of the features of cryptocurrencies are ideal for facilitating trade, some features will have the opposite effect in the context of implementing the AfCFTA. For example, decentralisation increases volatility of cryptocurrencies which is not ideal for trade. Global adoption of cryptocurrencies as a means of exchange has stalled for this specific reason since erratic deviations in the value of cryptocurrencies can lead to confusion for buyers and sellers alike. Lack of regulation and anonymity of the system can increase risks of fraud and money laundering which are both serious risks in Africa.

Another significant hurdle to be cleared is the political challenge of convincing the State Parties to accept the whole idea. While the absence of regulation may be attractive to traders and business people, the concept may not be very welcome by the regulators and Governments whose business it is to regulate commerce and trade. We have seen varied responses to the prospects of cryptocurrency adoption in most African Countries ranging from cautious acceptance in a few to implicit or outright bans in about 23 countries including Nigeria. Successfully vaulting this hurdle will not be uhuru because there are still infrastructural and developmental challenges to contend with thereafter.

Cryptocurrency and blockchain technology are complex and rapidly evolving technology, and the knowledge and capacity to properly harness these tools for trade work are not abundant in Africa. Adoption of these technologies requires reliable electricity, internet and telecommunications penetration and sufficiently tech-savvy users which are not in surplus supply in Africa. More significantly, cryptocurrencies and blockchain are developed in different operating languages and run on diverse infrastructure which creates a problem of lack of interoperability and possible obsolescence due to technological advancements.

The regulatory challenge may be the knottiest to unravel as regulators and tax authorities in many African countries will struggle with financial implications of adopting cryptocurrencies. It is impossible to adopt cryptocurrency and blockchain technology in Africa without the concurrence and active participation of financial regulators and tax authorities in the State Parties.





ADOPTING CRYPTOCURRENCIES AND BLOCKCHAIN TECHNOLOGY UNDER THE AfCFTA

Based on the use cases and challenges examined above, it is evident that there are strong arguments in favour of introducing the functionality of cryptocurrencies in the financial architecture of the AfCFTA. However, concerted efforts are required to address the implementation challenges if the gains of adoption are to be realised.

Principally, State parties must be co-opted as the initiative can simply not work without the political will and buy-in of Governments and institutions. Central Banks and financial regulators in State Parties can play a critical role in developing an enabling framework as well as providing guidelines and regulations for trading in and the taxation of cryptocurrencies. Infrastructural development and investment in upscaling technology on the continent is also critical in making or marring adoption of cryptocurrency and blockchain technology. Statistics indicate that a significant percentage of trading in Africa is still informal and advanced technology like cryptocurrencies and blockchain simply do not work for trading at that level.

Capacity building will also be required for Governments, regulators, and traders. Grand scale engagement and negotiations among stakeholders can be utilised in incorporating these technologies in the framework for trading under the AfCFTA in such a way that it works in the unique intra-African trading environment. There are no examples of any other trade area where this has been done so perhaps, the AfCFTA will be a forerunner and lead the way for a change.

CONCLUSION

In conclusion, cryptocurrencies and blockchain technology can play a pivotal role in growing intra-African trade and enhancing the implementation of the AfCFTA. There are several areas of trade that will benefit from adoption of these technologies but implementation will come at a stiff price in more ways than one. The possible gains are significant and provide a good argument in favour of adoption but a great deal of regulatory, political, economic and technological intervention is essential before any progress can be made in this regard.



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