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WRITE-UP

GHANA LEADS THE CHARGE IN CBDC ADOPTION, NIGERIA IN THE WINGS

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The region of Africa is one with some of the greatest potential for implementing digital currencies. The reasons are two-pronged, including a high percentage of the population that is either unbanked or underbanked as well as the continent's bustling remittance industry. Governments have begun to take notice and have decided to do something about it.

African nations, including Ghana and Nigeria, are moving forward with central bank digital currencies, or CBDCs, which are digital versions of a country's fiat money that are issued by the state and can be used as legal tender. By way of comparison, bitcoin, the first and largest cryptocurrency, has its own issuance model and is not backed by any asset or government.

While China got the ball rolling with its digital yuan, Africa has not wasted any time in jumping on the bandwagon. Ghana is among the first African nations to be pursuing the use of CBDCs, while Nigeria is not too far behind.

The Digital Cedi

The Bank of Ghana, the country's central bank, is already in the planning stages for a CBDC, with wheels in motion for the digital cedi pilot program. During a press conference, Bank of

Ghana Governor Ernest Addison outlined a three-pronged process for the CBDC rollout, comprising:

- Design
- Piloting
- Implementation

Apparently, the design phase is complete, and now policymakers are eyeing implementation and piloting. During the pilot program, a select group of users will be able to transact with the digital cedi, also known as the e-cedi, via mobile transactions. The e-cedi would be backed by the Bank of Ghana, unlike the standalone bitcoin.

Clearly, the writing for the digital cedi was on the wall. In early 2021, Ghana's central bank partnered with a U.S. company called EMTECH, which is a fintech startup dedicated to central banks. The partnership was for the Modern Central Bank Sandbox Platform in which the central bank gained access to EMTECH's tech solutions for financial inclusion on the blockchain amid the global shift to digital currencies. The project is also designed to speed up the time to market for the Bank of Ghana's CBDC.

Nigeria's Digital Currency Push

Ghana isn't the only African nation with its sights set on a CBDC. Nigeria may not be in the implementation stage yet, but it is joining the CBDC fray. The Central Bank of Nigeria is aiming for the end of 2021 for the launch

of its digital currency, which will operate in conjunction with the naira.

Policymakers are currently putting their heads together on issues such as the structure of the digital currency, how it will be accessed, and privacy issues. Similar to Ghana, Nigeria will start with a pilot phase of the digital currency.

Both countries are actually following in the footsteps of China, which has set the tone for central banks around the world to adopt CBDCs. After an initial pilot phase, China's digital yuan is now making its way into 3,000 ATMs across Beijing for citizens to access as, convert to banknotes, or vice versa.

Mixed Messages

Some African governments are sending mixed messages on digital currencies, including Ghana. Africans have largely embraced bitcoin as they look to protect their earnings from inflation, the devaluation of fiat money, and to promote general wealth preservation.

Policymakers, meanwhile, are looking to gain control of the digital currency narrative as consumers increasingly flee fiat money and flock to bitcoin. Analysts maintain, albeit in the eurozone, that the emergence of CBDCs will not replace cryptocurrencies, even if that is what policymakers are hoping for. The Bank of Ghana's Addison reportedly warned about the volatility and unregulated nature of cryptocurrencies like bitcoin, taking a shot at

the rival currency by saying,

"I think there is a lot more emphasis on looking at digital money which is backed by the state, backed by the central banks. These private forms of money really are not able to perform the functions of money effectively."

Ghana's securities regulator issued a warning earlier this year to investors, urging them to refrain from cryptocurrency transactions while also emphasizing that digital assets are unregulated and therefore illegal throughout the country. Ghana's Securities and Exchange Commission appears, however, to be open to creating a regulatory framework for bitcoin by which the leading cryptocurrency might be accepted as a method of payment.

Ghana isn't alone in its tug of war with digital assets. Nigeria's government has similarly thrown a wrench into bitcoin's growing integration into the economy. The Nigerian population interpreted their Central Bank's cracking down on cryptocurrencies to mean that crypto trading was not allowed. Policymakers later backpedaled on their orders, however, clarifying that the restriction targets financial institutions and prevents banks from transacting in bitcoin and other cryptocurrencies.

Despite the reluctance of lawmakers, bitcoin's popularity is growing in Africa, where more than half, or 57% of the population is either unbanked or underbanked, without access to

traditional financial services. It is no wonder that bitcoin is catching on in the region. Countries in Sub-Saharan Africa trade roughly USD 16.5 million in bitcoin transactions each week. Of that, Ghana is responsible for about USD 2 million, surpassed by Kenya and Nigeria at USD 3 million and USD 8.5 million, respectively, according to Tanzania Updates.



innovation, according to a report on QZ.com. He points to the size of Africa’s remittance market, suggesting that it is poised for capital injections into fintech. That is not to say that the integration of CBDCs wouldn’t present challenges in Africa, especially considering that there are more than 50 countries comprising the continent.

According to Dr. Georg, there should be an element of interoperability among the countries and their respective CBDCs across a public infrastructure that is open and transparent, not stifling cross-border commerce for it to succeed. He identifies another hurdle as “universal access to digital payments,” pointing to people without access to mobile devices, for example. These are issues that must still be solved for CBDCs to take flight.

CBDC Challenges

Africa has great potential for the integration of CBDCs. One expert on the subject, University of Cape Town Associate Professor Dr. Co-Pierre Georg, believes that the continent should be out front for fintech