

## ➤ Cryptocurrencies and a More Equitable Future for the Global South

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With the increase in global inflation, there is an agreement that the global financial system needs reform. The 2008 financial crisis revealed a myriad of flaws in the current system, including a lack of transparency; excessive power given to banks and other financial institutions; and banks' inability to provide adequate services for millions of people. Now, inflation is showing that various countries will not be able to handle the resulting economic duress, as with the case of Sri Lanka<sup>1</sup>. The debt mountain continues to climb, and it is significantly affecting the Global South. Increases in food and fuel prices are making it harder for the poor to survive. Just as in 2008, we see that country leaders have not learned from the mistakes of the past.

Instead of working towards an inclusive, sustainable, and resilient global financial architecture that will benefit all countries and individuals, we are realizing there is a greater divide. Only a small percentage of individuals and countries are benefiting from the current structure.

The introduction of Bitcoin by Satoshi Nakamoto in 2008 marked the beginning of a new era in global finance. Nakamoto offered Bitcoin as an alternative cash payment system to combat what the world was experiencing that year. Bitcoin and other cryptocurrencies represent a new form of money, which has the potential to transform the global financial system. Given what is happening in the world now, the promise of Bitcoin and other cryptocurrencies still offers a credible alternative.

The use of cryptocurrencies is a relatively recent phenomenon. These are digital

currencies used to pay for goods and services or to purchase other currencies. Other applications for crypto currencies include storing and sending tokens; buying and selling tokens; selling tokens for equity; and paying for ads with tokens.

The decentralized nature of Bitcoin and other cryptocurrencies relies on a secure blockchain platform that records all transactions immutably. Blockchain, a technology based on cryptography, regulates the generation of units of currency and verifies transactions independently of any central entity. Although it is often compared to the internet, this analogy does not do justice to how revolutionary blockchain technology can be. For example, one feature of blockchain that makes it distinct from the internet is "distributed trust." This means that there is no single point of failure for a transaction. Instead, everyone on the network has access to the same information and can verify the authenticity of the transaction without needing to trust each other or any authority figure.

Due to blockchain, crypto currencies can be used as a medium of exchange or a store of value. They are not issued by any government or central bank, but exist on an open-source protocol. taken the world by storm and is attracting investors from all over the globe. Some optimistic participants are claiming it will revolutionize the world. For many, cryptocurrencies are presenting an opportunity to improve financial access and inclusion.

It was unimaginable that Bitcoin would

quickly move beyond the circle of those who sought it for private reasons. But in less than a decade, Bitcoin, along with other cryptocurrencies, has

### A solution for many at the lower end of the wealth spectrum

There are currently approximately over one billion people around the world without access to banking, otherwise known as the “unbanked.” This makes it difficult for the unbanked to save money, send money back home, or receive remittances. A large percentage of the unbanked live in the Global South; however, some are in developed countries as well. A 2019 Federal Deposit Insurance Corporation survey<sup>2</sup> highlights that 5.4 percent of Americans (seven million) are unbanked.

Plenty of reasons reveal why these individuals are missing out on building financial wealth. Of the seven million Americans who are unbanked, 16.1 percent referenced their lack of trust in financial institutions. Others point to lack of access. For some, especially in the US, the barriers created by institutional racism over the years make it difficult for some to find resources in banking products or services.

Today, cryptocurrencies have gained traction in underrepresented communities. A 2021 Harris poll shows that in the US, Black, Latinx, and Asian communities are ahead of the rest of the nation in cryptocurrency adoption, with 23 percent of Black Americans leading the way and Hispanic Americans closely behind. Similarly, the vast majority of investors overall are based in the Global South, with only a small percentage coming from the Global North.<sup>3</sup>

For the Global South, cryptocurrencies

can help address economic inequality by providing greater financial access. They enable people to conduct transactions and exchange value with low or zero fees and without having to rely on intermediaries such as banks or other financial institutions.

One example of this is the Leaf Wallet<sup>4</sup>. Created from the UNICEF Innovation Fund, the Leaf Wallet has assisted the under-banked in Africa tap into financial services. Combining the potential of blockchain with smartphones, the Wallet allows the unbanked to securely take advantage of banking capabilities across borders without needing a bank account, which minimizes fees. Developments like the Leaf Wallet show the potential of cryptocurrencies’ ability to provide greater financial accessibility to the Global South.

### Creating a stable store of value in the Global South

Staggering economic decline has left those in the Global South to seek aid outside of their countries’ currencies and, with the rise in inflation, beyond the US dollar. In a turn that many did not expect, there has been a spike in adoption of Bitcoin as legal tender by some countries, including Salvador and the Central African Republic. However, it is not surprising. These nations’ leaders hope this move will boost economic development and reduce the strong reliance on other countries’ currencies. It may have been a smart move, given that inflation has placed a lot of countries under duress, such Sri Lanka; however, with the current crypto market fluctuation, the value of Bitcoin has dropped 56.87 percent this year to date.<sup>5</sup>

Since the rise in popularity of cryptocurrency, around 2017, the government has stood on the sidelines

observing; however, mass adoption by governments and corporations is already in motion. With the likes of Nigeria creating their first version of a Centralized Bank Digital Currency (CBDC) and the United States investigating whether to follow suit, along with a host of other countries, adoption is coming quicker than anticipated. However, this process will require governments and financial institutions to make significant infrastructure and regulatory changes.

The current lack of regulation around cryptocurrencies means that anyone can use them without needing to provide personal information or undergo any identification checks. This makes them ideal for people who want to keep their transactions private, but it also makes it difficult to enforce laws. However, a centralized version may not find mass support. One example is Nigeria's eNaira which recently announced \$10 million in transactions<sup>6</sup> and only eight million users after launching in October 2021—a small percentage of possible users, given that the country is home to over 200 million people.

But despite these challenges, there are still many reasons cryptocurrencies will continue to develop, and even thrive, over the next decade. In fact, within the last two decades, as the number of people with access to the internet has exploded, so has the number of people who can pay for goods and services with digital currencies.

### Cryptocurrencies symbolize choice

Even though cryptocurrencies are currently experiencing market volatility, they still have the power to create a fairer future. To most collectors, they symbolize decentralization, and market fluctuation

is just another cycle that will soon pass.

Many seek out cryptocurrencies simply for the promise of decentralizing themselves from the control of a central entity. As inflation continues to rise, more people will continue to realize they are subject to poor policies and practices by their country leaders. As with the Sri Lankans, some may take to the street to protest, while others will seek alternatives. Unlike the past, the people have a choice to make, and cryptocurrency came at the right time to step in as an alternative.

The adoption of cryptocurrencies still has some hurdles to clear before it becomes mainstream. However, there are signs that they are slowly gaining mass adoption. As inflation continues, more will seek out these currencies to gain control of their money and what they do with it. Ultimately, cryptocurrencies will become universal, and many will rely on them to build a better life, free from poor economic practices and financial turmoil.

## Endnotes

- 1 Chris Kenning and Christine Fernando, “Protests, a president’s exit and a crackdown: What’s next in Sri Lanka’s economic crisis?,” USA Today, July 31, 2022, <https://www.usatoday.com/story/news/world/2022/07/31/sri-lanka-debt-crisis-economic-collapse/10147198002/?gnt-cfr=1>
- 2 How America Banks: Household Use of Banking and Financial Services. <https://www.fdic.gov/analysis/household-survey/index.html>
- 3 The 2021 Global Crypto Adoption Index: Worldwide Adoption Jumps Over 880% With P2P Platforms Driving Cryptocurrency Usage in Emerging Markets <https://blog.chainalysis.com/reports/2021-global-crypto-adoption-index/>
- 4 Leaf Wallet: Digital financial services for refugees and under-resourced communities <https://www.unicefinnovationfund.org/broadcast/updates/leaf-wallet-digital-financial-services-refugees-and-under-resourced-communities>
- 5 Bitcoin <https://www.coindesk.com/price/bitcoin/>
- 6 Africa’s first central bank e-currency is yet to have recurring users <https://qz.com/africa-s-first-central-bank-e-currency-is-yet-to-have-r-1849440280>