Why African Countries Should Consider National Digital Currencies to Counter the Threats Posed by Private Digital Currencies like Facebook Libra

By:

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Facebook announced in June 2019 its plan to launch a digital currency, libra. Libra would be a stablecoin, which means that its value would be pegged to stable currencies and assets. Although since the announcement, their plans have been halted by opposition from international regulators, Facebook appears to be forging ahead with libra as recently confirmed by shopify's announcement that it is joining the Libra Association – the Administering body of the Libra digital currency. Facebook's determination to forge on with this project is due to the competition that is underway in the private digital currency space.

Libra, powered by blockchain technology, would work in such a way that users would be able to buy libra and keep a balance of the currency in Facebook's digital wallet, called Calibra. Users could either transfer currency to another user – in any part of the world – or purchase items or services from a participating online retailer. Users would not just be able to buy or sell libra through Calibra. They would also be able to do so through other third-party wallets or local resellers, in the same way as mobile phone owners already top up their data.

The primary objective for libra, according to Facebook, is to facilitate financial inclusion. It would enable millions of users without bank accounts in remote parts of the world to transact in ways that formal financial systems have denied them. This would be possible because users would be able send and receive libra on a peer-to-peer basis, without the need for a bank, the transactions would be cheaper and faster, too. This, of course, would be beneficial to sub-Saharan Africans where, as reported by the World Bank Global Findex 2017, 3 out of 5 do not have a bank account.

Of the numerous threats posed by libra, perhaps the most worrisome for African countries, is its implications on the conduct of monetary policy in African states, especially if this currency becomes widely used in Africa. Monetary policy is about how a central bank or monetary agency controls the supply of money and interest rates in an economy in order to influence output, employment and the prices – so it is vital for economic stability in any economy.

With Facebook's 204 million African subscribers as at 2019 there would be a real threat if these numbers transact in Libra, rather than in national currencies which are, often times in Africa, inconvertible. The likelihood of this is higher when Sub-saharan Africa is found to be the most expensive place to send money to, at fees that average 9.4%. Because Libra will come with no or minimal cost for fund remittance, it would likely become a preferred mode of remittances to Africa. Also, if monies are sent via libra, it is likely to be the currency receivers use to transact. Widespread use of this currency would mean that countries would not be able to use monetary policy as a tool to stimulate the economy. So yes, Libra is likely to facilitate financial inclusion but this is probably at the expense of economic instability in states where it is used.

This threat, among others, has raised concerns for central banks of large economies and is the reason why these economies, led by China, began to contemplate issuing their own Central Bank Digital Currencies (CBDC). Although other central banks (including the Bank of England and the Swedish Central Bank) are now exploring CBDCs, the People's Bank of China (PBOC) appears to have expedited theirs due to the announcement of Libra in 2019.

Issuing CBDCs is a sensible approach as it would help central banks gain control of the digital currency space as a payment mechanism. Central banks need to be able to offer a nationally recognised substitute to digital currencies such as Bitcoin, Ethereum or even Libra. This would be essential for them to provide effective oversight of digital currency operations, especially in the event that they need to place limitations or stop the operation of certain digital currencies in the face of foreign exchange and/or monetary policy risks.The development of CBDCs projects is particularly pertinent for African states with relatively weaker currencies and who stand to suffer the most from the introduction of private currencies like libra.

CBDCs would raise some questions

The introduction of CBDCs would, no doubt, raise some legal and regulatory questions. First of all, due to the monetary policy implications of private currencies such as Libra, African countries need to think ahead whether they would want to ban the use of Libra for domestic transactions. Secondly, should African countries introduce their own CBDCs, governments would need to be able to know and manage the identities of parties transacting with these currencies in order to be able to fulfil 'Anti-money laundering and combating the financing terrorism' (AML/CFT) requirements. Of course, if these currencies become acceptable globally, they would be required to adhere to, the Financial Action Task Force's (FATF) - the global watch dog against money laundering and terrorism financing - recommendations on travel rules. This rule now requires that platforms facilitating transactions exceeding $1000 (and likely its equivalent in other digital currencies) would need to fulfil Know Your Customer (KYC) international standards requirements. This would mean that central banks (like other wallet providers) keeping national central bank digital currencies would need to know the identities of parties sending and receiving payments.

This would inevitably require that all parties transacting with national CBDC have a digital identity to be able to track suspicious transactions in fulfilment of AML/CTF and KYC requirements. For nations issuing CBDC, this is likely to require physical verification of identity such as using a passport or a national ID card which, of course, would need to be digitised. As access to passports and national IDs would be required, and as these are quite expensive to acquire in some African countries, this process is likely to exclude the poor - those most in need of financial inclusion. Achieving digital identity in the operation of Facebook Libra in Africa, by the way, would be another reason why Facebook Libra may not be as inclusive as the project sets out.

Of course, there would be other issues arising from the issuance of CBDCs which economists would need to work out but suffice to mention as Christine Largarde, the President of the European Central Bank, alluded to, that the creation of CBDCs worldwide would only be a question of time. She stated,

> "My personal conviction is that, given the development that we are seeing, not so much in the bitcoin segment but in the stable coins projects - and we only know of one at the moment [Facebook Libra] but there are others being explored and underway at the moment - we'd better be ahead of the curve if that happens because there is clearly a demand out there that we have to respond to."

African countries, as such, should be forearmed as they have been forewarned.

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