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Banking & Finance: Developing Countries Embrace Bitcoin

By Matina Stevis-Gridneff in Nairobi, Kenya, and Georgi Kantchev in London

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In Sudan, a young woman wants her dowry paid in bitcoin. In Kenya, students are using it to bet on English soccer games, and use of the cryptocurrency in South Africa has surged amid political turmoil.

Around the world, investors are piling into bitcoin, sparking talk of a gigantic bubble after the virtual currency notched a 1,375% gain last year.

That includes people in developing and frontier markets, where it is often viewed as a haven from political and economic turmoil. Bitcoin has also been a means of navigating financial obstacles, like the lack of conventional banking services or limited access to foreign currencies, and even to skirt sanctions.

"The main attraction in bitcoin is the ability to transfer money without any restrictions or going through a bank, this was very important as there were U.S. sanctions imposed on Sudan," said Mohammed Mahgoub, a web developer who was one of the earliest bitcoin enthusiasts in Sudan.

In the developed world, central banks and senior bankers have warned investors away from such currencies, which they say they don't trust. In frontier markets, some people are turning to bitcoin precisely because they don't trust the country's bankers or the state.

"Buying cryptocurrencies is seen as a protection by people who have been constantly disappointed by central banks and politics," said Arnaud Masset, a Geneva-based analyst at brokerage Swissquote, which offers bitcoin trading to retail clients. "When conventional money fails, bitcoin wins."

In one sign of rising demand, bitcoin often trades in frontier markets, which are the smaller and least developed of emerging countries, at a significant premium to elsewhere.

On Golix, a Harare, Zimbabwe-based exchange, a bitcoin goes for \$22,000, a premium of more than \$7,000 to the price quoted on CoinDesk.

Bitcoin, a digital form of money with no government or central bank behind it, is often seen as a replacement currency in countries rocked by political or economic instability. People can use bitcoin, and similar digital currencies, as a store of value or as a way to circumvent government money-changing limits.

Mati Greenspan, an analyst at online trading platform eToro, has seen a surge in new users trading bitcoin in countries where there was political turmoil last year, such as South Africa and Brazil.

In South Africa, the number of new users trading bitcoin through eToro rose 671% from January to the end of November last year, compared with the period in 2016, Israel-based Mr. Greenspan said. The surge in interest began in March, when the country's finance minister, Pravin Gordhan, was fired, increasing in November when S&P Global Ratings downgraded South Africa's rand-denominated debt to "junk."

Bitcoin has long been connected with money laundering and terrorist financing. It is also emerging as a way to circumnavigate international sanctions, because it reduces reliance on the U.S. dollar and removes intermediaries like banks, which have an obligation to report transactions.

"It's a convenient and fast way to skirt sanctions," Swissquote's Mr. Masset said.

Three decades of sanctions had starved Sudan of hard currencies, including U.S. dollars, making it hard for people and businesses to buy international goods and move money out of the country.

While the U.S. lifted some sanctions in October, the country remains listed as a state sponsor of terrorism, keeping it on blacklists of virtually all Western banks.

Enter bitcoin. The Facebook group "bitcoin Meetup Sudan" was founded in 2013 as a forum to exchange information about the cryptocurrency and has increased to about 1,800 members

Mr. Mahgoub, the Sudanese web developer, said that one of the group's members was a manager of a nonprofit organization that wanted to use bitcoin as a way to collect donations from the Sudanese diaspora.

On a recent post, Islam Mirghani Aslam said she wished she could receive her traditional bridal gifts in bitcoin instead of the local currency.

The increased adoption of smartphones in the developing world is another factor that has paved the way for the bitcoin boom.

Sub-Saharan Africa, which accounts for roughly a 10th of the global mobile subscriber base, is expected to increase 50% faster than the global average in the next five years, according to research firm GSMA Intelligence.

In Kenya, one of Africa's most advanced economies, with high connectivity, the number of bitcoin users rose 1,400% on eToro in the year to November 2017, albeit from a low starting base, according to the site.

Kenyans use bitcoin to bet on anything from horse races to English soccer matches, according to Bovado and other betting sites. But many young Kenyans are also using bitcoin to enjoy services others in the country can't access.

Several months ago, Kelvin Ngunyi, a 22-year-old web developer, exchanged 20,000 Kenyan shillings (about \$200) for bitcoin to pay for a subscription for a virtual private network, or VPN, that allows him to stream music through Spotify AB.

Still, bitcoin has some way to go before becoming a currency of choice in frontier markets.

In Sudan, Mr. Mahgoub is still trying to figure out how to get richer through it.

"I just have a couple of satoshis," he says, referring to the currency's smallest denomination, one-hundred-millionth of a bitcoin, named after its pseudonymous creator, Satoshi Nakamoto.

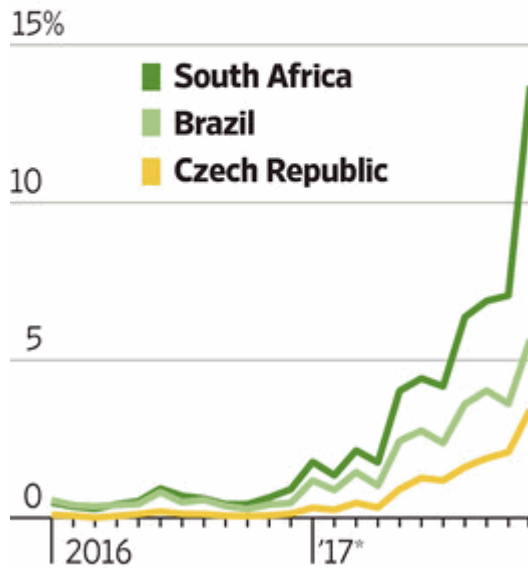
The recent drop in bitcoin value has also hurt. The price quoted on CoinDesk fell by more than a fifth from a high of \$19,343 in mid-December to about \$14,900 late Thursday.

Gabriele Steinhauser in Harare, Zimbabwe, contributed to this article.

Emerging Currency

Bitcoin trading has surged in several countries amid political and economic instability.

Users trading bitcoin on the eToro platform, monthly change



*As of Nov. 1

Source: eToro

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