The Political Economy of the "Bitcoin" Experiment in the Central Africa Republic

By:

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Following the victory of the British army at El Alamein, North Africa, in the Second World War, Winston Churchill said this on November 10, 1942: "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

Recent developments in the cryptocurrency space have brought the 1942 Churchill words to the fore. Is this the beginning of the end of traditional currency? Or the end of the beginning of digital currency? In April 2021, the Central African Republic (CAR) signed a law adopting bitcoin as an official local currency, alongside the CFA franc. This was part of the country's broad-based plans to solve exchange rate challenges and integrate cryptocurrencies into its financial system. The signing made the CAR the first African country and the second in the world after El Salvador (which took a similar step on September 7, 2021) to adopt bitcoin as a legal tender. However, CAR's bitcoin experiment was a controversial move and sparked a backlash from regional and international financial organizations like the Bank of Central African States (BEAC) and the International Monetary Fund (IMF). However, the CAR's Presidency believes that the move will "open up new opportunities" for the country. In this paper, I examine some of the political and economic implications of the "Bitcoin" experiment in CAR by answering two questions: is the adoption economically viable? Or is it an attempt to undermine the French-backed CFA franc and close ties with Russia?

The Economic and Political landscape of CAR

As the name suggests, CAR is located in the center of Africa and is bordered by Chad, Sudan, South Sudan, the Democratic Republic of Congo (Kinshasa), the Republic of the Congo (Brazzaville), and Cameroon. The country has a population of 5.4 million with an impressive agricultural potential and mineral resources such as diamonds, gold and uranium. Unfortunately, the commonwealth of the country has not translated to economic prosperity. According to the World Bank, "[CAR] is one of the poorest and most fragile countries in the world despite its abundant natural resources." The United Nations (UN) listed it as one of the least developed countries (LDCs) globally, battling severe poverty and structural impediments to growth. According to the UN Human Development Index (HDI), CAR is ranked 188 out of 189 countries because of the poor standard of living in the County. CAR's growth has been stunted by unending violence and bloody civil wars due to a lack of social cohesion, religious intolerance, regional disparities, the imbalanced concentration of political power, and mismanagement of resources. France and Russia have vested interests in the stability of the CAR. Both have militarily intervened in the conflict to stabilize the country while competing with each other for political and economic influence in the African country.

Is the adoption economically viable?

African countries need cryptocurrencies to protect their earnings from devaluation and inflation, promote financial inclusion, create employment opportunities for blockchain developers, lawyers, graphic designers, speculative traders, and marketing professionals, and improve cross-border payments and transactions. The African continent has had the fastest adoption rate of cryptocurrency recently, driven mainly by peer-to-peer (P2P) transactions. Ironically, the African governments are not comfortable with the monetary system, and countries like Nigeria, Morocco, Tunisia, Algeria, Libya, Egypt, Zambia, Zimbabwe, Namibia and Tanzania have even outlawed its use.

Having bitcoin as a legal tender in CAR sounds promising, but in practical terms, it may not be economically viable: "the economic benefits of the project exceed its economic costs." First, crypto assets have been on a downward spiral in recent months, with bitcoin losing more than half of its worth since November 10, 2021. This is not the first time that bitcoin is crashing, there have been five since 2017, and some lasted as long as 14 weeks. The market value of all cryptocurrencies now stands at $1.3 trillion, which is less than half of its peak of $3 trillion in November 2021. The volatility of crypto-assets makes them financially risky to be adopted as legal tenders. As Ganesh Viswanath-Nastraji, professor at Warwick Business School, noted, "Excessive volatility in bitcoin translates into fluctuations in economies, consumption and household wealth."

Second, the currency is not likely to promote financial inclusion. Bitcoin relies on reliable, fast and widespread internet services to operate. The internet penetration in CAR was 14% in 2020, which translates to about 655, 500 people, and only 14% of the population has access to electricity, mainly in the capital Bangui, with less than half having mobile phone connections. Electricity is almost absent in rural areas. On the other hand, the elites could leverage the system to perpetuate illegal monetary transfers, which may also affect other countries using the CFA franc. Central African CFA Franc is a common currency used by six countries: Central African Republic, Cameroon, Republic of Congo, Gabon, Cameroon, and Equatorial Guinea. Any holder of CFA francs could easily convert to cryptocurrency and take it out of the regional bloc without regulation from the BEAC.

Furthermore, CAR is a member of the Central African Economic and Monetary Community (CEMAC), and the arrangement provides that the CFA franc should be the only legal tender in the region. Some members of the CEMAC have threatened to expel the CAR from the bloc if it does not revise its move. Earlier, BEAC issued a statement declaring CAR's adoption of the bitcoin "null and void" because it violates the tenets of the community. If CEMAC follows through with their threat, that may come with high economic costs for CAR. Overall, it seems that the economic costs of the bitcoin experiment exceed its economic benefits. Thus, the CAR needs to reconsider whether to continue with the digital currency policy.

Is it an attempt to undermine the French-backed CFA franc and close ties with Russia?

Beyond economics, there is a political undertone to adopting bitcoin by CAR. The French government has been a dominant external player in CAR since colonial times. The national currency of CAR is the CFA Franc and has its national reserves in the Central Bank of France. The CFA franc is also a regional currency used by six states, governed by the BEAC and pegged to the euro. A large percentage of CAR's foreign currency (at least 50%) is in the French Treasury. Also, there are many French companies in CAR exploiting its natural resources. After independence, until 2013, no CAR leader was able to win the presidency without the full support of France. This changed when Michel Djotodia, the head of a rebel group, became the president of CAR. The takeover saw a rise in conflicts leading to an UN-sanctioned peacekeeping force called Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA) and a French military Operation Sangaris. Unfortunately, the military operations did not stop mass killing.

In 2016, after the election of Faustin-Archange Touadéra, France seized the opportunity to withdraw most of its troops. Russia took advantage of France's withdrawal and started providing the CAR military with weapons, ammunition, and personnel and intervening in the domestic affairs of the country. In 2018 Russia and Sudan met with several CAR rebel groups. They signed a preliminary peace agreement, which according to France, undermined United Nations-led talks between the government and armed groups. Since assuming office in 2016, CAR President Touadéra has been aligning with Russia, which has helped shield him from rebels and any attempted coup. France is not comfortable with Russia's expanding influence in CAR and the two countries have been competing for influence in the African country. The recent adoption of bitcoin appears to have some political undertone and may be linked to the increasing influence of Moscow in the country. The move undermines the CFA Franc, backed by France, and in theory at least, loosens ties to France, the former colonial power. On the other end, it has made the CAR’s financial system more accessible to Russia, which has been battling to work around the recent monetary and economic sanctions placed on it by western countries.

Conclusion

Trends concerning the future of money continue to evolve. From different standpoints and perspectives, countries, scholars, and organizations have held diverse theoretical views about “what” money should be and “how” we should structure our financial system. The CAR’s adoption of bitcoin is an exciting new frontier as it gives practical insights into having cryptocurrencies as legal tenders. The early indications suggest that CAR’s experiment is motivated by political rather than economic considerations. Nonetheless, it might attract foreign investments from Russia as a reward for the apparent strategic alliance. In a war-torn country like CAR, where most of its territory is controlled by rebel groups, the bitcoin may provide some respite for safe and private financial transactions. But this advantage will only benefit members of the elite class, who can access digital devices and the internet. As I noted earlier in this paper, the currency is not likely to improve financial inclusion as the larger population does not have access to the needed infrastructures to utilize them.

Furthermore, it may create opportunities for money laundering as the government may not be able to monitor inflows and outflows. Notably, if members of CEMAC follow through with their threat to expel CAR from the regional bloc, it may make CAR financially unstable and worsen their economy. Also, the volatility of bitcoin renders it an unsafe legal tender for any economy. The current deep in bitcoin market value is good example. Moreover, it is unlikely that the adoption will make CAR more appealing for investments. Investors are more concerned with political stability, stable power supply, the rule of law, security, digital infrastructure, and local expertise or labour, which CAR lacks. Accordingly, as the government of CAR considers the next steps, it needs to weigh both the economic costs and benefits of its bitcoin experiment and how that will promote economic and political stability. The analysis conducted in this paper can provide a helpful guide in that regard.

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