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2024

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MPRA Paper No. 127375, posted 08 Feb 2026 07:52 UTC

Cryptocurrency regulation in Africa: advantages, motivation, regulatory models, challenges, consequences, and principles vs. rules-based regulation

Peterson K. Ozili

Abstract

This study examines cryptocurrency regulation in African countries. It identifies the advantages of cryptocurrency regulation, the regulators of cryptocurrency in African countries, and it identifies the existing cryptocurrency regulatory models in Africa. It also identifies the motivation for regulating cryptocurrency in Africa as well as the challenges and consequences of regulating cryptocurrency in Africa. The study also offers a perspective on rules-based versus principles-based cryptocurrency regulation in African countries. The study shows that majority of African countries adopt a “do-not-regulate” cryptocurrency regulatory model which indicates that cryptocurrency remains largely unregulated in many African countries. Few African countries adopt the full-scale cryptocurrency regulatory model, the total ban cryptocurrency regulatory model, the soft ban cryptocurrency regulatory model, and the use-at-own-risk cryptocurrency regulatory model.

Keywords: cryptocurrency, regulation, Africa, crypto assets, blockchain, distributed ledger.

JEL code: G32; E51; F30

December 2024

Ozili, P. K. (2024). Cryptocurrency regulation in Africa: advantages, motivation, regulatory models, challenges, consequences, and principles vs. rules-based regulation. *International Journal of Blockchains and Cryptocurrencies*, 5(4), 294-313.

1. Introduction

This study examines cryptocurrency regulation in African countries. Cryptocurrency is a digital currency in which transactions are verified, and records are maintained by a decentralized system using cryptography, rather than by a centralized authority (Peters et al, 2022). Cryptocurrency has been synonymous with lack of regulation in most African countries in the last five years, but this trend is changing. African policymakers and regulators who used to view cryptocurrency as an unreliable, inconsequential, and volatile asset that is promoted by technology enthusiasts are changing their opinions about the value and usefulness of cryptocurrency in African countries. Recent events in some African countries, such as the crypto-linked exchange rate manipulation in Nigeria in 2024 and related events in other African countries, emphasize the need for regulators to provide rules and regulations that protect national economic security, protect Africans who invest in crypto assets, and prevent the crypto industry from aiding money laundering, terrorism and proliferation financing in African countries.

The need to regulate cryptocurrency in African countries also emanates from the widely acclaimed advantages of cryptocurrency regulation. These include the belief that (i) regulating cryptocurrency can create a level playing field for all cryptocurrency businesses and users, (ii) it can improve the quality of cryptocurrency services, (iii) it can encourage healthy competition in cryptocurrency markets, (iv) it can prevent the exploitation of customers by crypto monopolies, (v) it can prevent market failure in cryptocurrency markets, (vi) it can help to bring a sense of order in the cryptocurrency space, and (vii) it encourages firms to be more efficient by regulating the price that crypto firms charge to customers (Yadav et al, 2022; Schaupp and Festa, 2018).

Despite these potential advantages of regulating cryptocurrency, there is presently no regional cryptocurrency regulation in the African continent. The African Union has not issued a regional cryptocurrency regulation that could form the basis for crypto regulation in African countries. Policymakers in few African countries have considered the possibility of regulating cryptocurrency (McPherson-Smith, 2024; Laubscher and Khan, 2020) while policymakers in other African countries are still undecided, hesitant or indifferent about regulating cryptocurrency especially if policymakers: (i) do not see any merit in regulating cryptocurrency, or (ii) they lack expertise in regulating crypto assets, or (iii) they cannot understand how cryptocurrency works. For such countries, it would seem appropriate to ban cryptocurrency temporarily until policymakers can find a legitimate reason to allow people to use cryptocurrency, develop crypto regulatory expertise, and regulate it.

This study provides information to policymakers about the motivation, the regulatory models, challenges, and consequences of cryptocurrency regulation in African countries. The insight gained from this study will assist policymakers in reaching a decision on whether to regulate cryptocurrency in African countries. This study contributes to the literature that examines the nature of cryptocurrency regulation across countries. This study contributes to this literature

by focusing on the African region and presenting a discussion of cryptocurrency regulation in Africa. This study also contributes to the broad cryptocurrency literature that examines the developments in cryptocurrency by examining the developments in cryptocurrency regulation in the African continent. The insights offered in this study will guide policymakers, researchers, scholars, economists, and cryptocurrency enthusiasts in assessing the pros and cons of regulating cryptocurrency in African countries.

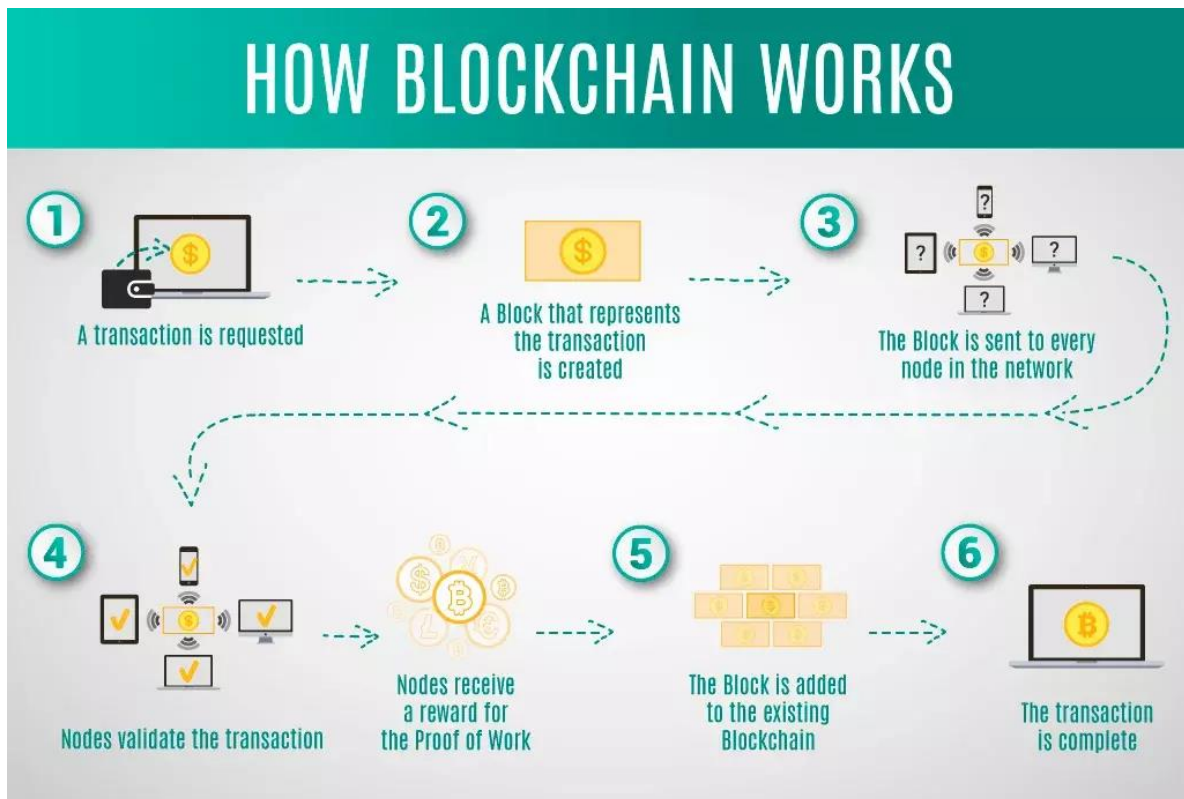
Section 2 presents the literature review on cryptocurrency regulation. Section 3 presents the methodology. Section 4 discusses the results which include a discussion of the major regulators of cryptocurrency in African countries and the cryptocurrency regulatory models adopted in African countries. Section 5 presents the motivation, challenges, and consequences of regulating cryptocurrency in Africa. Section 6 presents some guidance on rules-based versus principles-based cryptocurrency regulation. Section 7 presents the conclusion of the study.

2. Conceptual background and related literature

2.1. The concept of cryptocurrency and blockchain technology

Cryptocurrency is a digital currency in which transactions are verified, and records are maintained by a decentralized system using cryptography and controlled by private entities (Komalavalli et al, 2020; Ozili, 2023). Cryptocurrency is important because it can serve as a medium of exchange, a store of value, and a unit of account even though it has very little value itself. The distinguishing feature of cryptocurrency from other forms of money is cryptography and blockchain (Komalavalli et al, 2020). Cryptocurrency units are created through a process called mining. Cryptocurrency mining is the use of computer electric power to generate digital coins (Pilkington, 2016). The generated cryptocurrency coins are encrypted, and users can either store them in a cryptographic wallet or they can transfer them to another party. Cryptocurrencies are transferred from one party to another party through a distributed public ledger called blockchain (Komalavalli et al, 2020). The blockchain is a technology that keeps a digital record of all transactions (Pilkington, 2016). The blockchain is a series of programs that allow the user to record information, access the recorded information, and saved the information securely as shown in figure 1 (Komalavalli et al, 2020). Blockchain does not have a central database; rather, it runs on the computers provided by volunteers around the world (Pilkington, 2016). Blockchain is public which means anybody can see it at any time because it exists on the network, and not with any single corporation or person. Blockchain is also encrypted, and it uses public and private keys to maintain its security (Pilkington, 2016; Ozili, 2022).

Figure 1. How blockchain works



Source: <https://mlsdev.com/>

2.2. Related literature

Many central banks do not have a single position on the status of cryptocurrencies. Yaneva (2020) showed that central banks in many countries have different opinions about what the legal status of cryptocurrencies should be. Adam (2021) showed that cryptocurrency adoption is growing at a rapid rate, and some regulators have banned the use of cryptocurrency while other regulators have decided to embrace the use of cryptocurrencies in their countries. Gobena (2021) examined the regulation of cryptocurrencies in Ethiopia's national payment system and anti-money laundering laws. The author showed that Ethiopia has anti-money laundering legislations, but the legislations have deficiencies in regulating cryptocurrencies. Ncube and Kabwe (2023) examined the state of cryptocurrency regulation in South Africa and argued that South African regulators are focused on combatting money laundering activities related to cryptocurrency but there is no comprehensive regulatory framework for cryptocurrencies in South Africa which leaves the banking system open to potential abuse. Chudinovskikh and Sevryugin (2019) examined the legislative approaches toward cryptocurrency regulation in the BRICS countries and the Eurasian Economic Union countries. They found that the main approaches used to regulate cryptocurrency in BRICS and Eurasian Economic Union countries are the conservative regulatory approach, the liberal regulatory approach, and the neutral regulatory approach.

Weaver (2022) examined cryptocurrency regulation in 220 countries, focusing on cryptocurrency regulation and adoption. The author noted that regional differences exist in cryptocurrency adoption and regulation, and that the dynamics of cryptocurrency adoption and regulation in each country depends largely on the degree of economic freedom, foreign investment and other factors. McPherson-Smith (2024) examined the politics of cryptocurrency regulation in Africa and observed that cryptocurrency is perceived to be a potential national security threat and many African countries, such as Nigeria, have banned local trade of crypto assets while few African countries, such as the Central African Republic, have made cryptocurrency a legal tender. They argued that the reason why one African country accepts cryptocurrency, and other African countries have banned cryptocurrencies is mainly due to politics in relation to how the political elites view cryptocurrencies. Alekseenko et al (2021) argued that although cryptocurrency is becoming popular around the world, there is no legal regulation of cryptocurrency in Russia and Nigeria because cryptocurrency is inappropriate for use as money due to its non-regulated and risky nature. Laubscher and Khan (2020) focused on the challenges and opportunities of blockchain regulation in Africa. They argued that the regulation of blockchain can bring clarity, a sense of order and legal certainty to blockchain-enabled products in African countries. They acknowledged that the regulation of blockchain is complex and that regulators will need to find a way to maintain the balance between effective blockchain regulation and promoting growth of blockchain innovations.

3. Methodology

The data used for the analysis were obtained from reputable websites that collect data on the regulatory and legal status of cryptocurrency across countries. The reputable websites include Mondaq, Freeman Law, Global Ledger insights, Bloomberg, Reuters and local media cryptocurrency announcements. Data were also collected from the website of central banks and the website of a country's securities and exchange commission (SEC). The collected data were analysed from 2019 to 2024. The data are summarised and reported in table 1. The collected data were used to decipher the type of cryptocurrency regulatory model that exist in African countries and the regulatory models are explained in section 3.1.

Table 1. Cryptocurrency regulatory models			
S/N	Country	Cryptocurrency regulatory model	Year
1	Nigeria	Full-scale regulation	2023
2	Ethiopia	Total ban	2022
3	Egypt	Total ban	2019
4	DR Congo	Use-at-own-risk	2023
5	Tanzania	Do-not-regulate	2024
6	South Africa	Full-scale regulation	2024
7	Kenya	Full-scale regulation	2024

8	Uganda	Soft ban	2023
9	Sudan	Total ban	2022
10	Algeria	Total ban	2018
11	Morocco	Total ban	2017
12	Angola	Total ban	2018
13	Ghana	Total ban	2018
14	Mozambique	Do-not-regulate	2023
15	Madagascar	Do-not-regulate	2023
16	Ivory Coast	Do-not-regulate	2024
17	Cameroon	Do-not-regulate	2024
18	Niger	Do-not-regulate	2022
19	Mali	Do-not-regulate	2023
20	Burkina Faso	Do-not-regulate	2022
21	Malawi	Use-at-own-risk	2024
22	Zambia	Full-scale regulation	2023
23	Chad	Do-not-regulate	2022
24	Somalia	Do-not-regulate	2022
25	Senegal	Use-at-own-risk	2023
26	Zimbabwe	Use-at-own-risk	2023
27	Guinea	Use-at-own-risk	2021
28	Rwanda	Total ban	2023
29	Benin	Use-at-own-risk	2023
30	Burundi	Total ban	2019
31	Tunisia	Total ban	2018
32	South Sudan	Do-not-regulate	2023
33	Togo	Do-not-regulate	2023
34	Sierra Leone	Total ban	2019
35	Libya	Total ban	2018
36	Republic of the Congo	Do-not-regulate	2022
37	Central African Republic	Total ban	2022
38	Liberia	Do-not-regulate	2023
39	Mauritania	Use-at-own-risk	2023
40	Eritrea	Do-not-regulate	2023
41	Gambia	Full-scale regulation	2024
42	Botswana	Full-scale regulation	2022
43	Namibia	Full-scale regulation	2023
44	Gabon	Do-not-regulate	2022
45	Lesotho	Total ban	2018
46	Guinea-Bissau	Do-not-regulate	2023
47	Equatorial Guinea	Do-not-regulate	2023
48	Mauritius	Full-scale regulation	2022
49	Eswatini	Do-not-regulate	2024
50	Djibouti	Do-not-regulate	2024
51	Comoros	Use-at-own-risk	2024
52	Cabo Verde	Full-scale regulation	2024
53	Western Sahara	Do-not-regulate	2024

54	São Tomé and Príncipe	Do-not-regulate	2024
55	Seychelles	Full-scale regulation	2024
Sources:			
(i) News sources: Bloomberg, Reuters, local media, etc.			
(ii) Central bank websites			
(iii) https://freemanlaw.com/cryptocurrency/			
(iv) Other sources ¹			

4. Discussion of results

4.1. The Cryptocurrency Regulatory Models in Africa

The data sources showed information about the status of cryptocurrency regulation in African countries (see table 1). The regulatory models are described below (see table 2 and figure 2).

4.1.1. Full scale cryptocurrency regulation

Full scale cryptocurrency regulation allows cryptocurrency to be used legally in a country but in a regulated manner. The aim of full-scale cryptocurrency regulation is to protect consumers and preserve the stability of the financial system. This regulatory model is suitable in African countries where (i) large companies are involved in cryptocurrency activities, (ii) a large amount of cryptocurrency transactions are facilitated through the banking sector, (iii) regulators are concerned about financial stability risks and crypto-linked financial crimes, and in (iv) African countries where there is a powerful SEC and a powerful Central Bank. Full scale cryptocurrency regulation has been adopted in some African countries (see table 1).

4.1.2. The “Do-Not-Regulate” cryptocurrency regulatory model.

The do-not-regulate cryptocurrency regulatory model exist where there is no government regulation and no government pronouncement about the legal status of cryptocurrency in the African country. The do-not-regulate cryptocurrency regulatory model allows cryptocurrency to be used in the banking system and to be used as an investment asset without any form of regulatory guidance. The aim of the do-not-regulate cryptocurrency regulatory model is to encourage private payment innovations, promote a free market, and attract foreign direct investment through cryptocurrency investment. This regulatory model is suitable in African countries where (i) a small percentage of the population is using cryptocurrency, (ii) the cryptocurrency market is small, (iii) there is a weak digital payment infrastructure, and in (iv) African countries where there is a weak SEC and a weak Central Bank. The “do-not-regulate” cryptocurrency regulatory model has been adopted in some African countries (see table 1).

¹ <https://newscentral.africa/african-countries-that-banned-cryptocurrency/>

4.1.3. Total ban cryptocurrency regulatory model

The total ban cryptocurrency regulatory model aims to prevent cryptocurrency from being used in any form in the African country. It prevents cryptocurrency from being used as a peer-to-peer legal tender currency. It also prevents cryptocurrency from being used as a means of payment in the banking system. It also prevents cryptocurrency from being used as an investment asset. The aim of the total ban cryptocurrency regulatory model is to discourage the use of cryptocurrency. This regulatory model is suitable in African countries where (i) there are strict religious values, (ii) Islamic banking principles are strongly practiced, and (iii) regulators are concerned about financial stability risks and crypto-linked illicit financing and money laundering risks. The total ban cryptocurrency regulatory model has been adopted in some African countries (see table 1).

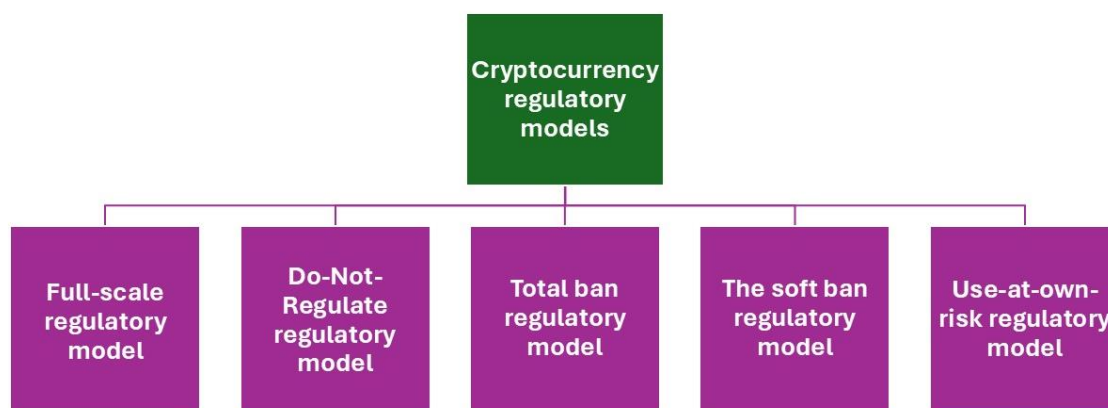
4.1.4. The soft ban cryptocurrency regulatory model

The soft ban cryptocurrency regulatory model aims to prevent cryptocurrency from being used as a peer-to-peer legal tender currency or as a means of payment in the banking system, but it allows cryptocurrency to be used as an investment asset but not as a currency. The aim of the soft-ban cryptocurrency regulatory model is to encourage cryptocurrency investment while preserving the legal tender currency of the country and safeguarding the stability of the banking system. The soft-ban cryptocurrency regulatory model was adopted in Nigeria between October 2023 to November 2024. This regulatory model is generally suitable in African countries where (i) a large population are using cryptocurrency products and services, (ii) a large amount of cryptocurrency transactions are facilitated through the banking sector, (iii) regulators are concerned about risks to financial stability, crypto-linked illicit financing and money laundering risks, and in (iv) African countries where there is a powerful SEC. The soft ban cryptocurrency regulatory model has been adopted in some African countries (see table 1).

4.1.5. Use-at-own-risk cryptocurrency regulatory model.

The use-at-own-risk cryptocurrency regulatory model aims to sensitise the population about the risks of cryptocurrency, and afterwards, allow people to use cryptocurrency however way they choose. Under this regulatory model, the regulator will require cryptocurrency providers to inform users about the risks of using cryptocurrency products and services so that any losses incurred will be the personal liability of the user. The aim of the use-at-own-risk cryptocurrency regulation is to ensure that cryptocurrency users are financially educated about the worst loss they can incur from cryptocurrency transactions. This regulatory model is suitable in African countries where (i) few members of the population use cryptocurrency products and services, (ii) a small amount of cryptocurrency transactions are facilitated through the banking sector, and (iii) regulators do not anticipate any risks to financial stability. The use-at-own-risk cryptocurrency regulatory model has been adopted in some African countries (see table 2).

Figure 2. Cryptocurrency regulatory models in African countries



Source: Author

4.1.6. Practical and social implications of the regulatory models

The choice of the cryptocurrency regulatory model to adopt will be crucial for African countries because the regulatory model that is chosen will have implications for financial inclusion, economic freedom, environmental sustainability, and social welfare. Adopting a total ban regulatory model in African countries will prevent unbanked and underbanked populations from accessing low cost crypto-based financial services. This can increase financial exclusion which is detrimental to society. Adopting a use-at-own-risk regulatory model in African countries will give people more choice and freedom to seek out the best cryptocurrency services that improve their welfare, but the challenge is that consumers will be vulnerable to scams and fraudulent schemes, and the losses they incur could lead to psychological trauma and depression for the victims. Therefore, there is a need for a model that does not completely ban cryptocurrency and one that does not allow cryptocurrency to be unregulated. The best regulatory model to adopt is one that allow financial inclusion to take place, promote community engagement between cryptocurrency providers and cryptocurrency users, promote environmental sustainability and provide some level of financial freedom and empowerment to users of cryptocurrency in African countries.

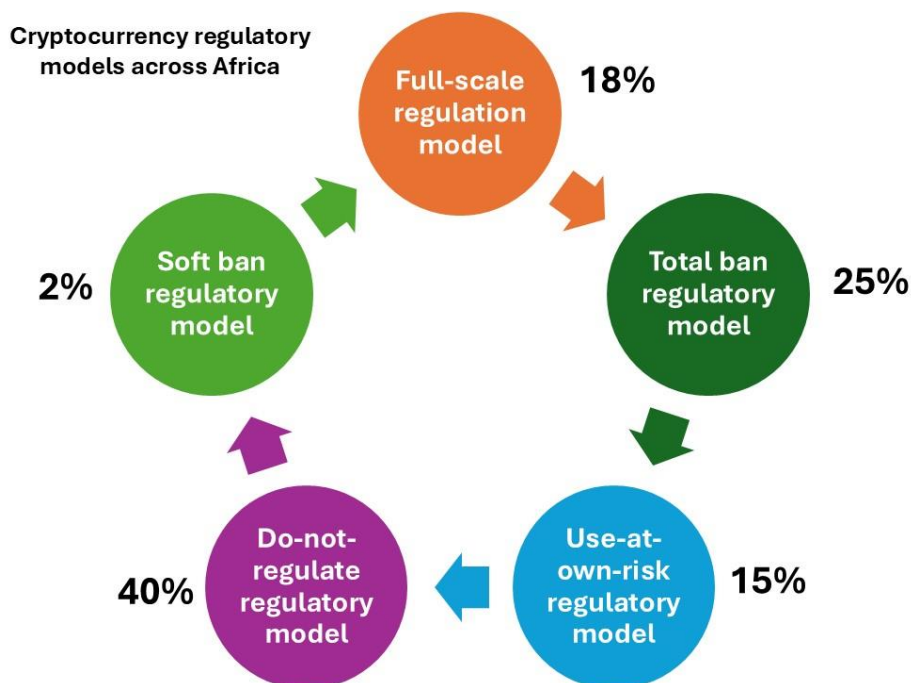
4.2. Analysis of the dispersion in the regulatory models

A summary of the data in table 1 is presented in table 2. In summary, few African countries adopt a soft ban cryptocurrency regulatory model such as Uganda. Other African countries adopt a use-at-own-risk regulatory model. Eight African countries fall into this category, and they make up 15% of African countries. Some African countries adopt full-scale regulation of cryptocurrency. Ten African countries fall into this category, and they make up 18% of African countries. Majority of African countries adopt the “do-not-regulate” cryptocurrency regulatory model. Twenty-two African countries fall into this category, and they make up 40% of African countries. This indicates that most African countries adopt a do-not-regulate regulatory model (see figure 3). This leads to the conclusion that cryptocurrency remains largely unregulated in African countries.

Table 2. Summary of cryptocurrency regulatory models across Africa

S/N	Cryptocurrency regulatory model	African countries	Number of countries	Percent (%)
1	Full-scale regulation	Nigeria, South Africa, Kenya, Zambia, Gambia, Botswana, Namibia, Mauritius, Cabo Verde, Seychelles	10	18
2	Total ban	Ethiopia, Egypt, Sudan, Algeria, Morocco, Angola, Ghana, Rwanda, Burundi, Tunisia, Sierra Leone, Libya, Lesotho, Central African Republic	14	25
3	Use-at-own-risk	DR Congo, Malawi, Senegal, Zimbabwe, Guinea, Benin, Mauritania, Comoros	8	15
4	Do-not-regulate	Tanzania, Mozambique, Madagascar, Ivory Coast, Cameroon, Niger, Mali, Burkina Faso, Chad, Somalia, South Sudan, Togo, Republic of Congo, Liberia, Eritrea, Gabon, Guinea-Bissau, Equatorial Guinea, Eswatini, Djibouti, Western Sahara, São Tomé and Príncipe	22	40
5	Soft ban	Uganda	1	2
	Total	-	55	100

Figure 3: Cryptocurrency regulatory models across Africa



Source: Author's computation

4.3. Regulators of cryptocurrency in African countries

Existing data sources showed that the major regulators of cryptocurrency in African countries are the Securities and Exchange Commission, the Central Bank, and special purpose regulatory entities (see figure 4).

4.3.1. The Securities and Exchange Commission

The Securities and Exchange Commission (SEC) is responsible for the regulation of securities trading and investment in most countries (Goforth, 2021). In many African countries, what determines whether the SEC will regulate cryptocurrency or not depends largely on how cryptocurrency is used and policymakers' perception of the common use case of cryptocurrency in the African country. The SEC will be responsible for cryptocurrency regulation if cryptocurrency is widely perceived to be an investment asset, and if it is widely used as a store of value or as an investment asset (Goforth, 2021). When this is the case, the SEC will regulate cryptocurrency by requiring all cryptocurrency products to be registered as an investment asset class. Examples of this can be found in Nigeria and South Africa. In such countries, the SEC will develop a regulatory framework that allows cryptocurrency providers to register their cryptocurrency products, state the purpose and use of their cryptocurrency products, define the benefits and risks to cryptocurrency users, and provide periodic regulatory reports to the SEC.

4.3.2. The Central Bank

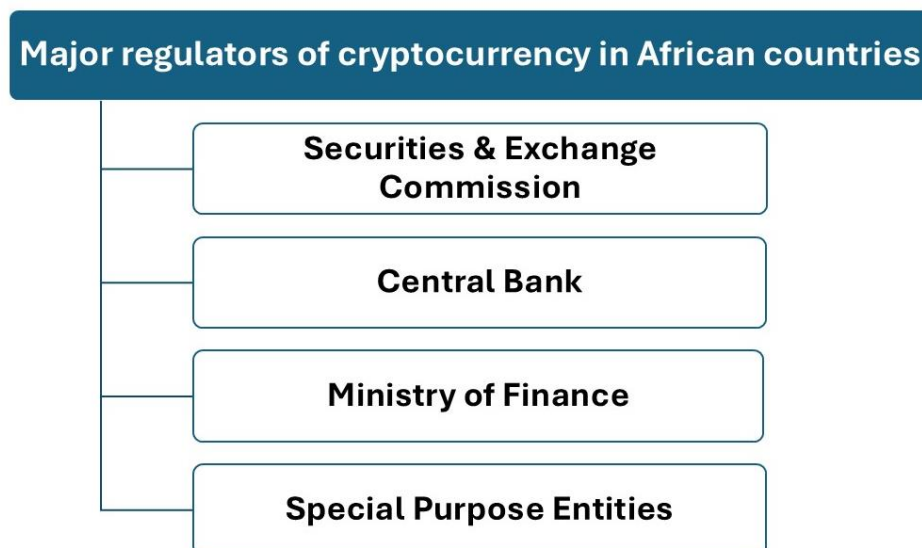
The Central Bank is responsible for issuing the legal tender currency in most countries (Nabilou and Prum, 2019). In many African countries, what determines whether the central bank will regulate cryptocurrency or not depends largely on (i) whether cryptocurrency products are used as a means of payment for exchange of basic goods and services, and (ii) policymakers' perception of whether cryptocurrency products are competing with the legal tender currency in the African country. The central bank will be responsible for regulating cryptocurrency if cryptocurrency is widely perceived to be a currency to rival the legal tender currency in the African country, and, if it is widely used as a means of payment and in the settlement of debt (Nabilou and Prum, 2019). Examples of this can be found in African countries such as Nigeria, Kenya, and Tanzania. In such countries, the central bank can either issue regulations to guide the use of cryptocurrency or the central bank may ban the use of cryptocurrency in the country.

4.3.3. Special Purpose Regulatory Entity and the Ministry of Finance

African countries that do not have a Securities and Exchange Commission will set up special purpose entities, such as a specific government agency, to take responsibility for the regulation of cryptocurrency in the country. The approach used by the special purpose entity to regulate cryptocurrency will be determined by consultation with the government, private sector players and other stakeholders. Under certain circumstances, the Ministry of Finance

may take responsibility for regulating cryptocurrency in a country if cryptocurrency is attracting huge investment inflows into the African country.

Figure 4. The regulators of cryptocurrency in African countries



Source: Author

5. Motivation, challenges, and consequences of regulating cryptocurrency in Africa

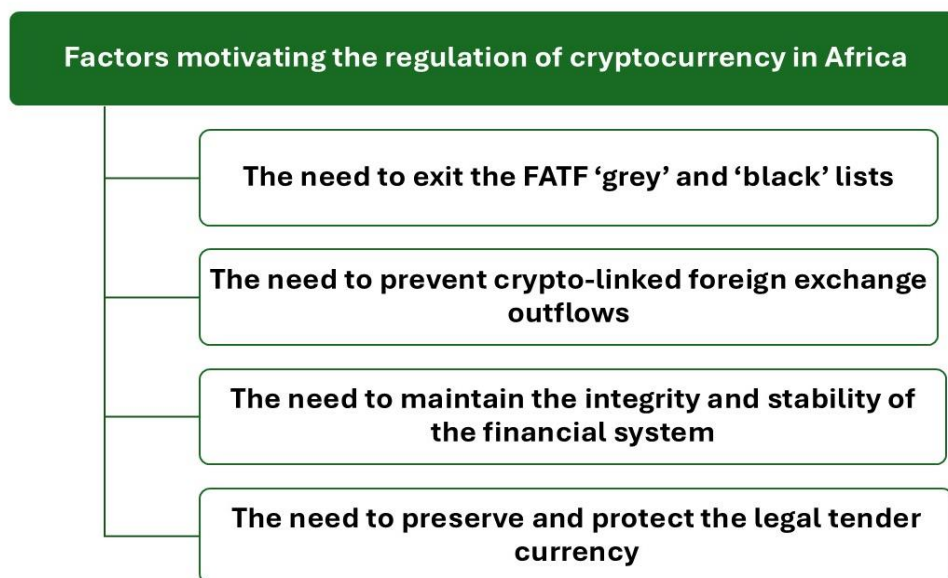
This section highlights the factors that motivate regulators to regulate cryptocurrency. It also identifies some potential consequences of regulating cryptocurrency.

5.1. Factors motivating cryptocurrency regulation in Africa.

Several factors have led regulators to regulate cryptocurrency in African countries (see figure 5). These factors are stated below. One, the need to exit the Financial Action Task Force (FATF) 'grey' and 'black' lists is a motivation for regulating cryptocurrency in African countries. Some African countries regulate crypto either because (i) they do not want to be listed in the FATF 'grey' and 'black' lists, or because (ii) they are already listed in the FATF 'grey' and 'black' lists, and they want to exit the FATF 'black' or 'grey' list as quickly as possible. A country listed in the FATF 'grey' list means that the country is under monitoring by FATF and is required to address strategic deficiencies in countering money laundering, terrorist financing, and proliferation financing in the country. A country listed in the FATF 'black' list means that the country is a high-risk jurisdiction where significant money laundering, terrorist financing, and proliferation financing risks exist (Mukhtar, 2018; Riccardi, 2022). Two, the need to prevent exchange rate manipulation and crypto-linked foreign exchange outflows is a motivation for regulating cryptocurrency in African countries. Some African countries regulate

cryptocurrency to mitigate the adverse impact of cryptocurrency trading on the exchange rate and foreign exchange outflows. In January 2024, Nigeria witnessed significant exchange rate manipulation linked to cryptocurrency trading on Binance cryptocurrency trading platform. The Nigerian authorities accused Binance of facilitating exchange rate speculation on the Nigerian currency through its cryptocurrency trading platform. Three, the need to maintain the integrity and stability of the financial system is a motivation for regulating cryptocurrency in African countries (Manaa et al, 2019). Some African countries regulate cryptocurrency to maintain financial integrity in the financial system. Regulators regulate cryptocurrency to increase trust in the financial system, prevent fraud, protect consumers, and preserve financial stability. Four, the need to preserve and protect the legal tender currency is a motivation for regulating cryptocurrency in African countries (Parampathu, 2024). Some African countries regulate cryptocurrency to protect the legal tender currency of the country and to ensure that cryptocurrency is not used as a legal tender currency. In such African countries, regulators may allow cryptocurrency to be used for investment and trading purposes, but it is not allowed to be used as a legal tender currency.

Figure 5. Factors motivating cryptocurrency regulation in Africa.



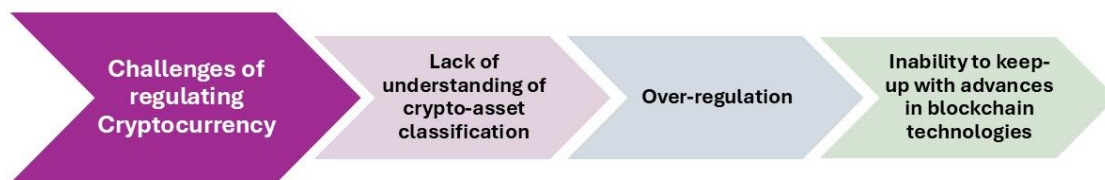
Source: Author

5.2. Challenges of regulating crypto assets in Africa

Regulators in African countries face three major regulatory challenges in their effort to support the growth of the crypto industry and protect the interest of consumers and investors (see figure 6). The first challenge is the classification of crypto assets (Kochergin, 2022). There are diverse crypto assets in the cryptocurrency space and African crypto regulators face the problem of accurately classifying existing cryptocurrencies and crypto assets. This classification problem is further compounded by African regulators' shallow knowledge of the existing crypto assets universe and the changing nature of crypto assets due to advancement

in blockchain and other digital technologies. This has made the classification of crypto assets a complex task for African crypto regulators. The second challenge is over-regulation. African crypto regulators may over-regulate crypto assets. Over-regulation will stifle innovation in the crypto assets industry (Howden, 2014). The third challenge is the regulator’s inability to monitor the advancement in blockchain technologies. Advancement in blockchain technologies can enable endless possibilities for crypto assets (Biais et al, 2023). However, African crypto regulators generally lack the capability to monitor the recent advancement in blockchain technologies and this makes it difficult for African crypto regulators to understand the new crypto assets innovation that new blockchain technologies enables. Regulators are slow in keeping up with changing cryptocurrency and crypto assets innovation. Despite this, African regulators can mitigate this risk if they are able to constantly monitor new developments in blockchain technologies.

Figure 6. Challenges of regulating cryptocurrency in Africa



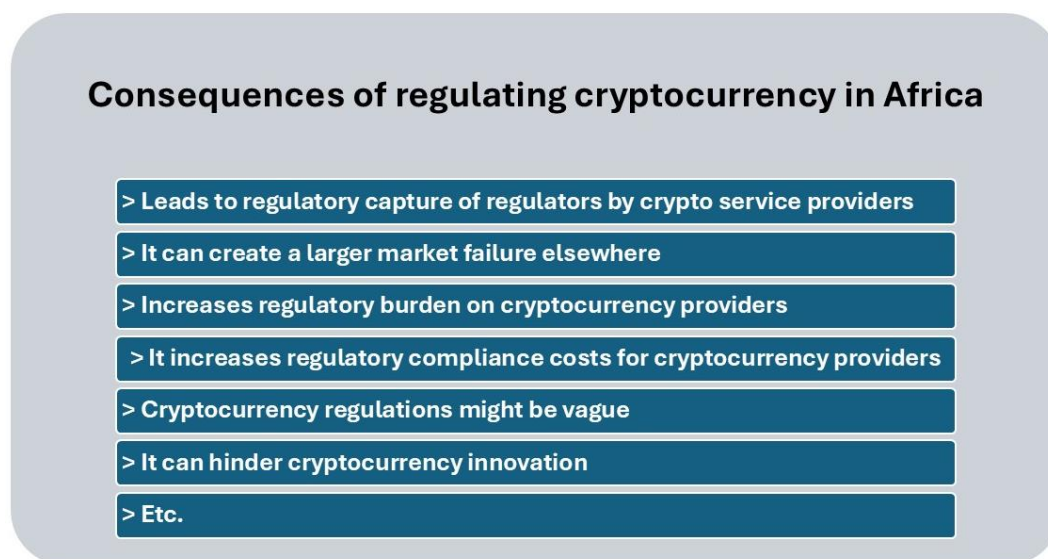
5.3. Consequences of regulating cryptocurrency in Africa

Cryptocurrency regulation may have some unintended consequences (see figure 7). One, there is the potential for regulatory capture by crypto providers. Regulators have a responsibility to protect the interests of cryptocurrency users (Ullmann, 2022). However, there is the risk that financial regulators or policymakers, after a while, will begin to serve and protect the interests of the crypto service providers it is meant to be regulating. This leads to regulatory capture.

Two, there is the risk that the regulation of cryptocurrency can correct existing market failure in the cryptocurrency market, but it can also create a larger market failure elsewhere (Hokkanen, 2023). For instance, strict cryptocurrency regulation can ensure safety and promote good practices in cryptocurrency markets, but it can also lead to a significant decrease in local demand for cryptocurrency by customers and discourage investors from investing in an over-regulated local cryptocurrency market. The strict nature of cryptocurrency regulation may anger crypto customers and lead them to patronize the unregulated cryptocurrency products and services offered on foreign cryptocurrency exchanges while abandoning the regulated local cryptocurrency exchange. Three, regulation of cryptocurrency will increase the regulatory burden on cryptocurrency providers by increasing the number of licensing and reporting requirements. When the cryptocurrency registration and licensing requirements are many, rigid and inflexible, it can create confusion

and make it difficult to adapt to changing market conditions. Four, regulation of cryptocurrency will increase regulatory compliance costs for cryptocurrency providers and these costs may be difficult to pass on to customers (Buterin et al, 2024). These costs include high licensing fees, and compliance monitoring costs. The high cost of regulatory compliance can increase the operating cost of cryptocurrency providers and affect their profitability. Five, the vagueness of cryptocurrency regulations and their inaccurate interpretations can lead to unintentional mistakes that attract fines and penalties which can be detrimental to cryptocurrency providers (Moffett, 2022). Six, regulation can limit cryptocurrency providers' ability to innovate and develop new products and limit the availability of new cryptocurrency products for consumers and investors (Jain, 2023). Seven, cryptocurrency regulation has other consequences which include (i) regulation-induced redtape which increases regulatory complexity, stifles innovation, and hinders business growth, (ii) it can lead to industry homogeneity when regulators require crypto firms to offer homogenous crypto products and services, (iii) it may favour larger corporations that have greater lobbying capabilities and insider connections to regulators, (iv) crypto regulation may give unfair advantages to first-mover crypto firms especially when the first players in the industry use their relationship with regulators to make it difficult for new players to enter the industry in order to stifle competition, and (v) it may create barriers to entry.

Figure 7. Consequences of cryptocurrency regulation in Africa



Source: Author

6. Rules-based versus principles-based cryptocurrency regulation

The question of whether cryptocurrency regulation in African countries should be principles-based or rules-based is an important topic for African cryptocurrency regulators to consider. Principles-based cryptocurrency regulation refers to the setting of general principles that cryptocurrency firms must adhere to in a regulated cryptocurrency market. The advantages of principles-based cryptocurrency regulation are that (i) principles-based cryptocurrency regulation is well suited to a rapidly changing cryptocurrency market and industry, (ii) cryptocurrency firms have the option to adopt the issued cryptocurrency principles, (iii) the cryptocurrency firms can explain to the regulator why they cannot adopt the issued cryptocurrency principles, (iv) it allows cryptocurrency firms to apply and modify the principles to fit their unique circumstances, (v) it focuses on the outcomes of crypto firms' business rather than focusing on the processes of crypto firms, and (vi) the principles may remain relevant as the crypto industry evolves. However, the demerits of principles-based cryptocurrency regulation are that (i) the principles are subject to multiple interpretations which leads to greater regulatory uncertainties among crypto firms, and (ii) it is harder for regulators to prove that cryptocurrency firms have breached any principles.

On the other hand, rules-based cryptocurrency regulation refers to setting specific rules of do's and don't's that cryptocurrency firms must adhere to, and any violation of the specific rules will attract penalties and fines. The advantages of rules-based cryptocurrency regulation are that (i) the rules are applied in the same way to all cryptocurrency firms, (ii) it provides clear rules of what cryptocurrency firms can do and what cryptocurrency firms cannot do, (iii) it is easy to know when the rules have been breached, (iv) cryptocurrency firms have full knowledge of the consequences of breaching the rules and there is no ambiguity about the penalty that is due when a specific rule is violated. The demerits of rules-based cryptocurrency regulation are that (i) the specific rules can stifle innovation if they are inflexible, (ii) it increases regulatory burden on regulated crypto firms, and (iii) it focuses on the processes of crypto firms rather than the outcomes of crypto firms' business.

The choice of which one to adopt, whether principles-based or rules-based crypto regulation, will ultimately depend on (i) the purpose of crypto regulation in the African country, (ii) the nature of the cryptocurrency industry in the African country, and (iii) the nature of the risks posed by cryptocurrency activities in the African country. However, principles-based cryptocurrency regulation is more appropriate for African countries because principles-based cryptocurrency regulation permits flexibility, it allows crypto firms to adapt to changing market conditions without being hindered by rules.

7. Conclusion and some reflections

This study examined cryptocurrency regulation in African countries. It examined the intricacies of cryptocurrency regulation in Africa. The study identified the advantages of cryptocurrency regulation which are creating a level playing field for all cryptocurrency businesses and users, improving the quality of cryptocurrency services, encouraging healthy competition in cryptocurrency markets, preventing the exploitation of customers by crypto monopolies, preventing market failure in cryptocurrency markets, helping to bring a sense of order in the cryptocurrency space, and encouraging firms to be more efficient by regulating the price that crypto firms charge to customers.

The study also identified the Securities and Exchange Commission, Central Banks, the Ministry of Finance, and special purpose regulatory entities as regulators of cryptocurrency and crypto assets in African countries. The study also identified five cryptocurrency regulatory models in African countries. They include the full-scale cryptocurrency regulatory model, the “do-not-regulate” cryptocurrency regulatory model, the total ban cryptocurrency regulatory model, the soft ban cryptocurrency regulatory model, and the use-at-own-risk cryptocurrency regulatory model. The study also showed that majority of African countries adopt a “do-not-regulate” cryptocurrency regulatory model which indicates that cryptocurrency remains largely unregulated in many African countries. The study further identified the motivation for regulating cryptocurrency in Africa as well as the challenges and consequences of regulating cryptocurrency in Africa. The study also offered a perspective on rules-based versus principles-based cryptocurrency regulation.

While it is important to regulate cryptocurrency in African countries, it is equally important to reflect on an important limitation of cryptocurrency regulation in African countries. Cryptocurrency regulation can add more risk to the financial system rather than reduce risk to the financial system. This is because African regulators are slow in detecting risks in cryptocurrency markets. Oftentimes, crypto market players are the first to detect risks early and they act on it before the cryptocurrency regulator can detect or understand the problem. By the time the regulator has detected the risk, the risk may have already crystalised and pose a threat to the stability of the financial system. In most cases, regulators in African countries rely on market players to assist them in identifying crypto risks to the financial system.

Therefore, it is important for African cryptocurrency regulators to understand that the goal of cryptocurrency regulation in African countries is not “more regulation” in response to crypto risks. Rather, the goal of cryptocurrency regulation in African countries is to deliver a simplified, cost-effective, and less cumbersome regulation of the cryptocurrency space. Cryptocurrency regulators in African countries also need to recognise that there are limits to what cryptocurrency regulation can achieve, and they must understand that regulatory mistakes will be made through experimentation. Regulators should also be open to learn,

and they should be willing to change their regulatory approach in response to changing crypto markets and changing market and economic realities.

Finally, users of cryptocurrency in African countries should not have complete faith in cryptocurrency regulators because cryptocurrency regulators will make many mistakes. Users of cryptocurrency in African countries should rely more on personal cryptocurrency risk management skills. Users of cryptocurrency should diversify their crypto assets, adopt price and quantity safeguards when trading in cryptocurrencies and constantly monitor developments in crypto markets to manage crypto risks.

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