Date Published 29 February 2024 by Nicole Willing

South Africa Looks To Tokenisation, Stablecoins To Drive Digital Payments Innovation

Growing momentum in tokenisation and stablecoins could allow South Africa to establish a domestic market, supporting the government's broader goal to foster innovation in digital payments.

"A positive intention from South Africa may soon benefit from warming global attitudes, which would enable domestic activity to flourish," Hadley Chilton, a partner at the restructuring, specialist financial situations and asset management firm Cork Gully, told Vixio.

The National Treasury's recent budget announcement indicated that the Intergovernmental Fintech Working Group plans to publish a paper on the impact of the tokenisation of assets, such as securities and payment instruments, on domestic financial markets in June.

The group expects to publish a discussion paper outlining the policy and regulatory implications of tokenisation and a blockchain-based financial market infrastructure by December.

Asset tokenisation allows an issuer to create digital tokens representing the ownership rights of real-world assets on a blockchain. When buyers purchase the tokens, the transactions are recorded on the blockchain in immutable, or permanent, records that can be used to verify their ownership.

This creates opportunities to use tokenisation in resolving international trade disputes, as each transfer of ownership and related payment is documented. This can work hand in hand with stablecoins to facilitate digital payments for a range of assets — from goods and services to real estate and company debt.

South Africa, the British Overseas Territories and Mauritius are among the countries evolving their global trade regulations, which are typically informed by English Common Law. The UK Jurisdiction Taskforce of LawtechUK published its Digital Dispute Resolution Rules in 2023, which are designed to enable a fast and cost-effective resolution of legal disputes using digital assets, smart contracts and blockchain applications.

"As the tokenisation of real-world assets (RWAs) has become the subject of much venture capital activity already 2024, this will affect the methods and [efficacy] of dispute resolution and asset recovery across countries," Chilton said.

"Now that BlackRock, Citi and other traditional finance giants have made public statements about the progress and positive outlook for the ownership of real-world assets being represented on the blockchain, attention will soon shift to the benefits and risks of doing so."

Smart contracts that run on blockchains can be designed to include a method of dispute resolution and access to collateral for automatic settlement of tokenised asset transactions. This can potentially reduce the need for costly and time-consuming legal interventions and give businesses and customers more confidence and clarity in adopting blockchain technologies.

"South Africa and the wider African continent have made real progress (or at least sincere attempts) on financial inclusion at the individual level in recent years. The potential efficiency and transparency that blockchain may bring to business there could be transformative for whole industries and jurisdictions, with knock-on effects to the cost of capital coming down to reflect the lower risk and legal certainty," Chilton said.

Treasury to regulate stablecoins

Stablecoins potentially have a role to play in the adoption of asset tokenisation, as well as the South African government's wider push to "promote the adoption of digital payments, which will help to improve the lives and livelihoods of marginalised groups."

Several cryptocurrency firms have formed partnerships with African exchange Yellow Card to tap into the region's stablecoin market potential, including Tether (USDT) and Circle (USDC), the Solana blockchain and US-based exchange Coinbase.

“Looking at the broader cryptocurrency and digital assets market we are seeing rapid adoption rates across not only South Africa, but in Nigeria, Ghana, and Kenya as well. We can attest to this from a business perspective, as in the last few months there has been a rise of international companies looking for a gateway into Africa,” Chris Maurice, Yellow Card’s CEO and co-founder told Vixio.

South Africa is among the first countries to provide a comprehensive regulatory framework for cryptocurrencies and is turning its attention to stablecoins.

The budget announcement stated that the Intergovernmental Fintech Working Group will update its June 2021 position paper on regulating crypto-assets to include stablecoins as a type of crypto-asset later this year. The working group will conduct an analysis of stablecoin use cases to recommend a policy and regulatory response, in line with international standards and recommendations.

In November 2023, the Financial Sector Conduct Authority (FSCA) declared crypto-assets to be a financial product, requiring crypto-related financial service providers to be licensed. The FSCA and the Financial Intelligence Centre (FIC) will jointly increase enforcement of unlicensed service providers of crypto-assets in 2024, the government stated. The authorities will also consider measures to extend a rule to crypto-asset transactions that requires institutions to report all cash transactions exceeding R49,999 ($26,216) to the FIC.

“South Africa's approach to stablecoins, tokenisation and the broader cryptocurrency market reflects a measured and cautious stance aimed at balancing innovation with regulatory oversight. We are excited to see how much quicker digital assets adoption will grow in the country in light of the South African government’s budget speech,” Maurice added.

Payments innovation for small and informal businesses

The budget also unveiled four pilot projects, on which the National Treasury and the Reserve Bank are collaborating with Switzerland’s State Secretariat for Economic Affairs and the South African non-profit FinMark Trust under an inclusive payments digitalisation programme that will run until 2027.

The community digitalisation project aims to enable local merchants to establish the infrastructure needed to accept digital payments, such as internet connectivity and point-of-sale devices. Once the financial services and digital infrastructure footprint is mapped during the pilot, the project will implement interventions to promote the use of digital payments to merchants and consumers.

The payment digitalisation project aims to digitalise tips and other payment transactions for the country’s informal and low-income workers. An estimated 2m employees in South Africa derive 20-50 percent of their total earnings from tips, and many others depend on tips to supplement their income. The pilot will test digital tipping solutions in several locations where low-wage and informal workers are concentrated, such as shopping centres, petrol stations and restaurants, with a view to improving and scaling up successful solutions.

The cross-border remittances project aims to “combat money laundering and the financing of terrorism risks in international payments”. Many cross-border traders currently use high-risk informal channels to send money across borders because of high fees for formal transactions. Digitalising cross-border transactions is expected to reduce costs compared with cash transfers, which have high handling costs for operators transferring the funds. The pilot will focus on the main remittance corridors from South Africa to Lesotho, Malawi, Mozambique and Zimbabwe.

The pilot will also enable retailers and fintechs in South Africa to provide digital stores of value, such as digital deposit accounts or wallets, for migrants to transfer money across borders with the aim of reducing service costs and reliance on agents.

The cross-border trade project aims to “formalise access to finance for micro, small and medium-sized enterprises engaged in regional trade, with an initial focus on payments before expanding to include other financial needs. It targets the poor and specifically women, who make up a substantial proportion of cross-border traders in the Southern African Development Community (SADC) region.”

This project is designed to facilitate low-value cross-border trade payments using existing regional infrastructure for remittances, encouraging the use of new and innovative payments technologies, guided by the outcome of research on digital payment solutions.

“We welcome the push towards innovation in digital payments highlighted in the budget speech,” Maurice said. “These progressive moves indicate a strategic focus on leveraging emerging financial technologies to enhance efficiency and accessibility in the country's payment ecosystem.”

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