

Tokenization could unlock Africa's economy potential

An interview with Charles de Boisriou, Partner and Financial Services specialist, Mazars.

There are currently three main types of tokens:

- Transactional tokens: They are used as an easy and fast way to transfer money. They often function like traditional currencies but, in some cases, can provide additional benefits. Usually, these tokens have cheap transaction fees that allow people to do a large number of transactions, making it more affordable than using traditional systems like banks, etc.

-Security tokens: Security tokens are supposed to represent ownership of another asset, usually traditional ones, like stocks or real estate.

-Utility tokens: They have a value tied to their ownership. They are not created for direct investment like security tokens. However, they can be used to pay for services within their specific ecosystems.

Assets tokenization emerges as a tool to transform the economy of African countries by facilitating access to financing. However, even if several countries such as Central African Republic, Zimbabwe and Nigeria have already embodied tokenization into their economic policies, Governments and private sector still need to join forces and set up suitable legal frameworks and environment, supportive and flexible regulatory regimes, drive innovation and growth in tokenization by developing new technologies, platforms, etc. Charles Boisriou, Partner and member of the African Board at Mazars, shares his expertise on the issue.

### **What does tokenization mean?**

Tokenization is the process of putting ownership of tangible assets, such as precious metals, on the blockchain, which allows to buy and sell these assets 24 hours a day, 7 days a week without intermediary. The token is a digital asset issued and exchangeable on a blockchain. Its price is subject to the law of supply and demand. It can be created by any user. It is customizable by its creator to have a decentralized use as well as being transferred peer-to-peer without duplication and without intervention or agreement from a third party. It is also very liquid because it can be sold or bought at any time on an exchange platform.

### **What about tokenization in Africa?**

Africa possesses a lot of wealth in its soil and subsoil. Therefore, tokenization is a way to accelerate the financing of the exploitation of those assets.

Tokenization can help African countries efficiently access funds, increase transparency and accountability, and furthermore attract global investment. Note that tokens can be issued with a very decentralized process and that could allow African countries to meet their economic objectives and therefore reduce their dependence on international banks or international financial institutions. Some African countries such as Nigeria, Zimbabwe, or the Central African Republic (CAR) have already set in place the appropriate frame for tokenization.

In a nutshell, tokenization could emerge as a transformative means to help African countries access funds to meet their economic development needs instead of continuing to rely on traditional international financial banks. However, the adoption of tokenization in Africa faces challenges such as lack of awareness, regulatory uncertainty, and cybersecurity risks.

### **What are the advantages of tokenization for African countries?**

Banks, international financial institutions and African or overseas states have a long history of providing structured financing backed by assets. For example:

- project financing of an offshore platform or harvest campaign,
- financing collateralized by infrastructure or the concession of the exploitation of natural resources.

But the use of intermediated or state funding has disadvantages:

- bottlenecks related to banks' ability to run their balance sheets,
- risk of dependence on lending States.

Tokenization does not differ in nature from the traditional financing mentioned just before. It's still financing. But there is a difference of process, and it is of size since the token can be issued with a very decentralized process which could allow the African economies to leave an asymmetric dialogue with the big banks, international financial institutions and States. By dealing directly with investors, foreign but also African ones.

Furthermore, tokenization could help SMEs receive the capital needed from a wider range of investors and, on the other side, allow investors to diversify their portfolios. The WEF report shows as well that it could ensure that SME financing processes are secure, transparent, auditable, and integrated with other digital channels such as e-KYC/AML for investor onboarding.

Also, tokenization reduces the risk of fraud by making it more difficult for criminals to access and use sensitive data. It should also be underlined that tokenization could help bolster financial inclusion in Africa by offering a large access to financial services to people, mainly those living in rural areas. It could as well help lower transactions costs by eliminating all intermediates, facilitating peer-to-peer transactions, and reducing all the related costs.

According experts, tokenization could also help fight corruption since it relies on the Blockchain technologie which offers an increased transparency in terms of transactions. It can enable the development of digital economy in Africa by improving innovation in the financial services sector.

However, it is important to understand that the success of tokenization in Africa will depend on a key factor : taking into account cultural aspects.

### **And, on the other side, what are the risks?**

At the risk of driving a door open, the token is not a philosopher's stone and the tokenization of African assets will not, as such, create wealth. Tokenizing is not creating a new asset. It's simply financing an existing asset or operating it. So, it's monetizing it. Simply put, tokenization is nothing more than digital securitization.

The risk that existed on issues of securities sitting on risky loans, themselves collateralized by poor quality real estate assets could exist on tokenized assets in Africa. Let us also not overlook the industrial risk, that is, the actual capacity to exploit the tokenized mine or field.

### **What are the prerequisites to succeed?**

Those lacks and issues that I have previously mentioned are not insurmountable. To be successful, African countries have some prerequisites to put in place. In the first place, governments have a

tremendous role to play in setting up a suitable legal frameworks and environment, supportive and flexible regulatory regimes, robust and reliable infrastructure, as well as incentives and disincentives that will help propel tokenization activities. Raising awareness on tokenization through education and promotion programmes should be a priority. It is critical to sensitize people about the risks and the advantages of tokenization.

Secondly, the private sector's role is also instrumental. It can play a key role in driving innovation and growth in tokenization by developing new technologies, platforms, and services for tokenization, creating new products and markets for tokenized assets as well as investing in and supporting tokenization initiatives. Governments should also collaborate with businesses specialised in Blockchain technologies and tokenization. Moreover, I think that PPPs (Public-Private Partnership) could help share experiences and best practices while enabling the development of robust ecosystems. Governments should as well join forces with regulators to create favourable and clear legal frameworks that enable the development of tokenization. Governments' agents and employees should be trained in tokenization's issues and challenges. I believe that that will facilitate the decision making process on tokenization.

International cooperation should also be encouraged, mainly with international institutions, international experts, Governments in the domain of technology and blockchain. Building suitable technologic infrastructures is also an important aspect of the equation.

Academia can as well support the development of tokenization in various ways. It can contribute to advance knowledge and understanding of tokenization by conducting research, surveys and analyses report on tokenization, providing training and capacity building for tokenization ; as well as collaborating and exchanging best practices on tokenization. Civil society and the international community also have a crucial role to play. The protection of customers as well as investors should be a priority. In terms of policies, it will be critical to not only establish risks management tools but also anticipate mechanisms to adjust the regulatory framework based on technologic advancements and lessons learned. I think that if those prerequisites are set in place, tokenization can thrive in Africa.