DIGITAL CURRENCY AND THE LAW: THE WAY FORWARD FOR A STABLE REGULATORY FRAMEWORK IN CAMEROON'S MONETARY AND FINANCIAL SYSTEM

Written by ***Nfanyi Engah Derick Etuge***

Doctorate Student, University of Yaounde II, Soa, Cameroon

ABSTRACT

Digital currencies which are digital representations of value with no physical form created and held electronically, have gained popularity since their introduction more than a decade ago. This article identifies some of the benefits/potential challenges and regulatory concerns which would result in the use of these digital currencies on the Cameroon's monetary and financial system. It provides a reading of records from data collected from documentary and online sources. The results show that for digital currency to be relevant in the Cameroon's economy, the regulation must take cognizance of the evolving digital transformations of money and financial modes of payment transactions. What is clear is that digital currency systems are becoming a viable alternative form of electronic stored value exchange for some applications. Digital currency such as crypto-currencies provide an efficient means of value exchange that in some cases can be more efficient than current banking infrastructure particularly for cross-border value transfers or micro-payment transactions. The results are relevant to alerting the Cameroonian authorities to the dire need for re-adaptation and reform of the monetary and financial laws to regulate digital currency. Digitalization has revolutionized money and financial payments systems, making the basis on which monetary and financial laws were founded to be lacking and questionable, thereby presenting regulatory concerns.

Keywords: Digital Currency, Virtual Currency, Cryptocurrency, Central Bank Digital Currency, Fiat Currency, Monetary System, Financial Stability, Regulatory Concerns, Law.

INTRODUCTION

Regulating digital currency in a globalized world necessarily connects law and economics.[i] It is argued that 'a rational system of law played a crucial role in economic development… by allowing individuals to order their transactions with such predictability.'[ii] In other words a strong regulatory framework on the financial system relating to digital currency will secure end-to-end users, ensure state sovereignty on the control of digital currency and guarantee economic development. Digital currency is very new in the Cameroon's monetary and financial system in particular and the CEMAC member states in general; reason why the COBAC banned the use of crypto-currencies in the CEMAC zone where Cameroon is the leading member state.[iii] This decision resulted from the will of the Cobac to guarantee financial stability and preserve customer deposits. The decision also applies to exchange or conversion settlement, and hedging in currency or cfa franc transactions relating to crypto-currencies. From the aforementioned, such ban is due to the un-preparedness of the regulators to curb the challenges/risks resulting from the use of digital currencies. This is due to the complexity in the types of digital currency which includes virtual currency, crypto-currency and central bank digital currency. Despite the benefits or relevance that accompany the use of digital currency, Cobac focused on the foresights anticipated challenges taking into consideration the loopholes of the existing laws. This calls for regulatory concerns as Cheka writes that 'the attainment of financial stability involves and requires the rule of law'.[iv] This is practically true because digital technologies have transformed money and payments systems with the coming of new digital currencies which now help to speed up instant peer-to-peer transfers of value that transcend the national borders. This invariably comes with challenges which questions the existing monetary and financial laws in Cameroon and creates the need for the related monetary stakeholders and regulatory authorities to have a rethink on the financial laws. The creation of virtual currencies which can be digitally traded (without any physical banknotes or coins) and strive to function as a medium of exchange, unit of account, and store of value serves as a very sensitive challenge because private persons, companies and the government can create their own digital currency which makes it a complex situation for the regulators to gain control on its use. Furthermore, unlike a fiat currency, virtual currencies generally do not have legal tender status in many jurisdictions in the world, except in El Salvador[v] and the Central African Republic (CAR)[vi]; they have value only by agreement within the community of users of the virtual currency making it more complex to arrive at a stable regulatory framework. The fact that other virtual currencies like crypto-currency are decentralized, for which transactions are recorded on a distributed ledger, which is maintained by many independent, peer-to-peer computers; and some virtual currencies are run by a centralized administrator that issues currency and maintains a central payment ledger, all requires the monetary authorities to confront the situation with caution because crypto-currency rely on encryption techniques to control the creation of monetary units and to verify the transfer of funds where users are given some level of anonymity or pseudonymity, and the system does not rely on government agencies (central banks) or financial institutions, which are generally embedded in the creation and transfer of fiat money. This poses security threats to users and the entire Cameroonian financial system.

The potential challenges of regulating digital currency in Cameroon's monetary and financial systems are peculiar, owning to the fact that the creation (mining),[vii] ownership, and control of these digital currencies are open to both the private and public sectors which raises security threats. Though a number of countries in the world such as Cameroon are still putting measures to legalize the use of digital currency, the private sector is increasingly in circulation of newly created crypto-currencies which are currently used as legal means of payments and transactions in some financial systems in the world.[viii][ix] However, the legal and institutional framework to regulate these new digital currencies is limited to fiat currency and digital fiat money. Notwithstanding the potential benefits ensuing from the use of digital currency system to the economy, the problem here is that the existing monetary and financial laws in Cameroon cannot sufficiently regulate and control digital currency evolution, which could severely challenge the monetary and financial system and cause the government to lose its sovereignty on the control and management of 'money'. This article seeks to show that digitalization has revolutionized money and payments systems, and therefore the basis on which the monetary and financial laws were founded have evolved; thereby presenting regulatory concerns. The regulatory concerns may be classified into five categories: those related to the protection of consumers, those related to taxation issues, those related to illicit activities such as financing of terrorists and money laundering, those related to the legal regulation of crypto-currency, those related to the monopoly of Cameroon's central bank (BEAC) on the issuance of its own digital currency.

THE MEANING OF DIGITAL CURRENCY

Digital Currency is a form of currency that is available exclusively in electronic form.[x] It is a broad term that refers to virtual (non-fiat) currency and digital fiat currency. Generally, it does not have a physical form unlike currencies with printed bank notes or minted coins. In the opinion of legal and economic experts, digital money, electronic currency, electronic money, electronic cash or cyber cash are synonymous to digital currency.[xi] But we can say that electronic money is a virtual representation of fiat currency and requires the equal amount of fiat currency. While on the opposite, virtual or digital currency does not represent other currency.[xii] Digital currency is mainly accessible with computers, mobile phones or electronic wallets connected to the internet or any other designated networks as they exist purely in electronic form. Digital currencies can be used to purchase goods and services, but are restricted to gaming sites, gambling potters or social networks. Physical currency exists as commodity money[xiii] and fiat money,[xiv] while digital currency exists as digital fiat currency and virtual currency. Digital fiat currency is a digital representations of fiat currencies that can be digitally traded and serves as money by government decree while virtual currency is digital representations of value that can be digitally traded, having no status as legal tender.[xv] Crypto-currency is a virtual currency that is convertible and decentralized.

TYPES OF DIGITAL CURRENCY AND HOW IT WORKS

Looking at the technological developments and evolution of digital currencies, there exist virtual currency, crypto-currency, and central bank digital currency. These different types of digital currency have specificities relating to their operations and how they work. Knowing and understanding the specificities in their operations and how they work is a prerequisite for the Cameroonian authorities to readjust the existing legal framework relating to its financial system in order to manage and control the use of digital currencies in Cameroon.

Virtual currency

Virtual currency or virtual money is a type of unregulated digital currency which is utilized inside a particular network and it is not issued or controlled by a central Bank or a public authority, nor necessarily attached to a fiat currency, but is accepted by natural or legal persons as a means of payment and can be transferred, stored or traded electronically.[xvi] Virtual currencies are typically issued by private issuers or by its developers and used amongst specific virtual commodities. It is just substantial inside a predefined network.[xvii] One cannot take the formulate coins and used them to buy something from its donors.

More recently, technological developments have led to the creation of virtual currencies, digital representations of value that can be digitally traded without any physical banknotes or coins and strive to function as a medium of exchange, unit of account, and store of value.[xviii] However, unlike a fiat currency, virtual currencies generally do have legal tender status in just two jurisdictions[xix]; they have value only by agreement within the community of users of the virtual currency.[xx] There are different types of virtual currencies. Convertible virtual currencies can be exchanged back-and-forth with fiat currencies, while nonconvertible virtual currencies are used in restricted online domains, such as multiplayer online gaming; and are not converted into fiat currencies. There are a number of exchanges that have been established to facilitate the conversion of virtual currencies to other assets, such as conventional fiat money or different virtual currencies. Virtual currencies are either run by a centralized administrator that issues currency and maintains a central payment ledger, or decentralized, for which transactions are recorded on a distributed ledger, which is maintained by many independent, peer-to-peer computers[xxi].

Cryptocurrency

Crypto-currency is a form of virtual currency that exists digitally and uses cryptography to secure transactions[xxii]. Crypto-currencies don't have a central issuing or regulating authority, instead using a decentralized system to record transactions and issue new units.[xxiii] Crypto-currency is a digital payment system that doesn't rely on banks to verify transactions. It's a peer-to-peer system that can enable anyone anywhere to send and receive payments. Instead of being physical money carried around and exchanged in the real world, crypto-currency payments exist purely as digital entries to an online database describing specific transactions. When you transfer crypto-currency funds, the transactions are recorded in a public ledger. Crypto-currency is stored in digital wallets.[xxiv] Crypto-currency received its name because it uses encryption to verify transactions.[xxv] This means advanced coding is involved in storing and transmitting crypto-currency data between wallets and to public ledgers. The aim of encryption is to provide security and safety.

Crypto-currency is a digital currency that has a true worth. It is a form of payment that can be exchanged online for goods and services. A number of companies and States in the world are on their way, while some have already issued their own currencies that are often called 'tokens' which can be traded specifically for the goods and services provided by them.[xxvi] Crypto tokens commonly serve as units of crypto-currency. They are designed to do the same job as physical tokens or coins like the Franc CFA[xxvii] coins and banknotes used in Cameroon. These crypto tokens are simply units of value that can be passed from one individual to another.[xxviii] A person needs to exchange real currency for the crypto-currency to access the goods and services of the issuers. At a technical level, one would say that units of crypto-currency are created through a process called mining, which involves using computer power to solve complicated mathematical problems that generate coins[xxix]. Users can also buy the currencies from brokers, then store and spend them, using cryptographic wallets. If you own crypto-currency, you don't own anything tangible. What you own is a key that allows you to move a record or a unit of measure from one person to another without a trusted third party.

A crypto token is a simple piece of code that is attached to a single user's public wallet address. Crypto 'wallet' is a type of computer software which is specifically designed to interact with blockchains, and it is where tokens are kept.[xxx] Unlike physically exchanging real cash from one person to another, transferring crypto-currency does not involve a transfer of value but simply updates the ownership of specific tokens to the new holder's address. In this way, it is not the tokens that are transferred between users in the network, but the addresses attached to each token are exchanged. All data related to accounts and balances are stored on a blockchain which is a continuous digital record of which tokens are held by users at any given time. All crypto tokens are identified by unique strings of code[xxxi]. Crypto tokens do not need a privately managed bank ledger to keep records of how much an individual has in his account; but such an information is instead immutably logged on a transparent blockchain public ledger and verified by all users in the network to ensure that only valid transactions and balances are committed to it, reason why crypto-currencies are referred to as decentralized payment systems.[xxxii] As mentioned above, cryptocurrency works using a technology called blockchain. Blockchain technology is a type of ledger technology that stores and records data.[xxxiii] The idea of blockchain was taken from the old way of transactions where records of financial institutions were written in ledgers and only those with privileged access could audit such ledger. Blockchain therefore took this idea and democratized them by removing the secrecy on how information relating to transaction data could be handled. Simply, blockchain is a distributed list of transactions or distributed ledger technology that is constantly updated and reviewed[xxxiv]. It can be programmed to record and track anything of value across a network spread around multiple entities, thereby creating a worldwide spider web of connected computers.[xxxv] The existing cryptocurrency examples are in their thousands, but some of the best known include: Bitcoin,[xxxvi] Ethereum,[xxxvii] Litecoin,[xxxviii] and Ripple.[xxxix]

Central Bank Digital Currency (CBDC)

Central Bank Digital Currency (CBDC) is a digital currency issued by the central bank[xl]. It utilizes technology to represent their country's official currency in a digital form. It is an electronic form of central bank money that citizens can use to make digital payments and store value. The main elements of Central Bank Digital Currency are; it is digital and universally accessible[xli]. As stable coins and cryptocurrencies are becoming more popular, central banks in the world, especially the BEAC[xlii] have realized that they need to provide an alternative, or let the future of money go beyond their control. Importantly, this Central Bank Digital Currency (CBDC), issued by government mandated financial institutions, hold equal legal status as their fiat currency counterparts.

Furthermore, there exist a retail and whole sale CBDC[xliii]. The latter is for financial institutions that hold reserve deposits with a central bank. It could be used to improve payments and securities settlement efficiency, as well as to reduce counterparty credit and liquidity risks. A value based wholesale CBDC would replace or complement reserves at the central bank with a restricted access digital token. A token would be a bearer asset, meaning that during the transaction the sender would transfer value to the receiver, without intermediaries. This would be something fundamentally different from the current system in which the central bank debits and credits the accounts without transferring actual values. The former is a digital currency issued by a central bank directly to all users. It would complement, not replace, cash and bank deposits, and it would be purely electronic money. Unlike reserves, CBDCs would be available to households and businesses, allowing them to make payments using this electronic form of central bank money. For example, *500 CFA franc digital currency* would be worth the same as a *500 CFA franc fiat currency*.

POTENTIAL BENEFITS/RELEVANCE OF DIGITAL CURRENCY ON THE CAMEROON'S MONETARY AND FINANCIAL SYSTEMS

The novelty of 'digital currency' is capable of transforming many monetary and financial systems in the world due to the era of digitalization and rapid technological development where we find ourselves. Embracing such undeniable digital transformations of money and means of financial payments transactions could greatly contribute to the Cameroon's economy if scrupulously treated with due considerations of the evolved basis to which the existing monetary and financial regulatory framework was founded.

Peer-to-Peer (P2P) Transactions Guarantees Privacy and Confidentiality

Peer-peer payments are digital currency (Crypto exchanges)[xliv] transactions between two people without the involvement of a central authority. Consumers have so passionately embraced the so-called peer-to-peer payment services because it is decentralized and has let individuals to easily transfer money, buy and sell cryptocurrencies directly with one another, electronically, with just a few taps on their smartphones or 'wallets'.[xlv] These qualities can be appraised to the satisfaction of consumers in Cameroon because it creates a degree of privacy and confidentiality. This could greatly contribute to the economic growth and development of Cameroon on the basis that with P2P exchange, online trading are executed instantly upon pending orders from other users within and across the borders with minimum fee as compared to that charged by centralized exchanges. This has been made possible with the blockchain technology. Such financial transaction service is designed to be automated and decentralized to eliminate human error or manipulation of investor funds by placing decision-making power into the hands of an automated system and a crowd sourced process. It therefore allows investors to send money from anywhere in the world anonymously, which could be greatly beneficial to the Cameroon's economy if the legal implications are carefully handled.

Rapid Mobile Payments Online Services

The financial payments platforms have transformed rapidly in recent years. This digital currency can work in the transactions from mobiles and personal computers (Nakamoto 2009). Individuals can download the free software from a website or app store to send, receive and monitor coins transactions. This happens through the operation of a crypto wallet or address such as the Bitcoin wallet.[xlvi] The virtual currency wallet is the software or another mechanism for holding coins, in other for consumers to make personal transactions. The digital wallet facilitates rapid mobile payments online services, making the participation in the virtual currency system easily.[xlvii] This would go a long way to help in the free circulation of money at the disposal of Cameroonian business stakeholders and to the smooth functioning of its economy. Furthermore, it is always presumed that when the financial payments systems are rapid, the consumers consider it safe, reliable and efficient against any delay, error or control, since it supports financial stability by mitigating risks related to financial transactions, facilitating the smooth flow of payments and efficient functioning of the financial markets.[xlviii]

Contributes to Economic Growth in the Form of Investments and Cost Savings

Blockchain has slowly moved into the mainstream as it is the underlying technology behind cryptocurrency. Experts have predicted that the use of the blockchain technology in the financial markets can potentially unlock billions of dollars for those markets[xlix] to which Cameroon's financial market is not left out. So far, impact of the Blockchain technology has transformed and improved many business practices in several industries: Blockchain has improved financial institutions' cross-border transactions; Messaging apps have used the technology in favor of deals with private investors; Car leasing and sales can use blockchain to streamline car leasing;[l] Cloud computing can use blockchain to execute smart contracts and resist hacking; Government and public records can use Blockchain to reduce paperwork and fraud while increasing accountability. Aside from Bitcoin in its current state which obviously have price fluctuations, transaction costs for most cryptocurrency users are minimal to none. Because crypto currencies and blockchain are decentralized and do not require investment into physical property, there are no extra costs that users are expected to account for. This means, unlike a branch of a bank, there is no need to pay utility bills, rental property, or employee wages. Little to no transaction costs also encourages trust in the system of cryptocurrency which is generally presumed as cost saving. This would however contribute greatly to the Cameroon's economy and help investors to trade or carry out their financial transactions without fear of high cost charges or high interest rates from banks. This would also encourage foreign investors to invest in Cameroon due to the conducive business environment created by the Cameroonian authorities and the fact that the existing monetary/financial laws and other related regulations in force have evolved to regulate the current transformation and technological development in digital currency and financial payments transactions.

Creates Innovations, Jobs and Taxes

The evolution of crypto-currency in the world today has brought with it an entire industry that is dedicated to supervising crypto-currency exchanges that take place throughout the world.[li] While some early adopters have become rich quickly, others have developed companies that rely on trading as their source of income. Records state that the number of jobs in the Block-chain industry increased from just over 1,000 in 2016 to over 4,000 in 2017.[lii] Software engineers have been the most directly sought after professionals for the crypto-currency industry. And while this job market has fluctuated in the past few years, interest in these professions has not faltered. As crypto-currency continues to be legalized outside of the western world, we can expect to see more global investments and job creation within the field. Therefore, Cameroon stands a chance to experience another plus in its growth and developmental achievements because foreign crypto-currency trading companies would speedily invest in Cameroon as well as home base investors. Consequently, the job market would be favorable for skillful Cameroonians having professional knowledge on crypto-currency mining and exchanges. Also, the Cameroon's taxation sector would greatly experience increased records of tax collection from the financial payments transactions and trading of crypto-currency both within the country and across the borders. This would in return benefit the Cameroon's economy and help boost government projects.

Less Costly or Minimal Fees for Payments Transactions

Various crypto-assets claim to address deficiencies in the existing financial system. Many are vying to become a new form of digital money that can be securely sent and received over the internet by anybody with a phone or internet connection, and with the convenience and cost-effectiveness of an e-mail. Cost and speed of digital currency transfer or exchange may differ from traditional (cross-border) payments with banks.[liii] This will in turn help to influence the reduction of transfer cost or exchange in those banks in Cameroon that exploit the consumers, since the coming of digital currency financial payments transactions would serve as a competition leaving the consumers with the choice of a preferred and less costly means of financial payments, consequently leaving them with enough balance of liquid money which is beneficial to the economy and to the wellbeing of the consumers who can carry out their activities without shortage of cash. This therefore helps to promote consumer satisfaction in the Cameroon's banking industry and the financial sector as a whole.

Settlement Risk Reduction in the Financial System

The impact of digital currency to the monetary or financial sector in our contemporary society reduces the settlement risk in the financial system in such a way that payments done through digital currency are real-time, gross and final[liv]. Settlement risk is the risk that arises when payments are not exchanged simultaneously. This happens when a bank makes payment to counterparty but will not be recompensed until sometime later; the risk is that the counterparty may default before making the counter payment. Therefore, with digital currency the need for interbank settlement and reconciliation disappears.

Creates Free Trade and Economic Equality across Borders

There are a number of challenges encountered in cross-border payments which would definitely be resolved with the evolution of digital currency through the underlying technology of blockchain. They are costly, often slow, not widely accessible to some people and suffer from low traceability and transparency. It is for this reason that the G20 has made enhancing cross-border payments a priority through digital currency, endorsing in 2020 a multi-year, multi-dimensional programme to enhance such payments.[lv] Faster, cheaper, more transparent and more inclusive cross-border payment services would deliver widespread benefits for the Cameroonian investors by supporting her domestic economic growth, a strong nexus with international trade, global development and financial inclusion[lvi]. The good news is that, so far, Cameroonian authorities are increasingly evaluating the use of digital currency which has been tested to be cost efficient, to enhance the efficiency of cross-border payments, which is generally considered costly and inefficient. The G20 has instigated an on-going collaboration between international organizations and national central banks to explore ways to further this goal, including through digital currencies.

Rapid Response to Financial Emergency Aid and Welfare

Digital currency meets the future of humanitarian aid relief and poverty fighting programs.[lvii] Through the use of digital currency, foreign emergency aids can easily respond immediately to some emergencies within and across the borders without necessarily going through the traditional banking transaction methods which is generally costly and time consuming. Financial aids could rapidly be provided by governments, international organisations, and individuals at just an instant through crypto-currency system. Cash support to refugee families for their shelter, food and water; assistance of victims of natural disasters, climate change crisis, health crisis, wars amongst others, can be easily achieved directly by field stakeholders without due administrative protocols which usually promote corruption.

CHALLENGES/POTENTIAL RISKS IN THE USE OF DIGITAL CURRENCY IN CAMEROON'S MONETARY AND FINANCIAL SYSTEM

The Cameroon's Monetary and financial system is undergoing a digital transformation of money and means of financial payments transactions due to the rapid technological development and evolution through digitalization. The coming of digital currency in the world is challenging many financial systems[lviii] especially Cameroon which is a developing country where the legislators are facing difficulties in re-adapting the laws to suit the current digital transformation of the financial system. The challenges become really complex because it involves the internet which is often considered as a global village and possess a lot of risks due to its vulnerability and exposure to all. However, though there are benefits ensuing from the use of digital currency, there exist anticipated/speculated risks which the Cameroon government should take into consideration, placing them on the table of decision making in the process of putting measures to adopt, legalize, and make use of digital currency in the Cameroon's monetary and financial systems which would go a long way to preserve its economy.

Private Digital Currency Store of Value Creates Financial Stability Risks

The challenge here is that financial stability risks and associated impairments in monetary policy transmission could emerge if private digital currencies are perceived as store of value. In fact, private digital currencies lack the elements of traditional stores of value that would render them safe vehicles for transferring wealth from the present to the future. For instance, in contrast to commodities (such as oil and gold), private digital currencies have no intrinsic value: intrinsically, they are nothing more than lines of computer code. Neither do private digital currencies carry any legal value, in that they are not backed by a sovereign entity as is the case for regular money. More specifically, they are not legal tender which would give them value in terms of being accepted to, for instance, discharge tax obligations. Nor do they imply a legal right to a regular currency which would grant them value in terms of future consumption. This would pose a potential challenge in Cameroon to the conventional notion of financial regulation.

Potential Monetary Policy Risks If Private Digital Currency Performs All Functions of Money

The potential monetary policy risks vis-à-vis private digital currency operating with all the functions as money is worth alerting to the regulators.[lix] Money has three primary functions which are; medium of exchange, store of value and unit of account. Money is considered as an instrument that facilitates trade by acting as a medium of exchange i.e. money can be used for buying and selling goods and services. Secondly, money acts as a store of value in that it is a convenient way to store wealth, that is, money can be used to transfer purchasing power from the present to the future. Finally, money serves quantification purposes as a unit of account i.e. money is the common standard for measuring the relative worth of goods and services. With this, policy challenges and significant threats to monetary policy are likely to be limited if private digital currencies only serve as a medium of exchange. This is because digital currencies work in a similar fashion to prepaid types of e-money instruments (e.g. electronic wallets such as Apple Pay and PayPal). To be precise, digital currencies are only put 'into circulation' when regular money is exchanged by the user who intends to use it in a financial transaction, and, likewise, digital currency is absorbed (withdrawn from circulation) and exchanged back to traditional money as soon as the transaction is settled. In fact, the regular currency and the interest rate on it remain the dominant monetary guideposts, also when it comes to financing expenditure, whereas the digital currency only serves as a means of transaction. But in contrast, if these private digital currencies are additionally regarded as a good store of value and even more importantly are also used as a unit of account, both monetary and financial stability risks may loom larger.

Potential Risks of Price volatility

According to the World Bank[lx], the price volatility of digital currencies hinders their ability to become legal tender. Price volatility is price fluctuations of commodity which is measured by the day-to-day percentage difference in the price of the commodity. Given the risks of digital currency investments, the International Monetary Fund is concerned that investors borrowing to invest in these markets may have difficulty repaying their loans. This could lead to great losses for Cameroonian investors and consequently affect the financial system which slows economic growth. Regulators should also be concerned in about the control of initial coin offerings (ICOs) where investors purchase tokens redeemable in a new digital currency once and if it goes into circulation. Tokens can represent shares in a company, earnings streams, an entitlement to dividends, interest payments, or a company's product or service.[lxi] This could bring a future damage to the Cameroon's economy, if not properly regulated by government authorities due to the volatile nature of digital currencies because physical and moral investors in Cameroon could end up at bankruptcy, especially if they do not have mastery on the digital currency market predictions since its value is mainly driven by the sentiment of the traders.

Potential System Failure Risks

The fact that Virtual currencies are still new in the Cameroon's financial sector poses potential challenges of maturity that apply both to the resilience and scalability of the technological systems used to facilitate payments via virtual currencies and to the stability of the Cameroon's governance models that protect the integrity and security of the centralized or decentralized underlying networks.[lxii] It must contend with significant cyber and other operational resilience challenges that affect the entire financial sector.[lxiii] The immature technological system would be a great risk to the monetary and financial system if not addressed by the Cameroon regulators to institute risk-management frameworks that would support huge amount of transactions through the digital currency network.[lxiv]

High Liquidity Risk

Liquidity being the ease at which an asset could be converted to cash at its fair value or market price is greatly affecting many crypto industries and this poses a high risk to users. Liquidity in the financial markets provides ease, speed, and affordability to trading investors and relevance to policymakers.[lxv] The possibility of high liquidity risk is on the risk basis that trade may not be executed at desired conditions due to a lack of sufficient buyers or sellers in the crypto market who are willing to buy/sell the coins which later give rise to drastic price swings causing loss of value. This would be very detrimental to some domestic investors if not meticulously handled by Cameroonian regulators.

REGULATORY CONCERNS IN THE USE OF DIGITAL CURRENCY IN CAMEROON'S MONETARY AND FINANCIAL SYSTEM

The Laws in force regulating CFA franc currency[lxvi], banking activities[lxvii], taxation, crimes committed in the cyber space relating to cyber criminality[lxviii], terrorism[lxix], amongst others are very much enough. It only requires that these Laws be improved to effectively address and control those areas where the digital technological development and evolution has touched or transformed. This is because practically in the real life the financial systems, legal tender, means of transactions, means of payments, market or trading platforms, amongst others, have not changed but only evolved and developed due to increased technology and digital evolution. The regulatory concerns are worth researching in order to bring out the striking aspects where these technological evolutions have transformed and to make possible recommendations to address the changes, in order for the Cameroonian authorities to appropriately manage and control the use of digital currency in the Cameroon's financial system.

Protection of Consumers against Fraudulent Activities

It has been widely seen that the coming of digital currency guarantees privacy and confidentiality for consumers during their transactions through the peer-to-peer financial payments services which is very beneficial. But however, the regulation must take cognizance on the fact that, of the truth, some of the same qualities that make peer-to-peer services so appealing to consumers also expose them to significant risks such as cyber-attacks through cryptocurrency scams[lxx]. In fact, the regulatory uncertainty and lack of transparency into crypto-currencies creates significant consumer protection vulnerabilities including disruptions to crypto-currency ecosystems, risks related to unregulated crypto-currency intermediaries and service providers, fraud schemes, and the irreversibility of transactions. Cryptocurrency uses blockchain for verification and does not run through financial institutions, so it is harder to recover from theft.[lxxi] Risks that users should take seriously and that both peer-to-peer transaction service providers and government regulators should do more to mitigate. It is worth stating that where money is concerned, scams always follow. And the same is true with cryptocurrency (Amanda 2022).

Taxation of Digital Currencies without the Issuer

The fact that digital currencies are considered as assets represented in digital form and having some monetary functions, they must be taxed during transactions as any other property, if not, the Cameroon government will be losing so much in the form of tax evasion. Crypto-currencies, anonymous or pseudonymous in nature and taking place in a peer-to-peer system, have a high risk as a potential means for evading or avoiding taxes. Also, on the basis that it performs an economic function, whether as a store of value or a medium of exchange, they will have tax implications.[lxxii]

To be practical, the user can legally obtain profits in cryptocurrency through either legally receiving cryptocurrency from another user, or "mining" it. In both cases, the value of the asset is increased by the value of cryptocurrency, which should be treated as property also for tax purposes.[lxxiii] Regarding the income tax being taxed, is dependent on the increment of pure wealth which should basically give rise to revenue, and therefore the tax liability. Therefore, there is the problem of the conversion of cryptocurrency value on a given day which is however threatening due to its volatile nature. It seems reasonable that it should be the market value of cryptocurrency; but however, its determination may not be easy due to the lack of a single official exchange rate as a result of a large number of cryptocurrency exchanges and globality of cryptocurrency systems.

The Cameroonian authorities must know that cryptocurrencies are not financial instruments, nor securities[lxxiv], but simply payment instruments. Meaning that cryptocurrency is a means of payment which is alternative to legal tender. Therefore, it should be considered equally to the receipt of legal tender under the governing law on income tax[lxxv]. An important challenge for the Cameroonian tax authorities is to establish a consistent means of interpreting the existing laws regulating income taxes in Cameroon, so that taxpayers have confidence that the provisions used by the tax authority apply in the event of revenue in cryptocurrency. With the blockchain network in mind through cryptographic techniques, the problem is to determine: The source of income within the chain, the moment of inception of revenue, the types of costs of revenue that can be deducted from income, the method of determining the amount of income in a legal means of payment. Perhaps the intervention of the Cameroonian legislators is necessary in this regard. The lack of clarity about the correct way to interpret the law may further hinder, or even prevent the tax authorities on the field to effectively determine whether tax fraud or actions aimed at tax evasion is taking place in the crypto industry.

Protection against Illicit Activities: Terrorist Financing, Money Laundering

One of the most pressing issues regarding digital currencies is how best to apply, establish or enforce compliance measures to prevent money laundering and terrorist financing.[lxxvi] With respect to stable-coins, the stakeholder enforcement mechanisms or regulators must have to identify several risks and vulnerabilities to be considered.[lxxvii] Based on the 2014 – 2018 report of the Cameroon's Ministry of Finance through the National Risk Assessment for Money Laundering and Terrorist Financing, based on intelligence agencies, at least 160 billion francs CFA was illegally circulated into the country to finance terrorism.[lxxviii] The amount is however not exhaustive as cryptocurrency operations are encrypted. Therefore, the risks designated to associating with cryptocurrency are 'high' and calls for a dire need of reform. This is however because, 'innovations always precede legal framework'.[lxxix]

Scrutiny in the Gaps between innovations and existing Monetary and Financial regulations

As the technology underlying digital currency continues to evolve and becomes more sophisticated, regulators and policy-makers are facing three key challenges that result in potential gaps and inconsistencies. First, existing laws and regulations may not be equipped to provide a legal basis for the existence of digital currencies. Gaps can occur when the conventional definitions of terms such as "property", "funds", "assets" or "money" do not include or cannot be interpreted to include digital currencies. There may be gaps in granting legal grounds to support the creation of digital currencies and the financial services built upon digital currencies. For example, while many central banks are conducting research on CBDCs, with a few already in pilot phases, 104 central banks do not have the authority to issue CBDCs under their central banking laws, according to a survey by the International Monetary Fund (IMF)[lxxx]. With respect to stable-coins, there is little or no guidance in most jurisdictions as to who has the authority to issue stable-coins, or if the issuance requires a special licence or authorization, what are the mechanisms for supervising stable-coins and the required regulatory oversights. The Cameroonian legislators should consider these facts[lxxxi].

Secondly, there may be regulatory and policy gaps in addressing risks unique to digital currencies, particularly those risks associated with the decentralization characteristics of digital currencies. The mandate of various regulatory bodies may need to evolve as the emergence of digital currencies requires them to handle new responsibilities and play new roles. Consumer protection is an area where regulators face significant challenges. Another area where regulators face significant challenges is financial crime. As digital currencies can enable users to conduct transactions at high speed without an intermediary, there is a risk that criminals can exchange funds across borders much faster and more easily than if they used cash. Furthermore, a payer and a payee in a permission less environment can easily create numerous anonymous, un-hosted (self-custody) wallets and multiple small-amount transactions to circumvent regulations that focus on monitoring large transactions.[lxxxii]

Thirdly, there may be gaps due to policymakers' inability to keep pace with the technological development, and implement and enforce the required regulations quickly enough. Cameroonian policymakers often find themselves playing catch-up when it comes to regulating innovations under the existing legislative process; this inability to keep up with technology could prevent the benefits of innovation from materializing and expose users to risks.

Legal Regulation of Cryptocurrency

Much as there is no legal definition of a cryptocurrency in the generally applicable law of any country in the world, a legal definition of virtual currency, including cryptocurrency, appeared in the middle of 2015. This definition is contained in a separate legal regulation announced by the state of New York on June 24, 2015 concerning economic activity in the area of virtual currencies, including mainly cryptocurrencies[lxxxiii]. This definition states that virtual currency (including cryptocurrency) is a “digital unit”, which can be used as a medium of exchange, or as a form of digitally stored value. This is also included in the draft directive amending Directive 2015/849[lxxxiv]. For digital currency to be regulated in Cameroon, the legislators must consider its true legal definitions, and of the terms “virtual currency” and “cryptocurrency”. So far, there is also no national legislation in Cameroon concerning the payment in cryptocurrencies, and more broadly in virtual currencies; and in any of the Member States of the CEMAC zone. However, though its legalization is in the pipeline in Cameroon, there is a dire need for regulations on these current innovations to the extent of legal responsibility of users due to the risks involved in its use, and the determination of the competent jurisdiction in situations of disputes. The regulation must focus on defining terms and conditions for licensing of economic activity with the use of virtual currencies, items of capital requirements and defining public responsibilities in the fight against money laundering and terrorist financing[lxxxv], consumer protection, as well as the field of cyber-security, amongst others. More on the legal perspective, the legislators must ensure that all the legal disciplines or fields having a link with the digital currency system go through a reform in its existing Laws in order to achieve a strengthened legal framework of digital currency. However, though the regulation and management of money is always and everywhere political (Cheka 2018), John Locke equated money to property which provided that it is the express duty of the government to protect her citizens when he stated in the Letter Concerning Toleration that:

> *Civil Interest I call Life, Liberty, health, and Indolency of Body; and the Possession of outward Things, such as Money, Lands, Houses, Furniture, and the like. It is the Duty of the Civil Magistrate, by the impartial Execution of equal Laws, to secure unto all the People in general, and to every one of his Subjects in particular, the just Possession of these things belonging to this Life. (Locke 1689 quoted by Cheka 2018)*

From the foregoing, cryptocurrency is also considered as a ‘digital asset’ which is the same as a property but stored in a digital form. Therefore, it is the sole responsibility of the government to protect her citizens in financial payments transactions in the crypto market within the blockchain technology because it all involves electronic money which stores value and therefore seen as an asset or property. This is significant because the lack of regulations regarding payments using cryptocurrencies obviously means the lack of detailed legal regulations for the protection of consumers using cryptocurrencies (digital assets) which could lead to the ascription of lack of future legal responsibility (Sebastian and Witold, 2017).

A Monopoly Perspective of Cameroon's Central Bank (BEAC) on the Issuance of Digital Currency

The standpoint on Cameroon's central Bank (BEAC) issuing its own digital currency is very crucial. This is because international money or currency is international politics, and the existence of states will definitely connote international rivalry between them; meaning currencies are instruments of states and extensions of state power which often serve as weapons and always representing political interests.[lxxxvi] Having a monopoly power on the issuance of digital currency which is an electronic form of money, by a state therefore puts such a state on a position to face international politics which is important to any growing economy like Cameroon. Therefore, the central bank is in a good position to easily explore whether issuing a DC would improve the efficiency of its currency function domestically and across the borders. For example, as the sole issuer of bank notes in Cameroon, the BEAC supplies bank notes that Cameroonians can use with confidence. In carrying out this function, the Bank is responsible for the design, production, distribution and destruction of bank notes which makes it easier to determine whether to issue future generations of bank notes in digital form or adopting its own digital currency, and to be able to control the circulation of both fiat and electronic currency[lxxxvii]. Furthermore, widely adopted private crypto-currencies could severely weaken the transmission of monetary policy and also restrict the ability of the central bank to act as the lender of last resort[lxxxviii]. However, the technological and operational challenge of a CBDC-based model should not be misjudged, as the goal should ultimately be to provide a real-time, highly reliable and continuously available payment system involving stakeholders in Cameroon and across jurisdictions.

CONCLUSION AND RECOMMENDATIONS

The foregoing standpoints establish how the transformation of money and financial payments transaction to the use of the digital currency system (Cryptocurrency) through the blockchain technology is rendering complex the regulation of monetary and financial system in Cameroon.

Digitalisation has revolutionised money and payments systems. Although digital money is not new to modern economies like Cameroon, 'digital currency' seems to be new, especially to the existing regulations; and this is dictating where the law should go. The operations of these digital currencies are initiated, traded and controlled by humans with the use of mobile phones and computers through a blockchain technology; and where humans are involved calls for regulation of conducts and behaviours, both on them and the things they use in the operations, without which abuse is inevitable. The challenges and risks identified in the Cameroon's monetary and financial system as a result of the transformation and technological developments require that the Law must adapt to ensure a stable regulatory framework of digital currency. From the foregoing review, we therefore propose the following recommendations:

RE-ADAPTATION AND REFORM OF RELATED REGULATIONS

The Cameroonian regulatory bodies should carefully consider a reform and re-adaptation of the existing monetary and financial regulations to integrate digital currency, in order to control its operations in the digital space, provide other safeguards to the public and to financial and monetary systems, and consequently preserve financial stability. The Ministry of Finance should conduct a thorough review of the risks presented by stable-coins to their jurisdictions, alongside a review of related existing laws and regulations. Special attention should be paid to the quality, liquidity and transparency of reserve assets backing stable-coins. The need to revisit the legal and regulatory framework on Cameroon's Financial system to govern the high volatility and financial transactions within and across the national borders and thus must not be underestimated. Critical attention should also be paid to the risk and prevention of illicit activity, such as money laundering, tax evasion and terrorist financing.

Issuance of a Digital Currency by the Cameroon's Central Bank (BEAC)

The BEAC in collaboration with the Cameroon government should meticulously engage in issuing its own digital currency in an 'electronic version of notes and coins', which could carry the same signs and symbols of its fiat currency (For example *fcfa-coin or fcfa-note)*. This proposed new form of central bank-issued digital currency will complement cash and coins, and be accessible to the general public for transactions using various devices. Although there is no single central bank digital currency issuance framework in Cameroon and the CEMAC states at large, different approaches should be investigated because these digital currencies could make payments more efficient, improve fiscal and monetary policies and boost financial inclusion in Cameroon and to the other CEMAC member states at large which could in return boost the economy.

Regulation of Consumer Protection on Prevention of Illicit Activity, Data Privacy and Data Management

There is always considerable debate around the privacy regime that should apply to cross-border transfers of data. Many of the same considerations apply to cross-border payments in digital currency, and the issue of consumer data privacy could prove a major area for future conflict in cross-border digital currency arrangements. Moreover, where DC or stable-coin transactions occur across borders, governments must ensure to establish appropriate practices for the sharing, owning or acquiring of end-user account data in order to ensure its security and privacy. While some data will need to be shared for the purposes of tax collection, regulation enforcement and curbing illicit transactions, Cameroonian policymakers should coordinate globally to develop responsible data-sharing protocols that meet these needs, while respecting user data privacy, especially as data leaves a citizen's home country. Also, the authorities should adopt measures to protect consumers from cyber-attacks such as cryptocurrency scamming schemes because financial transactions involving the internet have always made consumers very vulnerable to insecurities.

Creation of a Digital Currency Management Structure

Considering the fact that the BEAC is in charge of the control of currency in the CEMAC member countries, to which Cameroon is an esteemed member which in accordance with article 20 of title II of the Convention governing the Central African Monetary Union (UMAC), the States confirmed to the Bank of Central African States (BEAC) the exclusive privilege of the Monetary Issue on the territory of each Member State of the Union. The BEAC and the Cameroon's Ministry of Finance should create a department or structure within its institution which will be in charge of the checks and control of novelty in the technological developments of digital currency, how it is transforming the law and the addressing its resulting implications.

Introduction of the Concept of Digital Currency into the Higher Educational Systems

It is very important to recommend also that, since digitalisation is an increasing evolutionary technology where science is trying to make everything become digital in the world today; to which money and payments systems have been digitally transformed in Cameroon into digital currency systems, it would be fundamental on the basis of continuity and sustainability to introduce the concept of digital currency into the higher educational systems in order to build the minds of the younger generation regarding such digital transformation and technological developments of the monetary and financial system. The government through schools can easily circulate the knowledge of digital currency on what it is, how it is created and used, the impact and challenges related to it on the economy, as well as the laws regulating it despite its volatility.

Capacity building through Specialised Training Centres

The fact that the digital currency is a novelty development in the financial and monetary sector, the State of Cameroon and the BEAC should create training programs relating to the concept of digital currency, how it is created, why it should be created, who should create it, the technology behind it, how the law can regulate it for financial inclusion, within monetary institutions both domestically and across the borders, the management of such a currency, the blockchain flow of such a currency and the use of such a currency in the financial system, amongst others; taking into consideration its circulation and store of value within the framework of other related financial institutions and the savings of their customers or clients, their transactions and other related issues which could jeopardize the creation, adoption and use of this digital currency and which could affect the stability of the financial and monetary system.

Government Sensitisation through public Debates, Conferences, Seminars and Work-shops

The Cameroon government in her part should engage in the organisation of public debates, conferences, amongst others, bringing in experts in monetary, financial and digital currency related fields to teach and sensitise the general public on the use of digital currency. This will help to go a long way in other to a brace the novelty in currency evolution into digital currency and the blockchain technology accompanied with it. From here, the Cameroon government will be sure not to be amongst the countries rejecting such a digital transformation and technological developments, but accept, despite the accompanied potential challenges/risks thereof. This will help the Cameroon's economy because foreign investors trading with the digital currency will be encouraged to invest in Cameroon, based on her adoption, acceptance and response to the novelty and challenges accompanied with the use of the digital currency

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