



Digital Currencies in the Middle East and North Africa

OE Watch Commentary: Governments in the Middle East and North Africa have responded to the growing popularity of Bitcoin and other digital currencies in various ways. Some regulators, most notably in Morocco, have issued decrees banning Bitcoin transactions; others, including those of the region's most populous country (Egypt) and its largest economy (Saudi Arabia), have warned against trading in such currencies but stopped short of seeking to regulate them directly. Some others, in particular the United Arab Emirates (specifically Dubai), have embraced the concept and introduced a slew of state-sanctioned virtual currencies. Yet underlying these varied responses, as the accompanying passages note, are traces of government concern. This has manifested as a behind-the-scenes crackdown in Egypt and a highlighting of Bitcoin's incompatibility with Islamic law in Gulf countries.

As the first accompanying excerpt from Egypt's semi-official *al-Ahram* newspaper details, the official position of Egypt's Central Bank is that Bitcoin "is not guaranteed by the banking sector ... and dealing with [Bitcoin] is the responsibility of its users." Despite this seemingly neutral position, the article also explains how Egypt's first Bitcoin exchange (Bitcoin Egypt), which was to be launched last summer to great media fanfare, suddenly faced delays and uncertainty. The website on which trading was to take place went offline in November 2017 and its founders can "no longer confirm a launch date." The article notes that Bitcoin is booming in Egypt, not just as a speculative investment but also as a business opportunity through "mining." This is especially lucrative in Egypt and other countries with low, subsidized electricity prices and cheap domestic currencies.

Dubai's embrace of virtual currencies is not surprising given its efforts over the past several decades to position itself as a regional financial center. Several state-sanctioned cryptocurrencies and an open-source blockchain-based virtual currency called "ArabianChain" are among Dubai's new offerings, which are being introduced in part as substitutes for open-source distributed platforms such as Bitcoin. As the second excerpted passage explains, one of these new entrants to the market, known as "OneGram," seeks to entice users by touting itself as "fully Sharia-compliant" due to the fact that it is backed by gold.

In early December, a popular Saudi cleric named Assim Alhakeem declared virtual currencies "Haram" (forbidden in Islam). As the third accompanying passage explains, this opinion follows a decree by the Turkish Directorate of Religious Affairs that also forbids the use of virtual currencies on the basis of their being open to speculation and potentially used for illicit activities.

Not surprisingly, these judgments stand in contrast to the assessment made back in 2014 by a supporter of the Islamic State of Iraq and Syria (ISIS), which are summarized as follows in the excerpted quote from the fourth accompanying passage: "No one can send a money transfer to a mujahid or suspected mujahid without the infidel governments who currently rule knowing... The proposed solution to this is what is known as Bitcoin... By setting up an anonymous donations system, you could send millions of dollars at once... and they would arrive directly in the mujahid's pocket." Although this assessment clearly overstates the ease of Bitcoin's convertibility to cash, it does highlight the promise of distributed ledger technology for clandestine terrorist organizations and the reasons why governments are likely concerned about its growing popularity. **End OE Watch Commentary (Winter)**

"...There was a time when I knew the whole tiny [Egyptian] Bitcoin community. Now it's all across the country as it booms worldwide ..."

Source: Sherif Tarek. "Egypt's Bitcoin scene seemingly growing despite looming uncertainties," *al-Ahram English*, 9 December 2017. <http://english.ahram.org.eg/NewsContent/3/12/282508/Business/Economy/Egypt-Bitcoin-scene-seemingly-growing-despite-loo.aspx>

In a widely reported announcement, the founders of Bitcoin Egypt said in August that their project would be launched later in the month, suggesting that the North African country might now be leaning toward a friendly approach to the world's leading cryptocurrency. However, the excitement over what was meant to be the first platform for buying and selling Bitcoin in Egypt soon subsided, with the Central Bank of Egypt (CBE) refuting such speculation and reiterating that it will not regulate digital currency dealings. "This virtual currency is not guaranteed by the banking sector [...] and dealing with it is the responsibility of its users," the statement said. A message on the Bitcoin Egypt website later read, "We are facing delays and no longer confirm a launch date"... Soon after, in November, the website went offline... There is no technical way to estimate the volume of Bitcoin trading in Egypt, or any other country, for that matter, "but for a year now there has definitely been a surge in Egypt," said the 30-year-old Egyptian, who, bearing in mind the unclear official stance on digital currencies, preferred to speak on condition of anonymity. "There was a time when I knew the whole tiny Bitcoin community. Now it's all across the country as it booms worldwide"...

In Egypt, the cost of mining electricity usually comprises around 25 percent of the profit. "Mining hardware that consumes 1,300 kw would cost a little less than \$100 and likely generate around \$350, \$380 worth of digital currency per month, for instance," the Bitcoin trader said. "The productivity and electricity consumption of miners vary, but that's the average." The mining cost will comprise a higher percentage when Egypt's electricity subsidies are completely abolished, as is planned in the coming years. "But today, given cryptocurrency price increases, as opposed to the costs in Egypt, it's fair to say that digital mining is a pretty good deal and that's why more and more people get into it," he said.

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Continued: Digital Currencies in the Middle East and North Africa

Source: Alice Haine. “A golden crypto currency you can invest in for as little as \$45,” *The National (UAE)*, 2 July 2017. <https://www.thenational.ae/business/money/a-golden-crypto-currency-you-can-invest-in-for-as-little-as-45-1.91373>

As the founder and chief executive of OneGram – the Dubai-based technology company behind the first digital currency completely backed by gold - Ibrahim Mohammed is confident his cryptocurrency will be a success, even as competition in the digital currency sphere heats up. He says with “100s of new coins releasing every day”, it is OneGram’s unique selling point - the fact that the currency is fully Sharia-compliant - that will set it apart... Because of the ruling that happened in November 2016 from the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) with regards to the gold standard. It was the first time gold was deemed to be a sharia-compliant product and it got us thinking. It evolved into digitisation of gold but then having bigger returns rather than just waiting for the market to go up - so we combined it with a digital currency.

Source: “Digital currency Bitcoin ‘forbidden in Islam’, rules Saudi cleric,” *al-Araby al-Jadid*, 6 December 2017. <https://www.alaraby.co.uk/english/blog/2017/12/6/digital-currency-bitcoin-forbidden-in-islam-rules-saudi-cleric>

A popular Saudi cleric has ruled that cryptocurrencies are prohibited under Islamic law because they are “ambiguous” and provide anonymity to criminals... “We know that Bitcoins remain anonymous when you deal with it... which means that it’s an open gate for money laundering, drug money and haram (forbidden) money,” Hakeem said. “There is a lot of ambiguity, if I have dollars and you have euros and we want to exchange this is permissible in Islam with the condition that it is hand-to-hand... in virtual currencies you don’t have this,” he added. The cleric’s ruling comes after Turkey’s top religious body also decreed that bitcoins were incompatible with Islam because their value is “open to speculation” and they can be used in “illegal activities”.

Source: البيتكوين ودورها في تمويل الحركات الإرهابية
Hassan Mohammed, “Bitcoin and its role in financing terrorist movements,” *King Faisal Center for Research and Islamic Studies*, August 2017. <http://kferis.com/pdf/98958dfe413d878f2567008efa9fb1d1598996789c9d1.pdf>

In an article titled “Bitcoin and the Charity of Jihad,” Taqi al-Din al-Mondhor, a man considered close to ISIS, laid down the legal conditions for the use of Bitcoin according to the group. He emphasized the need to use this virtual currency to fund jihad, noting that Bitcoin is a practical solution to overcoming the government financial systems which he describes as “infidel.” In his article he explains how to use the virtual currency and open financial accounts online, as well as transferring money without anyone noticing, when he explains “No one can send a money transfer to a mujahid or suspected mujahid without the infidel governments who currently rule knowing... The proposed solution to this is what is known as Bitcoin... By setting up an anonymous donations system, you could send millions of dollars at once... and they would arrive directly in the mujahid’s pocket”...



Front entrance of the Central Bank of the United Arab Emirates main building in Abu Dhabi, 2013.
Source: By Achilver via Wikimedia Commons, https://upload.wikimedia.org/wikipedia/commons/5/5d/Central_Bank_of_the_United_Arab_Emirates.jpg, CC BY-SA 3.0.