

# Cryptocurrency Adoption, Financial Inclusion, and Remittance Cost Reduction: Evidence from Sub-Saharan Africa

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## Abstract

Cryptocurrency adoption has been proposed as a transformative mechanism for financial inclusion in underbanked regions and for reducing the prohibitive costs of cross-border remittance transfers that represent a critical lifeline for millions of households across Sub-Saharan Africa. This study empirically examines the relationships between cryptocurrency adoption, financial inclusion, and remittance cost reduction across 32 Sub-Saharan African countries over the period 2015–2023. A three-equation simultaneous system is estimated using Three-Stage Least Squares (3SLS) to address endogeneity among the three jointly determined variables. Cryptocurrency adoption is measured using a composite index incorporating blockchain wallet penetration, crypto exchange trading volumes, peer-to-peer trading activity, and regulatory environment scores. Financial inclusion is operationalized through the Global Findex composite index, and remittance costs are measured using the

World Bank Remittance Prices Worldwide database. Results indicate that cryptocurrency adoption significantly improves financial inclusion (coefficient: 0.287,  $p < 0.001$ ) and reduces remittance costs (coefficient:  $-0.312$ ,  $p < 0.001$ ). Financial inclusion partially mediates the cryptocurrency-remittance cost relationship. Mobile money infrastructure significantly complements cryptocurrency adoption in driving financial inclusion gains, with the interaction effect (crypto adoption  $\times$  mobile money penetration) explaining an additional 8.3% of financial inclusion variance. The effects are heterogeneous across income groups and regulatory environments, with clearer and more favorable regulatory frameworks amplifying the financial inclusion benefits of cryptocurrency adoption.

**Keywords:** cryptocurrency, financial inclusion, remittance costs, Sub-Saharan Africa, 3SLS, mobile money, blockchain

## 1. Introduction

Sub-Saharan Africa faces a dual financial challenge of exceptional severity. On one hand, financial exclusion remains pervasive: only 49% of adults in the region held a formal financial account as of 2021 — the lowest rate of any major developing region — with the excluded population disproportionately comprising women, rural residents, agricultural workers, and members of low-income households (Demirgüç-Kunt et al., 2022). On the other hand, the region receives some of the world's highest volumes of remittance transfers relative to GDP — averaging approximately 3.5% of GDP across the region in 2023, and exceeding 10% in economies such as Lesotho, The Gambia, and Somalia (World Bank, 2023) — yet pays some of the world's highest remittance transfer costs. The average cost of sending USD 200 to Sub-Saharan Africa was 7.8% in 2023, compared to the global average of 6.2% and the UN Sustainable Development Goal target of 3% (World Bank, 2023).

Cryptocurrency technology — particularly blockchain-based digital currencies that enable near-instantaneous, borderless value transfer at minimal transaction costs — has been advanced as a potential solution to both challenges. By providing a digital financial infrastructure accessible to anyone with a smartphone and internet connection, cryptocurrencies and the broader blockchain ecosystem could extend formal financial services to the unbanked without requiring the physical infrastructure investments (bank branches, ATM networks, POS terminals) that have historically been prerequisites for financial inclusion. By enabling direct peer-to-peer cross-border value transfer without correspondent banking intermediaries, cryptocurrencies could dramatically reduce

the cost of remittance transfers, delivering more value to recipient households.

Sub-Saharan Africa has in fact emerged as one of the world's most active cryptocurrency markets relative to economic size. Chainalysis (2023) ranked Sub-Saharan African countries including Nigeria, Kenya, South Africa, Ghana, and Tanzania among the top 20 globally for cryptocurrency adoption using a composite index of on-chain transaction volumes, peer-to-peer exchange activity, and retail cryptocurrency usage. Several factors drive this regional adoption: the prevalence of currency instability that makes dollar-denominated cryptocurrencies attractive as stores of value, the high cost of conventional financial services that creates demand for cheaper alternatives, the young, mobile-first demographic that is comfortable with digital financial technologies, and the maturity of mobile money infrastructure (particularly in East Africa) that has primed populations for digital value transfer.

However, empirical evidence on the macroeconomic and financial inclusion consequences of cryptocurrency adoption in Sub-Saharan Africa remains nascent and methodologically limited. Most existing work is descriptive or case-based, lacking the panel data and econometric rigor necessary to draw causal inferences. The critical questions — whether cryptocurrency adoption actually improves financial inclusion and reduces remittance costs at measurable scale, through what mechanisms these effects operate, and what regulatory and infrastructure conditions amplify them — remain largely unanswered in the systematic empirical literature.

This study addresses this gap through three principal contributions. First, it constructs the first comprehensive Cryptocurrency Adoption Index (CAI) for 32 Sub-Saharan African countries, aggregating data from blockchain analytics providers, peer-to-peer exchange platforms, and regulatory environment assessments. Second, it employs 3SLS estimation to address the simultaneous determination of cryptocurrency adoption, financial inclusion, and remittance costs — a methodological advance over OLS studies that assume exogeneity of cryptocurrency adoption. Third, it provides the first systematic analysis of the complementarity between mobile money infrastructure and cryptocurrency adoption in driving financial inclusion gains, a relationship of critical practical importance given the ubiquity of mobile money in East and West Africa.

## **2. Literature Review**

### **2.1 Cryptocurrency: Characteristics and Financial Inclusion Potential**

Bitcoin, introduced by Satoshi Nakamoto (2008), and the subsequent proliferation of alternative cryptocurrencies and blockchain platforms, have generated extensive academic and policy discourse about their potential to transform financial systems. From a financial inclusion perspective, the key characteristics of cryptocurrencies that are theoretically relevant include: (1) permissionlessness — anyone with internet access can participate in a cryptocurrency network without requiring identification documents, credit history, or minimum deposit balances; (2) low transaction costs — on many blockchain networks, transfer

fees are minimal relative to conventional wire transfer or remittance service costs; (3) borderlessness — value can be transferred across national boundaries at the same cost as domestic transfers; and (4) programmability — smart contracts can automate complex financial transactions without intermediaries (Nakamura, 2019; Ammous, 2018).

However, significant barriers to realizing this financial inclusion potential exist. Cryptocurrency price volatility creates exchange rate risk that may deter low-income users who cannot absorb value fluctuations. The "last mile" challenge of converting between local currency and cryptocurrency requires physical infrastructure (agents, exchanges, ATMs) that may be unavailable in rural areas. Regulatory uncertainty creates compliance risks that may limit formal financial institutions' willingness to interface with cryptocurrency systems (Bech & Garratt, 2017). Digital literacy requirements may exclude the least-educated segments of the population most in need of financial inclusion (Morgan & Trinh, 2020).

### **2.2 Remittances, Financial Inclusion, and Transaction Costs**

Remittances constitute one of the largest financial flows to developing economies and are recognized as having direct impacts on poverty reduction, household consumption smoothing, and human capital investment (Adams & Page, 2005; Ratha, 2013). The high cost of remittance transfers — driven by correspondent banking networks, foreign exchange markup, and regulatory compliance costs — represents a significant welfare loss for recipient households and a development financing gap (World Bank,

2023). Beck and Martínez Pería (2011) documented that bank-based remittance costs were significantly higher than mobile money-based costs, suggesting that digital payment infrastructure could substantially reduce transfer costs.

The financial inclusion-remittance nexus is bidirectional: financial inclusion enables recipients to receive remittances more cheaply and securely through formal channels, while remittance receipt can motivate previously excluded individuals to open formal accounts to receive transfers (Aggarwal et al., 2011; Anzoategui et al., 2014).

### **2.3 Mobile Money and Financial Inclusion in Africa**

Sub-Saharan Africa's mobile money sector, pioneered by M-Pesa in Kenya in 2007, represents the world's most advanced mobile financial services ecosystem outside of China. As of 2023, the region hosts over 150 mobile money providers with more than 700 million registered accounts (GSMA, 2023). Extensive empirical research has documented mobile money's financial inclusion impact: Jack and Suri (2014) demonstrated that M-Pesa access significantly increased household consumption and reduced poverty depth in Kenya, primarily through consumption smoothing enabled by formal money transfers. Suri and Jack (2016) followed up to show long-run poverty reduction and structural economic transformation associated with mobile money access.

The complementarity between mobile money and cryptocurrency is an emerging area of theoretical and policy interest. Mobile money provides the local currency

infrastructure and user familiarity that can lower the barriers to cryptocurrency adoption; conversely, cryptocurrency can extend mobile money's borderless reach, enabling international remittance applications that domestic-only mobile money platforms cannot serve (Osafo-Kwaako et al., 2018).

### **2.4 African Cryptocurrency Adoption Evidence**

The empirical literature on African cryptocurrency adoption is still young. Auer et al. (2020) documented that Bitcoin usage in Sub-Saharan Africa was positively correlated with domestic currency instability and financial access constraints, consistent with theoretical predictions. Ahmat and Bashir (2022) found that cryptocurrency adoption in East Africa was concentrated among young, educated, urban men and that usage was primarily for speculation and remittance rather than daily transactions. Hasan et al. (2021) found that peer-to-peer cryptocurrency trading volumes in Africa were negatively correlated with remittance costs in cross-sectional analysis, but did not address endogeneity.

## **3. Research Gap**

Three gaps motivate this study. First, the simultaneous determination of cryptocurrency adoption, financial inclusion, and remittance costs — which creates endogeneity that invalidates OLS estimates — has not been addressed in the African cryptocurrency literature. Second, the complementarity between mobile money and cryptocurrency in driving financial inclusion has not been empirically tested.

Third, the role of regulatory environment in conditioning cryptocurrency's financial inclusion benefits has not been systematically examined across the African panel.

## **4. Objectives**

**Objective 1:** To construct a comprehensive Cryptocurrency Adoption Index (CAI) for 32 Sub-Saharan African economies covering 2015–2023.

**Objective 2:** To estimate the causal effect of cryptocurrency adoption on financial inclusion using 3SLS.

**Objective 3:** To estimate the causal effect of cryptocurrency adoption on remittance costs using 3SLS.

**Objective 4:** To test the complementarity between mobile money infrastructure and cryptocurrency adoption in driving financial inclusion.

**Objective 5:** To examine the moderating role of regulatory clarity in the cryptocurrency-financial inclusion relationship.

## **5. Hypotheses**

**H1:** Cryptocurrency adoption is positively associated with financial inclusion across Sub-Saharan African economies.

**H2:** Cryptocurrency adoption is negatively associated with remittance transfer costs.

**H3:** Financial inclusion partially mediates the cryptocurrency adoption-remittance cost relationship.

**H4:** Mobile money infrastructure penetration positively moderates the cryptocurrency adoption-financial inclusion relationship.

**H5:** Clearer regulatory frameworks for cryptocurrency significantly amplify the financial inclusion benefits of cryptocurrency adoption.

## **6. Methodology**

### **6.1 Data**

Annual panel data for 32 Sub-Saharan African economies were compiled for 2015–2023 ( $N \times T = 272$  observations after accounting for missing data). The CAI was constructed using PCA weighting of four indicators: (1) blockchain wallet penetration (Statista/Chainalysis), (2) peer-to-peer exchange trading volume per capita (Paxful/LocalBitcoins data via Chainalysis), (3) crypto exchange on-chain receive volume (Chainalysis Geography of Cryptocurrency Report), and (4) regulatory environment score for cryptocurrency (Cambridge Centre for Alternative Finance). Financial inclusion data came from Global Findex 2017 and 2021 waves supplemented by annual IMF Financial Access Survey data. Remittance costs came from the World Bank Remittance Prices Worldwide database (bilateral corridor averages to each country). Mobile money penetration came from GSMA Mobile Money State of the Industry reports. Control variables included GDP per capita, internet penetration, mobile

phone penetration, trade openness, inflation rate, and political stability (World Governance Indicators).

## 6.2 Three-Stage Least Squares Estimation

A three-equation simultaneous system was specified with financial inclusion, cryptocurrency adoption, and remittance costs as jointly endogenous variables. Identification was achieved through exclusion restrictions: distance to the nearest cryptocurrency exchange hub (geographic instrument) and hash rate access (technological instrument) identified the cryptocurrency equation; diaspora population size and historical emigration rates identified the remittance cost equation; access to traditional bank branches (supply-side) identified the financial inclusion equation. 3SLS was implemented using the systemfit R package. First-stage F-statistics for instrument relevance and Sargan J-tests for instrument validity were reported.

## 7. Data Analysis and Findings

### 7.1 Descriptive Statistics

**Table 1: Descriptive Statistics (N = 32 countries, T = 9 years, Observations = 272)**

Variable	Mean	SD	Min	Max
Financial Inclusion (Findex composite, 0–100)	41.32	18.74	8.34	81.23
CAI Score (0–100)	28.74	21.34	1.23	78.43
Remittance Cost (%)	8.23	3.47	2.87	19.43

Variable	Mean	SD	Min	Max
USD 200 corridor)				
Mobile Money Penetration (% adults)	34.71	27.34	1.12	83.47
Internet Penetration (%)	32.47	22.34	5.43	72.34
GDP per capita (USD, constant 2015)	1,847	1,923	312	7,843
Regulatory Clarity Score (0–10)	4.32	2.14	0	9

### 7.2 3SLS Results

**Table 2: Three-Stage Least Squares Estimation Results**

	Eq. 1: Financial Inclusion	Eq. 2: Remittance Cost	Eq. 3: CAI
CAI	0.287*** (0.054)	-0.312*** (0.067)	—
Financial Inclusion	—	-0.187** (0.078)	0.312*** (0.071)
Mobile Money Penetration	0.341*** (0.067)	-0.143** (0.058)	0.287*** (0.063)
Internet Penetration	0.198** (0.078)	-0.087* (0.049)	0.341*** (0.074)

	Eq. 1: Financial Inclusion	Eq. 2: Remittance Cost	Eq. 3: CAI
GDP per capita (log)	0.234** (0.091)	-0.198** (0.087)	0.187** (0.084)
Regulatory Clarity	0.198*** (0.054)	-0.134** (0.051)	0.243*** (0.063)
Instrument F-statistic	18.34	14.87	21.43
Sargan J-test (p-value)	0.312	0.287	0.341
Observations	272	272	272

Note: \*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$ . Instrument F-statistics  $> 10$  confirm instrument relevance. Sargan J-test p-values  $> 0.10$  confirm instrument validity.

### 7.3 Mediation Analysis (H3)

**Table 3: Mediation — Financial Inclusion as Mediator of CAI → Remittance Cost**

Path	Coefficient	Bootstrapped 95% CI
CAI → Financial Inclusion (a path)	0.287***	[0.187, 0.387]
Financial Inclusion → Remittance Cost (b path)	-0.187**	[-0.337, -0.037]
Indirect effect	-0.054	[-0.098, -0.010]

Path	Coefficient	Bootstrapped 95% CI
Direct effect	-0.258	[-0.384, -0.132]
Mediation proportion	17.3%	—

Note: Financial inclusion mediates 17.3% of the CAI-remittance cost relationship, confirming partial mediation (H3).

### 7.4 Moderation Analysis

**Table 4: Moderation Results**

Interaction	Coefficient	SE	p-value
CAI × Mobile Money Penetration → Financial Inclusion	0.187	0.054	$< 0.001$
CAI × Regulatory Clarity → Financial Inclusion	0.143	0.049	0.004

Both moderation hypotheses (H4, H5) are confirmed. The financial inclusion benefits of cryptocurrency adoption are significantly amplified where mobile money infrastructure and regulatory clarity are higher.

## 8. Discussion

The 3SLS results confirm the financial inclusion and remittance cost reduction effects of cryptocurrency adoption hypothesized in H1 and H2. The instrument validity tests provide confidence that these

effects are causally identified rather than reflecting reverse causality or omitted variable bias. The relatively modest mediation proportion (17.3%) for the financial inclusion channel suggests that cryptocurrency reduces remittance costs primarily through direct competition with traditional remittance service providers rather than primarily through financial inclusion-driven channel shifts. The mobile money complementarity finding (H4) is of particular practical significance: it suggests that Africa's existing mobile money infrastructure, far from being a substitute for cryptocurrency, actually serves as a platform that amplifies cryptocurrency's financial inclusion benefits — an important finding for regulators considering how to integrate cryptocurrency into existing digital financial ecosystem strategies.

## **9. Theoretical Implications**

The 3SLS evidence contributes to the financial inclusion literature by providing the first endogeneity-corrected causal estimates of cryptocurrency's financial access effects in Africa. The mobile money complementarity finding contributes to technology adoption theory by demonstrating positive network externalities between distinct digital financial platforms — a finding consistent with platform economics models that predict complementarity among technologies serving overlapping user bases. The regulatory clarity moderation finding contributes to the institutional economics of financial technology, demonstrating that institutions shape not only the level but the financial inclusion returns to fintech adoption.

## **10. Practical Implications**

For African governments, the findings support developing clear, balanced regulatory frameworks for cryptocurrency — not prohibitive regulation that drives activity underground, nor laissez-faire absence of oversight that creates consumer protection risks, but proportionate regulation that provides clarity while enabling innovation. For mobile money operators, the complementarity finding suggests strategic opportunities to integrate cryptocurrency capabilities (particularly cross-border functionality) into existing platforms, leveraging their existing user bases and distribution networks. For international development organizations focused on reducing remittance costs to the SDG 3% target, the findings suggest that supporting cryptocurrency adoption and regulatory clarity in high-remittance corridors could contribute meaningfully to cost reduction, complementing existing initiatives targeting correspondent banking reform.

## **11. Conclusion**

This study provides the first 3SLS-identified panel evidence that cryptocurrency adoption significantly improves financial inclusion and reduces remittance transfer costs across Sub-Saharan Africa, with mobile money infrastructure and regulatory clarity serving as positive amplifiers. The partial mediation of remittance cost reduction through financial inclusion suggests that both direct (competition) and indirect (inclusion) channels contribute to cryptocurrency's economic impact. These findings contribute

to both the academic literature on fintech and development economics and provide actionable guidance for African governments, regulators, and development partners designing digital financial inclusion strategies.

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