

Facebook's digital currency may flourish in the analog world

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In this Feb. 26, 2018, file photo a visitor uses his phone during the Mobile World Congress wireless show, in Barcelona, Spain. Facebook's new Libra digital currency is aimed at a huge potential market for financial services, the entire developing world, with billions of people in areas such as India and Sub-Saharan Africa, where financial services are often less sophisticated and many people don't use traditional banking accounts. (AP Photo/Emilio Morenatti, File)

Europeans and Americans have their Visa and Mastercards. For everyone else, here comes ... Libra?

Facebook's new Libra [digital currency](#) is aimed at a huge potential market for financial services—the entire developing world, with billions of people in areas such as India and Sub-Saharan Africa, where financial services are often less sophisticated and many people don't use traditional banking accounts.

Whether or not these billions will want to make the switch is anyone's guess.

The U.S., Europe and most developed economies already have large, efficient payment systems. These allow people to buy and sell goods in [real time](#) and send money person-to-person through services like Zelle, PayPal and Venmo. That's why the companies that joined Facebook's Libra association, as well as nonprofits involved with similar projects, say Libra's potential lies elsewhere.

In developing countries, many tens of millions still live far from a bank or money transfer center, or currently use a currency prone to inflation or volatility. Libra could address this issue by providing a universal, stable currency that is easily transferrable between persons or businesses without involving setting up an entire payment infrastructure. It also potentially could work at a lower cost.

In the last decade, citizens of developing countries have widely adopted cellphones as a way to store money, sending text message-based payments either to businesses or persons. It's been a broadly heralded development among policymakers and nonprofits focused on poverty because bank accounts are hard to come by or are too expensive.

"The entire continent of Africa skipped right over cards and went

straight into mobile payments," said Sanjay Sakhrani, an industry analyst with Keefe, Bruyette & Woods, who covers Visa, Mastercard, PayPal and Western Union.

But these payment systems are often constrained by the type of cellphone carrier each person is using. It's not uncommon in places like Africa to carry multiple cellphones in order to have the necessary access to the right money transfer system.

Libra could solve this problem by creating a universal currency that can be transferred across multiple cellphone networks and across borders. There's also the issue of cost, which is cited by the World Bank as being the biggest issue with financial systems outside of developed markets. Facebook says Libra would have a near-zero cost attached to it.

The Colombian border city of Cucuta, is one of the places where Libra could make a difference.

Every day, thousands of needy Venezuelans cross into this sweltering town to buy food and medicines that are scarce at home. For many the first stop is Western Union, where they line up for hours to pick up cash sent by relatives living in abroad. The demand for cash remittances is so big in fact that migrants sometimes line up outside Western Unions the night before the branches open, sleeping on the sidewalk to keep their place in the queue.

Digital currencies could make it easier to transfer funds to these migrants with no bank accounts, and save them hours of their time. Using them is also safer, says Typson Sanchez, a local software developer, because it prevents robberies.

But despites its obvious benefits, merchants in Cucuta have been slow to adopt digital currencies, and only a handful currently accept it.

"Merchants worry about the volatility" of currencies like bitcoin, says Sanchez, a software developer and co-founder of Panda Exchange, a digital payments start up. Other merchants find existing digital wallets difficult to use, and worry about its legality.

Sanchez hopes that Facebook's Libra could help to overcome some of those obstacles. "They already have a very powerful platform with lots of users" Sanchez says. "They will be able to reach everyday people who are not into technology. And that's something that many companies haven't been able to do yet."

Vodafone, the Europe-based cell carrier, has a large presence in Africa and other developing countries and operates its own mobile wallet system known as M-Pesa. Already a dominant carrier in Africa, Vodafone sees the potential in Libra to enable customers to send money across borders at a much lower cost.

There's a lot of room for improvement. The average fee on a cross-border remittance is around 7%, according to the World Bank, with places in Sub-Saharan Africa charging as much as 10% to send a money transfer.

Companies like Vodafone and organizations involved with Libra like Mercy Corp and Women's World Banking said they've joined at least in part to make sure they have a "seat at the table" in case Libra does take off as a payment method. Libra's real-life use cases are still at least a year off, and much likely longer.

Some would argue that Facebook's Libra is the wrong solution to the issue of accessing [financial services](#) in developing countries. In China, the dominant way to pay are WeChat and AliPay, two mobile apps that use messaging to send money either to a business or another person, at extremely low cost. Both apps are used by more than a billion people.

"That to me is the simplest solution for developing countries," said Nicholas Economides, a professor of economics at the Stern School of Business, an expert in electronic commerce and payment systems. "You don't need to create a whole new currency. You just need the right app."

There's a "well, why not?" factor into these companies' involvement. Facebook asked for a minimum \$10 million investment in Libra from its for-profit partners. For a company like Visa, which made more than \$20 billion in revenue last year, the Libra investment is pocket change. In exchange Visa gets insider access to Libra and its potential technologies, as well as a seat at the table.

Visa declined a request for an interview regarding its involvement in the project, but a spokesman pointed to a blog post one of its executives published Tuesday, in which the company's interest is described as reflecting "a spirit of openness and curiosity."

Mastercard has been looking into technology that underpins bitcoin and other digital technologies for some time, said Jorn Lambert, executive vice president of digital solutions at Mastercard. The company was attracted to Libra because it's private, unlike bitcoin which operates on an open network, and it's backed by reserve currencies.

"This is a thing that could provide real consumer benefits, particularly in the developing world," Lambert said.

Women's World Banking, a nonprofit focused on financial inclusion for women particularly in developing countries, also joined the association. WWB wanted to make sure the issues of women in developing countries—who are often less technologically literate than their male counterparts—were addressed.

"Women are more than half of the unbanked population in the world.

We wanted to be at the table to address women's needs," said Karen Miller, vice president of knowledge and communications.

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