

Revolutionising Cross-Border Payments

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With over 1.7 billion adults worldwide being classified as underbanked (World Bank, 2018), many small businesses in developing countries face limitations in accessing traditional payment services, hindering the ability to trade.

The rise of stablecoins, a type of cryptocurrency attached to a stable asset, could offer a simple, cost-effective and reliable alternative to traditional payment services. In this article, the potential of stablecoins and blockchain technology to enable financial inclusion of small businesses will be explored.

The use of blockchain payment technology removes the need for the “middle man”, such as a bank or payment processor, reducing the cost per transaction by minimising the number of parties involved. The simplicity comes at a cost: decentralisation implies an absence of central authority, which would compensate involved parties in case of an error, scam or system failure.

The cost of card payment or digital services can hinder the uptake of electronic payment systems by small retailers, as the set-up and commission fees are not justified for small-scale

low-volume businesses. International trade is inhibited by remittance fees faced by many small businesses. While negligible for large retail, small businesses may face high transaction and remittance fees due to the fixed fees, which are not cost-effective for small low-volume transactions.

The fixed fee for receiving commercial PayPal payment is 0.30GBP (PayPal, 2023), with an added on 1.2% of the total transaction for domestic and international transfers. This would amount to a considerable loss for businesses that process small payments, which is why a micropayment plan would be a better alternative: with 0.05GBP fixed fee and additional 6% for international microtransactions. For a 5 GBP payment that would still mean a 35p transaction fee (7% of the payment value). Therefore to incentivise adoption of electronic payment services by smaller businesses, transaction and remittance

Stablecoins

	TransferWise	PayPal	WorldRemit	Western Union	Celo
Fees (USD)	3.33	1.44	1.95	5.55	< 0.01
Fees as % of USD 5 sent from the US to Kenya	66.6%	28.8%	39.0%	111.0%	0.2%

Figure 1: Transaction fees at the time of the Kenya pilot study on major transaction platforms compared to Celo - a mobile-first blockchain platform that aims to make finance more accessible.

costs need to be reduced. A pilot study in Kenya has shown that stablecoins can reduce transaction fees to 2.02% regardless of the transaction value (Mercy Corps Ventures, 2022) - a great improvement from PayPal fees.

An additional benefit of stablecoins is that they can facilitate easier cross-border transactions, encouraging globally inclusive trade. Paperwork, security checks and administrative processes are inhibitors to international small business operations and traditional cross-border payments can take days to settle. Stablecoins can eliminate these issues by providing a fast, secure and cost-effective way for small businesses to transact with international customers and suppliers. They are designed to be transferred digitally, and therefore the transaction can be completed almost immediately without the need for any additional infrastructure.

Stablecoins are attached to a stable asset, such as a commodity, to minimise price volatility and avoid drastic changes in their value. While crypto-collateralised or algorithmic coins tend to experience

greater volatility, fiat-collateralised stablecoins seem to be most stable, as they rely on a trusted currency. This provides relative stability that ensures that the value of the stablecoin remains consistent, therefore reducing exchange rate fees and the risk of currency fluctuations that small businesses would otherwise heavily depend on.

In conclusion, the use of blockchain technology and stablecoins has the potential to improve and revolutionise the way small businesses transact with customers and suppliers. By providing a secure, reliable and cost-effective method of payment, blockchain-based payments can help small businesses expand their target market and supplier options, save on transaction fees and enable them to compete on a level playing field with other companies. They bypass the need for traditional card-payment infrastructure and the problems associated with cross-border trading such as currency transactions or extensive checks, helping retailers from developing markets to participate in trade on local and global scale.

ABOUT THE AUTHOR

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Polina Markova is a first-year MSci Computer Science student at Lancaster University. Through her work experience, Polina gained a keen interest in the intersection of computing, data science and finance, with a particular curiosity for the advancements in algorithmic trading and a passion for computer ethics and inclusion