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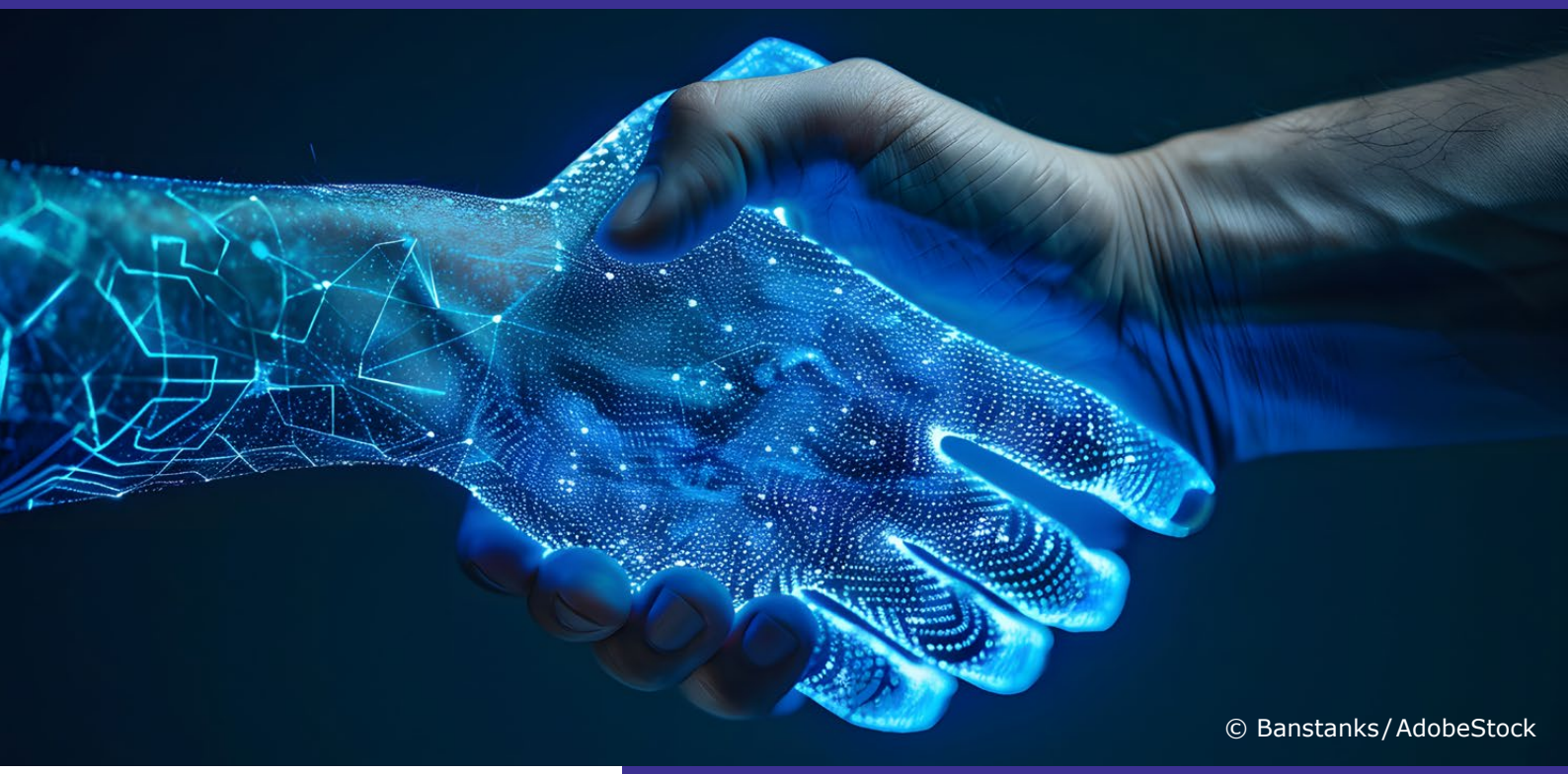

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LIGHTS - Technology

Between legality and legitimacy: Crypto as an institutional workaround in fragile financial systems

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Abstract

When banks freeze accounts, currencies collapse, or cross-border transfers stall, people still need to move and protect money. This paper shows that in fragile financial systems, ordinary users, educators, NGO workers, and entrepreneurs increasingly turn to Bitcoin and stablecoins — not to speculate, but as practical workarounds to keep economic life going. Because these practices are already widespread, the central question is no longer whether crypto should be allowed in fragile economies, but how to govern a reality that already exists: how to reduce its risks, protect the people who rely on it, and use its strengths. Drawing on 23 interviews across 16 countries, we find that the use of cryptocurrencies begins through trusted people, is used in a grey zone that is lawful yet unsanctioned, and lets people carry value across borders without permission. We set out what citizens, NGOs, entrepreneurs, and, above all, policymakers should do differently.

Keywords: cryptocurrencies, Bitcoin, Stablecoins, institutional voids, legitimacy, cross-border payments

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Why cryptocurrencies matter

In many parts of the world, losing access to your own money is not a tail risk — it is a recurring event. Bank closures, sudden withdrawal limits, frozen accounts, capital controls, and currencies that lose value overnight are familiar features of economic life for millions of people. The World Bank notes that in countries under economic stress, depositors frequently lose access to their funds, which erodes trust in formal banking (World Bank, 2020).

The ability to move money across borders is just as fragile. Remittances and aid travel through long chains of intermediaries, with opaque fees and frequent interruptions; the World Economic Forum reports that remittance payments remain slow, costly, and hard to access for the world's most vulnerable people (World Economic Forum, 2023). Up to 30% of remittance value can be lost to fees and delays before it reaches families (International Organization for Migration, 2021). When salaries do not arrive and relatives abroad cannot send help in time, the consequences are immediate.

Against this backdrop, crypto has quietly become part of everyday financial practice in fragile economies. According to Chainalysis's 2025 adoption data, usage is now concentrated in the Global South: across South Asia, Sub-Saharan Africa, and Latin America; driven not by speculation but by remittances, payments, and saving, with stablecoins the workhorse for protecting value. The people in our study are part of this shift: ordinary users, educators, NGO workers, and entrepreneurs who use Bitcoin and stablecoins to keep money moving when formal systems falter, while public debate remains fixated on bubbles, crime, and venture-backed startups (Bureau et al., 2025).

This forces a decision that governments and organisations can no longer postpone. With the United States passing the GENIUS Act in 2025 and the EU's MiCA rules now in force, regulators are actively deciding how to treat money rails that millions already use — a choice that is value-laden and made under deep uncertainty. **The question is no longer whether to allow crypto in fragile economies, but how to govern a reality that already exists.** Get it wrong and the exposure is broad: citizens lose savings to scams and volatility, NGOs see aid leak or freeze, regulators lose oversight as activity migrates to channels they cannot see, and states confront hard questions of monetary sovereignty. We asked how everyday users, educators, NGO workers, and entrepreneurs actually navigate these systems — and what citizens, NGOs, entrepreneurs, and policymakers should do about it.

What we found

We spoke with 23 people who use or teach crypto across 16 countries hit by inflation, capital controls, banking crises, and contested aid channels. Crypto was almost never their starting point. Adoption stories began with a failure in the formal system — a bank closure, a withdrawal cap, a collapsing currency, a remittance eaten by fees — after which people tried Bitcoin or stablecoins. They were pragmatic, not evangelical: quick to name the benefits, and equally quick to name the risks. Three patterns ran through their accounts, summarized in Figure 1.

Figure 1. Data structure: from first-order evidence (grouped by concept) to categories.

Representative evidence (first-order quotes, grouped by concept)	Developed category
Trust anchors beat connectivity – *"Trust, not internet access, is the main barrier; free classes can even trigger suspicion, so people rely on local trust anchors." (#17)* – *"Friends message me because I trust you — they prefer learning from peers over official channels." (#12)* **Peer learning through pain & shocks** – *"People usually learn financial literacy only through pain — awareness comes when a currency collapses." (#2)* – *"After COVID, adoption spiked because people learn mostly through crises." (#19)* **Low-friction rails for basic phones** – *"That lets you send Bitcoin across any feature phone… you don't need a smartphone." (#4)* – *"You can literally get Bitcoin offline and also send offline." (#9)*	**Trust-led pathways into money**
Working around the rules – *"Companies in Nigeria and China transact via Bitcoin despite de facto prohibitions — workarounds to capital controls in cross-border trade." (#13)* – *"Laws exist, but nobody follows them." (#7)* **When banks break, people improvise** – *"In Honduras, banks closed for two weeks in 2008; when they reopened, some people had different account balances and politicians' loans were erased — it was a huge scam." (#17)* – *"People lost over 80% of their savings when Ecuador dollarized after the banking crisis." (#8)* **Aid leakage vs. transparency** – *"For international aid, a lot is lost on the way — fees are high and bank accounts can be frozen in places like Afghanistan and India." (#11)* – *"Of about 30 million in development aid from the US to Ghana, only around 7% really reaches the intended purpose." (#23)*	**Life in the in-between (lawful yet unsanctioned)**
Money that crosses borders – *"A $1,000 SWIFT transfer costs around $50 and takes five to seven business days — just buy Bitcoin and send it right away, no commission." (#12)* – *"When the war started in Ukraine, those who had crypto were able to get it out more easily." (#5)* **Holding on in inflation** – *"The naira has lost 70% of its value in three years — if I'd kept my money, I'd have maybe 5% left." (#9)* – *"For many in high-inflation countries, the volatility of Bitcoin pales next to everyday currency erosion." (#13)* **Fast money with no gatekeepers** – *"Bitcoin is faster and cheaper and, if done correctly, cannot be blocked; you can send it anywhere in minutes." (#23)* – *"Bitcoin is not a new app; it's more of a civilizational tool — digital money that levels the playing field and works for everyone." (#9)*	**Carrying value without permission**

1. Trust gets people in

The main barrier to crypto in these settings is not internet access or smartphones. It is trust, especially after people have already been burned by banks and governments. "Trust, not internet access, is the main barrier," explained an educator in Honduras (#17); free classes can even arouse suspicion, so people lean on local trust anchors.

People learn from peers they already know, not from corporate marketing or official campaigns. "Friends message me because I trust you — they prefer learning from peers over official channels," said an interviewee in El Salvador (#12).

Learning is usually triggered by loss, not curiosity. "People usually learn financial literacy only through pain — awareness comes when a currency collapses," one long-time educator noted (#2). Adoption spiked after COVID-19 because, as another put it, "people learn mostly through crises" (#19).

Once trust is in place, the technology is deliberately low-friction. New tools "let you send Bitcoin across any feature phone… you don't need a smartphone" (#4); you can even "get Bitcoin offline and also send offline" (#9). Access no longer depends on high-end devices or reliable broadband.

2. Living in the grey zone (lawful yet unsanctioned)

Once in, users live in an in-between space: lawful yet unsanctioned. Rules exist on paper but are unevenly enforced. "In inflationary countries, commercial banks are not allowed to transfer any foreign currency outside the country," one interviewee observed (#14); another in Ecuador put it bluntly: "Laws exist, but nobody follows them" (#8).

Banking crises sharpen the sense that the formal system is itself the risk. In Honduras, an interviewee recalled, banks closed for two weeks in 2008; when they reopened, everyone could withdraw only $1,000 regardless of their balance, while politicians' loans were quietly erased — "it was a huge scam" (#17). In Ecuador, "people lost over 80% of their savings" after the country dollarized following its banking crisis in 2000 (#8). At the time of the Greek and Cypriot bail-outs, depositors above €100,000 lost substantial wealth — "one factor that strongly drove crypto adoption" (#6).

The grey zone is most visible in aid and remittances. "For international aid, a lot of money is lost on the way — fees are high, and bank accounts can be frozen in places like Afghanistan," one NGO worker said (#11). Another, working on development projects, estimated that of "about 30 million in development aid" flowing from the US to Ghana, "only around 7% really reaches the intended purpose" (#23) and saw crypto as a transparency tool: "you can dedicate a wallet to a donation purpose so every donor can track where the funds go." During the war in Ukraine, "those who had crypto were able to get assets out of the country more easily" (#5).

Crucially, users do not see themselves as criminals. They see themselves as doing what is necessary and fair when formal institutions are unreliable, opaque, or extractive. What scholars of legitimacy call acting in ways that are socially appropriate even where they are not officially sanctioned (Suchman, 1995; Phillips et al., 2023; Cannatelli et al., 2019). Crypto becomes one tool in a broader repertoire of lawful-yet-unsanctioned practices for keeping financial life going.

3. Moving value without permission

The third pattern is the payoff: moving and protecting value without asking anyone's permission. The motivation is rarely speculative upside; it is about avoiding costly, slow, or discretionary channels. "With MoneyGram, both sender and receiver pay around 10%, and going to pick up cash can be dangerous," one interviewee noted (#11). Another compared a bank transfer to Bitcoin: "A $1,000 SWIFT transfer costs around $50 and takes five to seven business days — just buy Bitcoin and send it right away, no commission" (#12).

Value preservation is the other half. "The naira has lost its value by 70% in the last three years... if I'd kept my money, I'd have maybe 5% left," said an interviewee in Nigeria (#9). For many in high-inflation economies, "the volatility of Bitcoin is less of a problem than everyday currency erosion" (#13). Holding part of one's savings in crypto becomes a self-assembled safety net.

And there is the appeal of neutrality. Bitcoin, one interviewee argued, "is not a digital tool like a new app; it's more of a neutral digital money that levels the playing field and works for everyone" (#9); done correctly, it "cannot be censored" (#23). The deepest draw is the escape from discretionary control. The sense that no single bank, company, or government can unilaterally freeze or seize funds at the worst possible moment.

Bitcoin and stablecoins are not the same tool

For a general audience, it is tempting to treat "crypto" as one thing. In practice, our interviewees relied on two quite different instruments, each with distinct strengths and risks.

Bitcoin is valued for neutrality and censorship-resistance. No company controls it, it works on basic phones and even offline, and it is hard for any authority to block or seize. The cost is volatility: its price swings wildly — though, as several interviewees noted, that volatility can still beat a local currency losing 70% a year. Bitcoin fits situations where the central fear is seizure, censorship, or capital controls.

Stablecoins (typically pegged to the US dollar) are valued for predictability. They hold their value day to day, which makes them better suitable for savings, pricing, and reliable transfer corridors. But that stability comes from a centralized issuer. So a company or regulator can freeze balances, the peg can break, and holders are exposed to sanctions and custody risk in ways Bitcoin users are not. Stablecoins fit situations where the central fear is inflation and the need is a steady, spendable store of value.

This distinction runs through everything that follows: the two instruments call for different protections, different advice to users, and different regulatory treatment.

The risks people run

These workarounds are not a free lunch, and our interviewees were candid about the downsides. Treating crypto as a costless escape hatch would be misreading the evidence.

- **Scams and fraud.** Low trust and thin consumer protection make fraud a constant threat. that is one reason people insist on learning from someone they already know.
- **Volatility.** Bitcoin in particular can lose value quickly; a safety net can shrink at exactly the wrong moment.
- **Legal uncertainty.** Because use is lawful-yet-unsanctioned, rules can change abruptly, and enforcement is unpredictable.
- **Sanctions and freezing.** Centralized stablecoin issuers can and do freeze funds, and cross-border use can trip sanctions regimes. This is a risk users often underestimate.
- **Unequal digital literacy and access.** The people who most need these tools are often least equipped to use them safely, so the benefits can concentrate among the already-capable.

What this means — and who should act

If millions of people already rely on these workarounds, the practical task is not to wish them away but to govern them well. Consider the decision facing a finance ministry in a high-inflation country: citizens are already moving savings into stablecoins, so officials must choose to ban it, ignore it, or govern it. Each path comes with issues. Economically, a ban tends to push activity into unregulated peer-to-peer channels and can accelerate capital flight; socially, it strips consumer protection from the people least able to absorb a scam or a broken peg; reputationally, criminalising citizens who are simply coping invites backlash; and politically, widespread use of dollar-pegged stablecoins raises hard questions of monetary sovereignty. The risk of inaction is just as real: leaving these practices in the grey zone leaves users unprotected and institutions blind to what is happening. What the right response looks like depends on who you are.

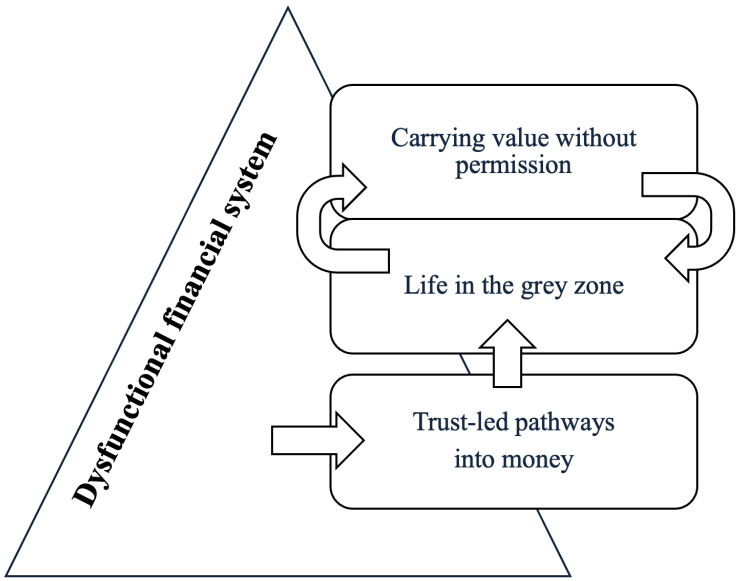
Policymakers and regulators. Govern the reality rather than deny it. Prohibition rarely ends crypto use; it pushes it into unregulated peer-to-peer channels where people have even less protection. More productive steps: give crypto a clear legal status so users are not trapped in a grey zone; build consumer protection and anti-scam education; regulate Bitcoin and stablecoins differently, given their distinct risks; license and supervise local exchange points (on/off-ramps) instead of driving them underground; and avoid criminalizing citizens who are simply trying to protect their savings.

NGOs and humanitarian organizations. Use the transparency and manage the plumbing. Dedicated, traceable wallets can cut the leakage that swallows much of aid and let donors follow funds. Stablecoins can make disbursements predictable. But organizations must secure reliable local cash-out points, invest in recipients' digital literacy, and manage sanctions and compliance exposure deliberately.

Entrepreneurs and fintech builders. Solve trust and convertibility, not just technology. Our evidence shows the binding constraints are trusted onboarding and reliable conversion to and from local cash, not the underlying protocol. The opportunity lies in trust-anchored education, dependable on/off-ramps, and tools designed for feature phones and patchy connectivity.

Citizens and users. Know which tool you are holding. Use stablecoins for stability and Bitcoin for censorship-resistance, recognize that each carries distinct risks, and treat crypto as a partial safety net. This is useful, but not a guarantee against scams, volatility, or sudden rule changes.

Figure 2. How crypto adoption builds in a dysfunctional financial system.



How we know this

This paper draws on 23 semi-structured interviews across 16 countries (Argentina, Austria, Czechia, Ecuador, El Salvador, Ethiopia, Germany, Honduras, Iraq, Kenya, Nigeria, Paraguay, South Africa, the UAE, the UK, and Zimbabwe) with freelancers, NGO workers, educators, developers, activists, merchants, remittance senders and receivers, and entrepreneurs. We analysed the interviews inductively, building from participants' own words toward broader themes, and cross-checked our reading against field observation[1] and contextual sources such as reports and contemporary reporting. Figure 1 shows how first-order observations map onto the three patterns above.

The bigger question

Step back, and a pattern emerges. Crypto in fragile economies does not replace the financial system so much as work around it (Bureau et al., 2025). It becomes a parallel set of money rails that people use alongside (and partly outside) official channels when those channels fail them. This is less a technological revolution than an adaptive response to the gap between the rules on paper and the constraints people actually live with; it echoes a long line of research on how people improvise around weak or failing institutions (North, 1991; Webb et al., 2020; Sydow et al., 2022).

That leaves a question for anyone who governs, funds aid, or uses money in fragile settings: When formal systems repeatedly fail, how far will workarounds that are already trusted and already working reshape what counts as "normal" money? And will they be governed wisely, or simply left in the grey zone? Our answer is that, because people already depend on these rails, the responsible path is to govern them deliberately; letting values like financial inclusion, consumer protection, and the rule of law guide the response, rather than pretending they do not exist.

[1] Field observation included the Bitcoin conference in Prague (BTC Prague, https://btcprague.com).

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