P2P Markets Report: Ukraine and Iran

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INTRODUCTION

Peer-to-peer (P2P) marketplaces allow individuals to directly interact with one another in order to complete a transaction without the need for a third party. In the digital asset ecosystem, these marketplaces serve an essential function in emerging markets where bank account access is limited. Through P2P markets, buyers and sellers of cryptocurrencies are able to trade with a variety of payment methods including the use of local fiat currencies. In places where bank account access is limited, P2P marketplaces may be the only option to exchange for cryptocurrencies with local fiat currency. Generally, P2P marketplaces see the highest volume in these emerging markets because of the people's inability to access centralized exchanges where bank accounts are required. For many, access to cryptocurrency and a digital wallet is the only option for independent self custody of their finances and P2P marketplaces act as a gateway into this ecosystem.

While P2P marketplaces serve mundane banking services for some, they can also be a useful tool for more developed nations. Given the current conflict in Ukraine and the growing use of cryptocurrencies by the Iranian regime, this report will explore the role of P2P marketplaces in these countries.

UKRAINE

Before Russia's invasion of Ukraine, the nation ranked 3rd in global cryptocurrency adoption and 39th overall in P2P marketplace volume. The nation's adoption is largely enabled by their highly banked population of 83 percent. Because of their largely banked population, centralized exchange activity is the primary route for Ukrainians to access cryptocurrency with Binance and Kuna as the leading exchanges for the region. Although not the most popular currently, Ukrainian P2P marketplaces have been well established since 2017 and have consistently ranked high in global trading volume. LocalBitcoins and Binance's P2P platform have led Ukraine's cryptocurrency P2P markets before the war and continue to do so following the invasion.

In the few months following Russia's invasion, cryptocurrency purchases across both centralized exchanges and P2P markets spiked as many looked for ways to safeguard their wealth and move it across borders. As a result, the Ukrainian Central Bank banned their purchase with the hryvnia in order to protect its strength and the overall health of the economy. Immediately following the ban in April, volume on LocalBitcoins and centralized exchanges dropped back down to pre-invasion levels and has seen steady volumes since, indicating that Ukrainians continue to make trades despite the central banks ban. However, P2P marketplace volumes are significantly less than their centralized exchange competitors because of the country's ease of centralized exchange use. In general, volume on centralized exchanges and P2P marketplaces were not dramatically impacted from Russia's invasion and both are still commonly used by the Ukrainians.

Centralized exchange and P2P marketplace volume is not the only indicator to truly understand the role of P2P local markets in Ukraine. Crypto in Ukraine has evolved from being an investment to being a tool for a financial system in crisis. The United Nations has sent humanitarian aid directly to Ukrainians in crypto, Binance has launched cards to enable crypto payments for pharmacy products and many refugees have converted their wealth to take it with them as they fled the country. P2P marketplaces like LocalBitcoins do not see significant volume changes from the war but P2P transactions are happening on a more personal level where crypto is acting as a means of exchange between individuals. It can be assumed that many of these transactions are directly to and from digital wallets with their volume going unreported. Although P2P markets like LocalBitcoins have had consistent trading volumes before and after the war, it is likely that personal P2P crypto transactions are also happening within the Ukrainian local markets during this time.

IRAN

The Iranian regime is in constant turmoil and has been a focal point in the Middle East for several years. The country remains under Western sanctions for their illicit nuclear activities, leaving them mostly isolated from the global financial system. The regime has turned to cryptocurrency and bitcoin mining operations as a potential tool to circumvent sanctions in international trade and to generate revenue. Cryptocurrency adoption throughout the country is primarily associated with state interests, as the regime has placed strict regulations on its use within their borders. Recent protests throughout the country have sparked the regime to once again restrict internet access for Iranian citizens. As a byproduct, cryptocurrency exposure for Iranian citizens is much more difficult regardless of nearly 89 percent of the population having bank account access. Because of the international sanctions placed on the country, centralized exchange providers outside of Iran do not offer their services to Iranian citizens, leaving only domestic centralized exchanges as an option. In addition, major P2P platforms do not offer their services within the country which leaves P2P trading to obscure local markets.

Iranian citizens have few reliable options when it comes to cryptocurrency access. One of these is to create a cryptocurrency mining operation following tight regulations by the state. In this event, all mined crypto must be sold to the central bank in exchange for the Iranian Rial. The state has been reported to strictly prosecute illegal mining operations which limits even the miner's ability to hold crypto. Another route is through one of the several domestic centralized exchange options like Nobitex and Exir. The status of these exchanges is unclear and cryptocurrency access this way is likely to be unreliable. P2P markets are another option but typical platforms like LocalBitcoins and Paxful do not offer their services for Iranians in order to maintain compliance with Western sanctions. This leaves Iranians with few P2P market options and the majority of P2P trades are likely through obscure methods. For example, it has been reported that Iranian citizens have established messaging app marketplaces that work similarly to a P2P platform. These markets essentially work as large group chats to connect crypto buyers and sellers through a word of mouth type system. It is likely that these markets encompass the entirety of the Iranian P2P local markets and it is also expected that these markets are not compliant with state regulations.

CONCLUSION

Ukraine and Iran are both in the midst of significant international and domestic challenges. Ukraine's support from the West and Iran's isolation has led to significant differences in the two countries' cryptocurrency policies and adoption. In general, crypto in Ukraine has been utilized as a tool by both the government and the citizens whereas crypto in Iran is primarily used to support the regime's international strategies. This is a significant difference that directly impacts the shape of the crypto ecosystem for the citizens of both countries. Repressive regimes like Iran make it difficult for cryptocurrency to be adopted among their citizens whereas crypto friendly nations like Ukraine have benefited from prior familiarity. The P2P markets in both countries are no exception considering Ukrainian P2P markets flourish in comparison to Iran's obscure messaging app marketplaces. The future of crypto in both of these countries will likely have the same trajectory where Ukrainians continually utilize the benefits that crypto offers while Iranian citizens remain stunted by the repressive Iranian regime.

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