

TANZANIA LEGAL INSIGHT

The Yellow Card Precedent

**A Catalyst for Tanzania's
Cryptocurrency Regulatory
Framework?**

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Cryptocurrency adoption is growing globally, with Africa emerging as one of the fastest-growing markets. A Chainalysis report from October 2023 indicates that although Sub-Saharan Africa has consistently been one of the smallest cryptocurrency markets, crypto has penetrated key populations and become an important part of daily transactions.

In Tanzania, cryptocurrencies remain unregulated and are not recognised as legal tender. The Bank of Tanzania (BoT), which oversees all monetary and fiscal policies in the country, has issued several notices clarifying that only Tanzanian Shillings, in the form of notes and coins, are recognized as the sole legal tender for transactions in Tanzania. In November 2019, the BoT issued a notice reminding the general public that the trading, marketing, and use of virtual currencies contravene existing foreign exchange laws. Despite this, reports suggest that cryptocurrency transactions are increasing.

This insight examines the recent High Court (Commercial Division) decision in *Yellow Card Tanzania Ltd v. Nyamwero Michael Nyamwero, Case No. 12171 of 2024* (the Yellow Card Precedent) and explores its implications for the development of Tanzania's cryptocurrency legal framework, as well as potential future considerations for individuals and businesses engaged in cryptocurrency transactions.

The Yellow Card Precedent

Facts

The case involved Yellow Card Tanzania Ltd (the Plaintiff) and its former employee, Nyamwero Michael Nyamwero (the Defendant), who served as a country director. The Plaintiff accused the Defendant of misappropriating company funds by unlawfully accessing its bank account and claimed c. USD 1.19 million. To settle the matter, the parties entered into a Deed of Settlement, which outlined the Defendant's obligation to repay the claimed amount in four equal instalments. The Defendant failed to timely settle the instalments, prompting the Plaintiff to file a lawsuit for the remaining amount.

Key Legal Issues

One of the most significant legal issues before the High Court was the validity of the Deed of Settlement, given that the underlying business transactions involved cryptocurrency.

1. Validity of the Agreement

The Defendant argued that the Deed of Settlement was invalid because the Plaintiff's business involved cryptocurrency, which he claimed was illegal in Tanzania based on the BoT's November 2019 public notice. He contended that since the settlement amount stemmed from cryptocurrency activities, it was based on unlawful transactions and should be declared void.

The Plaintiff, however, maintained that while cryptocurrency is not regulated in Tanzania, there is no law expressly prohibiting its use.

2. Court's Ruling

The High Court ruled in favor of the Plaintiff, emphasising the following key principles:

- The validity of a contract is independent of whether the subject matter is regulated. The mere absence of a regulatory framework does not automatically render a contract invalid.
- Cryptocurrency is not inherently illegal in Tanzania. The court noted that service providers and users involved in cryptocurrency transactions are required to pay taxes under Tanzanian law.
- Virtual currencies only become unlawful if linked to cyber-money laundering or other illicit activities.
- Based on this reasoning, the Deed of Settlement was deemed valid, and the Defendant was found to be in breach of the agreement. Consequently, the court ordered the Defendant to pay the outstanding amount to the Plaintiff.

Key Takeaways and Future Outlook

While the BoT maintains that cryptocurrencies are not legal tender, the High Court's ruling suggests that cryptocurrency transactions are not inherently unlawful, provided they comply with existing financial and taxation laws.

By affirming that the absence of regulation does not equate to illegality, the High Court's decision creates a foundation for more nuanced conversations around the future of digital currencies in Tanzania.

This ruling also signals the importance of aligning Tanzania's legal and financial systems with evolving global trends in digital finance.

As cryptocurrency adoption grows, businesses and individuals engaging in virtual currency transactions will benefit from clear, predictable, and well-structured regulatory guidance.

Such a framework would enhance investor confidence, support financial innovation, and safeguard against potential risks like fraud and money laundering.

The judgment also underscores the necessity for businesses operating in the cryptocurrency space to ensure robust compliance with existing financial and tax obligations and highlights the need for continued judicial and administrative engagement as Tanzania navigates its approach to digital finance.

Should you have any questions regarding this article, please do not hesitate to contact



Geoffrey Dimoso
Partner

E: geoffrey.dimoso@aln.africa.co.tz



Shemane Amin
Country Partner

E: shemane.amin@aln.africa.co.tz



Chris Green
Partner

E: chris.green@aln.africa.co.tz

Contributors

1. Samiath Mohamed – Principal Associate
2. Amiri Sharifu - Associate
3. Elizabeth Tarimo – Trainee Lawyer

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