

# Crypto currency and NATO Risks and Opportunities

Webinar (17 Apr 2018)

## Report

---



The NATO Innovation Challenge 2017 called for innovative solutions in support of disaster response operations. One of the proposed solutions was to implement an alternative credit system aimed at rebuilding the economy after banking systems have been disrupted. This idea drew the attention of the NATO Innovation Hub, which started to explore its feasibility. After months of consultations, experts in the field gathered for the first time to discuss the alternative financing and cryptocurrencies potential impact on NATO. It was a unique opportunity to compare and also confront different approaches and perceptions in the field.

## Purpose

The Crypto currency and NATO project aims at informing NATO on the potential impact of crypto currencies on stability operations. More specifically, the project will identify risks and opportunities they might constitute, together with recommend options for further exploration of the topic.

## Objectives

The 17 Apr 2018 webinar's aim was to gain understanding of the principles underpinning alternative finance and cryptocurrencies; and to identify major risks and opportunities for NATO.

## Participants

The workshop gathered (online and onsite) more than 30 experts in finance and crypto currencies from Industry, Academia, Government, and NATO.



# Findings

## Principles

Talking about crypto currencies almost always suggests the case of Bitcoin. The case of Bitcoin, and similar assets, is studied through this project; but does not constitute an option for NATO.

While crypto currencies are addressed in this project, other approaches of alternative finance are equally important and are also explored. One example of this is the mobile application offering alternative financing in support of stability. (see video <https://goo.gl/1Ea8PF> )

Today's crypto currencies are sustained by the Blockchain technology. Some main features of the Blockchain technology are that it provides improved security, traceability, information validation, and anonymity.

One application that's different but directly related to alternative finance is the development of unalterable cyber-identities as the basis for trusted financial exchange.

A crypto currency could be public, private or hybrid.

Public: There is no central entity. Everything is managed through a distributed network owned and controlled by no one.

Private: A central entity controls aspects such as who becomes part of the network and who can use the crypto currency, and also ensures that all corporate functions of the currency such as information storage, validation and security are managed.

While Blockchain is known for removing the middle-persons from the transactions, this is not necessary the case for private solutions.

Hybrid: Combining characteristics of the Public and Private models to offer an optimized solution.

Another important feature that deserves closer attention is the use of tokens, which should not be mistaken as currencies. Tokens could be used to facilitate exchanges without constituting a financial asset.



## Opportunities

Crypto currencies increase traceability and validity of transactions, and resilience of the financial environment. They can easily be implemented in an environment otherwise void of banking/financing system.

They also allow the optimization of the financial processes.

## Risks

Economy and finance rely on trust between actors and the development of an exchange market meeting the demand. There is no guarantee that a newly launched crypto currency would gain trust and expand into a large enough market meeting NATO demand.

Today's crypto currencies are internet-dependent. Even though they could be supported by a meshed network instead of the internet, this has still to be demonstrated.

While Blockchain-hosted transactions or assets are traceable and validated, as soon as they transform into physical assets (paper money, goods, individuals), traceability is lost.

Using a (partially) decentralized solution might generate role confusion/ambiguities among participating entities and stakeholders.

## Options for NATO

A NATO crypto currency could be used between allies to optimize financial exchanges within the Alliance.

A NATO token could be used between allies to optimize non-financial exchanges.

A crypto currency could be used by NATO deployed forces in order to support stabilization efforts in operations. The expected benefits being to restart finance and support economic stability, to decrease corruption, and to assist victimized populations.

A crypto currency could be used by NATO deployed forces to conduct financial interactions with contractors or partners.

## NATO-specific conditions

Because NATO operates in complex coalitions, a crypto currency solution should be inclusive of potential partners.



A NATO crypto currency solution is likely to be a hybrid: partially centralized to allow traceability and NATO control; partially decentralized to ensure resilience and validation of the transactions.

For reasons related to control, an auditing system could be implemented instead of having a distributed validation/mining process. This would require manpower.

### Questions to be further explored

What are use cases of alternative finance (technologies and applications) supporting stabilization efforts? How exactly do they support economic development in unstable areas?

What would the marketplace for a crypto currency in stability operation be? Does it exist or does it need to be created?

Could an alternative financing system be complementary to the existing one?

There is a need to identify everything that could go wrong; and to make sure that the solution will work under emergency conditions.

## Way ahead

The questions to be further explored will be addressed by the community through asynchronous online interactions. Everyone is encouraged to post comments and questions, and provide additional content in the [forum](#). Questions unanswered by the end of 2018 might be tackled through an experiment. A project report will be published by the end of 2018.

