Crypto City Craze: There’s innovation behind the hype, but vulnerabilities remain

Tim Tolka  March 14, 2022
Across the globe, cities in far-flung locations are adopting bitcoin in one way or another, and now there is chatter about Crypto Cities. So, it’s about time we define what that means, as well as the potential downstream costs and benefits for residents.

As of yet, there is not a clear, widely-disseminated definition of Crypto Cities, but we can hazard that a Crypto City should have bitcoin ATMs and a high volume of businesses that accept crypto as payment, as well as a vibrant ecosystem of crypto companies and blockchain-based solutions for residents.

Topline: City governments and crypto investors and miners are gonna make money! Residents will likely derive benefits from more transparent government processes, as well as budget surpluses. And if New York and Miami are any guides, the budget surpluses will be ample: MIA City Wallet (https://miamining.com/wallet) stands at $13.3 million (check before publication) while NYC City Wallet (https://mining.nyc/wallet) has been hovering around $16.7 million.

As usual, cybersecurity is taking a back seat to money-making, and residents and small businesses will foot the cost of increased power due to crypto mining. Regardless, mayors around the country are jumping in with CityCoins.

Mayor Francis Suarez @FrancisSuarez

I’m so excited to announce that the @CityofMiami has received its first-ever disbursement from @mineCityCoins totaling $5.25M.

This is a historic moment with an innovative project that creates resources for
CityCoins Builds a Roster

CityCoins (https://www.citycoins.co/) is powered by Stacks (STX), a protocol that enables smart contracts (https://www.disruptionbanking.com/Fintech%20Glossary/smart-contracts/) on the Bitcoin (https://www.disruptionbanking.com/Fintech%20Glossary/bitcoin/) network. The company allows users to mine Miami Coin (https://www.citycoins.co/miamicoin) by sending STX to the dedicated contract. Mining Miami Coin generates funds disbursed to the city's wallet and to city token holders who can "stack" or lock in their tokens, meaning that they receive dividends in the form of tokens, redeemable in dollars or as payment for taxes and fees.

There's no requirement that miners be Miami residents, so it would be theoretically possible for bad actors to launder money through this system, as long as the perpetrator had a proxy name, address, and email.

“Cities are carefully looking at coins,” Professor Campbell Harvey wrote to Disruption Banking in an email. Noting that CityCoins (https://www.citycoins.co/) has been successful, he pointed out, “the city only gets 30%. The city can easily do their own coin and collect 100%. We create a coin in my class. It is not hard to do. It is certainly not worth paying 70%.”

While CityCoins has added Vegas, Austin, LA, and SF to its list (https://www.forbes.com/sites/lizfarmer/2022/02/11/the-cities-turning-to-crypto-for-grassroots-fundraising/?sh=ee9467c6e612), Berkeley has been planning to launch a microbond in small denominations (https://www.forbes.com/sites/lizfarmer/2022/02/11/the-cities-turning-to-crypto-for-grassroots-fundraising/?sh=ee9467c6e612) to crowdfund projects. It’s a distinct, greener alternative from the funding structure of CityCoins. In 2018, Berkeley Vice Mayor Ben Bartlett told Bloomberg’s Citylab (https://www.bloomberg.com/news/articles/2018-06-20/why-do-cities-want-their-own-bitcoin-alternatives) that the city's coin would be “like a non-profit, special-purpose vehicle, meant to fund social good.” Since then, city officials have been collaborating with UC Berkeley's blockchain (https://www.disruptionbanking.com/Fintech%20Glossary/blockchain/) accelerator lab, Blockchain (https://www.disruptionbanking.com/Fintech%20Glossary/blockchain/) at Berkeley.

False Starts and Cyber Attacks in Crypto Cities

“Getting a city to claim free money is easy,” one participant (https://apnews.com/article/cryptocurrency-business-new-york-miami-coin-f076e0e880adaf74fdeebae9188e070) in a Discord chat devoted to City Coins wrote. “It takes more than that to actually provide value.” The same challenge seems to plague the plans of Akon City, in Senegal, purportedly under construction, but nowhere close to the vision by the eponymous R&B artist. Akon who set out to create a real-life version of Wakanda, the futuristic African kingdom in Marvel’s “Black Panther.”

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The city would use cryptocurrency Akoin and be solar-powered. According to Akon’s comments to the Washington Post (https://www.washingtonpost.com/world/2021/04/06/akon-city-uganda/), the project won’t be finished until 2036, but that didn’t stop Akon from raising $4 billion dollars of the $6 billion price tag.

When asked if local people would be able to afford services in Akon City, Akon flipped the question (https://twitter.com/nbstv/status/1379089796904144902), opining that his city would motivate them to find a way to afford it and overcome their low sense of self-esteem. To date, it’s not clear that the project has even broken ground, after “finalizing” plans (https://topnaijast.org/akon-finalizes-plans-for-akon-city-in-senegal/) over two years ago.

Other cities and states are serving as pioneers in crypto adoption. Although pesky vulnerabilities and pitfalls remain, the early results seem promising.

**Blockchain City in Wyoming Scammed**


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**CityDAO**  
@CityDAO

Today, CityDAO is officially the first DAO to own land, using the new Wyoming DAO LLC law. This is just the beginning.
CityDAO offered citizens governance tokens in exchange for buying “land NFTs” that served as ownership rights to a plot of land on the 40-acre parcel. The community used Discord to communicate and issue land NFT announcements.

It was all well and good, until one day a scammer posing (https://www.vice.com/en/article/k7w3am/people-building-blockchain-city-in-wyoming-scammed-by-hackers) as Lyons800.eth, one of the founding members of BaconDAO, CityDAO’s investors’ guild, stole his identity by pretending to be a Discord moderator. Next, the scammer launched a webhook attack through the guild’s Discord group, employing bots with malicious links for fake land NFT announcements.

The real Lyons800.eth explained in a Twitter thread how the diabolical, ingenious attack transpired.

lyons800.eth
@Lyons_800

Yesterday, my account and the CityDAO server was exploited and as a result members lost funds.

Multiple large servers have been exploited in this same way over the past few weeks.

Below I have shared what I believe is the exact route to the exploit.
The hacker bypassed two-factor authentication and acquired the user’s Discord authentication tokens. Then, the malicious links minted NFTs with a wallet address, to which was transferred 29.67 ETH (almost $100,000). The wallet kept receiving funds over the next 24 hours. Later, they moved 20 ETH to the Tornado.Cash tumbler to obscure the final destination, before disappearing into the night.


Perhaps unwisely, CityCoins also has an account on Discord (https://discord.com/invite/tANUVBz9bk) with nearly 8,000 members. And just like CityDAO, they use it for everything. On Twitter, I asked Alexthims, one of the founding citizens of CityDAO, if CityCoins might be vulnerable to the same sort of exploit, and he replied, “Yes.”

Discord has been slammed for its lack of data protection and security for users, but it didn’t start out as a communications and planning app for big businesses. It was a chat app for gamers, but the pandemic drove traffic onto the platform to the tune of 140 million users per day. As usual with disruptive tech in a disrupted world, the company is growing so fast, it can merely react to crises as they arise.

Discord has become a target for hackers, no surprise considering that the site’s API can be manipulated (https://clario.co/blog/discord-for-business-safe/) to create apps that harvest data from your devices. Discord has doled out bug bounties to 70 hackers, listed on their security page (https://discord.com/security), while the complaints and requests of customers are backlogged. One user posted (https://support.discord.com/hc/en-us/community/posts/4548275435415-No-access-to-my-discord-and-no-support-from-the-discord-team-for-over-a-week-now-) that they had been locked out of their account without a response from Discord for a week, and that’s exactly the kind of problem to which CityCoins could fall victim.

Four “community leads” in CityCoins’ Discord did not respond to a request for comment on their security precautions. One would hope they are running frequent crisis exercises (https://www.darkreading.com/risk/security-teams-prep-too-slowly-for-cyberattacks), not only to defend against potential infiltration of their system but also to plan staff responses once a hacker has already infiltrated.

Crypto City in the Swiss Alps

On the border between Italy and Switzerland, Lugano Switzerland, one can get the feeling that utopia has already been achieved. Not so fast! Now, the city has set the goal of becoming the European capital of crypto. In partnership with Tether, the city has positioned itself on the bleeding edge of crypto in the context of municipal government, using a city blockchain (https://www.disruptionbanking.com/Fintech-Glossary/blockchain/).

The CEO of Tether told an audience assembled in Lugano, including the mayor and Tether’s CTO, “I can sense what [Satoshi] Nakamoto knew back in 2010 when his white paper became a reality: this is the future of finance.”
Lugano’s Director of Economic Development, Pietro Porretti, later explained:

“Over the past 18 months, the administration has had the opportunity to experiment with blockchain (https://www.disruptionbanking.com/Fintech-Glossary/blockchain/) and digital currencies. First, with the MyLugano app which brings the city at your fingertips when you start using it. And of course, the creation of a loyalty program with a payment token accepted today by almost 200 stores, restaurants, and service providers in the city of Lugano. Later on, Lugano announced the 3a Chain (https://www.3achain.org/en/3achain/), which is a city blockchain (https://www.disruptionbanking.com/Fintech-Glossary/blockchain/), a proof of authority blockchain (https://www.disruptionbanking.com/Fintech-Glossary/blockchain/).”

SECURIX
@secuirxhk

#Lugano presented its #LuganoPlanB 😎:

Become the European capital of #crypto!

Bitcoin World Forum will be held on October 26-28 🎈!

#cryptocurrency #Bitcoin #PlanB #cryptocity #Switzerland #Swiss #USDT #Tether @LuganoLivingLab

Lugano is jump-starting the same evolution that has developed elsewhere without government intervention. For example, in both Prague, Czech Republic and Ljubljana, Slovenia, there are hundreds of businesses that accept crypto, yet the state has been noncommittal. Buenos Aires, Argentina has 140 (https://kaafkasdes.org/2020/11/12/prague-among-most-crypto-friendly-destinations-in-the-world-in-2020/) and Vancouver, Canada has more than fifty (https://www.investopedia.com/articles/forex/042415/10-cities-leading-bitcoin-ado...). These are all “crypto-friendly cities,” but the local government is not actively involved in blockchain (https://www.disruptionbanking.com/Fintech-Glossary/blockchain/)-based solutions or city cryptocurrencies, although both Canada (https://www.cms-connected.com/News-Archive/August-2018/Canada-Using-Blockchain-for-Transparency-of-Government-Contracts/) and Slovenia (https://www.gov.s/i/en/news/slovenia-launches-national-test-blockchain-infrastructure-and-slovenian-blockchain-partnership/) are exploring options.

A Dirty, Booming Industry with Promise for Cities

Cities should weigh the costs and benefits carefully because there are downstream costs to crypto-mining and overabundant counter-party risk in the crypto ecosystem.

In upstate New York, cryptominers have increased power costs for residents, according to a working paper (https://newsroom.haas.berkeley.edu/research/power-hungry-cryptominers-push-up-electricity-costs-for-locals/) from the Berkeley Haas School of Business. The study also found that local governments were able to capture some incremental revenue—amounting to about $40 million per year. Unfortunately, the increased tax revenue only offsets about 15% of the increased costs.
to locals. The study concluded that crypto mining activities push up monthly electric bills about $8 for individuals and $12 for small businesses.

In 2019, a study in the scientific journal Joule (https://www.sciencedirect.com/science/article/pii/S254243519302557) found that bitcoin mining (https://www.disruptionbanking.com/Fintech%20Glossary/bitcoin-mining/) is estimated to generate between 22 and 22.9 million metric tons of carbon dioxide emissions a year. Perhaps prompted by such dispiriting numbers, Miami Mayor Francis Suarez has proposed the location of crypto mining facilities (https://gadgets360.com/cryptocurrency/news/miami-mayor-nuclear-bitcoin-miners-carbon-footprint-nuclear-plant-2556601) near the Turkey Point nuclear power plant in south Florida.


Otto Mora, a Senior Manager at Ernst & Young specializing in blockchain (https://www.disruptionbanking.com/Fintech%20Glossary/blockchain/) technology, says that city officials should "make sure that constituents in the City are well-educated in the usage of blockchain (https://www.disruptionbanking.com/Fintech%20Glossary/blockchain/) and crypto technology. Having an informed citizenry on the topic will then drive to later decisions around what to implement." Whereas bitcoin (https://www.disruptionbanking.com/Fintech%20Glossary/bitcoin/) took several years to catch on, Mr. Mora emphasizes that "citizens’ trust in blockchain (https://www.disruptionbanking.com/Fintech%20Glossary/blockchain/) technology needs to be built over time."

Cities are scrambling to put together investment funds and favorable legislation to make way for an industry rife with con-men, scams and hyped-up shell companies, not to mention the ever-present threat of hackers. No doubt, some will stumble on the path.

Professor Harvey concedes, "DeFi (https://www.disruptionbanking.com/Fintech%20Glossary/defi/) doesn’t solve everything. Further, there are certain functions that are more efficiently executed in a centralized way. That said, I do believe community coins will become more and more popular."

He recommends, "Be innovative. A mechanism should be set up for those to pay taxes and other fees via crypto. A working group should be established to evaluate a city-specific coin. This includes benefits and costs. Whatever is done, the policy-makers need to understand the technology before they jump in."

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Cities exploring the options may want to consider a longer upskilling process for the officials in charge.

Mr. Mora suggests appointing a sort of CTO for the city who can get training at conferences and

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seminars on blockchain technology. "Also, before having sales calls with potential blockchain software vendors, try to come up with your own list of prioritized potential use cases from the organization so that you know what you are looking for before engaging vendors. Ensure your selected vendors have a track record of success with reputable clients and take all promises with a grain of salt; there are many people overpromising what can be achieved."

Speaking of, Miami Mayor Suarez recently fantasized about “theoretically, at some point” eliminating taxes entirely for city residents with the proceeds of the city’s crypto fund. With all the noise Miami and New York are making about their bountiful crypto coffers, they better hope they don’t get hacked.

In the end, we can hope along with Reno Mayor Hillary Schieve (who told Wired that “Anything that could make your community better is worth trying.”)

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