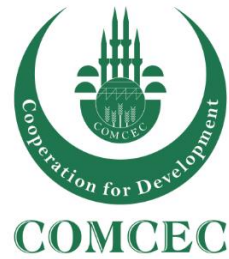


Case of Nigeria



**Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)**



Dr. Umar A. Oseni

**International Islamic Liquidity Management Corp. (IILM) Management
Committee CEO**

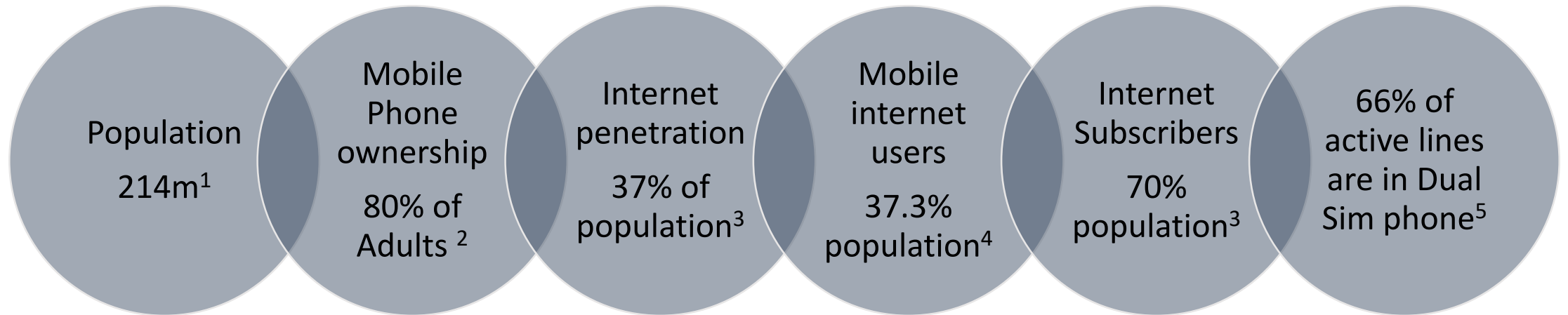
May 2023

Introduction

- Nigeria is the leading economy on the African continent (Kaminska, 2021; World Bank Open Data, n.d.)
- Nigeria provides a significant learning opportunity as its CBDC has already been implemented
- It launched its CBDC (eNaira) on October 25, 2021
- The eNaira is available to the public
- The eNaira marks the second CBDC to be open to the public and presents a compelling case study for analyzing its implementation's key challenges and successes.



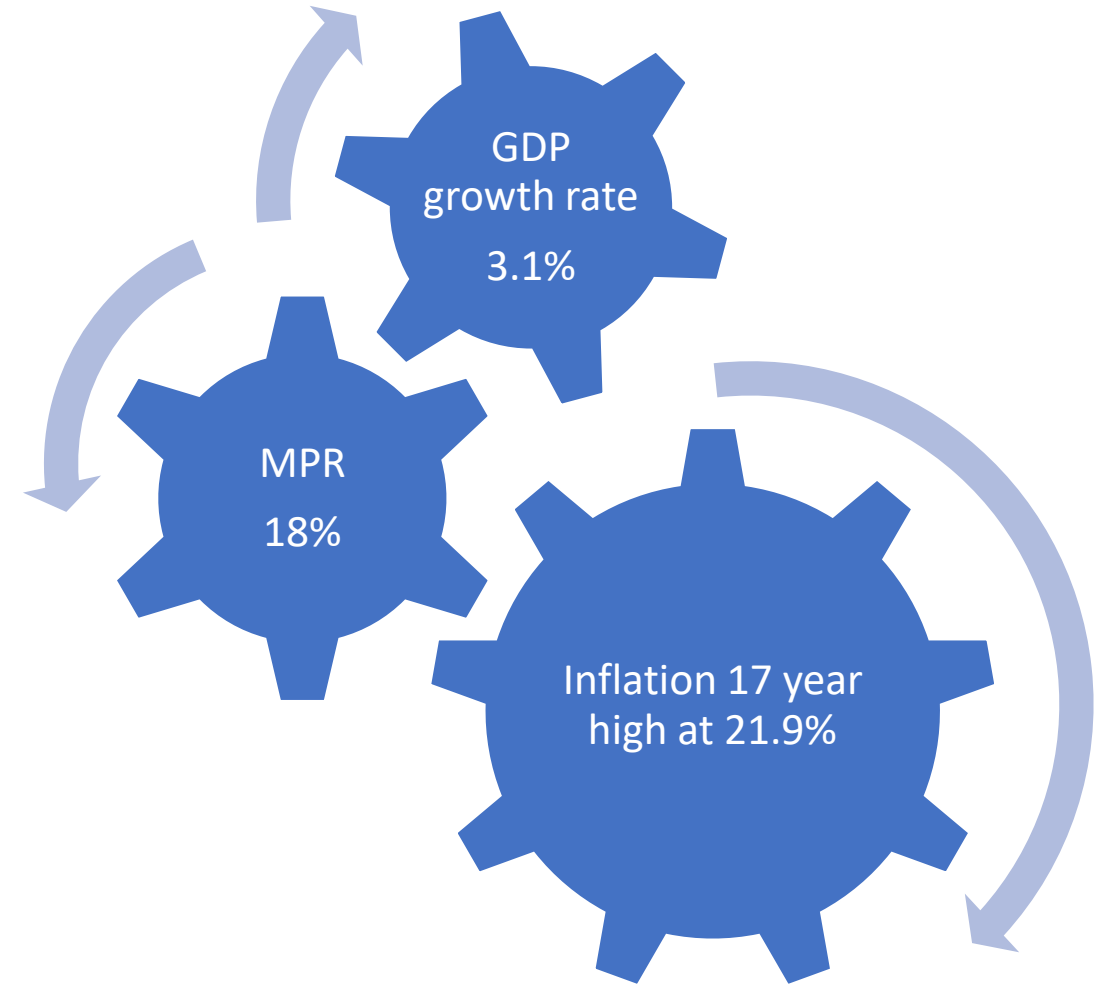
Key Figures



Source: ¹World Population Prospects 2022, 2022) ²(Wezel & Ree, 2023). ³(Statista, 2022) ⁴(Mirani & Quartz, 2022).

Monetary System

- The Central Bank of Nigeria (CBN) has taken measures to mitigate the adverse effects of systemic shocks caused by high volatility in both global and domestic economic conditions
- Maintaining internal and external balance of payments is a key objective of CBN's monetary policy
- The objective is achieved through a variety of policies including monetary instruments



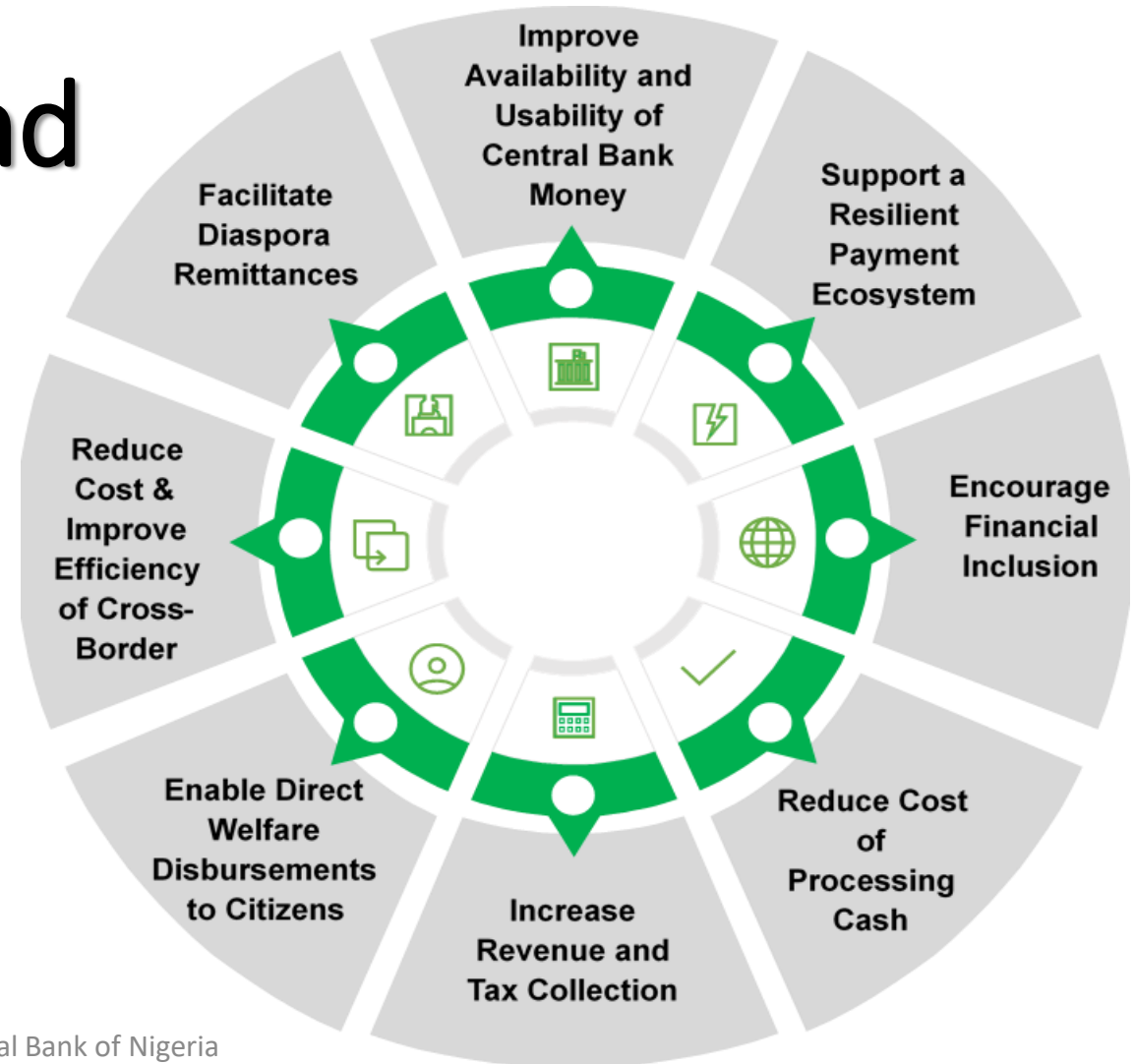
Payment System

- Significant payment system reforms have been introduced in the country
- Designed to enhance the resilience of the technological infrastructure supporting electronic payment methods
- These reforms have significantly transformed the payment systems landscape and include:
 - The Real Time Gross Settlement System (RTGS),
 - Shared Agent Network Facility (SANEF),
 - Open Banking, Regulatory Sandbox, and;
 - Bank Verification Number (BVN)
 - The national domestic card scheme aimed at expanding electronic payments nationwide to rival global payment cards such as Visa and Mastercard, integrating the economy's informal sector and promoting financial inclusion.

e-Naira: The Nigeria Central Bank Digital Currency - Background

- Also, part of a comprehensive set of reforms to enhance the payment system infrastructure and promote financial inclusion in Nigeria
- The eNaira is expected to enhance the effectiveness of the CBN's monetary & fiscal policy and foster financial inclusion in the country (IMF, 2021).

Benefits of eNaira in the Financial Ecosystem



Source: Central Bank of Nigeria

e-Naira: Legal and Regulatory Framework

- Both the CBN Act and the Banks and Other Financial Institutions Act 2020 confer exclusive powers on the CBN to issue legal tender, ensure financial system stability and develop an electronic payments system.
- As a result, the eNaira is a digital legal tender backed by law, solely regulated by the CBN
- In legal terms, the eNaira is a direct liability of the CBN
- The Regulatory Guidelines on the eNaira issued by the CBN in October 2021 aim to simplify the operation of the eNaira, promote its adoption, engender financial inclusion, and promote low-cost transactions
- The guidelines apply to all financial institutions and consumers using the eNaira



e-Naira: Underlying Technology: Technical and Operational Standards



The eNaira was designed based on a private blockchain-based Hyperledger Fabric.



It is an open-source DLT that operates based on a permissioned blockchain instead of the decentralized public blockchain widely used for cryptocurrencies



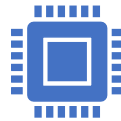
It requires permission for access and has a controlling entity, which in this case is the CBN



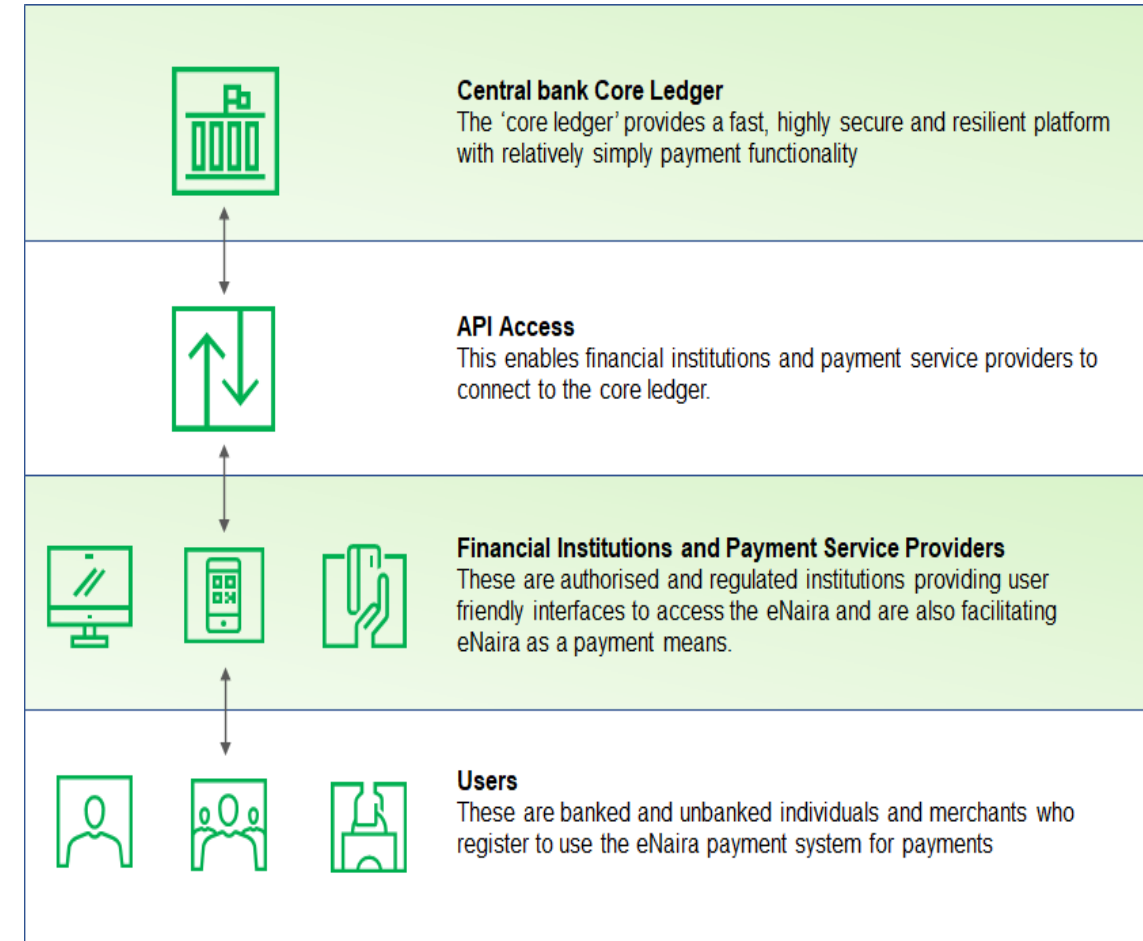
The authorized financial institutions act as nodes on the network and distributors of the eNaira to the ultimate financial consumers, who are the core users.



The design can potentially accommodate cross-border or FX transactions involving the eNaira and other CBDCs.



The technology platform utilises the current structures and positions within the payment system to provide more benefits for users.



eNaira: Anti Money Laundering & Combatting Financial Terrorism (AML/CFT)

- A key objective of the eNaira is to contribute to AML/CFT policies and promote transaction traceability.
- The CBN adopted the account-based CBDC for eNaira operations
- Users on the platform are identified using the traditional identity framework implemented by the CBN: the Bank Verification Number (BVN) and the National Identification Number (NIN)
- All financial institutions are required to conduct AML/CFT checks
- The CBN uses the layered platform model to ensure compliance with AML/CFT checks

The Rate of Adoption

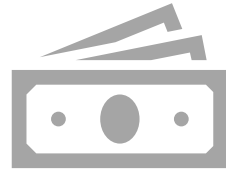


Early Stage

Successful launch followed by stagnated adoption rates

92% of wallets were inactive

Average weekly transaction volume only N53,000 (about US\$120)



Cash Crunch

Shortage of bank notes bolstered demand

Out of 10bn Minted, 3.4bn now in circulation

Transactions increased by 63% to 22bn Naira



Prospects

Long way to go with wallet downloads at 5.9% of Population

Introduction of USSD to boost adoption amongst rural and unbanked populations

Eliminating the need for a legacy bank account to lower entry barrier

Next Steps

- Interview with with key individuals at the Central Bank of Nigeria (CBN) who led the eNaira's ideation, development, and implementation.
- Interviews to be concluded by end of June 2023
- List of interviewees is as follows:
 - Director Banking Supervision
 - Director Currency Operations
 - Director, Information Technology Department
 - Director, Payment's system management department
 - Director, Consumer protection department
 - Director Monetary Policy

