Adoption of the eNaira: Issues and the Way Forward

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"Progress is impossible without change; and those who cannot change their minds cannot change anything." George Bernard Shaw

I. Introduction

The emergence of the internet between the 1960s and early 1990s raised the possibility of electronic money (e-money), which was then only in the realm of imagination. The e-money idea began to take shape with the rise and burst of the dot.com bubble in the early 2000s as well as the emergence of Google, proliferation of Wi-Fi, mobile internet devices and videos that provided a viable environment for e-money to thrive. It was in the same early 2000s that e-money entered economic discourse and one of the early and frequently quoted statements on this is credited to Milton Friedman who said:

> "I think the internet is going to be one of the major forces for reducing the role of government. The one thing that's missing but that will soon be developed, is a reliable e-cash."

This started the idea that the exchange of value for economic transactions could be done without oversight by the monetary authorities and government agencies, all in the drive and campaign for 'small government'. On its own, this created concerns at a time that financial crimes were increasing on a global scale and taking new, more sophisticated dimensions that warranted new rules and collaborations across jurisdictions in dealing with money laundering and subsequently terrorism financing.

Cryptocurrencies are digital currencies in which transactions are verified and records are maintained by a decentralised system, using cryptography. They are an internet-based medium of exchange that have evolved into other uses of money. In some jurisdictions, they are defined as financial assets and legal

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tender (El Salvador and Central African Republic), but in several others they are either allowed, restricted or banned out rightly.

As cryptocurrencies evolved and became more popular, it became obvious that the world was trending towards monetary disintegration and oversight reversal. It was becoming fashionable for technology-motivated products to be developed either to reduce or eliminate regulation of monetary transactions. The monetary system was gradually moving towards opacity that could create a 'safe environment' for illegal activities and open a new vista for money laundering. This of course, should be of grave concern to any monetary authority or government!

In response to this threat and other pitfalls of cryptocurrencies, central banks started exploring their own version of digital currency, termed "central bank digital currency" (CBDC). According to the Atlantic Council:

> "A Central Bank Digital Currency (CBDC) is virtual money backed and issued by a central bank. As cryptocurrencies and stable coins have become more popular, the world's central banks have realised that they need to provide an alternative—or let the future of money pass them by."

So, central banks began researching and making efforts to launch their own digital currencies, but now as fiat money. Their relevance will then depend on general acceptability as medium of exchange, but not as financial asset that most investors in cryptos assume them to be on the back of the hype that moves the value needle.

The eNaira was launched in October 2021 as a central bank digital currency, serving as a unit of account, store of value and medium of exchange. This made the Central Bank of Nigeria one of the early adopters of CBDC, charting a path for other central and reserve banks. It is the same aira, but resides in a digital wallet that enables access, custody and usage of the value stored in the wallet. Its design and operation are based on five principles, namely:

1. Inclusive economy;
2. Innovation;
3. Efficiency;
4. Resilience; and
5. Proudly Nigerian.

II. Conceptual Background and Rationale

CBDC is a fiat currency, backed by law and sovereignty of the country, issued by the central bank. It is not backed by a physical commodity but acceptable because of the integrity of the issuing authority, which is the central or reserve bank.

It is argued that this is the right way for central banks to go considering the great advances in digitisation and digitalisation, especially since the COVID-19 pandemic that triggered expanding end-to-end digitisation of business processes and massive advances in e-commerce. Naturally, governments, corporates and households will respond accordingly, and they have. What this brings into the conversation is a statement credited to Jack Welsh (1935-2020) that:

> "*When the rate of change outside an organisation is faster than the rate of change within, its end is near*."

If this is applied in context, the necessary follow up question would be:

> "*Is there a possibility that in the course of time, physical fiat currencies can become outdated and question the relevance of central banks in currency issuance?*"

Physical fiat currencies have been observed in several of the advanced economies to be diminishing both in use and in relevance to commercial transactions, and even an increasing number of emerging economies are strongly pushing the frontiers for digital payments. The relevance of and reliance on cash for transacting is therefore, reducing by the day.

In a concept note released in October 2022, after several years of study, the Reserve Bank of India (RBI) indicated that its overarching aim is to have its CBDC replace digital assets. Typically, this has drawn a lot of criticisms, most of the arguments being that RBI is falling behind the times, and these come mostly from companies steeped in cryptocurrencies! The major inference though is that CBDC will exist alongside cryptos.

Adedipe (2021) noted that the central argument for CBDCs is to encourage and possibly incentivise investment in the underlying technology, which is blockchain technology whose application keeps expanding in scope by the day. This was aptly stated by Marc Kenigsberg, the founder of BitcoinChaser.com as:

> "*Blockchain is the technology. Bitcoin is merely the first mainstream manifestation of its potential*."

As such, it is commonly argued that cryptos should be allowed, if at the least, to encourage investments in the underlying blockchain technology. The evolution of digital technology and its application keeps expanding by the day, bringing new perspectives without bounds.

One of the early adopters is the People's Bank of China, whose CBDC (e-Yuan) was initially thought as having prospects of replacing up to US$16 trillion offshore Dollar deposits in China as the country continues its foreign trade exploits. Most commentators also inferred that the strengthening Chinese economy, and in particular its external sector raised the possibility of e-Yuan replacing the USD as reserve currency. This of course, was quickly dismissed by Deputy Governor Li Bo of People's Bank of China in a remark that he made on 19th April 2021. The argument then shifted CBDC leading to the eventual evaporation of the zero-interest loans that the rest of the world grants the USA and that this is the real threat to the USD.

Bansal and Singh (2021) argued that:

> "*In an increasingly multipolar world, this outdated, decades-old system of the dollar as the apex currency and the United States' position of power that allows it to pursue its own geopolitical interests has become outdated … To challenge the dollar's hegemony and internationalise its currency, China will have to move away not just from the dollar but also from the payment rails dominated by the dollar. The best way to simultaneously do both would be to introduce a new payment rail like CBDCs*."

As much as this is appealing, it has several challenges that include convincing other major trading countries with China to go along with this arrangement and the fight back by the USD.

In the BIS Annual Economic Report 2021, the argument was made that:

> "*Current and planned cross-border CBDC projects show that the future of the international financial system rests on upgrading it for the digital age. Different multi-CBDC (mCBDC) arrangements might contribute towards this goal, but their detailed architecture will depend on the specific features of domestic CBDC systems. Even though payment system design*

> *is primarily a domestic choice, new technologies and models of cooperation will make it feasible to overcome the challenges faced by previous projects to interlink payments systems across borders.*"

It is in this context that the eNaira is examined for its potentials and possibilities.

III. Issues and Facts

The eNaira design has the following attributes:

1. Legal Tender - this assures that it is a digital currency different from cryptos that participants in the Nigerian financial system are not only used to but have massively invested in;
2. Parity of Value with the cash Naira, which makes it a fiat currency;
3. 2-Tier Retail CBDC Model;
4. Account-based Wallet;
5. Value-based;
6. Transaction Limit for Customers, which effectively makes it not to compete for bank deposits, contrary to the fear expressed by commercial bankers at its introduction;
7. Tiered AML/KYC approach (NIN and BVN as unique identifiers);
8. Non-Interest Bearing characteristics; and
9. Settlement Finality.

Two classifications were made from an evaluation of CBDCs by the Atlantic Council, an American Think Tank in international affairs, as summarised in Tables 1 and 2, indicating the status of the elements and jurisdictional position of eNaira. Reference is made in Table 2 to Nigeria and selected other countries because of the relative sise of their economies (USA, China and Russia) as well as the decision to reverse their policy on CBDC (Ecuador and Senegal).

Table 1: eNaira Elements Evaluation

Element	Status
Status	Launched
Use Case	Retail
Technology	Fabric
Architecture	Intermediated
Underlying Technology	Distributed Ledger (DLT)
Access	Account
Technology Partnership	Bitt Inc.

Source: Author's computation.

Table 2: Jurisdictional Status of eNaira

Status	Number of Countries
Launched	11 (Nigeria included)
Pilot	15 (Russia & China included)
Development	26
Research	46 (USA included)
Inactive	10
Canceled	2 (Ecuador & Senegal)

Source: Author's computation.

The global review indicated the following:

1. 105 countries, representing over 95.0 per cent of global GDP, are exploring a CBDC;
2. 10 countries have fully launched a digital currency, with China's pilot set to expand in 2023;
3. Many countries are exploring alternative international payment systems;
4. Of the G7 economies, the USA and UK are the furthest behind on CBDC development;
5. 19 of the G20 countries are exploring a CBDC, with 16 already in development or pilot stage; and
6. The global financial system may face a significant interoperability problem soon.

The review also revealed that some countries are exploring Cross border CBDC projects, and these are mostly wholesale. The countries include China, Canada, the UAE, Saudi Arabia, France and Switzerland. The specific collaborations include the following:

1. Multiple CBDC Bridge (mBridge): Thailand, China, Hong Kong and UAE;
2. Project Dunbar: Australia, Singapore, Malaysia and South Africa;
3. Project Helvetia: Switzerland and the BIS;
4. Project Jasper: Canada, the UK and Singapore;
5. Project Aber: Saudi Arabia and the UAE;

6. Project Jura: France and Switzerland; and
7. Onyx/Multiple wCBDC: France and Singapore.

The big value that eNaira can deliver to its users is cross-border payments and transfers that will eliminate the rigours and constraints in cross-border transactions. Exploring this bilaterally or multilaterally with Nigeria's major trading partners should expand interest in and utilisation of the eNaira wallet.

Despite the seeming slow adoption of the eNaira, the following facts and observations as at November 2022 are quite encouraging, against the background of a Nigerian economy where most transactions are cash-based.

- 0.5 per cent adoption as at April 2022 (Bloomberg).
- Expanded adoption strategy with 7,740 agents at the grassroots.
- Incentive of 5.0 per cent at both ends of transactions for the merchant and customer.
- NIN as the basic requirement. Enrolment does not require BVN or bank account number.
- There had been over 927,000 application downloads and 317,560 activated wallets.
- Over 700,000 transactions valued at over ₦8.00 billion using the platform.
- There are 3,320 registered merchants and 33 banks fully integrated.
- Daily website visits were at 2.5 million.

These are very encouraging landmarks attained within one year of the launch of the eNaira and public offering of the eNaira speed wallet. Perhaps a lot more would have been achieved if the commercial and merchant banks also get actively involved in promoting the eNaira. Rather, most bank employees that should do this in their engagements with customers erroneously think that it competes with bank deposits.

IV. Benefits, Pitfalls and Risks of CBDCs

A wide adoption of eNaira and its active use largely depends on the CBN creating public awareness of its benefits, especially in the drive for cashless Nigeria that should help to reduce cash transactions, volume of cash outside the banking system, the real (inflation) and exchange values of the domestic currency, and extension of financial inclusion.

In broad terms, the benefits of CBDCs were aptly summarised by the Corporate Finance Institute (CFI) as:

1. Increase payments efficiency;
2. Complement current forms of money and financial services;
3. Deter criminal activities;
4. Improve international payments option; and
5. Potentially reduce net transactions costs, thus benefitting lower-income households.

The last of these benefits is a correlate of financial inclusion, which is a cardinal objective of the eNaira speed wallet. These make a strong case for the voluntary adoption of eNaira by individuals and merchants (organisations) within and outside Nigeria.

The flip side of the argument recognises that there are also pitfalls and risks, which CFI and the governance consortium of the World Economic Forum (WEF) identified as including:

1. Overhauling the current financial system could create instability, which suggests that central/reserve banks should not push their CBDCs aggressively. The gentle push approach of the CBN for the adoption of eNaira has mitigated this risk somewhat;

2. The effectiveness of monetary policy may deteriorate, especially when there are gaps between innovation and existing laws and regulations. Continuing engagement with stakeholders, most importantly the private sector, should highlight what needs attention and change;

3. Operational difficulties, requiring public-private partnership. When account holders have hitches, how easily and readily are these resolved? If the resolution process does not match what obtains from an efficient commercial bank, confidence erodes and the word will spread, adversely affecting prospective adopters;

4. Cybersecurity risks. This of course, is not any worse than what applies to other payments methods and channels. This requires the central bank to continually interrogate the processes and eliminate any semblance of drama, map the risks and design effective mitigants; and

5. Privacy, as there is a loss of ability to transact anonymously. This relates to one of the main reasons for the evolution of cryptocurrencies in the first

instance. But then, the essence of CBDC is to eliminate opacity in financial transactions.

These pitfalls and risks could be ameliorated through collaborations, public sector roles, public-private cooperation, and intergovernmental collaboration, according to the WEF.

V. Conclusion and Recommendations

The eNaira is a worthwhile and bold initiative by the CBN. It is heartening that this CBDC is one of only 11 that have been launched globally, and importantly so, for a cash-driven economy like Nigeria's. Also encouraging are the achievements made within one year of its launch, confirming that it is a step in the right direction and one of the bouquet of responses of central/reserve banks to the burgeoning industry of cryptocurrencies.

There are however, four key issues to consider in deepening the adoption of the eNaira:

1. The CBN should look beyond the bottom of the pyramid in terms of financial inclusion. Attention should be given to how to make the lower to upper middle class and the youth especially (the median age in Nigeria is 18.1 years) adopt the eNaira speed wallet for their daily transactions;

2. Embark on aggressive awareness campaigns, targeted at merchants and the youth. The latter are more amenable to digital financial transactions. Moreover, with teledensity at 114.7 per cent in November 2022 and Nigeria's ranking being 8th globally in the number of internet users (about 93.0 per cent of them through their mobile phones), the eNaira speed wallet has huge potentials for adoption;

3. Engage corporate role models who are influencers because they are respected policy advocates and analysts who have already adopted the eNaira. An attractive narrative created around such personalities can generate a groundswell of adoption across the social strata; and

4. The CBN should start exploring cross border, wholesale opportunities (especially with Nigeria's major trading partners), following the consortia mentioned earlier in Section 3.0. This could be the real game changer for the eNaira speed wallet.

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