

# Chapter 7

## Digital Currency Adoption in Nigeria: Determinants, Opportunities, and Threats

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### ABSTRACT

*Nigeria is one of the countries with the highest volume of trade in digital currency worldwide after the United States of America, with over \$500 million dollars. This shows that there are possible opportunities to harness in the sector while taking several steps to limit the threats. The objective of this chapter is to discuss digital currency adoption in Nigeria with particular emphasis to its determinants of adoption, opportunities, and threats/risks. Factors determining adoption include socioeconomic status, expectations on the profitability, and stability of the naira. Opportunities include employment and ease of payments, especially for international trade. Unregulated nature and anonymity/secretcy are the major threats identified which enhance illegal activities that cannot be traced easily. Cross-country overview shows that some countries such as Iran and China have outrightly banned cryptocurrency in their countries, but users still maneuver their ways to invest in the sector; therefore, outright ban will still not remove the threats in the long run.*

### 1. INTRODUCTION

Digital currency in Africa and other developing countries is becoming more acceptable due to hyperinflation and instability in currencies of many countries in the African

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continent (Schickentanz, 2019). Nigeria, which is one of the largest countries in the continent, has over 1.3 million registered accounts for digital currencies where peer-to-peer trading takes place (Edward-Ekpu, 2020). The volume of trade for digital currency in Nigeria is the highest in the world after United States of America with over \$500 million (Edward-Ekpu, 2020). Digital currency in Africa and other developing countries is increasingly becoming more acceptable due to the ease of sending and receiving remittances across countries, which specifically seems to be cheaper and faster compared to other traditional money transfer platforms.

In terms of definition, cryptocurrency is a digital or virtual currency that is secured by cryptography (secret codes) (Kaspaersky, 2023). One important features of cryptocurrency is that they are decentralized and not established and issued by the central bank, the government cannot interfere in its operations. Unlike traditional currencies, cryptocurrencies only exist as a digital record of ownership, stored on a blockchain in a digital wallet system (IG, 2023; Tambe and Jain, 2023; Kaspaersky, 2023; Frankenfield, 2023). Trading in Cryptocurrency is basically a speculative activity on price movements through a CFD trading account, or buying and selling the currency through person-person/peer-to-peer exchange (IG, 2023). The big question is whether cryptocurrency can serve the three functions of money; means of exchange and payment, unit of accounting and a store of value. Cryptocurrency can be used as units of account and medium of exchange but it is much difficult to use as store of value than conventional currencies due to the high rate of volatility. They are also limited as means of exchange since they rarely appear when websites list payment options.

The Central Bank of Nigeria on the 5th of February 2021 stopped banks and other financial institutions from dealing in digital currency such as Crypto currency or facilitating payment for Crypto currency exchanges. This is due to the fears that crypto currency is unregulated and can be used to facilitate illegal activities such as drug trafficking, money laundry and terrorism. As such dealing or facilitating payment in crypto currency exchanges is prohibited. To enforce the ban, the CBN directed all financial institutions to identify persons and financial outfits transacting in or operating in crypto currency within their system and ensure that such accounts are closed immediately and a breach of this directive will attract severe regulatory sanctions (Central Bank of Nigeria, 2023). Although the CBN frowns at crypto currency use, many Nigerians still transact with crypto currency, this made the CBN to be one of the first in African countries and the second in the world to introduce the government-backed digital currency.

The high rate of digital currency adoption and its ban by the CBN entails that investment in crypto currency assets worth millions of dollars have been trapped by the CBN policy (Stears 2021). Though the rationale to ban crypto currency is justified by the illegal activities it is facilitating, it is difficult in reality to ban digital

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