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Assessment of the Economic Implications of the Introduction of E-Naira in Nigeria

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Abstract: A digital currency or an electronic currency is money stored on a digital platform. The debate on the introduction and use of central bank digital currencies on the global scene arose because of the rapid rise in the use of private crypto currencies. Private crypto currencies is used by millions of people daily to transact across the globe. This has made governments to realize the need to introduce government backed central bank digital currencies. Digitalization is reshaping economic activities globally thereby reducing the role of physical cash in financial transactions. In response to these new developments, the central bank of Nigeria introduced a central bank digital currency the "e-Naira" in 2021. This study contributes to the emerging literature on central bank digital currencies and economic growth. This study evaluates the impact of the central bank of Nigeria digital currency on the Nigerian economy and financial system. The study adopted a qualitative methodology through literature review and content analysis. This approach entails the use of secondary qualitative information from different sources and summarizes it into useful information. The study found out that the e-Naira can accelerate financial inclusion, improve monetary policy effectiveness as well as ensure better tax collection. All these are panacea for accelerated economic growth. The digital currency is expected to be a simpler payment method and should help in reducing the amount of physical cash being used in Nigeria. It should provide veritable avenue for better inflow of diaspora remittances which can play a major role in providing in economic growth in Nigeria if properly harnessed. The study concluded that if widely adopted the e-naira could become a complementary means of payment and can act as a catalyst for continued innovation in the financial system which will lead to economic growth in Nigeria. This study recommends that the central bank should ensure the safeguard of data, protect customers' privacy and ensure the stability of the value of the digital currency using appropriate mechanisms.

Keywords: E-naira, Nigeria, Central Bank, Digital Currency, Economic Growth

1. Introduction

A digital currency is money or money-like asset stored on a digital platform. It also referred to as digital money, electronic currency or electronic money. Digitalization is reshaping economic activities globally thereby reducing the role of cash and the introduction new digital forms of money [13]. In October 2021 the Central Bank of Nigeria (CBN) introduced a central bank digital currency (CBDC) "e-Naira" making it the world's third digital currency backed by a central bank. The Bahamas was the first country to launch a CBDC called the "Sand dollar" in May 2020. Sweden officially launched e-Krona, the world's second CBDC [19]. About 80 percent of central banks around the world are also conducting pilot tests in launching CBDCs [14].

The e–Naira is a legal tender like the physical naira, a CBDC is a fiat currency in electronic form issued by a Central Bank [11]. A CBDC is an electronic fiat liability of a central bank used for payment settlement and can serve as a store of value [18]. The e-Naira serves as a medium of exchange, unit of account and a store of value. The e-Naira is the digital replica of Nigeria's naira paper currency, with the same face value, which means one e-Naira would be equal to one Naira in paper form. The e-naira is cryptographically created and cannot be counterfeited and is exclusively issued by the CBN with an inbuilt security architecture that requires cryptographic verification and authentication. Also, the transactions on the e-Naira are immutably recorded and can also be viewed and tracked in real time. The CBN has also clarified that the e-Naira is not a crypto currency [1].

The debate about CBDCs on global scene arose because of the rapid rise in use of private crypto currencies [17]. The wide spread use of crypto currencies by the populace have made governments to realize the need to introduce fiat central bank digital currencies. The regulation of crypto currencies depends on the country or jurisdiction [7]. Generally crypto currencies are classified as virtual currencies because they are unregulated and exist in digital form [9]. In Nigeria in 2021, the CBN barred all financial institutions from facilitating the use of all private crypto currencies as means of payment and directed that all financial institutions in Nigeria to close all private crypto currency related accounts [17]. The effect of CBDC will depend on its design and country-specific uniqueness [4]. The critical features that lead to the success of any CBDC will be the traceability of transactions, flexibility, security, limits, and the interest earning capacity [13]. Due to competition from innovative payment solutions developed by the private digital currency providers, CBDCs have received immense attention in both policy makers and the academia [14]. The practicality of CBDCs as a direct substitution for the current payment system still being assessed by many countries [8]. The distributed ledger technology used by CBDCs is disruptive in nature and it can be an enabler of novel payments solutions and business process.

The discussion and debates regarding e-Naira in Nigeria is relatively new from theoretical and empirical views, however questions will arise about the economic and social consequences of the e-Naira in Nigeria. This study contributes to the emerging literature on central bank digital currencies and reviewed the likely effects of the introduction of the e-Naira on the overall economy and how it can improve economic growth in Nigeria. Also, it provides policy recommendation on how to make the best out of the digital currency in Nigeria.

2. Methodology

The methodology adopted for this research is qualitative method through literature review and content analysis. This approach entails the use of secondary qualitative information from different sources and summarizes it into useful information. The technique entails objective and systematic review of literature of to make inferences.

3. Economic Implications of the E-Naira

3.1. Financial Inclusion

Financial inclusion is the access and use of available financial service i.e. credit, savings and payments at a low cost a by high number of people in a country [12]. Financial inclusion is expected to spur the economy into higher growth by creating access to financial services where they are non-existent. It must be stated that financial inclusion increases the effectiveness of monetary policies by central banks. The introduction of the digital currency expected to change the way Nigerians access the financial system and enhance the efficiency of payment systems in Nigeria. The Nigerian economy is still significantly cash-based and the introduction of the CBDC can bring about increased use of digital money to facilitate financial transactions. The digital currency brings about the possibility of financial inclusion for the people that are financial excluded [17]. As Africa's largest economy and with a population 200 million people, approximately 40 percent are financially excluded, representing 80 million people [17]. It therefore offers an improved access to digital financial services; enhance the efficiency of payments and lowers the cost of financial products and services. Nigeria is currently home to over 200 financial technology companies (FINTECHs) providing an array of financial services with the use of technology. Despite the progress made by these FINTECH firms, particularly with mobile money services, financial inclusion is still a problem. The e-Naira is expected to be a cheaper means of making payments and transfers. It is obvious that CBDC will be the crucial tool in the future digital economy and countries with the technology will have a competitive advantage [4]. It is important to note that for the financial inclusion objectives to be met it must be built on the existing information technology infrastructure and payment systems such as banks, agency banking platforms currently being operated by banks and other financial services providers.

Features of the E-Naira

The e-Naira is delivered through partnership between the CBN and other financial institutions in Nigeria. These financial institutions serve as intermediaries between customers and the CBN.

Table 1. *Categorization of the e-Naira.*

Tier	Category	Transaction Type	Regulatory Requirement	Remarks
0	Non-Account Holders	Daily Limit: N20,000 Cumulative limit N120,000	Passport photograph, personal details telephone number	Telephone Number (whose NIN is yet to be validated by NIMC)
1	Non-Account Holders	Daily Limit: N50,000 Cumulative limit N300,000	passport photograph, personal details telephone number	Telephone Number (NIN already validated by NIMC)
2	Account Holders	Daily Limit: NN200,000 Cumulative limit N500,000	Must provide BVN, Tier 1 requirement plus evidence of ID	

Tier	Category	Transaction Type	Regulatory Requirement	Remarks
3	Account Holders	Daily Limit: N1,000,000 Cumulative limit N5,000,000	Full KYC requirement	

Source: CBN 2022
NIN: National Identification Number
NIMC: National Identity Management Commission
BVN: Bank Verification Number
KYC Know Your Customer

3.2. Financial Stability

Financial Stability is a panacea for economic growth in Nigeria and it is important to examine the possible impact of the Nigerian digital currency on financial stability. Since the e-Naira is non –interest in nature it is not likely there will be a significant shifting away of funds from the traditional deposit money banks (DMB) and other financial services products like savings and deposit accounts. This is because banks deposits have an edge over the e-Naira store as a store of value since they can offer interest to savers. However, in times of economic vulnerability and perception of unsafe financial institutions there could be the issue of" flight to safety" which will increase in the demand of e-Naira which is viewed as safer deposit. This shift from traditional deposit product will lead to disintermediation which can disrupt the financial systems [4, 10]. However, digital currency can potentially make it easier and faster to resolve a troubled financial institution [10]. This is because it gives the CBN the option of repaying the depositors with safer e-Naira thereby reducing the contagion effect and reduce the possibility of a bank run. The functional similarities between crypto currencies and CBDCs can potentially pose several challenges to central banks in the area of financial stability [15]. It poses risks to the central banks' monopoly and sole responsibility of price stability and sole operator of payment systems. It could raise funding costs of financial institutions and facilitate bank runs during periods of distress. Although payment systems can be domestic in nature, but it has vital international implications [3]. This is because CBDCs are additional payment alternative that coexists with private sector electronic payment systems and they can be issued and assessed internationally. Therefore, there is the need to define clearly the roles of the central bank and financial institutions serving as intermediaries to ensure that sure that that monetary policy implementation and financial stability of the CBN will not be jeopardized.

3.3. Monetary Policy

It is important to access the potential impact of the e-naira on monetary policies and sustainable economic growth in Nigeria. The monetary policy implications on CBDCs has received little attention. Many economists believe that a stable monetary framework is a vital precondition for the effective operation of a market economy, and this remains relevant even in this digital age [7]. The non-interest-bearing feature of the e-naira has reduced significantly the ability of the e-naira to serve as a monetary policy signal or instrument. Therefore, the e-naira has established a zero interest-rate floor from a monetary policy point of view.

There are proponents of the removal physical currency from circulation, apart from small denomination notes and coins can serve as a monetary policy tool [16]. Their main argument is that by eliminating cash, monetary authorities can stimulate the economy in a downturn by setting negative nominal interest rates [16].This because according to them, cash guarantees the nominal interest rate of zero for all economic agents therefore the ability of central banks to stimulate the economy will be restricted with physical cash still in circulation [10, 16]. This is the reason that they push for co-existence of cash and CBDC [2]. CBDC is unlikely to affect monetary policy transmission significantly, although operations may need adaptation and transmission could strengthen if CBDC spurs greater financial inclusion [4, 20].

3.4. Diaspora Remittances

The ability for Nigerians in Diasporas to have access to the e-Naira can lead to large capital inflow. In 2018, Nigerians abroad sent a total of $25billion representing about 6.1 percent of GDP that year [5]. However, recent reports from the world bank show that in 2019, it dropped to $23.81billion and in 2020, to $17.21billion representing 4 percent of Nigeria's Gross Domestic Product in 2020 [5]. A cheaper and faster remittance avenue will guarantee more inflows [6]. The e-Naira should reduce the number of remittances flowing through informal channels because the cost of remittance in the formal channels is high. Ultimately, the e-Naira will make remittances easier, faster, cheaper and transparent. This can be done by obtaining e-Naira from international money transfer operators and transferring them to recipients in Nigeria by wallet-to-wallet transfers free of charge.

3.5. Currency Management

The introduction of the e-Naira means the CBN would use more of electronic currency instead of printing physical cash (coins or notes). This will reduce the costs associated to currency management. The use of the digital currency will also cut off intermediaries used in currency management cycle thereby reducing the cost of handling cash, cost of printing cash as well as reduction in the cost of cash destruction and replacement of damaged notes and coins. The reduction of the use physical cash will bring about huge savings for the government.

3.6. International Remittance

Remittances and trade finance activities especially with the launch of African Continental Free Trade Area (AfCFTA) will be major beneficiaries It can significantly reduce the cost and time involved in cross-border transactions. The speed of transactions will increase and enhance the swiftness of circulation of money, which will increase economic activity.

3.7. Anti Money Laundering

The use of digital currency at the detriment of cash will help the in Anti-Money laundering (AML) campaign and compliance. This is because cash is an apparent facilitator of money laundering in many countries including Nigeria.

3.8. Foreign Exchange

Since the e-Naira will be issued as legal tender like the current naira currency and will operate on the block chain technology, it will also follow the official exchange rate. It plausible that the e-Naira can have a negative effect in times of economic stress by amplifying the volatility of the balance sheet of the CBN when there is exchange rate volatility.

3.9. Improvement in Tax Collections

The digital currency introduction can help move many more people and businesses from the informal into the formal sector thereby increasing the tax base of the country and tax compliance. The collections of taxes especially Pay as You Earn (PAYE) from the informal sector can be enhanced with the e-Naira. This will enhance transparency and trust in the tax system and improve the low tax to GDP in Nigeria. The e-Naira usage can be a significant source of data of potential and existing taxpayers which certainly be useful for all tax authorities in tax collection.

3.10. Social Intervention Scheme

It will also be easier for payment to people of in the bottom of the society usually targeted at during social intervention schemes.

4. Policy Recommendations

Nigeria's central bank intends to adapt a system to make financially disadvantaged people especially in rural areas use the e-Naira. There is little proof that these set of people are ready to shift from the old ways i.e., to move from physical cash to a digital cash. The CBN must be prepared to provide financial literacy to these people to make them aware and build trust in the digital cash system. The people living in rural areas and the elderly make up a large chunk of the financially excluded. Therefore e- Naira reaching them with financial services requires more than e-Naira on a phone; as such there is the need to build a trusted network of agents in rural communities for wider access to the digital currency.

There is also the need to prevent disintermediation in time of uncertainties. The CBN should be prepared to mitigate this risk if depositors move funds from bank deposits to the digital currency during times of uncertainties. The CBN can re-channel liquidity back to the banks as they do now with open market operations. Also, there must be strategies to prevent disintermediation like caps on the size of digital currency in circulation. The use of digital currency requires the electronic recording of these transactions and the exchange of the relevant information between different stakeholders at national and international level. There must be efforts to safeguard data that are exchanged in order to protect customers rights to privacy and data protection. It is expected to accelerate financial inclusion and improve monetary policy effectiveness. It is also expected to ensure cheaper and faster remittance inflow and better tax collection. All these are panaceas for accelerated inclusive growth. The digital currency should provide veritable avenue for better inflow of Diaspora remittances which can play a major role in providing inclusive growth in Nigeria if properly harnessed.

5. Conclusion

Like any other policy the e-Naira introduction has its pros and cons. There is a high level of optimism that the e-Naira will continue to drive up digital transactions which have seen rapid growth in Nigeria over the years. The main objective should be that e-Naira complements cash rather than replace it. Banks and other financial players building on top of the e-Naira will create more useful products and services with an expected positive economic impact. The e-naira should enable all users to access (the unbanked, underbanked and underserved) varieties of financial services. For the digital currency to succeed, the CBN must play a crucial role of ensuring the stability of value, make sure the elasticity of the aggregate supply of such money, and overseeing the overall security of the system, thus information technology system and security must be impeccable.

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