



INSIGHTS

# E-NAIRA

NIGERIA'S FIRST DIGITAL CURRENCY



Central Bank of Nigeria unveiled the pilot program for its digital currency, the E-Naira, which is an action by the apex bank to drive its efforts to improve financial inclusion, support cross border trade and reduce the influence of unregulated cryptocurrencies in the Nigerian market. The CBN's action is in tandem with measures being taken by other central banks, to adapt to the rapid pace of innovation in payment systems.

So far, over 80 percent of Central Banks are currently exploring the idea of whether to issue a digital currency in the near future, while central banks in China, Bahamas and Sweden have launched pilot programs for their respective digital currencies. Unlike decentralized cryptocurrencies such as bitcoin and etherium, the e-naira is a direct liability of the central bank, and is a digital version of the official currency, the Naira.

Thus, the success of the program will depend on how well it is implemented and the trust and confidence Nigerians have in being

able to hold and utilize the E-Naira to meet their household and business needs. One way in which the CBN hopes to attract Nigerians to utilize the e-naira is the zero cost of transfers for those who have E-Naira wallets relative to the conventional payment system where fees are charged for transfers. This may appeal particularly to Nigerians with low incomes, and it could boost the CBN's efforts at driving financial inclusion in the country.

However, some analysts have expressed concerns that greater use of the E-Naira could have a negative impact on the growth of financial institutions in Nigeria, who could see a potential loss of revenue due to the zero cost of transfers for holders of the E-Naira wallet. The second challenge would be in the event of a crisis of confidence in the banks, Nigerians could easily switch to holding e-naira since it is a direct liability of the central bank. Furthermore, a centralized digital currency will need to have very high security safeguards to prevent cyber intrusions which could affect the confidence users place in the E-Naira.

The government should utilize the pilot phase to understand how well Nigerians use the e-naira, with a view to developing a robust framework that will help in the attainment of its original objectives. Gains to the economy would be dependent on whether the e-naira can serve as faster, cheaper, and secure alternative for cross border payments and in boosting remittance inflows into the



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