

# The eNaira as a Tool for Financial Inclusion: Challenges and Recommendations

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## Abstract

Following the COVID-19 crisis, digitalisation and using online payment systems rather than cash accelerated. With this, the relevance of Central Bank Digital Currencies (CBDC) became even more pronounced, spurring Nigeria to launch the eNaira. Yet, it remains to be seen whether there will be a broad acceptance of the eNaira in Nigeria. The Central Bank of Nigeria (CBN)'s primary goal in launching the eNaira is to increase financial inclusion in Nigeria. While millions of Nigerians have access to financial products and services, the Foreign Commonwealth and Development Office (FCDO) estimates that about 38 million adult Nigerians do not have access to essential financial products and services. The eNaira could fill this gap. The paper considers whether the e-Naira can drive financial inclusion in Nigeria. To do this, it examines the eNaira to determine whether its qualities as a CBDC can drive financial inclusion. The paper also assesses the success or lack thereof of the eNaira and the challenges of implementing it in Nigeria. Based on this assessment, the paper makes some policy recommendations to enable e-Naira to gain more acceptance in Nigeria.

## Introduction

Financial inclusion entails individuals and businesses having access to essential financial services and products, such as bank accounts, loans and insurance, sustainably and affordably (Raphael Auer, 2022). Financial inclusion precipitates economic growth and poverty reduction in developing and developed countries. While there have been increments in financial inclusion, in Sub-Saharan Africa, there are still many financially excluded people. A primary goal of the Central Bank of Nigeria (CBN) is to ensure that 95 percent of Nigerians are financially included by 2024 (eNaira, 2022). Some progress has been made in this regard. As of 2023, financial inclusion increased to 74 percent, up from 68 percent in 2020. However, more is required to ensure these targets are met in 2024.

Introduced in October 2021, the eNaira is one of the tools that the CBN has employed to drive financial inclusion in Nigeria. The central bank's goal for the eNaira is to drive financial inclusion, which is evident in the infrastructure of the eNaira, which adopts distributed ledger technology (DLT). This infrastructure enhances the financial inclusion process. However, adopting the eNaira has been slow, challenging its financial goals. One reason for the low adoption of the eNaira is a lack of trust. While the eNaira was designed to build a trustworthy medium of value or exchange, the Government has not shown convincing proof of this to the citizens.

This paper assesses the eNaira's financial inclusion goals to determine whether it can accomplish them. The paper is organised as follows: following this section, Section 2 provides an overview of the eNaira, considers some of the Central Bank's motivations for issuing it, and evaluates its success. Section 3 considers how the eNaira can drive financial inclusion. Section 4 provides policy recommendations and conclusions.

## Overview of the eNaira

### Definition

Endeavours to define CBDC have resulted in the consensus that it must have certain key features. The Committee on Payment and Market Infrastructure (CPMI) agrees that "CBDC is not a well-defined term but can refer to several concepts. Most people see the CBDC as a new form of central bank money. That is, a central bank liability, denominated in an existing unit of account, which serves both as a medium of exchange and a store of value" (Committee on Payment and Market Infrastructure (CPMI) BIS, 2018). A CBDC can also be considered a 'digital form of central bank money that is different from balances

in traditional reserve or settlement accounts" (Committee on Payment and Market Infrastructure (CPMI) BIS, 2018). The IMF defines CBDC as "a new form of money, issued digitally by the central bank and intended to serve as legal tender" (IMF Staff, 2018). The eNaira is a CBDC because it fits these designations.

### **Motivation for the eNaira**

The CBN seeks to provide Nigerians with access to safe money as part of their responsibility. The CBN's objectives also include promoting a sound financial system in Nigeria, which could help promote Nigerians' economic and financial welfare (Central Bank of Nigeria CBN, 2021). To accomplish this, the CBN needs to support secure, reliable, and efficient payment options for the benefit of all Nigerians. Some specific ways in which the CBN sought to promote the economic and financial welfare of Nigerians include financial inclusion, reduction of costs, cashless policy and payment efficiency. By issuing the eNaira, which offers Nigerians direct access to central bank money, the CBN hoped to accomplish these aims.

Furthermore, the CBN issued eNaira as a step toward curbing the use of cryptocurrencies in Nigeria, which was considered volatile and anonymous (Nigerian Government, 2021). Given the anonymity of cryptocurrency, the eNaira, a more centralised and controlled currency regime, allows the CBN to monitor and control the eNaira by limiting access to wallets and the purchasing ability of eNaira holders. The CBN could not achieve this level of control with the fiat currency despite the denomination numbering system (Regcompass, 2020). Hence, 'The e-Naira is the Central Bank of Nigeria's attempt to stay in tandem with other global central banks as decentralised modes of storing value and payment become more mainstream' (Coindesk, 2021).

### **Evaluation of the eNaira**

When the eNaira was first deployed, there were some initial glitches but no major risk factors like cybersecurity issues. Thus, the CBN has maintained operations without any service outage. (Coin Telegraph, 2023) However, since its release in October 2021, and despite smooth operations, there has been a slow uptake in the adoption of the eNaira. In fact, there is hardly any usage of the eNaira, with only 0.5% of Nigerians using it (Coin Telegraph, 2023), despite Nigeria's reputation as a crypto, digital money-friendly country. At least 98.5 percent of the wallets have not been used even once (Ree, 2023). The average value of eNaira transactions has been 923 million naira per week—0.0018 percent of the average amount of M3 during this period. The average value per transaction has been 60,000 naira. (Ree, 2023) The figures above show that Nigerians have not embraced the eNaira, making it seemingly unsuccessful. Some of the reasons suggested for this reluctance towards the eNaira is that it may present a 'substantial risk to financial freedom whilst providing no unique benefit' (Coindesk, 2023). Other concerns include possible financial privacy and control issues where the Nigerian Government, known for human rights violations and the central bank, could make it easier and quicker to freeze assets arbitrarily. It is also possible for a cyber-attack to result in the entire network being disabled since all transactions go through a central authority.

### **The eNaira and Financial Inclusion**

#### **How the eNaira can drive financial inclusion**

Amongst the many functions of the eNaira, such as a store of value, means of payment, settlement asset, and unit of account, the way that CBDCs are linked to financial inclusion has to do with the design properties of the CBDC (Bank for International Settlements (BIS), 2022). Firstly, the eNaira could be useful where PSPs do not offer a transaction account because it ensures access to a basic, trustworthy means to pay and store value. Secondly, the eNaira is designed to replicate certain

cash-like attributes, which means that it can ensure that individuals and businesses have access to a simple, risk-free, and flexible means of payment. In such cases, accessing cash (which typically relies on bank infrastructure such as branches and ATMs) might be challenging or costly in remote areas (e.g., small islands and difficult-to-reach regions). Despite the cash shortage in Nigeria in 2023, the adoption of the eNaira did not increase. Thirdly, the eNaira can be used to disburse government payments, which is important for driving a critical mass of users and promoting greater inclusion. The eNaira can be used, for instance, to channel public sector salaries and social protection grants to transaction accounts. This can increase access to and usage of the eNaira.

One of the broader advantages of eNaira as a tool for financial inclusion is that it can enhance financial stability in Nigeria. This may be achieved when the eNaira helps in reducing inflation. Thus, two ways in which the eNaira can reduce inflation are firstly, where there is widespread use of the eNaira, with limited cash. This will reduce the amount of cash normally used for speculative inflationary activities. Secondly, the central bank can make the eNaira interest-bearing. An interest-bearing eNaira can help control inflation where the central bank raises the interest rate of the eNaira above that of other bank deposits. This will ultimately reduce excess liquidity, one factor contributing to inflation (Ozili, 2023).

### **The Design of the eNaira as an Aide for Financial Inclusion**

The eNaira was designed as a two-tiered/hybrid system to meet the CBN's financial inclusion goals. This design combines direct claims on the central bank, but the intermediaries handle payment. A two-tiered/hybrid system is appropriate for Nigeria because it embodies the convenience of private sector payments and the central bank's authority (Boehme, 2020). The CBN is responsible for issuing the eNaira while leveraging the existing financial system and actors; this includes financial institutions directing engagement with users to distribute the CBDC, dispute resolution, payment facilitation and other roles as may be defined by the CBN. Non-bank PSPs are important in achieving the central bank's financial inclusion objective because they can facilitate access to the eNaira for excluded and underserved segments of the population. In this regard, rural agent networks are critical to facilitate online transactions. This means that pre-existing cash-in cash-out networks are now a priority.

The CBN already has the Shared Agent Network Expansion Facility (SANEF). This initiative seeks to deepen financial inclusion through partnerships and collaborations, which can facilitate the seamless use of the eNaira. SANEF aims to drive financial literacy, onboard unbanked Nigerians into the financial system, increase financial access points and shared agents, and support financial products and services. The eNaira uses the Hyperledger Fabric as its technological backbone (IBM, n.d.). As a distributed ledger, it allows all participating nodes to keep all records of CBDC transactions throughout the entire history (as a blockchain). Because the CBN seeks inclusive access whilst retaining the financial system's integrity, the account-based CBDC was opted for. This model enables the CBN to leverage current identity infrastructure like the BVN, NIN and TIN to identify users. These existing identity frameworks allow access for the financially excluded as they can be uniquely identified, thereby enabling the provision of financial services.

Robust and low-cost public sector technological basis and novel interfaces. An important aspect of a CBDC that offers financial inclusion is that it should have a robust and low-cost public sector technological basis and novel interfaces. One of the design principles of the eNaira is innovation. Thus, the eNaira provides a 'platform that fosters continuous innovation and collaboration across different sectors of the economy' (Nigerian Government, 2021). There are still challenges and barriers to digital payments for low-income populations and those living in remote locations. Domestic retail payment services can be expensive, and cross-border payments and low-value transfers like remittances are

more challenging. There has also been increasing access to payment services in recent years; however, this is far from national, especially in places like Northern Nigeria. The eNaira leverages Nigeria's existing structures and payment system roles to give users more value. As such, the eNaira serves as a payment platform where financial institutions and payment service providers can innovate and create layered payment services to enable broad use cases for eNaira. At its core, the layered model drives inclusiveness, innovation and interoperability, which are baseline requirements for payment services in Nigeria (Nigerian Government, 2021).

The online functionality of the eNaira as a critical tool to enable financial inclusion. A critical aspect of any CBDC that seeks to foster financial inclusion is enabling an online payment functionality. The online capabilities of a CBDC could reduce dependence on the quality and availability of mobile and broadband networks, as well as round-the-clock availability of electricity. Thus, this online payment functionality would allow CBDC transactions to continue in an environment with no internet, no mobile network coverage and, in some cases, no electricity. This would enable the distribution of a CBDC (e.g., by government agencies) to devices in rural areas with limited connectivity or in disaster-hit areas.

Part of the roadmap to the full implementation phases of the eNaira is providing the online eNaira payments solution (Nigerian Government, 2021). As of August 2023, the CBN enabled consumers and merchants to use their smartphones to make and receive contactless in-store and Peer-to-Peer (P2P) payments with the eNaira using Near Field Communication (NFC), even if they are online (BIS, 2022). This was part of the CBN's attempt to innovate and build more means of exchanging services (Sunnewsonline, 2023). It remains to be seen whether the online functionality of the eNaira will result in increased adoption. By enabling an online function, the CBN will have to consider that there still exists the risk of potential double-spending and the possible creation of fake tokens. There will be a need to ensure that this risk is minimised.

The eNaira was designed to drive financial inclusion. From its online functionality to the hybrid model that allows the use of pre-existing financial institutions and Payment Service Providers (PSPs). This is one of the main advantages of the eNaira. However, the eNaira can only offer this important advantage with wide adoption.

### **Policy Recommendations and Conclusion**

Whilst a CBDC is generally not a complete solution to financial inclusion, it can further the goal. The eNaira was launched by the central bank to drive financial inclusion by complementing Nigeria's existing initiatives. As seen above, some features of the eNaira are designed to facilitate financial inclusion in Nigeria. This aligns with the CBN's goals for issuing the eNaira.

Despite meeting the design criteria as a tool for financial inclusion, the eNaira has not gained traction, falling short of expectation levels. This lack of adoption has implications for the eNaira's financial inclusion goals because, with significant adoption, the financially excluded population will be reached. Thus, the eNaira needs to be adopted and used if it is to fulfil its public policy goals that motivated its issuance.

To increase the adoption rate of the eNaira, the following is recommended:

- The Federal Government must show Nigerians that the benefits of adopting the eNaira outweigh the costs. This can be done through mass education and awareness programs. Even with mass

education, it must be recognised that there are examples of products with long-term benefits that failed to become widely adopted because of short-term friction in the initial use of the products. Some of the lessons from those failed products show that apart from lack of trust, people may be deterred from adopting products like the eNaira because it may be a time-consuming process to open an account, there may be difficulty in finding places where the eNaira could be spent or, for merchants, there may be the need to invest in new hardware.

- Consumers who receive payments in CBDC would be more likely to use CBDC. The Federal Government can mandate public authorities to incentivise consumer use of the eNaira by dispersing social benefits and transfers to individuals in eNaira. For instance, allowing employees to receive their salaries in eNaira and allowing consumers to pay their taxes in eNaira may also provide a stable example for consumers to use the eNaira.
- The Federal Government and CBN can work in a broader set of enabling policies, particularly on financial literacy, digital literacy, and open and affordable access to digital infrastructure (G7, 2021). These policies can help bridge Nigeria's knowledge gap and digital divide, which can help build more knowledge in areas where digital infrastructure is not well developed.
- The Federal Government and CBN can focus their entire adoption efforts on areas in Nigeria where no convenient digital alternative exists. Given the lack of a viable alternative, the need for such infrastructure can drive adoption. One example of an initiative that was successful when this method was adopted is the M-pesa. The M-pesa is a mobile money platform launched in 2007 in Kenya and used by more than 95% of the population. The key success factor was that emphasis was offered on a service in a market where no convenient digital alternative existed and that onboarding was easy. This can be particularly useful in Nigeria.

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