

DIGITAL CURRENCY THE FINANCIAL INCLUSION BENEFITS AND CHALLENGES IN THE IMPLEMENTATION OF eNAIRA

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ABSTRACT

Financial inclusion makes sure that all people and enterprises have access to formal financial services that are both accessible and useful for enhancing welfare. Since digital money is domiciled with the CBN, the expectation is that it will help to contain inflation and make transactions easier without requiring the use of cash or trips to the bank. Nigeria, which has been labeled as immature because of its ongoing electrical crisis, corruption, and issues with internet accessibility, is likely to experience difficulties while using virtual wallets for digital currency that are registered under the CBN. Researchers are now wondering the feasibility, the benefits, and the challenges of the eNaira. The paper, therefore, examined digital currency, the financial inclusion, benefits, and challenges in the implementation of the eNaira. The scope of literature examines in this review include journal article and web document covering a period of 2015 -2023. It the study concludes that eNaira presents opportunities and challenges for the Nigerian government, the CBN, the financial sectors, individuals, and other stakeholders. It equally recommends amongst other things that financial education needs to be given attention, particularly in the area of using digital currencies, since this will promote inclusion among rural people.

Keywords: Digital Currency, Financial Inclusion, eNaira Benefits, eNaira Challenges

1. INTRODUCTION

Since barter has mostly been replaced by commerce throughout human history, trade typically entails the exchange of products, services, and an equivalent abstract value, such as money. A method for making payments has existed since the creation of money as an abstract form of value representation. Over time, various brand-new, ever-more-abstract value representations emerged. Numerous substitute electronic payment methods have developed as a result of the development of computers and electronic communications. These include online banking, debit, and credit cards, electronic funds transfers, direct credits, direct debits, etc. These payment systems, which are a key service offered by banks and other financial organizations, are utilized in place of tendering cash in domestic and international transactions (Banet & Lebeau, 2022). Both physical and electronic payment systems have their own processes and protocols. Some of these systems and networks have grown on a worldwide scale thanks to standardization. Credit cards and automated teller machine networks are two examples of payment methods that are now accessible worldwide. According to Okifo and Igbunu (2015), specific payment systems are also used to settle financial transactions for items on the equities, bonds, currency, and options markets as well as to transfer money between financial institutions. In addition to being convenient and safe, electronic payment systems (EPS) also present a large variety of advantages and difficulties from an economic perspective. To improve the conduct of monetary policy, control banking system liquidity, increase government revenue, and provide legal tender that is relevant to the digital payment ecosystem, Nigeria introduced the eNaira Central Bank Digital Currency (CBDC) on September 25, 2021, as part of the EPS (Ozili, 2023). The issuance of an eNaira CBDC has numerous advantages. Given that many developing nations have a sizable unbanked population, increasing financial inclusion may be the most significant advantage of issuing a CBDC in these nations (Banet & Lebeau, 2022). Financial inclusion makes sure that all people and enterprises have access to formal financial services that are both accessible and useful for enhancing welfare. Since digital money is domiciled with the CBN, the expectation is that it will help to contain inflation and make transactions easier without requiring the use of cash or trips to the bank. Nigeria, which has been labeled as immature because of its ongoing electrical crisis, corruption, and issues with internet accessibility, is likely to experience difficulties while using virtual wallets for a digital currency that are registered under the CBN (Ahiabenu, 2022). Researchers are now wondering feasibility, the benefits, and the challenges of the eNaira. It is against this background, the paper conceptual examined the digital currency, the eNaira, the financial inclusion, benefits, and challenges in the implementation of eNaira. However, studies are necessary after the October 2021 eNaira implementation.

2. LITERATURE REVIEW

In the same way that coins or cash are liabilities of the CBN, so is the eNaira. Similar to Bitcoin or Ethereum, the eNaira is stored in digital wallets, is used for making payments, and can be delivered digitally and virtually for free to anyone on the planet who has an eNaira wallet. The same blockchain technology is used in it as well. But there are a

few notable differences. First, the central bank has implemented strict access rights constraints for the eNaira. Second, unlike these crypto-assets, the eNaira derives its value from the actual naira, to which it is tethered at parity, rather than being a financial asset in and of itself (Ree, 2021). It serves as an alternative method of paying bills and resolving debts rather than as a replacement for cash. The government has released the central bank digital currency (CBDC) known as the eNaira, which has the same value as physical cash. The eNaira is a virtual currency with a designed format rather than coins or notes. It is translated that eNaira cannot be held physically but can be stored in value. It can make payments since the central bank is legally backing it. Blockchain technology can be used to exchange and transmit CBDC, which is a direct central bank obligation, in order to control and safeguard the eNaira. In order to deploy eNaira effectively, it alludes to a system that preserves transaction records across computer networks (Dakila Jr, 2022).

The Digital Currency Management System (DCMS) will be used by the CBN to control and maintain the eNaira. DCMS provides digital currency solutions to the CBN, financial institutions, and ecosystem participants all around the world. The upkeep of the eNaira system depends on the technology's capacity to offer a framework for system maintenance, such as blockchain. The usage of blockchain technology and digital currency, according to CBN (2021), will increase the GDP of the largest economy in Africa by \$29 billion over the next ten years. Blockchain is a type of Distributed Ledger Technology (DLT) that uses an immutable hash (cryptographic signature) to record transactions. Hackers won't be able to change the distributed version of the blockchain until every block in the chain is altered.

According to CBN (2021), only people who have bank accounts will be able to access digital currency (eNaira) through blockchain. However, the eNaira is expected to be a global currency that may be used as a unit of account, a medium of exchange, and a deferred payment system. The creation of an eNaira wallet, which is a digital storage system controlled, managed, and created by blockchain technology, is a need for using the eNaira currency. Financial institutions are allowed to later create their own eNaira versions, however, there is only one version of the eNaira wallet for the government. To create an eNaira wallet, a smartphone user must download the eNaira app. You may download this from either the Apple Store or the Google Play Store. Registration can be begun and completed using the eNaira App. Users can be given the authorization to send money or receive money from bank accounts as soon as an eNaira wallet has been set-up. According to CBN (2021), the eNaira system was created with meticulous consideration for data protection, privacy, and adherence to the National Data Protection Regulations. However, this system is created in compliance with the regulations to halt the movement of funds and usage that is unlawful, which necessitates transaction identification and detail to safeguard users of the eNaira system's private rights. Additionally, it encourages consumer involvement, which can make it easier to implement better methods of customer support. In addition, it allows financial institutions access to a brand-new market of cryptocurrency users, boosting their clientele, raising the value of account holders, and promoting global electronic trade. The main benefits of eNaira include digital stability and ease of use while doing transactions online without using real money. Nigeria, the continent's most populous country, is the first in Africa to successfully organize and manage eNaira. This is encouraging for the African regional monetary union. This will facilitate trade within the region, which has been difficult throughout Africa, and solve the issue of nonconvertible currencies there once and for all. The introduction of the eNaira may result in a regional monetary union in Africa with the operating Continental Free Trade Agreement (Adegbite & Aremu, 2022).

Accounting to (eNaira wallet get started, n.d.)

- Get the Speed App.
- In accordance with the customer tier, you are in, provide the relevant identification data, such as your NIN, BVN, or other information.
- Enter your name, birthplace, phone number, passport photo, email address, and password, along with any further identifying information.
- Verifying the bare minimum of ID.
- Check out your account.

In the form of cryptocurrencies, hundreds of digital (electronic) currencies are available today. Every digital or electronic currency offers traders some kind of opportunity. Enaira's potential, viability, and opportunities are still up for debate. According to Mikhalev, et al. (2022), Enaira offers a number of possibilities, including:

- In the case of digital banking, customers will be able to maintain their e-wallets rather than having the bank do it. Customers can conduct business without a middleman with ease.
- Enaira will lower the cost of minting and manufacturing coins and paper notes for the CBN.
- It enables the unbanked and unorganized sectors to participate in the financial industry.
- The CBN will oversee all eNaira transactions, in contrast to other cryptocurrencies. The CBN will be able to comprehend the movement of money among various parties.

- In contrast to other digital currencies, the CBN will regulate The Enaira.
- It does away with carrying cash and doing physical transactions like the old Naira does.
- Enaira Will be protected against volatility, the same like other digital currencies like Bitcoin. It indicates that the local banks protect their client's money.
- Enaira will make it simple and effective for the general public to do an online transaction.

As the globe continues to embrace cryptocurrency trading. Compared to other cryptocurrencies like Ethereum, Bitcoin, and many others, the introduced eNaira is still unclear. Blockchain can be used by eNaira, however, it is not a cryptocurrency. It might, however, resemble cryptocurrencies (Akintunde, 2022). Blockchain offers cryptocurrency platforms that allow for the decentralization of digital currencies like Bitcoin and others. eNaira differs from bitcoin and other cryptocurrencies. However, according to (Chukwuere, 2021) eNaira will probably encounter difficulties like:

- Many Nigerians think that the creation of the eNaira currency was an attempt by the government to keep tabs on citizens' financial transactions. The eNaira's success will be hampered by a lack of confidence.
- The citizen's confidence will decline if the value of the eNaira declines, which could have an impact on the success rate because many people would start to question the currency's floating rate.
- Nigerians choose investments with a rapid return. The "sow and reap quick" mindset must be absent for Nigerians to adopt the eNaira. Cryptocurrencies, as opposed to eNaira, can quickly quadruple investments.
- Enaira may not increase in value as much as other digital currencies like Bitcoin and Ethereum.
- Like the old Naira, the value of the eNaira will be impacted by inflation.

Enaira will function similarly to conventional Naira notes, maintaining their value and backing. In addition, according to Uduak and Christopher (2022), there will be four operating tiers for the eNaira wallet, they are as follows:

- Tier 0 (Zero) - Customers without a bank account or a verified National Identification Number (NIN) will have a transfer limit of N20,000 and a balance limit of N120,000.
- Tier 1 (One) - Transaction limits for customers without bank accounts are N300,000 for balances and N50,000 for transfers. Customers without bank accounts only need a phone number and a confirmed National Identification Number (NIN) (Know Your Customer (KYC) requirement) in order to meet the requirements.
- Tier 2 (Tier 2) - Customers that spend the needed minimum would have transactions limited to N200,000 in transfers and N500,000 in balances, with the need for a bank account, phone number, and Bank Verification Number (BVN) (a prerequisite for KYC).
- Tier 3 (Three) - Customers who make regular purchases; the transaction's balance limit is N5,000,000; the transfer limit is N1,000,000; and KYC requirements include BVN and bank account.
- A merchant account holder, on the other hand, will be subject to all KYC procedures, the CBN counterfeit terrorism rule, anti-money laundering, and transfer limits of N1,000,000.

3. CONCLUSION AND RECOMMENDATIONS

Digital Currency Is A Disruptive Technological Initiative With The Ability To Revolutionize The Financial Sector And Commerce. The Nigerian Government and The Apex Bank (The CBN) Are Tapping Into The Huge Opportunities In Delivering Efficient Financial Services To The Populace Through The Introduction Of Enaira. However, The Success Of Enaira Lies On CBN, Fin Techs, And Financial Sectors To Do The Basics And Carry The Populace Along In Confronting Their Challenges. The Challenges Mentioned Above Can Hinder The Potential Of Enaira To Thrive After Its Implementation In October 2021 And As We Advance.

This Paper Examined The Digital Or Electronic Currency, Enaira, The Procedure, Benefits, And Challenges In The Implementation Of The Enaira. However, More Studies Are Necessary After The October 2021 Enaira Implementation. Enaira Presents Opportunities And Challenges For The Nigerian Government, The CBN, The Financial Sectors, Individuals, And Other Stakeholders. The Challenges Highlighted In This Study Are Critical Determinants In The Success Of Enaira. This Paper Recommends That:

- ❖ Financial education needs to be given attention, particularly in the area of using digital currencies, since this will promote inclusion among rural people
- ❖ The Nigerian government, through its CBN, should build among the populace to believe in the idea.
- ❖ The success of digital-initiated currency in Nigeria should be driven by an agent different from the conventional CBN banking formation.
- ❖ The success of the eNaira lies in the elimination of the challenges mentioned above and other emerging ones.
- ❖ The CBN should be flexible in formulating and regulating eNaira and willing to adapt to change in the future.

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