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Ozili, Peterson K

2024

Research Article

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Peterson K. Ozili

Abstract

Several firms have expressed an interest to develop a stablecoin in Nigeria called the compliant-Nigerian-Naira (cNGN). The purpose of this article is to explore the features, benefits, and challenges of issuing a stablecoin in Nigeria known as the cNGN stablecoin. The study also compares the proposed cNGN with the eNaira central bank digital currency and offer several differences that are worth noting. The study shows that the proposed cNGN stablecoin offers many benefits. They include enabling faster payments, ensuring seamless cross-border payments, and increasing participation in the financial system for those who are already banked. The study also identifies some challenges of the proposed cNGN stablecoin. The study concludes by stating that the long-term success of the cNGN will be guaranteed if majority of Nigerians embrace it and if cNGN issuers collaborate with regulators to ensure that the cNGN is designed in a way that achieves financial stability objectives, transparency, and consumer protection.

Keyword: Nigeria, stablecoin, cNGN, blockchain, eNaira, CBDC, compliant Nigerian Naira

March 2024

To cite: Ozili, P. K. (2024). Nigeria cNGN Stablecoin: Everything You Need to Know About cNGN and eNaira CBDC. *In Blockchain Applications for Smart Contract Technologies (pp. 225-233).* IGI Global.

Available at: **https://doi.org/10.4018/979-8-3693-1511-8.ch011**

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1. Introduction

Non-fiat forms of money emerge when money is viewed as a social convention where one party accepts it as a means of payment in the expectation that the other party will accept it as a means of payment (Frost et al, 2020).[1] Once this social convention is widely believed, the specific substance, object or commodity being used as a means of payment will become 'money'. This is how money was created until government-backed money emerged and replaced the social convention system of money (Dequech, 2013; Frost et al, 2020).

Understanding the social convention system of money is essential in understanding what 'stablecoin' really is. Using the same analogy, a stablecoin is simply digital value which a person accepts as a means of payment in the expectation that the other party will accept it as a means of payment, and where the digital value is pegged to the value of a reference asset such as gold, stock or some economic indices (Frost et al, 2020).

The painful consequences of past economic and financial crises, e.g., the dotcom crash and the global financial crisis, led some private actors to believe that governments deliberately create economic and financial crises to make fiat money lose its value which in turn leads to loss of personal wealth so that the rich will become richer through the increase in the value of their physical assets, while the poor will become poorer through loss in the value of their fiat money held as cash or in the vaults of commercial banks (Othman et al, 2020). This ideology or belief system led private actors to seek ways to decouple from the government's fiat monetary system (Dapp, 2021). This led to the rise of private digital currencies also known as cryptocurrencies.

A private digital currency refers to a currency in digital form in which transactions are verified and records are maintained by a decentralized system using cryptography and controlled by private entities (Zohuri et al, 2022). Private digital currencies have many benefits such as increased speed of transactions, lower transaction cost, ease of access, high levels of privacy, and it is protected against inflation. However, private digital currencies, or cryptocurrencies, have a major problem which is their high volatility. Analysts, central banks and policymakers have criticized cryptocurrencies for being too volatile and they argue that the high volatility

[1] For example, many non-fiat forms of money have existed in Nigeria in the last seven decades which includes cowry, copper and other commodities (Kirk-Greene, 1960).

makes cryptocurrency unsafe for use as money, and it cannot be relied on by businesses to plan or for investment purposes. Soon, some central banks began to develop their own state-controlled digital currency to counteract the rise of private digital currencies and its unwanted volatility. This led to the creation of a state-controlled digital currency also known as a 'central bank digital currency'. As central banks were accelerating the development of CBDCs, some private actors rather than abandoning cryptocurrencies due to their high volatility, began to develop another type of cryptocurrency that will be less volatile if its value is pegged to a reference asset whose value is also non-volatile such as gold. This led to the idea of a stablecoin.

Technically, a stablecoin is a digital currency whose value is pegged to a fiat currency or a commodity like the US dollar or gold (Ante et al, 2021). Many private sector innovators are optimistic and enthusiastic about the development of stablecoins due to its ability to eliminate the volatility inherent in many cryptocurrencies. However, many policymakers and academic economists have called for caution and argue that stablecoin are not really stable rather they are less volatile than cryptocurrencies such as Bitcoin, and their perceived stability is not guaranteed in the long-term due to moral hazard of the operating entity, when the entity has poor financial performance or when there is limited supply of the stablecoin (Kwon et al, 2021; Frost et al, 2020). Despite these concerns, interest in stablecoins is growing rapidly in the private sector just as interest in CBDC continues to grow among central banks.

In Nigeria, several firms have indicated an interest to develop a stablecoin in Nigeria. In this study, I explore the features, benefits, and challenges of the proposed Nigeria cNGN stablecoin. The study also compares the proposed cNGN stablecoin with the eNaira central bank digital currency and offers several differences that are worth noting. The study contributes to the literature that examines digital innovation in monetary systems.

The rest of the study is organised as follows. Section 2 presents a contextual background of the proposed Nigeria cNGN stablecoin. Section 3 compares the cNGN with the eNaira CBDC. Section 4 highlights the challenges of the cNGN stablecoin. Section 5 presents the conclusion of the study.

2. Understanding the Nigeria cNGN stablecoin

2.1. Contextual Background

In 2021, the Central Bank of Nigeria (CBN) barred banks from facilitating cryptocurrency transactions. In late 2023, the CBN admitted, in a circular sent to banks on December 22 of 2023, that the strict restrictions imposed on financial institutions in 2021 were unsustainable. As a result, the central bank lifted the cryptocurrency restrictions to enable banks assist customers with cryptocurrency transactions. The CBN lifted the restrictions for two reasons. The first reason was due to increasing demand and use of cryptocurrency around the world. The second reason was because the CBN wanted the financial sector to promote and enable the use of blockchain technology in delivering financial services. Several firms expressed an interest to develop a stablecoin in Nigeria and they would call the stablecoin the compliant-Nigerian-Naira (cNGN). The interested firms belong to the Africa Stablecoin Consortium (ASC) which is a coalition of Nigerian financial institutions, Fintechs, and blockchain experts. The proposed stablecoin is designed to be a private cryptocurrency that will enhance financial transactions and comply with existing and new regulatory frameworks.

2.2. Features of the proposed cNGN stablecoin

1. The cNGN stablecoin will be backed by the Naira reserves held with commercial banks.

2. The exchange rate or conversion rate of the cNGN stablecoin will be pegged at a ratio of 1:1 to the Nigerian Naira.

3. The cNGN will incorporate the relevant know-your-customer (KYC) and anti-money laundering (AML) safeguards.

4. The cNGN stablecoin will comply with present and future regulatory requirements.

5. It will be developed and managed by Nigerian banks and Fintech firms.

6. It is interoperable with multiple public blockchains.

2.3. Benefits and opportunities of the proposed cNGN stablecoin

1. It can enhance financial transactions.

2. It may pose little risk to financial system stability.

3. It has the potential to make the Nigerian Naira become a dynamic instrument for global transactions.

4. It uses blockchain technology to connect the Nigerian Naira to global markets.

5. Although the cNGN is a Nigerian initiative, the cNGN sets a precedent for blockchain-based financial innovations in the African continent.

6. It can easily integrate Nigeria into the evolving global financial industry.

7. Widespread adoption of cNGN will lead to wide acceptance of Web3 technologies in Nigeria.

8. The cNGN stablecoin will shorten settlement times.

9. The cNGN stablecoin will enable global payments.

10. The cNGN stablecoin will expedite trade and payment settlements globally at minimal costs.

11. The cNGN stablecoin has diverse utility

12. It will extend financial transactions globally by enabling users to use their Naira to engage with the global marketplace.

13. It can be applied to very good use cases such as faster remittances, enabling instant payment, facilitating low-cost payment in international trade, and enabling individuals to receive money from any part of the world within minutes.

2.4. Use cases

- **Remittance** – People working abroad will be able to send money back home just with the tap of a bottom and the money arrives home in a minute. The cNGN will make sending money home feels like sending a text message. It would be instant and effortless.

- **Instant Funds transfer** – The cNGN will make fund transfers very easy to do and fast. Customers will no longer experience delays in receiving or sending money. Customers can do work online and receive money quickly from any part of the world.

- **Cryptocurrency trading and liquidity provision** – The cNGN can be used to enhance cryptocurrency trading and provide liquidity in local crypto exchanges in Nigeria. It will allow users to easily move funds between crypto exchanges and the financial system and vice versa. It will provide convenience and efficiency in cryptocurrency transactions.

- **Using cNGN as a store of value during economic crisis and financial turmoil** – The cNGN can be used as a store of value during economic downswings that give rise to volatility and loss of wealth such as high inflation, financial crisis, banking crisis or a pandemic. During such events, users can quickly convert their fiat money into cNGN holdings in order to avoid the adverse effects of economic fluctuations and to preserve the value of their fiat money during bad times.

- **cNGN Lending** - Private lenders can lend cNGN money to households and companies who must post digital assets as collateral. After posting the digital assets, the cNGN stablecoin is offered to borrowers who must repay with interest. cNGN makes lending easier because it will prevent situations where borrowers must post physical assets as collateral such as land and house properties.

- **cNGN payroll –** Nigerian companies can demand payment for services rendered in cNGN and use the cNGN payment receipts to pay the salary and wages of local

empoyees. This will reduce transaction costs involved in obtaining fiat currency for payroll.

3. Comparing eNaira and cNGN

This section presents a comparison of the proposed cNGN stablecoin with the eNaira central bank digital currency

Table 1. Comparison of the cNGN with the eNaira

S/N	Criteria	cNGN	eNaira
1	Core objective	To simplify payment and streamline international transfers	To be a payment tool and assist the central bank in achieving public policy goals such as G2P transfers, financial inclusion, and delivering digital public goods
2	Digital form	It is a private cryptocurrency similar to USDT	It is not a cryptocurrency. It is a central bank digital currency
3	Compete or coexist?	cNGN will coexist with eNaira.	eNaira will coexist cNGN.
4	Reserve holdings	Member-banks will hold the cNGN stablecoin as part of their reserves	Deposit money banks will hold eNaira CBDC as part of their reserves
5	Promoting the product	Member-banks will heavily publicise the cNGN	The central bank will promote wholesale eNaira CBDC.
6	Corporate support	Support for cNGN by organisations will be massive	Support for wholesale eNaira is growing due to its financial stability benefits for organisations
7	Retail vs wholesale scale	cNGN will be used mostly for retail purposes	eNaira CBDC is used mostly for wholesale purposes
8	Type of blockchain	Public blockchains	Private blockchain distributed ledger technology built on the enterprise-grade hyperledger fabric

9	Wealth of expertise used in its formation	The cNGN stablecoin is developed by a large number of private experts and firms, e.g., banks, fintech, blockchain experts	eNaira CBDC was developed using the expertise of central bank staff, policymakers and carefully selected international consultants
10	Usefulness for public policy purposes	cNGN is not designed to be a tool to achieve public policy objectives	eNaira CBDC can be used to achieve public policy objectives
11	Can it achieve first-level financial inclusion?	cNGN cannot be used to bring unbanked adults into the financial system because it is designed to serve those who are already banked; not those who are outside the formal financial system	Retail eNaira CBDC, if deployed, can be used to bring unbanked adults into the financial inclusion
12	Deepen financial inclusion	cNGN deepens financial inclusion by offering more financial services to those who are already banked, and it offers more opportunities to deepen financial inclusion	The eNaira CBDC also deepens financial inclusion
12	Government control	Limited or no government control	Full government control
13	Custodian of the pegged Naira reserves	cNGN is pegged to the Naira reserves held in the accounts of commercial banks	eNaira is pegged to the Naira reserve held in the accounts of the central bank
14	Usefulness for monetary policy	cNGN has little benefit for monetary policy. It is ineffective in administering monetary policy objectives	eNaira has significant use for monetary policy
15	Surveillance of users	Full surveillance of users is not possible when using cNGN	There can be full surveillance of users of eNaira CBDC
16	Financial stability risk	Financial stability risk may be transmitted through de-pegging	Financial stability risk is significantly controlled through price and quantity restrictions on CBDC holdings
17	Impact on foreign reserves	If cNGN is used for international trade, it will have a huge impact on foreign reserves, as cNGN-based trade will be settled with the foreign reserves held with the central bank.	eNaira is not used for international trade. Therefore, eNaira transactions have no impact on foreign reserves, except the dollar cost of maintaining the infrastructure which is outsourced and whose license fee must be paid in foreign currency.

4. Challenges of the Nigeria cNGN stablecoin

Low awareness – Only less than 40% of the population have heard about cryptocurrency, and it difficult to say with certainty that a lot of people will be aware of the proposed cNGN stablecoin. For the stablecoin to succeed in the Nigerian market, there must be widespread awareness and education about the benefits of the proposed cNGN.

Volatility will remain – The proposed cNGN stablecoin will be pegged to the Naira, and the Naira is pegged to the US dollar. This means that if the Naira becomes unstable in relation to the US dollar, the cNGN stablecoin will equally become unstable and volatility will emerge, making it an unstable coin. Therefore, it will be very difficult for cNGN promoters to claim that the value of the cNGN stablecoin will remain stable when the fiat Naira becomes unstable in relation to the US Dollar. Some users may demand a guarantee that the Naira will be stable in the future for them to accept and use the proposed cNGN stablecoin.

Heightened risk of cNGN de-pegging – There is the risk of cNGN de-pegging which arises when the cNGN stablecoin is no longer trading at its predetermined Naira value. cNGN de-pegging occurs when the price of cNGN falls below the price of the pegged asset which is the Naira. This may be caused by unfavourable economic events such as banking crisis, financial crisis, economic recession, high inflation, economic hardship, sudden regulatory actions, heightened economic policy uncertainty, security breaches and very low demand for cNGN by the population. These events can make the cNGN lose its peg to the reference asset which is the Nigerian Naira.

Other challenges – Other factors that could prevent the cNGN stablecoin from living up to its promise include the following.

- Regulatory ambiguity which may lower investor confidence in cNGN and also lower the widespread adoption of cNGN.
- Lack of legal certainty which may lead to problems in payment, clearing and settlement arrangements in cNGN.
- Lack of regulation which can make cNGN unsafe for unsophisticated users.
- Unregulated cNGN stablecoin which may pose risks to financial stability.

5. Conclusion

This study provided insights into the proposed Nigeria cNGN stablecoin. It highlights the features, benefits, and risks of the proposed cNGN stablecoin. It also compared the proposed cNGN with the eNaira central bank digital currency. And, lastly, it highlighted some challenges of the proposed cNGN. The introduction of a cNGN stablecoin in Nigeria may offer volatility reduction benefits. Other benefits include efficiency of financial transactions and enabling cross border payments and trade. The notable challenges are low awareness about stablecoin in Nigeria, volatility risk and the heightened risk of cNGN de-pegging. The challenges identified in this study show the need for regulatory intervention in the cNGN market. The central bank of Nigeria should pay close attention to the risks posed by the proposed stablecoins. The central bank should also ensure that the promoters of the cNGN stablecoin design it in a way that achieves the goals of financial stability, consumer protection, transparency and accountability. It will become important for cNGN issuers to partner with regulators to find the right balance between offering cNGN-based solutions and regulatory compliance.

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