

From Cash to Crypto: The Legal Framework for Digital Currency Recognition in Nigeria's Financial System

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Abstract

Nigeria has emerged as a leading cryptocurrency market in Africa, but its regulatory framework remains disjointed, with different government agencies enforcing conflicting policies. While the Central Bank of Nigeria (CBN) has imposed restrictions on cryptocurrency transactions, the Securities and Exchange Commission (SEC) has been attempting to provide a regulatory framework for digital assets and Initial Coin Offerings (ICOs). Meanwhile, agencies such as the National Information Technology Development Agency (NITDA) and the Economic and Financial Crimes Commission (EFCC) oversee cybersecurity risks and investigations into financial crimes. This study adopts a qualitative research methodology, utilizing doctrinal analysis of legal frameworks, policy documents, and relevant academic literature. It also employs a comparative approach, examining global regulatory models such as the European Union's Market in Crypto Assets (MiCA) regulation, El Salvador's adoption of Bitcoin, and the United States' multi-agency approach. These comparative insights help assess how Nigeria can develop a harmonized and effective regulatory framework for cryptocurrencies. The findings reveal key challenges, including regulatory inconsistencies, limited internet access, cybersecurity vulnerabilities, and unreliable electricity supply, which hinder Nigeria's ability to fully leverage the potential of digital finance.

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The study recommends adopting a coordinated regulatory strategy, enhancing financial inclusion by leveraging blockchain technology, implementing clear tax policies, and strengthening investor protection measures. These reforms will be essential in positioning Nigeria as a leading player in the global cryptocurrency ecosystem while ensuring economic stability and consumer protection.

Keywords: Cryptocurrency, Regulation, Agencies, Investor, Protection

Introduction:

The rapid evolution of financial technology has brought about significant changes in global monetary systems, with cryptocurrencies emerging as a disruptive force in the modern finance landscape. Cryptocurrencies, such as Bitcoin and Ethereum, operate on decentralized blockchain technology, offering an alternative to traditional fiat currencies controlled by central banks (Yuan & Wang, 2018). These digital assets have gained widespread adoption due to their perceived benefits, including fast transactions, reduced financial intermediaries, and enhanced security. However, their volatility, potential for illicit use, and regulatory uncertainties have posed challenges to governments and financial institutions worldwide (Asif & Unar, 2024)

In Nigeria, cryptocurrency adoption has surged despite regulatory restrictions. The country ranks among the highest in global peer-to-peer cryptocurrency transactions, driven by factors such as financial inclusion, remittances, and the depreciation of the national currency (Essien & Okon, 2024). This growing adoption has led to increased debate over the legal status of cryptocurrencies and whether they should be recognized as legal tender. This status would grant them official acceptance for financial transactions within the country. Presently, the Central Bank of Nigeria (CBN) does not recognize cryptocurrencies as legal tender, and regulatory authorities such as the Securities and Exchange Commission (SEC) and the Economic and Financial Crimes Commission (EFCC) have imposed various restrictions on their use (Central Bank of Nigeria (CBN), 2021). At the same time, Nigeria has introduced the eNaira, a central bank digital currency (CBDC), reflecting an acknowledgement of the need for digital financial solutions (Bukele, 2021).

The legal framework governing cryptocurrencies in Nigeria remains in flux, with conflicting policies and regulatory concerns surrounding their potential legalization. While some jurisdictions, such as El Salvador, have adopted Bitcoin as legal tender (Alvarez et al., 2023), others have imposed stringent bans or regulatory frameworks to oversee digital asset transactions. The Nigerian legal landscape must grapple with complex issues, including monetary policy implications, anti-money laundering (AML) compliance, consumer protection, and financial stability, to determine the feasibility of granting cryptocurrencies legal tender status. This chapter examines the legal framework for cryptocurrencies in Nigeria, exploring existing regulatory provisions, international comparative models, and the potential benefits and risks associated with recognizing digital currencies as a form of legal tender. By critically analyzing the evolving nature of cryptocurrency regulation, this chapter aims to provide a foundation for assessing the future trajectory of Nigeria's digital financial ecosystem.

Conceptual and Legal Definition of Cryptocurrencies

Cryptocurrency is a digital or virtual currency that uses cryptographic techniques to secure financial transactions, control the creation of additional units, and verify the transfer of assets on a decentralized network (Nakamoto, 2008). Unlike traditional currencies, cryptocurrencies operate on blockchain technology, a distributed ledger that records all transactions across a network of computers without requiring a central authority (Zohar, 2015)

From a technical perspective, cryptocurrencies rely on cryptographic principles to ensure security, anonymity, and decentralization. Transactions are recorded in a decentralized public ledger known as a blockchain, which prevents double-spending and fraud. The absence of intermediaries, such as banks or financial institutions, makes cryptocurrency transactions faster and more cost-effective (Antonopoulos, 2017).

From a legal standpoint, defining cryptocurrencies has proven complex, given their evolving nature and the diverse regulatory approaches adopted by different jurisdictions. Some legal frameworks classify cryptocurrencies as commodities (as seen in the United States under the Commodity Futures Trading Commission), securities (under the

jurisdiction of the U.S. Securities and Exchange Commission), or digital assets (as regulated in the European Union under the Markets in Crypto-Assets Regulation) (Inozemtsev, 2021). The Nigerian legal framework does not recognize cryptocurrencies as legal tender, and the Central Bank of Nigeria (CBN) has explicitly prohibited financial institutions from facilitating transactions involving cryptocurrencies (Central Bank of Nigeria (CBN), 2021)

Differences Between Cryptocurrencies and Traditional Fiat Currencies

Cryptocurrencies and fiat currencies differ significantly in their fundamental nature, operational mechanisms, and regulatory structures.

Table 1

Difference between Fiat Currency and Cryptocurrency

S/N	FIAT CURRENCY	CRYPTOCURRENCY
1.	Fiat currencies, such as the Nigerian Naira (NGN) or the U.S. Dollar (USD), are issued and regulated by central banks, ensuring monetary stability and legal enforcement.	Cryptocurrencies operate on decentralized networks, without reliance on a central authority. (Böhme et al.,2015)
2.	Fiat currencies derive their value from government backing and are declared legal tender by law.	Cryptocurrencies lack intrinsic value or physical representation; their value is determined by market supply and demand. (Yermack, 2015)
3.	Fiat currencies are subject to strict financial regulations, including monetary policies, anti-money laundering (AML) laws, and banking regulations.	Cryptocurrencies, however, exist in a largely unregulated or inconsistently regulated space, making their legal status ambiguous in many jurisdictions (OECD. (2021).

4.	Fiat currency transactions are traceable through banking systems, allowing for regulatory oversight.	Cryptocurrencies, particularly privacy-focused coins like Monero, offer greater anonymity, making them attractive for both legitimate and illicit transactions. (Brito & Andrea, 2013).
5.	Central banks control the supply of fiat money through monetary policy instruments such as interest rates and reserve requirements.	Cryptocurrencies, in contrast, often have predetermined supply limits (e.g., Bitcoin's cap of 21 million coins) controlled by their underlying algorithm. (Nakamoto, 2008)

Legal Characteristics of Cryptocurrencies

The legal nature of cryptocurrencies remains a subject of debate, with jurisdictions adopting diverse regulatory approaches. However, the following legal characteristics are generally recognized: Most countries, including Nigeria, do not recognize cryptocurrencies as legal tender, meaning they are not officially accepted as a means of payment for goods and services under national law (CBN, 2021).

Some jurisdictions categorize cryptocurrencies as digital assets subject to financial regulations, while others classify them as securities, requiring compliance with capital market laws (OECD, 2021, Crypto-Assets Regulation and Policy)

Courts in various jurisdictions have ruled that cryptocurrencies may be considered property for legal purposes, allowing them to be seized, taxed, or included in legal disputes involving inheritance or fraud. (United Kingdom Jurisdiction Taskforce, 2019)

While cryptocurrencies lack uniform tax treatment globally, some jurisdictions, including the United States and the European Union, require cryptocurrency holders to report capital gains for taxation purposes (OECD, 2021, Tax Treatment of Cryptocurrencies)

Due to concerns over illicit financial activities, regulators worldwide are imposing stricter AML and CTF measures on cryptocurrency exchanges, requiring customer identity verification and transaction reporting. (Financial Action Task Force (FATF), 2019)

Cryptocurrencies represent a fundamental shift in financial systems, challenging traditional fiat currencies and existing regulatory frameworks. Their decentralized nature, lack of government backing, and evolving legal status have made their classification and regulation complex. While some jurisdictions embrace cryptocurrencies as financial instruments or digital assets, others impose outright bans due to concerns over financial stability and security. As Nigeria navigates its legal stance on cryptocurrencies, a clear regulatory framework will be crucial to addressing emerging challenges while leveraging potential benefits.

Regulatory Landscape of Cryptocurrencies in Nigeria

The regulation of cryptocurrencies in Nigeria remains a subject of ongoing debate, characterized by conflicting policies and evolving legal frameworks (Opebiyi, 2022). While the rapid adoption of digital assets has prompted regulatory bodies to issue various directives, the Nigerian government has yet to establish a comprehensive legal framework for the use, trading, and taxation of cryptocurrencies. Several key agencies, including the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), the National Information Technology Development Agency (NITDA), and the Economic and Financial Crimes Commission (EFCC), have issued regulations impacting cryptocurrency transactions.

Central Bank of Nigeria (CBN) Regulations

The Central Bank of Nigeria (CBN), as the principal regulator of monetary policy and financial institutions, has historically maintained a restrictive stance on cryptocurrencies (Osakwe et al., 2022). In its 2017 circular, the CBN warned financial institutions against using cryptocurrencies due to concerns about illicit activities, including money laundering, terrorism financing, and fraud (Central Bank of Nigeria (CBN), 2017). The directive explicitly prohibited banks from facilitating cryptocurrency transactions and urged them to monitor customer accounts for suspicious digital asset transactions.

In February 2021, the CBN reinforced its position with a more restrictive circular, ordering all commercial banks and financial institutions to close accounts associated with cryptocurrency exchanges (Central Bank of Nigeria (CBN), 2021). The directive emphasized the speculative nature

of digital currencies and their potential risks to financial stability. However, despite these restrictions, Nigeria remains one of the world's largest cryptocurrency markets, with significant peer-to-peer (P2P) trading activity (Chainalysis, 2022).

eNaira and Its Impact on Digital Financial Transactions

In response to the growing digital financial ecosystem, the CBN launched the eNaira, Nigeria's first Central Bank Digital Currency (CBDC), in October 2021. The eNaira was introduced to enhance financial inclusion, reduce cash dependency, and provide a government-regulated alternative to cryptocurrencies (Central Bank of Nigeria (CBN), 2021). Unlike decentralized cryptocurrencies, the eNaira operates on a centralized digital ledger controlled by the CBN, ensuring government oversight and regulatory compliance (Abdullahi et al., 2024)

However, the adoption of the eNaira has been slow, as many Nigerians continue to prefer cryptocurrencies due to their borderless nature, potential for wealth appreciation, and privacy features (Obalalu et al., 2024). The competition between the eNaira and decentralized cryptocurrencies highlights the ongoing regulatory challenges in Nigeria's digital financial sector.

Securities and Exchange Commission (SEC) Guidelines

The Securities and Exchange Commission (SEC), Nigeria's capital market regulator, plays a crucial role in the classification and regulation of digital assets. In September 2020, the SEC released a Statement on Digital Assets and Their Classification, defining cryptocurrencies as securities, commodities, or assets, depending on their nature and use case (Securities and Exchange Commission (SEC), 2020). The guidelines categorized digital assets into the following groups:

- Crypto-assets – Virtual currencies that do not qualify as securities but may be subject to regulation under other financial laws.
- Utility tokens – Digital assets that grant users access to specific services within a blockchain ecosystem.
- Security tokens – Digital assets representing investment contracts that must comply with Nigerian capital market regulations.

The SEC's classification aligns with global trends, in which different jurisdictions regulate cryptocurrencies based on their functions and risk profiles (Ariwoola, 2023).

Regulatory Approach to Initial Coin Offerings (ICOs) and Virtual Assets

The SEC has also issued guidelines on Initial Coin Offerings (ICOs), requiring companies that launch ICOs to register with the commission before offering digital tokens to Nigerian investors (Ariwoola, 2023). This regulatory measure aims to protect investors from fraudulent schemes and ensure that digital asset issuers adhere to standard financial disclosure requirements. The SEC's oversight extends to virtual asset service providers (VASPs), such as cryptocurrency exchanges and wallet providers, which must register and comply with anti-money laundering regulations.

National Information Technology Development Agency (NITDA) & Data Protection Considerations

The National Information Technology Development Agency (NITDA) is responsible for overseeing digital technology regulations, including the application of the Nigeria Data Protection Act (NDPA) to cryptocurrency transactions (Lateef et al., 2022). The NDPA, enacted in 2023, provides a framework for the protection of personal data, ensuring that cryptocurrency exchanges and blockchain platforms implement data security measures (Lateef et al., 2022)

Given that blockchain transactions are immutable and publicly recorded, concerns have been raised about the potential privacy risks associated with cryptocurrency transactions (Brito & Castillo, 2016). Nigerian regulators continue to explore ways to strike a balance between privacy rights and regulatory transparency in the cryptocurrency sector.

Cybersecurity Risks and Legal Safeguards

The decentralized nature of cryptocurrencies makes them susceptible to cybersecurity risks, including hacking, fraud, and ransomware attacks. To address these challenges, NITDA collaborates with the Cybercrime

Advisory Council and the Nigerian Communications Commission (NCC) to enforce cybersecurity policies in digital transactions (Idem et al., 2023). However, legal safeguards remain inadequate, as Nigeria has yet to establish a comprehensive cybersecurity framework specific to cryptocurrency regulation.

Money Laundering and Financial Crimes Regulations

The Economic and Financial Crimes Commission (EFCC) is responsible for investigating and prosecuting financial crimes, including cryptocurrency-related fraud. The EFCC collaborates with international bodies such as Interpol and the Financial Action Task Force (FATF) to enforce financial crime regulations in Nigeria (Bello et al., 2022)

Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Laws in Relation to Cryptocurrency

Cryptocurrencies pose challenges for AML and CFT enforcement due to their pseudo-anonymous nature and borderless transactions. To combat financial crimes, Nigeria's Money Laundering (Prevention and Prohibition) Act, 2022 requires cryptocurrency exchanges and financial institutions to implement Know Your Customer (KYC) measures, report suspicious transactions, and comply with FATF guidelines (Gundur et al., 2021)

However, the absence of a dedicated legal framework for cryptocurrency AML enforcement has made it difficult for regulators to track illicit transactions effectively. Strengthening AML compliance for virtual assets remains a key priority for Nigerian authorities.

Nigeria's cryptocurrency regulations remain inconsistent, with different government bodies enforcing varying policies. The CBN has restricted cryptocurrency transactions, while the SEC regulates digital assets and ICOs. Meanwhile, NITDA and the EFCC address cybersecurity risks and financial crimes. As the country adapts to the shifting landscape of digital finance, a cohesive legal framework will be crucial to balancing innovation, consumer protection, and economic stability.

Legal Tender Status of Cryptocurrencies in Some Selected Jurisdictions

The legal treatment of cryptocurrencies varies significantly across jurisdictions, with some countries embracing digital assets as legal tender, while others impose strict regulations or outright bans. Therefore, comparative analysis of the legal tender status of cryptocurrencies in selected jurisdictions is provided, focusing on El Salvador, the European Union (EU), and the United States (U.S.). Additionally, lessons Nigeria can draw from global regulatory trends to develop a coherent legal framework for cryptocurrency adoption are examined.

El Salvador's Recognition of Bitcoin as Legal Tender

El Salvador made history in September 2021 by becoming the first country to adopt Bitcoin as legal tender through the Bitcoin Law (Alonso et al., 2023). The law mandates businesses to accept Bitcoin as a means of payment alongside the U.S. dollar, the country's official fiat currency. The government also launched Chivo Wallet, a state-backed digital wallet, and provided incentives such as a \$30 Bitcoin bonus to encourage adoption (Alonso et al., 2023)

The economic rationale behind this decision was to boost financial inclusion, as over 70% of El Salvador's population was unbanked. The government also sought to reduce remittance costs, as the country heavily relies on remittances, which account for nearly 24% of its GDP (Angwald, 2023)

However, El Salvador's Bitcoin adoption has faced significant challenges, including high market volatility, low citizen usage, and concerns from international financial institutions such as the International Monetary Fund (IMF). Despite these hurdles, the country continues to integrate Bitcoin into its economy, attracting crypto investors and tourism (International Monetary Fund (IMF), 2022).

European Union and the Markets in Crypto-Assets (MiCA) Regulation: Overview of the EU's Regulatory Approach

Unlike El Salvador's direct adoption of Bitcoin as legal tender, the European Union (EU) has taken a regulatory approach to cryptocurrency

through its Markets in Crypto-Assets (MiCA) Regulation (Ferreira & Sandner, 2021) adopted in April 2023. The MiCA framework aims to harmonize cryptocurrency regulations across EU member states and establish legal certainty for digital assets (Ferreira, & Sandner, 2021)

Key provisions of MiCA include:

- Licensing requirements for cryptocurrency exchanges and wallet providers.
- Consumer protection measures, including disclosure obligations for crypto service providers.
- Anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations to ensure financial security.
- Stablecoin regulations, requiring issuers to maintain sufficient reserves to prevent financial instability (European Parliament, 2023).

MiCA does not classify cryptocurrencies as legal tender, but it establishes a structured regulatory framework that ensures financial stability while allowing innovation in the crypto sector (European Central Bank. (2023).

United States Regulatory Position

The United States has adopted a multi-agency approach to cryptocurrency regulation, with different regulatory bodies overseeing various aspects of digital assets (Lindsay, 2023)

- i- Securities and Exchange Commission (SEC) – The SEC classifies some cryptocurrencies as securities and applies securities laws to Initial Coin Offerings (ICOs) and digital asset trading (U.S. Securities and Exchange Commission. (2023). The judicial decision in *SEC v. Coinbase* has shaped the regulatory landscape by allowing the SEC to enforce against unregistered securities exchanges.
- ii- Federal Reserve (Fed) – The Fed does not recognize Bitcoin or any cryptocurrency as legal tender but monitors their impact on monetary policy and financial stability (Federal Reserve Board. (2022).

- iii- Internal Revenue Service (IRS) – The IRS treats cryptocurrencies as property for tax purposes, meaning capital gains tax applies to crypto transactions (Internal Revenue Service. (2022))

The U.S. regulatory approach is fragmented, with federal and state governments implementing different rules, creating regulatory uncertainty for crypto businesses.

Lessons for Nigeria from Global Regulatory Trends

As one of Africa's largest cryptocurrency markets, Nigeria can draw valuable insights from global regulatory frameworks to develop a more structured approach to digital asset governance.

A well-defined regulatory framework, such as the European Union's Markets in Crypto-Assets (MiCA) regulation, could lend legitimacy to cryptocurrency activities while ensuring compliance with Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations. Establishing clear guidelines would foster investor confidence and create a more stable environment for digital finance.

Nigeria can also learn from El Salvador's Bitcoin adoption, not necessarily by recognizing Bitcoin as legal tender, but by leveraging blockchain technology to enhance financial inclusion. Digital assets can be utilized to reduce remittance costs and expand access to financial services, particularly for the unbanked population.

Furthermore, a multi-agency regulatory approach, as seen in the United States, would enhance coordination among key institutions such as the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), the National Information Technology Development Agency (NITDA), and the Economic and Financial Crimes Commission (EFCC). A harmonized regulatory system would mitigate policy conflicts and improve oversight of cryptocurrency transactions.

Challenges of Recognizing Cryptocurrency as Legal Tender in Nigeria

The recognition of cryptocurrency as legal tender in Nigeria presents significant challenges, including economic and technological barriers and regulatory and legal conflicts. Despite the growing adoption of cryptocurrencies in Nigeria, the risks associated with their legalization pose

critical concerns for policymakers. Thus, the key challenges, including volatility, financial crime risks, technological limitations, legal conflicts with existing monetary policies, and public perception issues, would be examined (Ebekozi et al., 2024)

Volatility and Price Instability

One of the most significant challenges of recognizing cryptocurrency as legal tender is its high volatility. Unlike fiat currencies, which are backed by central banks and subject to monetary controls, cryptocurrencies like Bitcoin and Ethereum experience sharp price fluctuations driven by market speculation and supply and demand dynamics. (Ebekozi, 2024)

For instance, Bitcoin's price dropped by over 6.6% in December 2025, from approximately \$108,228.75 in September 2025 to \$90,389.11 in December 2025, raising concerns about its stability as a medium of exchange (Investopedia, StatMuse, 2025). In contrast, fiat currencies like the Nigerian Naira, though subject to inflation, are relatively stable under central bank regulation. The unpredictable nature of cryptocurrency makes it unsuitable for day-to-day transactions, salary payments, or contractual obligations.

Risks of Financial Crimes and Illicit Transactions

The anonymity and decentralized nature of cryptocurrencies present significant risks for money laundering, terrorism financing, and other illicit activities. The Economic and Financial Crimes Commission (EFCC) and the Central Bank of Nigeria (CBN) have raised concerns about the role of cryptocurrency in facilitating cyber fraud, tax evasion, and drug trafficking (Opebiyi, 2022)

Reports from the Financial Action Task Force (FATF) highlight how crypto transactions can bypass traditional financial monitoring systems, making it difficult for law enforcement agencies to track illegal activities. The absence of a strong regulatory framework for cryptocurrency transactions in Nigeria could exacerbate financial crime risks, undermining national security and economic stability.

Technological and Infrastructure Limitations

The successful adoption of cryptocurrency as legal tender requires robust technological infrastructure, including efficient blockchain networks, cybersecurity frameworks, and digital payment systems. However, Nigeria faces several technological constraints that hinder the efficient adoption and regulation of cryptocurrencies. One major challenge is limited internet access in rural areas, which affects the efficiency of blockchain transactions. Without widespread and reliable internet connectivity, many Nigerians are unable to participate fully in the digital economy, limiting the potential benefits of blockchain technology (Obiki-Osafiele, 2024)

Another significant issue is cybersecurity vulnerabilities, which have led to a rise in hacking incidents and crypto-related fraud. As digital assets become more prominent, ensuring robust security measures is essential to protect investors and maintain trust in the system. Weak cybersecurity infrastructure exposes users to risks such as phishing attacks, wallet breaches, and fraudulent schemes (Ibrahim, 2024)

Additionally, the lack of a reliable electricity supply poses a major obstacle, particularly for activities such as crypto mining and blockchain validation. Frequent power outages and high energy costs make it difficult for Nigeria to compete in the global cryptocurrency ecosystem, where stable electricity is crucial for maintaining blockchain networks. Addressing these technological challenges will be essential for Nigeria to fully harness the potential of digital assets and blockchain innovation (Olujobi, 2023)

Without addressing these infrastructural deficiencies, recognizing cryptocurrency as legal tender may lead to inefficiencies in financial transactions, discouraging widespread adoption.

Legal Conflicts with Existing Monetary Policies

The legalization of cryptocurrency as legal tender would conflict with Nigeria's existing monetary framework, particularly the CBN Act of 2007, which grants exclusive authority to the Central Bank of Nigeria to issue and regulate currency (Bossu, et al. 2020) If cryptocurrency is granted legal tender status, the CBN loses control over the monetary supply, limiting its ability to implement monetary policies to control inflation and economic stability.

Furthermore, CBN has taken a strong stance against cryptocurrency, as evidenced by its 2021 directive prohibiting financial institutions from facilitating crypto transactions (Ozili, 2022). The introduction of the eNaira, Nigeria's Central Bank Digital Currency (CBDC), reflects the government's preference for state-controlled digital assets rather than decentralized cryptocurrencies (McPherson-Smith, 2024)

Public Perception and Adoption Barriers

The acceptance of cryptocurrency as legal tender depends on public confidence and willingness to adopt digital currencies for daily transactions. However, in Nigeria, many citizens remain skeptical about cryptocurrencies due to the following factors:

- Lack of awareness and education on cryptocurrency operations.
- Concerns about scams and Ponzi schemes, as Nigeria has witnessed multiple crypto-related fraud cases (Ozili, 2022).
- Cultural and religious concerns, as some Islamic scholars argue that cryptocurrencies lack intrinsic value, raising ethical concerns about their legitimacy (McPherson-Smith, O., 2024)

Until public trust is built through effective education, consumer protection measures, and robust regulations, achieving mainstream cryptocurrency adoption will remain a challenge.

While cryptocurrency offers potential benefits such as financial inclusion and innovation, its recognition as legal tender in Nigeria faces significant hurdles. The volatility, financial crime risks, technological challenges, legal conflicts, and public skepticism present obstacles that require comprehensive regulatory frameworks. To address these issues, Nigeria must strike a balance between innovation and financial stability, ensuring that cryptocurrency regulation aligns with national economic objectives.

Prospects for the Future Legalization of Cryptocurrency as Legal Tender in Nigeria

Despite the challenges associated with recognizing cryptocurrency as legal tender in Nigeria, there are significant prospects for its future legalization. With the proper regulatory framework, economic policies, and technological advancements, Nigeria could harness the benefits of digital

currencies while mitigating associated risks. This section examines the potential economic benefits, necessary legal reforms, integration models, and the balance between innovation and regulation.

Potential Economic Benefits

The adoption of cryptocurrency as legal tender could bring several economic advantages, particularly in financial inclusion, cross-border transactions, and foreign investment (Olorundare, 2023)

a. Financial Inclusion

Nigeria has a large unbanked population, with approximately 36% of adults lacking access to formal banking services. Cryptocurrencies, which operate without traditional banking infrastructure, could help bridge the financial gap by enabling individuals to store and transfer value using blockchain-based wallets. Countries like El Salvador have successfully leveraged Bitcoin to expand financial access to underserved communities (Ozili, 2023)

b. Cross-Border Transactions and Remittances

Nigeria is one of the largest recipients of remittances in Africa, with over \$19 billion received annually from the diaspora (Nwachukwu et al., 2023). However, high transaction costs associated with traditional remittance services like Western Union and MoneyGram reduce the value of these transfers. Cryptocurrencies offer a cost-effective, fast, and borderless alternative for international payments, increasing the efficiency of cross-border transactions (Alechenu, 2021)

c. Foreign Investment and Economic Growth

Legalizing cryptocurrency could attract foreign direct investment (FDI) into Nigeria's fintech ecosystem. Blockchain startups and crypto exchanges would be encouraged to establish operations in Nigeria, creating jobs, increasing tax revenue, and fostering digital innovation. The United Arab Emirates (UAE) and Singapore, for instance, have seen significant foreign capital inflows after implementing progressive crypto regulations (Agarwal, 2021)

Legal Reforms Needed to Accommodate Digital Currency

To facilitate the legalization of cryptocurrency as legal tender, Nigeria must implement key legal and regulatory reforms, including:

- i- Amendments to the CBN Act (2007) to allow for coexistence between fiat currency (Naira) and digital assets.
- ii- Comprehensive cryptocurrency legislation defining legal status, regulatory oversight, and taxation of digital assets.
- iii- Consumer protection laws to safeguard investors and crypto users from fraud and exploitation.
- iv- Harmonization of anti-money laundering (AML) and counter-terrorism financing (CFT) laws with crypto-related transactions, in line with Financial Action Task Force (FATF) recommendations.

Possible Models for Integrating Cryptocurrency into Nigeria's Financial System

Several countries have developed different models for integrating cryptocurrency into their financial systems, which Nigeria could adopt:

a. Dual Currency System

Nigeria could follow the El Salvador model, where Bitcoin is recognized as legal tender alongside the Naira. This would require clear regulations on crypto payments, taxation, and consumer protection.

b. Central Bank-Regulated Crypto Transactions

A more cautious approach would involve allowing cryptocurrency transactions under CBN supervision. This would entail:

- Licensing crypto exchanges to ensure compliance with financial regulations.
- Integrating blockchain technology with banking infrastructure to monitor crypto transactions.
- Imposing transaction limits and KYC (Know Your Customer) requirements to prevent illicit activities.

c. Government-Backed Stablecoin

An alternative model is the issuance of a government-backed stablecoin pegged to the Naira. This approach would mitigate price volatility while leveraging the advantages of blockchain. Countries like China (Digital Yuan) and the European Union (Digital Euro project) are currently exploring similar initiatives.

Balancing Innovation with Regulatory Oversight

The Nigerian government must strike a balance between encouraging crypto innovation and ensuring regulatory control. Key considerations include:

- i- Creating a regulatory sandbox to allow crypto startups to test blockchain solutions under controlled conditions.
- ii- Developing a risk-based regulatory framework that addresses fraud, tax evasion, and investor protection without stifling innovation.
- iii- Collaborating with international financial bodies to align Nigeria's cryptocurrency policies with global best practices.

With a structured approach to regulation, Nigeria could position itself as a leader in Africa's digital financial revolution, leveraging cryptocurrency for economic development and financial modernization.

Conclusion

Nigeria's cryptocurrency issue remains complex, shaped by fragmented regulations and evolving global trends. While efforts have been made to regulate digital assets, inconsistencies among regulatory bodies such as the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), the National Information Technology Development Agency (NITDA), and the Economic and Financial Crimes Commission (EFCC) have created uncertainty within the market. Establishing a unified, structured legal framework, such as the EU's MiCA model, would provide clarity and legitimacy, ensuring compliance with Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations while fostering a more secure investment climate.

Despite its potential, Nigeria faces significant technological constraints that hinder cryptocurrency adoption. Limited internet access,

particularly in rural areas, continues to affect the efficiency of blockchain transactions. Moreover, cybersecurity vulnerabilities have led to an increase in crypto-related fraud, further exacerbating concerns about investor protection. Additionally, unreliable electricity supply poses a major challenge for crypto mining and blockchain validation, preventing Nigeria from fully leveraging the benefits of digital finance. Addressing these issues is crucial for the country to maximize the opportunities presented by blockchain technology.

To move forward, Nigeria must adopt a multi-agency collaborative approach to cryptocurrency regulation, ensuring synergy among key financial and technological institutions. Drawing from global experiences, particularly from El Salvador's Bitcoin adoption and the U.S. regulatory model, Nigeria can enhance financial inclusion, reduce remittance costs, and create a safer digital asset ecosystem. Furthermore, clear taxation policies and investor protection measures must be implemented to strike a balance between financial innovation and security.

In conclusion, while Nigeria has the potential to become a leading player in the cryptocurrency space, it must first overcome its regulatory and infrastructural challenges. A well-structured legal framework, improved technological infrastructure, and coordinated regulatory efforts will be essential in positioning Nigeria as a hub for digital financial innovation while safeguarding economic stability and consumer interests.

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Conflict of Interests

The authors declare that there is no conflict of interest, such as financial or personal relationships, regarding the writing of this article.

Authors' Contributions:

The study contributes to academic and legal discourse on bolstering the digital asset ecosystem in Nigeria by recommending a well-structured legal framework for digital and cryptocurrency investments.

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