



Chartered Institute of Taxation of Nigeria

Understanding Digital Currency Operations: The e-Naira Project.



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Presenter

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Kenneth is a partner in PwC Nigeria. He has many years of experience in dealing with the tax and regulatory issues for companies in Africa and in different industries including oil and gas, telecommunications, media and entertainment, financial services and consumer and industrial products.

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■ Course Outline

- 01 | ▶ The Evolution of the Nigerian Monetary System
- 02 | ▶ Digital Currencies and its Operations
- 03 | ▶ The eNaira as a Central Bank Digital Currency
- 04 | ▶ Advantages and Limitations of the eNaira

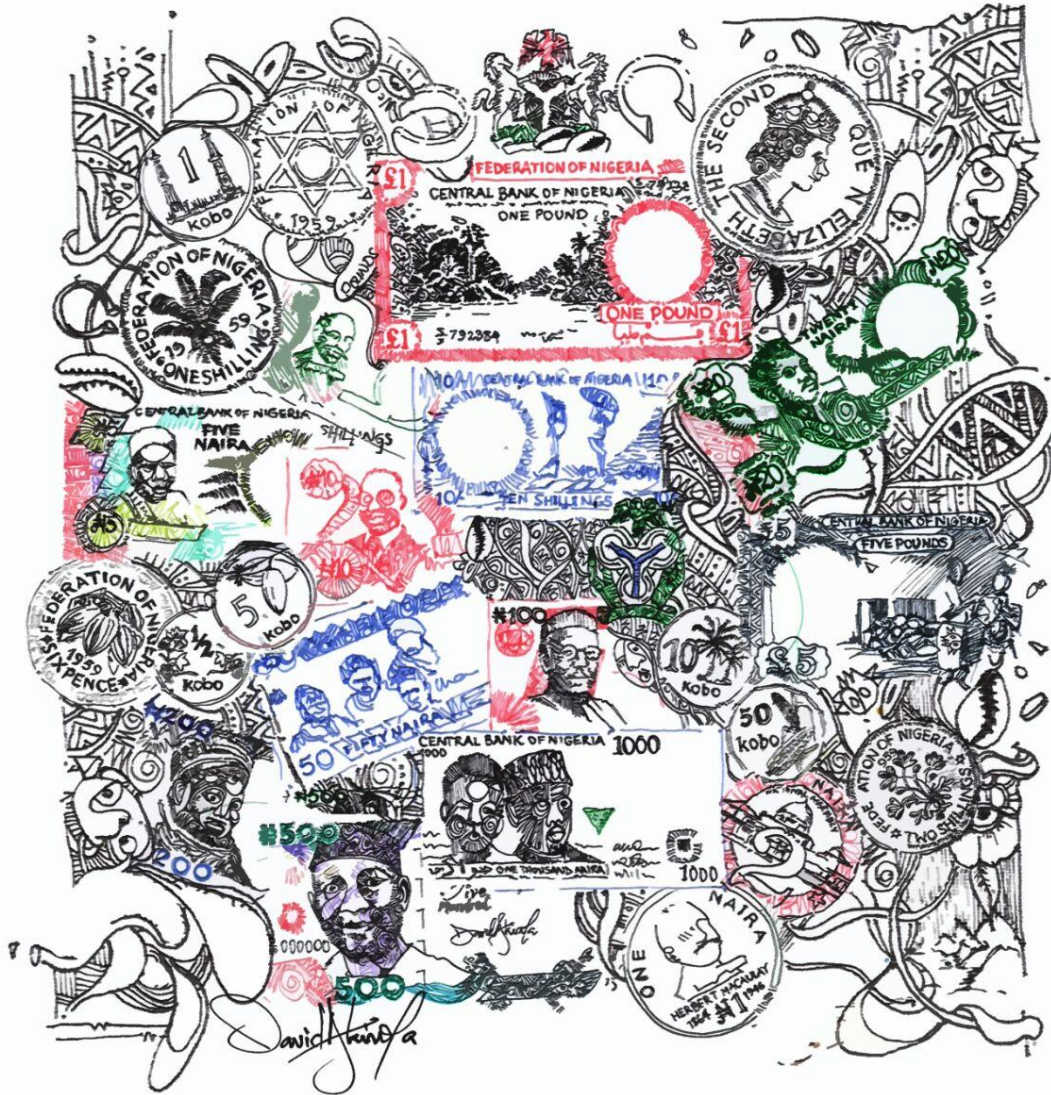




The Evolution of the Nigerian Monetary System

01

The Evolution of the Nigerian Monetary System



- Naira is the currency of Nigeria. The Central Bank of Nigeria (CBN) is the sole distributor of the legal tender money throughout the Nigerian Federation.
- The monetary units and system have evolved through various stages of transformation, this includes the initial use of Trade by Barter to the use of cowries and Manilla.
- Naira (NGN) was introduced on 1 January 1973, replacing the use of Pounds, shillings and pence, monetary system. Nigeria was the last country to abandon this system amongst the British-Colonized Countries.
- Following the issuing and withdrawal of several notes and coins, Nigeria currently has eight currency notes — N1000, N500, N200, N100, N50, N20, N10 and N5 — and three currency coins — N2, N1 and 50k.
- In 2021, the Central Bank of Nigeria launched Africa's first digital currency, the eNaira



Digital Currencies and its Operations

02

What are Digital Currencies?



Digital Currency

A currency or payment method that only exists in electronic form. It is intangible.



FAST
*Automatic transactions.
Much faster than other systems.*



AFFORDABLE
Transaction charges much lower than credit cards, etc.



SECURE
Protection from hackers. Personal data often not needed.

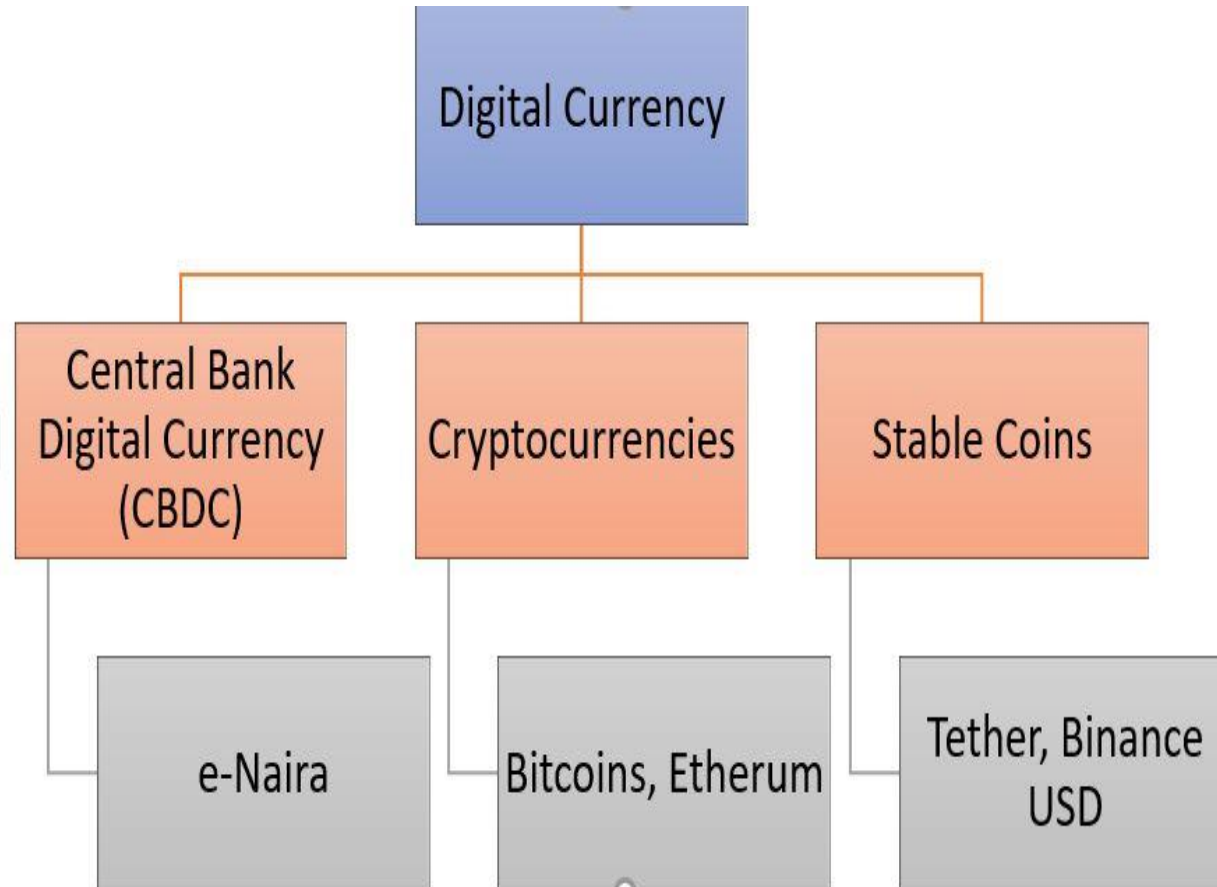


GLOBAL
You can send money to anyone around the globe.

KEY TAKEAWAYS

- Digital currencies are currencies that are only accessible with computers or mobile phones because they only exist in electronic form.
- Typical digital currencies do not require intermediaries and are often the cheapest method for trading currencies.
- All cryptocurrencies are digital currencies, but not all digital currencies are cryptocurrencies.
- Some of the advantages of digital currencies are that they enable seamless transfer of value and can make transaction costs cheaper.
- Some of the disadvantages of digital currencies are that they can be volatile to trade and are susceptible to hacks.

Types of Digital Currency



➤ Central Bank Digital Currencies (CBDCs):

Central bank digital currencies (CBDCs) are currencies issued by the central bank of a country. They are separate from fiat currencies, which are also backed by the authority and credit of a central bank, and are another obligation of the institution.

➤ Cryptocurrencies:

Cryptocurrencies are digital currencies designed using cryptography. The crypto wrapper around a digital currency provides enhanced security and makes transactions tamper-resistant.



➤ Stable Coins:

Stablecoins are a variation of cryptocurrencies and were developed to counter the price volatility of regular cryptocurrencies. Stablecoins can be likened to a form of private money whose price is tied to that of a fiat currency or a basket of goods to ensure that they remain stable

CBDC vs Cryptocurrency

Cryptocurrencies	CBDC
A form of digital currency secured by an encryption method to make them almost impossible to counterfeit or duplicate.	
Use of decentralised ledger technology, blockchain.	Centralised by monetary authority. Potential to use a form of distributed ledger as infrastructure.
Privately issued, not by central bank.	Issued by a country's central bank.
Not backed by assets or regulated by governments.	Backed by reserves and subject to regulation.
Limited supply.	Supply can be controlled by central bank.
Retail peer-to-peer use only.	Could be a retail currency (cash-like) or wholesale (only for financial institutions)

Nigeria's newly introduced e-Naira is a CBDC



The eNaira as a Central Bank Digital Currency (CBDC)



03

Nigeria's eNaira Project

The eNaira is the digital form of the Naira, issued by the CBN in line with Section 19 of the CBN Act.

It is a direct liability of the Bank, a legal tender and will form part of the currency-in-circulation and will be at par with the physical Naira (that is 1:1)

The eNaira shall complement traditional Naira as a less costly, more efficient, generally acceptable, safe and trusted means of payment

The eNaira wallet is required to access, use and hold eNaira

The eNaira will be exchangeable for other Central Bank Digital Currencies (CBDC)



The eNaira Platforms – eNaira Wallets

The eNaira platform shall host eNaira wallets for different stakeholders.



eNAIRA TREASURY WALLETS:

A financial institution (FI) shall maintain one treasury eNaira wallet to warehouse eNaira received from the CBN eNaira stock wallet.



eNAIRA STOCK WALLETS:

The eNaira stock wallet belongs solely to the CBN and it shall warehouse all minted eNaira



eNAIRA MERCHANT SPEED WALLETS:

eNaira Merchant speed wallets shall be used solely for receiving and making eNaira payments for goods and services



eNAIRA BRANCH WALLETS:

An FI may create eNaira branch sub-wallets for its branches



eNAIRA SPEED WALLETS:

eNaira speed wallets shall be available for end users to transact on the eNaira platform



Other eNaira Platforms

There are other components of the eNaira platform designed for its various stakeholders



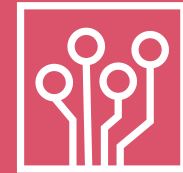
The Digital Currency Management System (DCMS)



The Financial Institution Suite



Security and Privacy



Technical Requirements

- The eNaira shall be administered by the CBN through the Digital Currency Management System (DCMS) to mint and issue eNaira
- Financial institutions shall maintain a treasury eNaira wallet for holding and managing eNaira on the DCMS.
- The FI Suite is the primary application used by the FIs to manage their digital currency holdings, requests, and redemption with the CBN
- The two-factor authentication and other measures shall be adopted to ensure the security of eNaira wallet.
- FIs shall integrate their backend systems to the DCMS for efficient transfer of eNaira between bank accounts and eNaira wallets.

Participants and Roles

The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) shall exclusively perform the following roles:

- Mint, issue, distribute, redeem and destroy the eNaira;
- Determine the technical, regulatory and operational standards for the eNaira;
- Manage unresolved eNaira issues and complaints escalated from the FIs and disputes arising between FIs;
- Monitor compliance with applicable regulations; and
- Issue directives and review Guidelines on eNaira periodically as may be required.



Participants and Roles

Financial Institutions (FIs)

The Financial Institutions are intermediaries between the CBN and customers. Their roles within the eNaira ecosystem shall include:

- Facilitating eNaira speed wallet onboarding for bank customers (merchants and individuals) including sensitizing them on the need to familiarize themselves with details of their BVN particulars, especially email address. This is a major requirement for the self-service enrollment process into the eNaira Speed App.
- Integrating the eNaira speed wallet feature into their electronic banking channels;
- Requesting eNaira from CBN for self and on behalf of its customers;
- Managing eNaira across its branches;
- Developing and/or updating reports and internal frameworks to ensure compliance with KYC and AML/CFT requirements; and
- Receiving and resolving customers' complaints on eNaira (including prompt update of customers' BVN particulars in NIBSS).

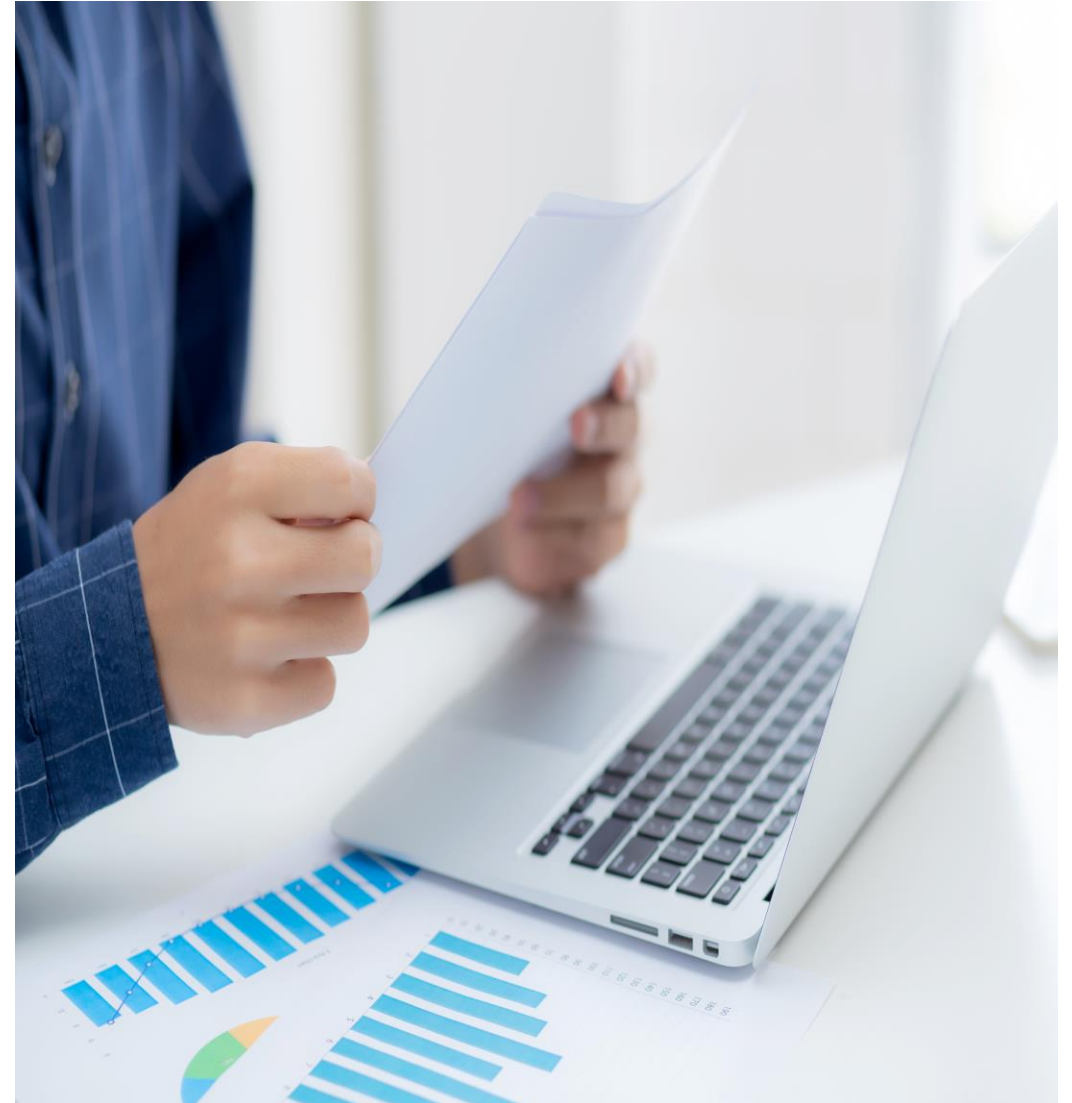


Participants and Roles

Merchants

Merchants' roles include:

- Providing customers with alternative channels for making transactions using eNaira;
- Providing cashback services for customers;
- Publicizing the option of eNaira payment for transactions at merchant locations; and
- Protecting their eNaira speed wallet credentials against fraudulent access.

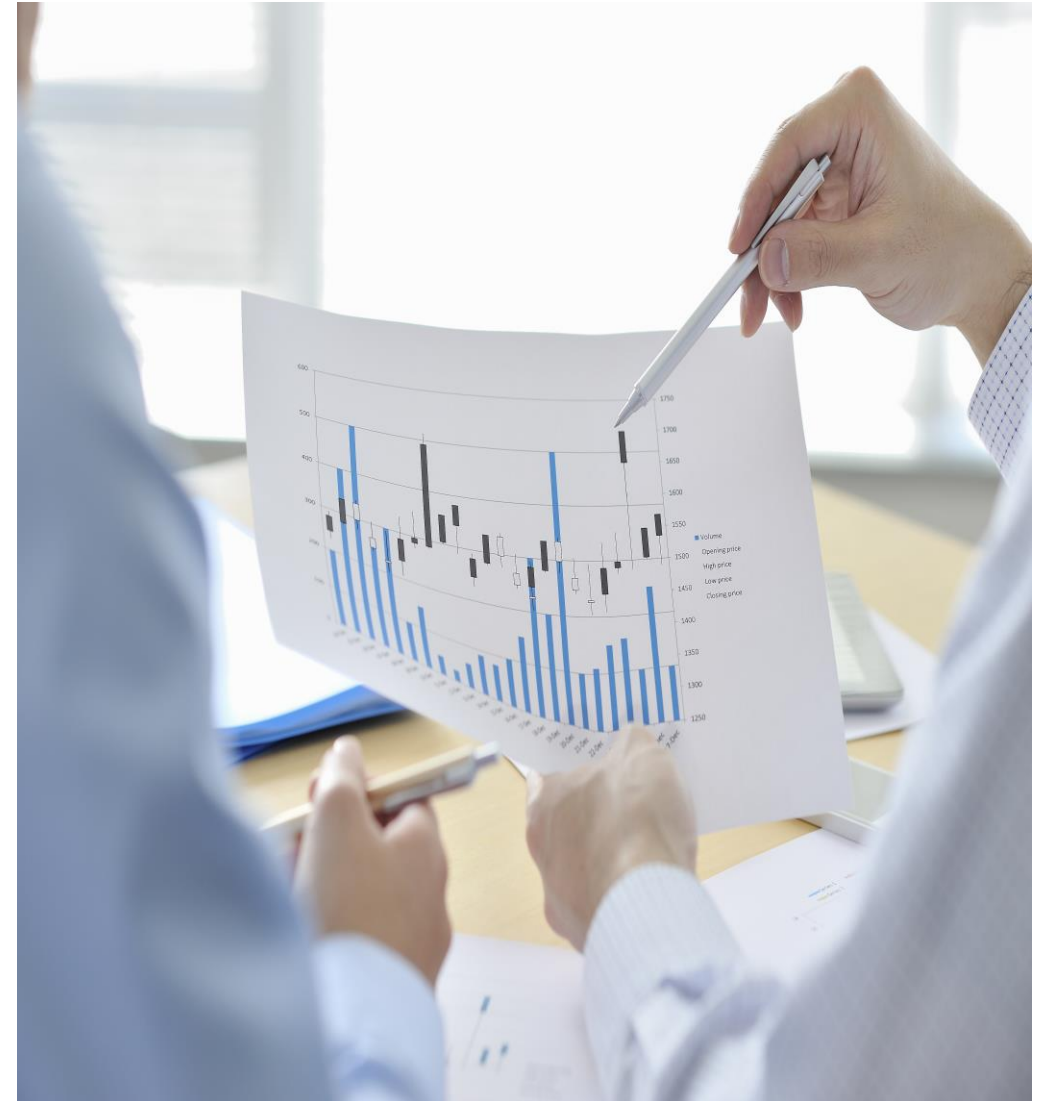


Participants and Roles

Ministries, Departments and Agencies (MDAs)

MDAs may:

- Receive revenue in eNaira; and
- Make payments in eNaira

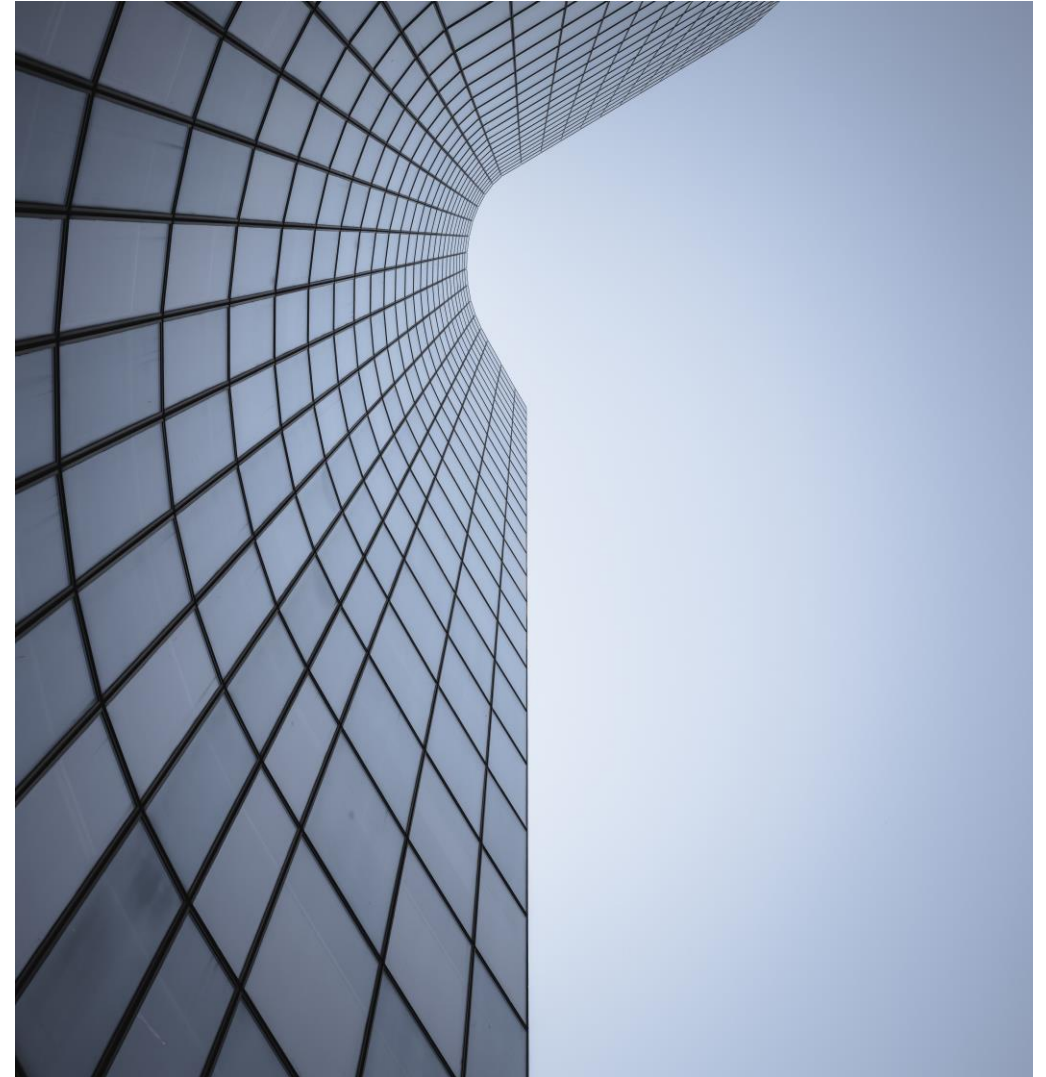


Participants and Roles

Consumers

Consumers are the end users of the eNaira and their roles are specified below:

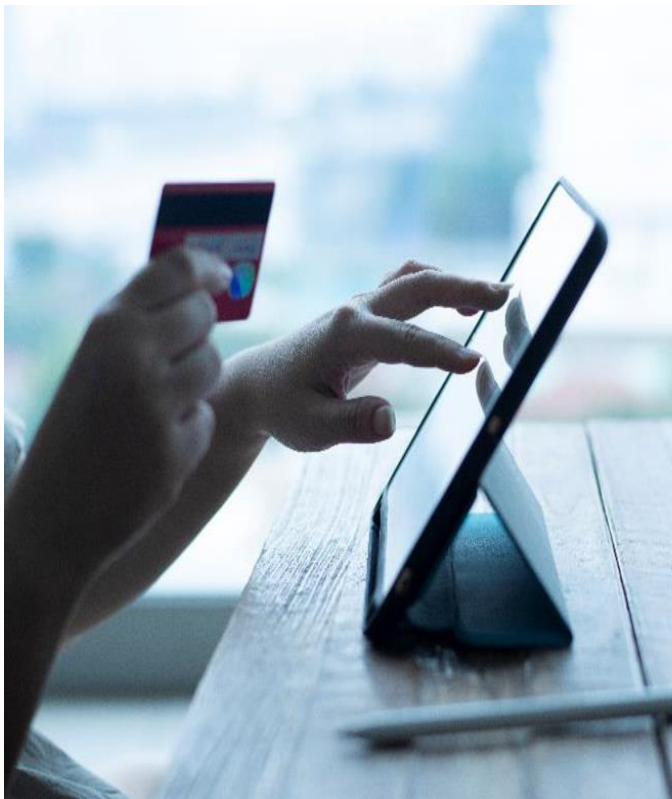
- Creating eNaira speed wallets and funding it;
- Utilizing eNaira as an alternative payment option for legitimate transactions;
- Protecting their eNaira speed wallet access credentials; and
- Notifying financial institutions in the event of fraud/complaints/disputes.



Onboarding and Transactional Processes

1

Financial Institutions (FIs)



The onboarding of FIs shall be done automatically by the CBN.

2

Merchants



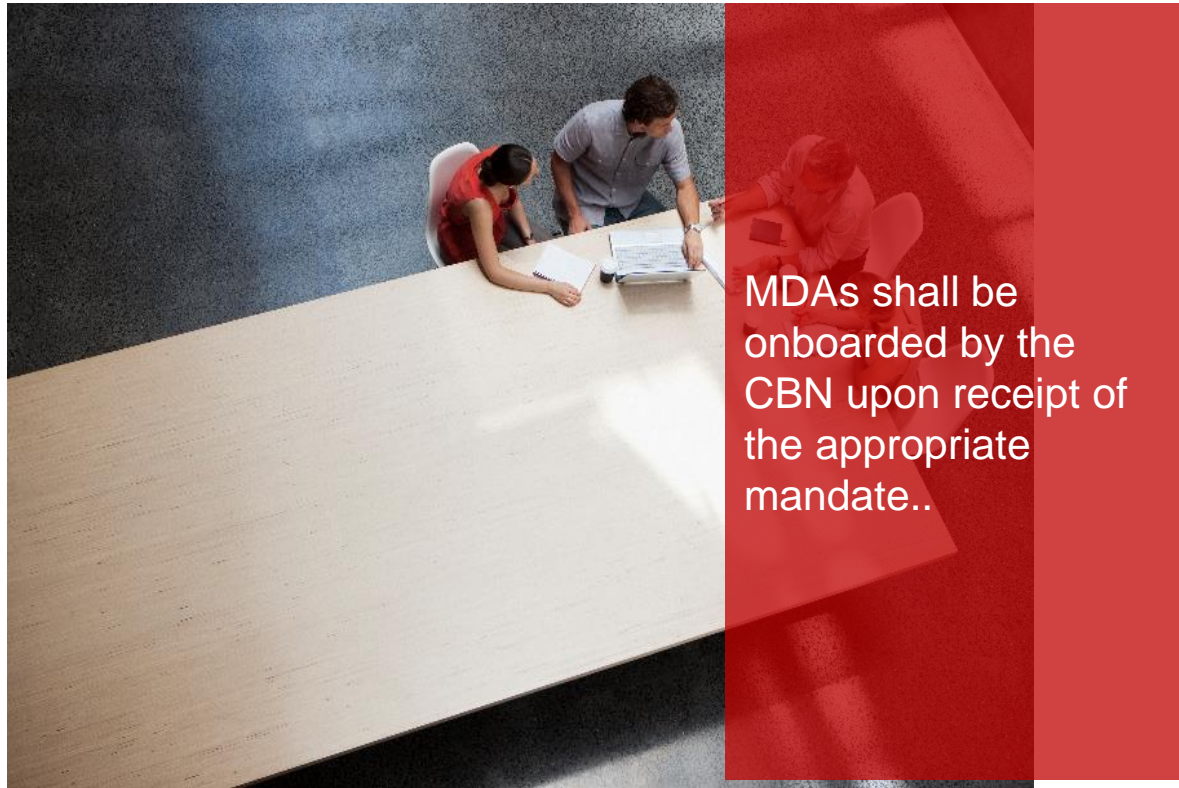
Merchants shall be onboarded by the FIs upon fulfillment of the following requirements:

- ✓ Provision of all mandatory information;
- ✓ Acceptance of the Terms and Conditions of eNaira speed app;
- ✓ Acceptance of the Privacy Policy of eNaira speed wallet;
- ✓ Validation and activation by their preferred FI

Onboarding and Transactional Processes

5

MDAs



6

Customers



Consumer onboarding shall be self-service upon downloading of the “eNaira Speed App” from the app stores and fulfillment of the following requirements:

- ✓ Provision of all mandatory requirements;
- ✓ Acceptance of the Terms and Conditions of eNaira speed app; and
- ✓ Acceptance of the Privacy Policy of eNaira speed app

An important note

For a successful self-service enrollment on the eNaira Speed App, the mandatory requirements for some BVN details must match similar details attached to the consumer's profile at the BVN database. Consequently, there is need for consumers to familiarize themselves with details of their BVN profile to identify and rectify gaps or stale information (especially email address) through their banks.

The relevant information for a successful BVN validation check are:

First Name; Last Name; Date of Birth; State of Origin; Email; and Phone Number.



Transaction Types



Customers Transactions

The following services shall be available to individual consumers on the eNaira platform:

- Person to Person (P2P);
- Person to Business (P2B) / Business to Person (B2P);
- Person to Government (P2G) / Government to Person (G2P);
- Cash or Bank account to eNaira speed wallet;
- eNaira speed wallet to cash or bank account; and
- Any other services as may be approved by the CBN from time to time



Merchant Transactions

The following services shall be available to merchants on the eNaira platform:

- Merchant/Business to bank account;
- Merchant/Business to Person (M/B2P); and
- Cash or bank account to eNaira speed wallet.

Merchants shall sweep their till balance(s) into their FIs accounts on a daily basis



FI Transactions

The following services shall be available to FIs on the eNaira platform;

- FIs to CBN / CBN to FI;
- FI to Government / Government to FI;
- FI to Business / Business to FI; and
- FI to Customer / Customer to FI.

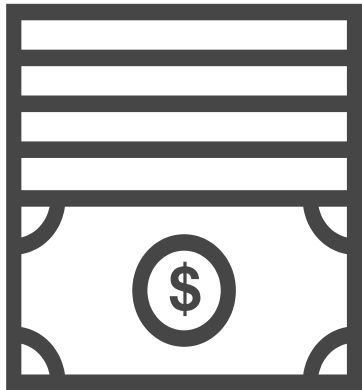


MDA Transactions

Upon onboarding by the CBN, the following services shall be available to MDAs on the eNaira platform:

- MDAs to Person / Person to MDAs;
- MDAs to MDAs;
- MDAs to FIs / FIs to MDAs;
- MDAs to CBN / CBN to MDAs; and
- MDAs to Businesses / Businesses to MDAs.

Transaction Charges



- The charges for transactions that originate from the eNaira platform is free for the first 90 days commencing from October 25, 2021 and then it shall revert to applicable charges as outlined in the ***Guide to Charges by Banks, Other Financial and Non-bank Financial Institutions.***

Dispute Resolution

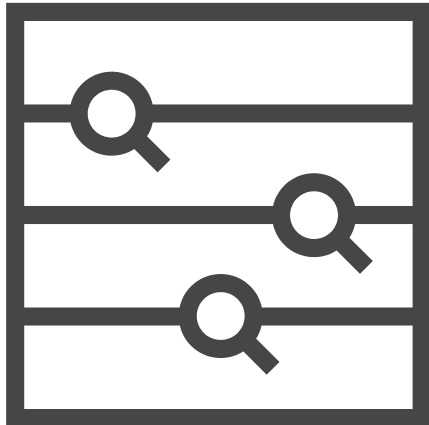
Consumer Complaints in relation to the usage of the eNaira shall be referred to the Helpdesk of users' preferred FI. If unresolved by the FI Helpdesk, it shall be escalated to the eNaira Helpdesk via 0800myeNaira (0800 6936 2472) or helpdesk@enaira.gov.ng for resolution.

Complaints from Financial Institutions as well as disputes arising between Financial Institutions shall be reported to the eNaira Helpdesk Team and resolved within two (2) working days.

For disputes where one or both parties are unsatisfied with the resolution, the issue shall be referred to an arbitration panel as provided under the extant Arbitration and Conciliation Act or as may be defined by the Central Bank from time to time



Interest Rates?



- The eNaira will not grow or plummet in value like Bitcoin or other cryptocurrencies.
- Also, No interest will be earned on the sum in your eNaira wallet as it is not for investment purposes but for transactions.

Tied Structure of the eNaira

Users of eNaira shall be subjected to a tiered structure with transaction and balance limits as follows:

CATEGORY	DAILY TRANSACTION LIMIT	BALANCE/SPEED WALLET LIMIT
Tier 0 (Phone number without verified NIN)	N20,000	N120,000
Tier 1 (Phone number with verified NIN)	N50,000	N300,000
Tier 2	N200,000	N500,000
Tier 3	N1,000,000	N5,000,000
Merchants	No Limit	No Limit

Tier 0

Documentation requirements:

- a) Passport Photograph;
- b) Personal Information;
- c) Telephone Number (NIN issued but not linked to phone number).

Tier 1-3

Documentation requirements:

Same as Tier zero plus:

- a) Phone Number with verified NIN
- b) BVN;
- c) Varying levels of KYC.

Merchants

Merchants are expected to have existing bank accounts with FIs plus:

- a) TIN, BVN of MD;
- b) Email address; and
- c) Business Category



Advantages and Limitations of the eNaira



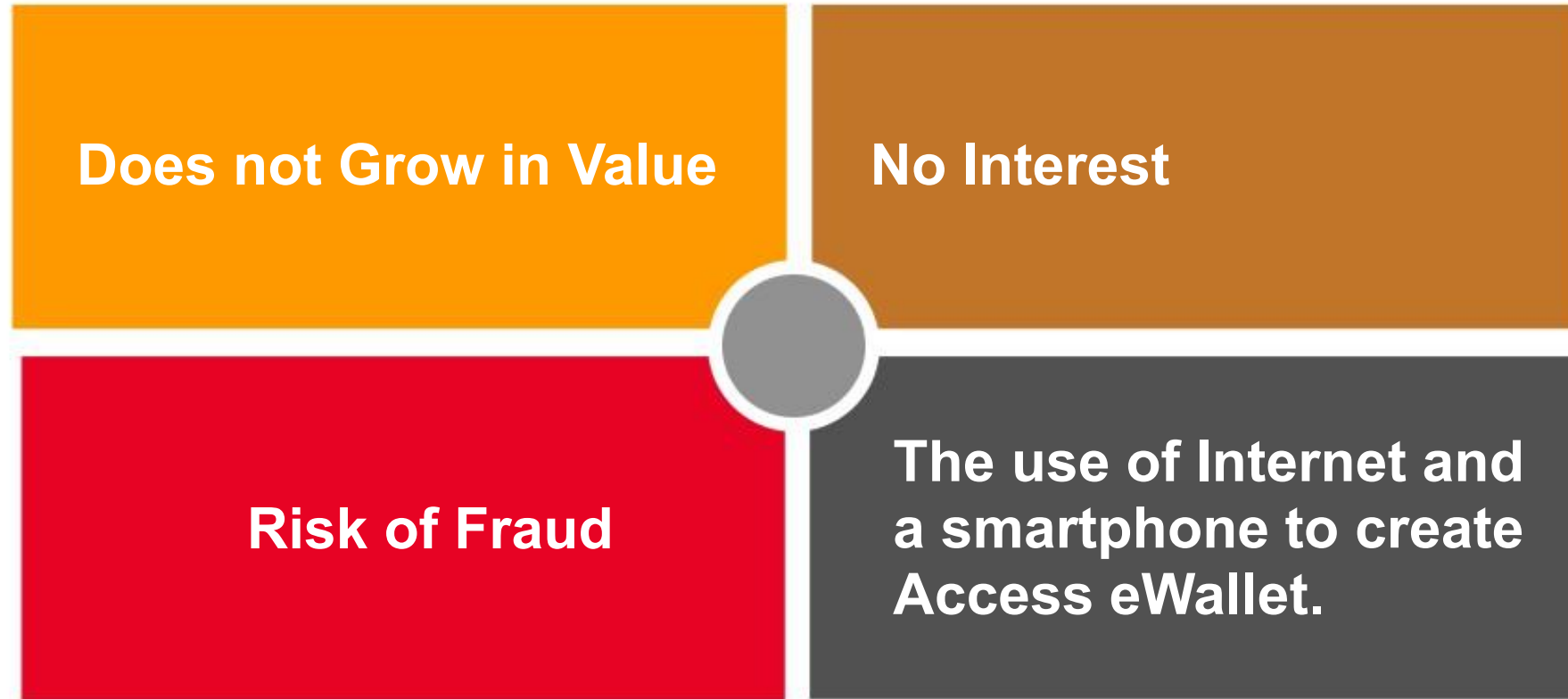
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Proposed Benefits of the eNaira

- 1 Reduce the cost of printing currency
- 2 Fast, cheap, reliable and available payment channel.
- 3 Support digital economy, simplified and easy cross border payments and trade
- 4 Improved economic activities.
- 5 Inclusion of excluded people in the financial system
- 6 Improved effectiveness of monetary policies.
- 7 Ease in targeted social interventions to support Nigerians
- 8 Ease in tax remittance and collection to support the Country's growth;



Disadvantages of the eNaira



Grey Areas and Areas of Concern

1

Nigerian Fintechs

Will the eNaira face-out Big Payment providers that have invested huge amounts in Fintech?

2

Data Protection

The information of tens of millions of Nigerians will be in the hand of the CBN and a single private company. Is this safe?

3

Financial Disintegration

The implementation of the eNaira, if not done right will widen the inequality gap between Nigeria and other African Countries.

4

eNaira's Centralised Nature

The attribute of centralization and monitoring creates a sharp difference between eNaira and crypto and may be a bane to the success of e-naira.

5

Finally, considering the proposed benefits of the eNaira, analyst are convinced that all issue can already be adequately addressed using the existing financial payments system . So was the eNaira even necessary?

Further updates on the eNaira



Introduction of USSD eNaira to enable transacting in foreign currency



Onboarding of revenue collection Agents

Tax implications of digital currency

1

Holding digital currency

Unrealised gains or unrealised losses. Think of exchange rate.

2

Disposal of digital currency

Revenue or capital in nature. CIT/PIT vs CGT

3

Disposal of digital currency

VAT implications – goods vs services. May qualify as security or supply of money.

4

Stamp duty implications

Deposit into wallet – no SD
Receipt of deposit into wallet – EMTL
Sale of digital currency – SD on receipts

5

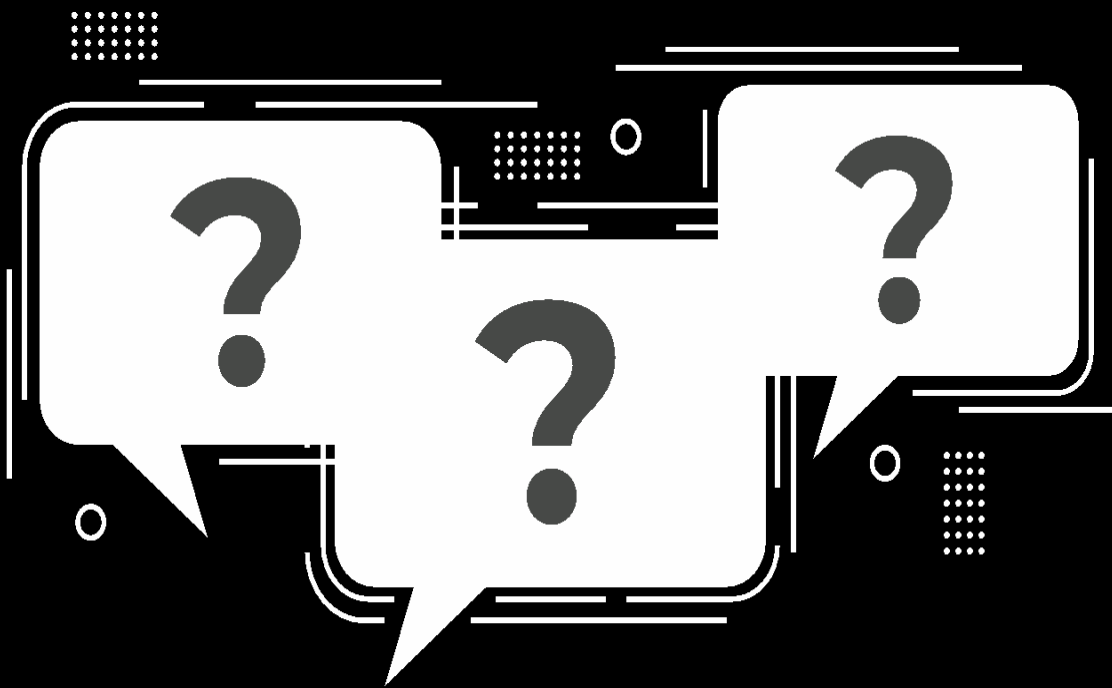
Treatment of underlying transactions

VAT on underlying transactions would be treated separately from the digital currency.

6

Visibility of transactions

Big data for tax authority intelligence possible.



D&Q

•||•||• All

Discussions and Questions



Thank You!