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Regulating the Crypto Market in Nigeria

Jose De Luna Martinez and Deeksha Kale

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Regulating the Crypto Market in Nigeria
Prepared by Jose De Luna Martinez and Deeksha Kale

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ABSTRACT: *In recent years, the trading of crypto assets has surged among individuals and businesses in Nigeria. The authorities are strengthening the regulatory and supervisory framework for crypto assets to address potential risks including undetected capital outflows and currency speculation, money laundering, terrorism financing and consumer fraud. Moving forward, they should enforce this framework by identifying unlicensed crypto firms and preventing them from operating in Nigeria, collecting taxes on capital gains, and preventing crypto platforms from serving as informal channels to bypass capital flow restrictions. Authorities should also continue to develop robust analytical tools for effective market surveillance, ensure* AML/CFT supervisory activity commensurate with *money laundering and terrorism financing risks, and actively cooperate and share information with international counterparts.*

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Author's E-Mail Address:	JDeluna@imf.org, DKale@imf.org

SELECTED ISSUES PAPERS

Regulating the Crypto Market in Nigeria

Prepared by Jose De Luna Martinez (MCM) and Deeksha Kale (SPR).

INTERNATIONAL MONETARY FUND

NIGERIA

SELECTED ISSUES

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The African Department

Prepared By José De Luna Martinez (MCM), and Deeksha Kale (SPR). Chris Stumphius (AFR) provided research assistance and Joanna Delcambre (AFR) editorial support.

CONTENTS

REGULATING THE CRYPTO MARKET IN NIGERIA[1]

In recent years, the trading of crypto assets has surged among individuals and businesses in Nigeria. The authorities are strengthening the regulatory and supervisory framework for crypto assets to address potential risks including undetected capital outflows and currency speculation, money laundering, terrorism financing and consumer fraud. Moving forward, they should enforce this framework by identifying unlicensed crypto firms and preventing them from operating in Nigeria, collecting taxes on capital gains, and preventing crypto platforms from serving as informal channels to bypass capital flow restrictions. Authorities should also continue to develop robust analytical tools for effective market surveillance, ensure AML/CFT supervisory activity commensurate with *money laundering and terrorism financing risks, and actively cooperate and share information with international counterparts.*

A. Introduction

1. **The market for crypto assets has grown substantially in the past few years**. According to Coingecko, a firm tracking crypto assets and exchanges globally, the global market capitalization of crypto assets increased from US $211 billion in January 2020 to $3.4 trillion at the end of December 2024. This surge is driven by various factors, including the potential for high returns, diversification benefits for investors, and the growing acceptance of crypto assets in mainstream finance.

2. **Nigeria is considered one of the top three countries globally in terms of crypto adoption.** According to the Chainalysis 2023 Global Report (Chainalysis, 2023), India, Nigeria, and Indonesia ranked as the top three countries in crypto adoption. Chainalysis' data reveals that from July 2023 to June 2024, Nigeria recorded a volume of $59 billion in crypto transactions. These transactions included cases where both the buyer and seller were registered in Nigeria, or where either the buyer or seller was registered in Nigeria.

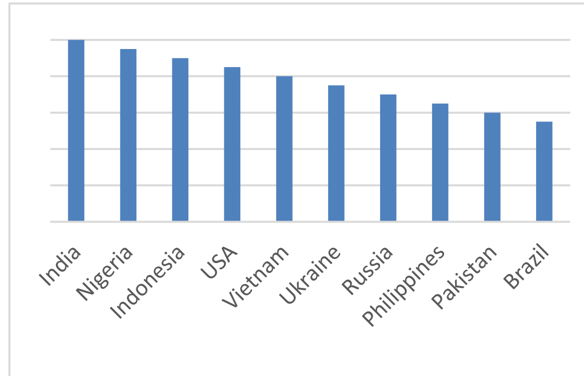
3. **Bitcoin is the most popular crypto asset owned and traded by Nigerians**. According to the 2024 Global Survey by Consensys and YouGov (Consensys, 2024), about 62% of Nigerian crypto investors own or have owned Bitcoin, followed by Binance (51%), Ethereum (41%), Dogecoin (30%), Tether (28%), Solana (25%), USD coin (22%), Shiba Inui (18%), XRP (18%), and so on. Until recently, all crypto assets traded by Nigerians were assets issued overseas. In early 2025, the Securities and Exchange Commission (SEC) of Nigeria authorized the launch of cNGN, the first stablecoin issued in Nigeria, which is being purchased and sold via the two licensed local crypto exchanges.

[1] Prepared by Jose De Luna Martinez (MCM) and Deeksha Kale (SPR).

Figure 1. Market Capitalization of Crypto Assets (2020 to 25)

Source: Coingeko. Global Charts.
https://www.coingecko.com/en/global-charts

Figure 2. Chainalysis' Global Crypto Adoption Index, 2024 (Top 10 countries)



Source: The 2024 Geography of Crypto Report

4. **Most crypto asset trades are of relatively small value.** According to Chainalysis (Chainalysis, 2024), from July 2023 to June 2024, 12.6 percent of all trades were below the equivalent of $1,000 per trade, 11.6 percent were between $1,000 and $10,000, 60.4 percent fell between $10,000 and $1 million, 15.2 percent ranged from $1 million to $10 million, and only 0.2 percent exceeded $10 million per trade. Reportedly, most Nigerian investors (73%) purchase crypto assets using local currency. They can transfer funds into their digital wallets at crypto firms directly via credit or debit cards, and in some cases, from their bank accounts.

5. **Given the growing volume of the crypto asset market activity in Nigeria, a comprehensive policy and regulatory framework is necessary to address the underlying risks.** Unlicensed crypto-trading platforms can be used to move capital out of Nigeria without being detected by domestic authorities. Crypto assets could potentially be utilized to speculate against the naira.[2] Moreover, unregulated crypto asset markets pose a challenge for authorities in their efforts to prevent illicit financial flows. Crypto assets trading also constitutes a potential source of fraud and scams for Nigerian investors.[3] These challenges are not unique for Nigeria. Many advanced and emerging market economies are facing similar challenges.

6. **This paper examines the recent initiatives adopted by the Nigerian authorities to regulate the crypto asset activity.** It formulates a series of recommendations to continue strengthening the incipient regulatory and supervisory regime along the elements recommended by the IMF in its 2023 Policy Paper titled "Elements of Effective Policies for Crypto Assets".[4] In this

[2] Crypto as a Marketplace for Capital Flight (IMF, 2024)

[3] U.S. SEC Press Release (2024)

[4] Elements of Effective Policies for Crypto Assets (IMF, 2023)

paper, crypto assets are defined as "a privately issued digital representation of value, cryptographically secured, and deployed using a distributed ledger technology (DLT)". Common examples of crypto assets include cryptocurrencies including Bitcoin and Ethereum; stablecoins including Tether (USDT), USD Coin (USDC) and Pax Dollar (USDP); tokens including digital, non-fungible tokens (NFTs) and security tokens. Central bank digital currencies, such as the eNaira, issued by the Central Bank of Nigeria in 2021, are not classified as crypto asset.

7. Despite the increasing volume of crypto asset activity, data on the use of crypto assets in Nigeria remains scarce. Neither the authorities nor the main crypto exchanges publish data about the volume of crypto transactions, the type of investors trading crypto assets, the assets most frequently traded, etc. This paper relies on data from Chainalysis, a global blockchain analysis firm that collects data across the global crypto market since 2014.

B. Nigeria's Regulatory Response to Crypto Assets

8. In 2023, the IMF published the Policy Paper titled "Elements of Effective Policies for Crypto Assets" to provide guidance to IMF member countries on key elements of an appropriate policy response to crypto assets.[5] The paper sets forth a framework of nine elements that can guide members to develop a comprehensive, consistent, and coordinated policy response. This section assesses Nigeria's response under the lenses of these nine elements.

Element 1: Safeguard Monetary Sovereignty and Stability by Strengthening Monetary Policy Frameworks and do not Grant Crypto Assets Official Currency or Legal Tender Status.

9. The authorities' policies and regulatory response to crypto assets align with this element. The naira remains the country's official currency, and the CBN has no intention of granting any crypto asset official currency or legal tender status. Banks and other licensed financial intermediaries are prohibited from holding assets or liabilities denominated in or linked to crypto assets. Additionally, crypto assets cannot be used as collateral for loans. On February 5, 2021, the CBN issued a circular barring banks from offering deposit accounts and other financial services to crypto exchanges or related firms.[6] In December 2023, this circular was revised allowing banks to provide accounts to crypto firms that are licensed by the SEC.

10. The current payment system regulations in Nigeria prohibit the use of crypto assets to pay for goods and services. However, preventing the use of Bitcoin and other crypto assets to pay for goods and services in the informal sectors of the economy is likely to remain a challenge. Authorities should remain vigilant and responsive to the risks associated with these practices, taking prompt action to address any violations that are identified.

11. As part of its efforts to advance financial inclusion and accelerate the digitalization of the financial system, the CBN launched the eNaira in 2021. The eNaira is not a crypto asset, it is

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[5] Elements of Effective Policies for Crypto Assets (IMF, 2023)

[6] CBN Circular BSD/DIR/PUB/LAB/014/001, dated February 5, 2021.

a digital currency issued by CBN. It is designed to provide a digital form of the Naira, Nigeria's national currency, and it is linked to the value of the naira on a relation of one to one. The eNaira aims to offer a more efficient and secure means of payment, enhancing financial inclusion and reducing the costs associated with physical cash transactions. Users can create individual or business wallets to transact with eNaira, which can be used for various purposes such as retail transactions, bill payments, and more. The eNaira is accessible through multiple channels, including a mobile app, web wallet, and USSD code.

Element 2: Guard Against Excessive Capital Flow Volatility and Maintain Effectiveness of Capital Flow Management Measures.

12. The use of crypto assets to transfer money across borders while bypassing existing capital control measures poses a significant risk. The global crypto market has introduced various channels that enable investors to move funds internationally without detection. For instance, a simple scheme for transferring money overseas could involve investor A in Nigeria topping up his digital wallet with naira via (typically) an unlicensed crypto exchange and purchasing assets from anonymous sources in Nigeria or abroad (the un-licensed crypto exchange can match the order with another investor or even re-route the order to another exchange overseas to execute the transaction). Subsequently, investor A contacts investor B in a foreign jurisdiction to sell this asset at an agreed upon price - with the understanding that investor B will pay investor A in USD at an offshore bank account of investor A.

13. Under such schemes, money is transferred across borders without the physical movement of cash or a naira/USD settlement, as would occur in a typical bank transfer. In jurisdictions where crypto exchanges are unlicensed or unregulated, it is challenging for financial authorities to detect and record such capital flow transactions since they cannot observe the full flow of funds; they may only see one leg of the transaction involving a bank or regulated financial institution, without realizing it is part of a cross-border transfer. By using such methods—or more sophisticated variations—investors have been able to move money overseas through the crypto market, effectively circumventing capital flow regulations.[7]

14. The movement of funds from deposit accounts in local banks to digital wallets offered by crypto exchanges can also pose risks. IMF research has found that, as crypto trading grows, transferring funds from deposit accounts in domestic banks to fx-denominated stablecoins (e.g. Tether or USDT) in digital wallets in crypto exchanges often creates not only a decline in bank deposits but also capital outflows from the local banks in emerging economies to the reserve assets managed by the custodian in advanced economies.[8] When the volume of such outflows becomes significant, they could potentially trigger higher volatility of the local currency and exert pressure on

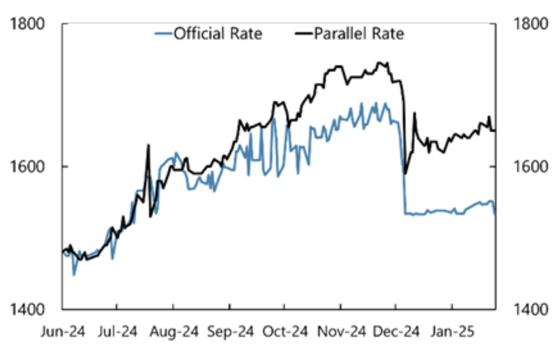
[7] There are other more sophisticated schemes in which crypto markets can facilitate capital flight. For a more detailed description of these schemes, please refer to Graf von Luckner et al. (2024).

[8] Graf von Luckner et al. (2024).

macroeconomic growth. They could potentially undermine the effectiveness of monetary policy, as people prefer to save and invest in assets that are not denominated in local currency.

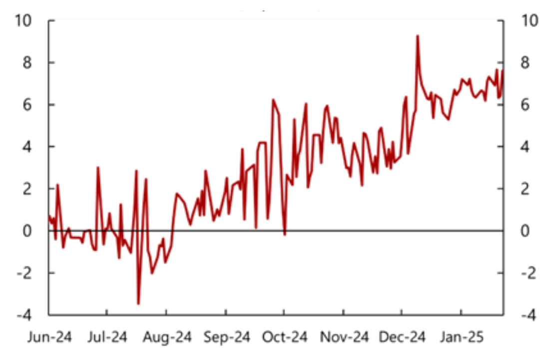
15. Crypto markets also provide a means for Nigerian investors to purchase stablecoins linked to the USD. Nigerian investors can transfer funds to their digital wallets in crypto exchanges and purchase stablecoins whose value is linked to the USD, such as Tether (USDT), USD Coin (USDC), and Pax Dollar (USDP). In this way, they can practically acquire and hold “foreign currency”. The purchase of stablecoins linked to the USD became attractive for small businesses and investors in Nigeria at the end of 2023 and the first half of 2024 when the availability of USD became limited in banks and other licensed financial institutions. In addition, because the USD/Naira exchange rate quoted in global crypto exchanges diverged, sometimes by wide margins, from the exchange rate in the formal FX market, investors have had the door open to arbitrage and speculate against the naira through the crypto market.

Figure 3. Exchange Rates
(Naira/US$)



Source: CBN

Figure 4. Parallel Market Premium
(In percent)



Source: CBN

16. From the authorities’ standpoint, the activities of global crypto platforms have allowed users to acquire foreign currency outside the formal FX market and facilitated speculative activities against the naira via peer-to-peer (P2P) transactions, thereby posing currency stability risks. Those exchanges also quoted daily exchange rate information of the naira versus USD, which diverged from the exchange rate quotes available in the formal FX market. In response, the authorities shut down some of the global crypto platforms that operated in Nigeria without a license in 2024. The authorities acknowledged that approximately $26 billion in crypto transactions had passed through those exchanges from sources and users that the authorities could not properly identify. In 2024, authorities also banned peer-to-peer (P2P) crypto transactions citing concerns that these platforms obscure the identities of transacting parties, creating opportunities for illegal activities. Additionally, P2P transactions pose a risk of fraud, as one party may fail to fulfill its part of the transaction.[9]

17. The authorities have started monitoring crypto markets daily and issued guidance for the use of the exchange rate in licensed crypto platforms. The authorities access daily data provided by Chainalysis to monitor daily turnover in the crypto market, including inflows, outflows, and domestic trading volumes. They are also putting in place a new regulatory framework to identify large or suspicious transactions and take appropriate action when needed. The Nigerian authorities have also defined a band for pricing crypto assets in naira/USD at +/-5 percent around the CBN announced exchange rate, in principle, allowing assets to be priced around the parallel market rate, but without much divergence from the CBN exchange rate. The authorities view crypto market activity as one of several factors that may have contributed to exchange rate volatility in 2023 and 2024. However, in the absence of detailed data, it is difficult to validate the extent to which crypto markets may have influenced exchange rate movements in Nigeria.

18. We recommend that authorities continue to monitor developments in the crypto marketplace and ensure that all exchanges operating in Nigeria meet the regulatory standards set by the SEC. These exchanges should provide timely and comprehensive information about their business activities to the relevant authorities, including suspicious transactions. Financial authorities should also continue building their supervisory and enforcement capacity. This, combined with the implementation of sound macroeconomic policies and ongoing efforts to improve the efficiency and transparency of the formal FX market, while addressing the still large informal FX market, will help strengthen the confidence of both domestic and foreign investors in Nigeria's currency.

Element 3: Analyze and Disclose Fiscal Risks and Adopt Unambiguous Tax Treatment of Crypto Assets.

19. Crypto assets are subject to capital gains taxes, but enforcement remains a challenge. The Finance Act of 2023 introduced a 10% tax on gains from the disposal of digital assets, including crypto assets. This means that any profit made from selling crypto assets is subject to this tax. However, currently, the Federal Inland Revenue Service (FIRS) of Nigeria does not have a formal approach to track crypto ownership and usage in Nigeria and relies on individual self-reporting of gains in crypto assets for tax purposes which is sub-optimal as most crypto users have consistently eluded the FIRS or its activities in the crypto space.

20. Going forward, the FIRS should strengthen its capacity to enforce existing tax regulations on crypto assets. This will require collaboration with major crypto intermediaries to identify individuals and firms engaged in crypto trading and ensure proper tax collection. The authorities could also consider mandating firms to withhold taxes on capital gains. Additionally, the

[9] P2P platforms enable users to bypass the traditional financial sector when conducting crypto exchanges. In a P2P transaction, the sender inputs the recipient's wallet address, specifies the amount, and signs the transaction to transfer the asset.

FIRS should enhance cooperation with international agencies to identify and penalize tax defaulters, as many traders use offshore exchanges, making tax collection even more challenging.

Element 4: Establish Legal Certainty of Crypto Assets and Address Legal Risks.

21. The authorities have established legal certainty of crypto assets in alignment with this element. The legal framework for crypto assets has been evolving and it currently has the following five characteristics.

- The SEC is the designated government entity responsible for regulating and supervising the crypto asset industry.
- The SEC has developed regulation that classifies all digital crypto assets as securities. The current SEC regulation defines a crypto asset as a digital representation of value that can be digitally traded and functions as a medium of exchange and/or a unit of account and/or a store of value but does not have legal tender status in any jurisdiction. It goes further to provide that such a crypto asset is one that (a) is neither issued nor guaranteed by any jurisdiction, (b) fulfills the above-stated functions merely by agreement within its community of users, and (c) is distinguished from national currency and e-money.[10]
- The SEC has established a regulatory framework for digital assets, which includes guidelines for the issuance, offering platforms, and custody of these assets, and aims to ensure transparency and protect investors.
- The SEC oversees Virtual Financial Assets (VFAs) exchanges operating within Nigeria. This includes both domestic and foreign exchanges targeting Nigerian investors.
- And lastly, entities dealing with digital assets must comply with the SEC's rules and regulations, including anti-money laundering (AML) and counter-terrorism financing (CFT) obligations.

Element 5: Develop and Enforce Prudential, Conduct, and Oversight Requirements to all Crypto Market Actors.

22. Among emerging market economies, Nigeria is a pioneer in the development of a regulatory framework for the crypto asset industry. Since 2024, all crypto exchanges are required to be incorporated in Nigeria and be licensed by the SEC. Once licensed, crypto exchanges/platforms are subject to Nigerian laws and regulatory and supervisory standards. Licensed entities are given the right to open accounts at banks to facilitate their business operations. Additionally, the SEC has stated that licensing will only be granted if the platform/exchange has a license issued by a financial sector authority in its home country, thus requiring foreign crypto platforms to be incorporated in Nigeria as a subsidiary in order to be eligible to operate in Nigeria.

[10] SEC Nigeria. 2022.

23. The SEC has set up accelerated incubation programs to enable local platforms to ensure compliance with basic regulatory rules and obtain authorization to be able to operate lawfully. So far, two firms, Busha and Quidax, have been granted provisional authorization to operate. The SEC has another program to help firms test their technology and business models. Currently, five firms are participating in it.

- In August 2024, the SEC granted an *Approval-in Principle* to Quidax and Busha, giving them the status of legally recognized crypto trading platforms. *Approvals-in-Principle* is a precursor to the grant of full registration by the SEC, but these two platforms can legally function as crypto-trading platforms in Nigeria. The Commission also admitted four companies to test their models and technology under its Regulatory Incubation (RI) Program. The four firms are digital assets offering platforms, which include Trovotech, Wrapped CBDC, Dream City Capital, and HousingExhangeNG.
- With the help of these two programs, the SEC expects trading platforms to present themselves to the SEC and gain formal registration. It is noteworthy that the above firms are not the only entities that have applied to those programs. Other applications received are being assessed and would be granted Approval-in-Principle on a case-by-case basis as they meet all SEC requirements.

24. To ensure the effectiveness of regulation, it must be enforced. The authorities need to continue shutting down the operations of un-licensed exchanges operating in Nigeria in collaboration with foreign authorities. This move will send a strong signal to market participants that the authorities are committed to cracking down on illegal crypto trading. In practice, however, the SEC has acknowledged the challenges it faces in identifying foreign exchanges that provide services to Nigerian residents. Some platforms operate from neighboring countries and continue to serve investors in Nigeria. Additionally, Nigerian investors can use virtual private networks (VPNs) to avoid detection by authorities. For that reason, the collaboration of the Nigerian authorities with their foreign counterparts in order to prevent the operation of unlicensed crypto firms is critical.

25. The surveillance of the crypto market is still in early stages in Nigeria. Both the SEC and CBN have recently established their own specialized units to monitor flows and market activity. Data is collected from the registered local exchanges along with other registered players (Fintech firms) in the Nigerian marketplace. They have also subscribed to the global database Chainalysis to monitor daily transactions into and out of Nigeria.

26. Addressing the money laundering, terrorism financing, and proliferation financing risks posed by crypto asset activity is critical. The anonymity of investors buying or selling crypto assets in the global market, as well as the speed and relative ease of transacting globally make the crypto market highly susceptible to criminal abuse. Under the FATF standards, countries are required to identify and assess ML/TF/PF risks associated with crypto assets and take appropriate steps to mitigate those risks. With a view to implement the FATF standards, Nigeria has amended its legal and regulatory framework to require crypto asset service providers to apply AML/CFT preventive measures (including customer due diligence, record-keeping, and reporting suspicious transactions).

The SEC also mandates entities to appoint a compliance officer, maintain a compliance manual, and implement employee education and training programs. Nigeria is also undertaking broader reforms to strengthen its AML/CFT framework, following its public listing by the FATF in 2023 for strategic AML/CFT deficiencies (FATF's "grey listing").

27. Effective risk-based AML/CFT supervision is key to ensure that crypto asset service providers apply mitigation measures in line with their ML/TF risk exposure. Moving forward, the authorities should ensure that licensed crypto asset service providers comply with the new AML/CFT requirements, through risk-based AML/CFT supervision. Specifically, the SEC should ensure that their AML/CFT supervisory tools are appropriately tailored for effective engagement with the crypto asset sector and undertake supervisory activity commensurate with the ML/TF risks levels of these institutions.[1]

28. Consumer protection is another critical component of the emerging regulatory regime for crypto assets. Existing SEC regulations aim to safeguard investors from fraud and scams in the crypto space, whether originating domestically or internationally. Crypto exchanges and wallets are frequent targets of cyberattacks, posing significant risks of financial loss to investors. Due to the global and decentralized nature of crypto markets, tracing and recovering funds in cases of fraud can be extremely challenging. In January 2025, the SEC updated its crypto regulations to strengthen oversight of crypto-related marketing activities by virtual asset service providers (VASPs) and social media influencers. Under the revised Digital Asset Rules, VASPs must obtain prior approval from the SEC before engaging third-party service providers to promote their crypto products. Additionally, VASPs are required to ensure that these third-party providers comply with all SEC marketing regulations. These rules apply to any VASP offering services to Nigerian residents and are scheduled to take effect on June 30, 2025.

29. The SEC's revisions also address the role of social media influencers, or "Finfluencers," in promoting cryptocurrency products and services. Crypto influencers must obtain a "no-objection authorization" from the SEC before publishing their digital asset ads. In addition, they must verify whether the company they are promoting is licensed by the SEC. These efforts to educate consumers about the risks of trading in the crypto market are positive, because Nigerian consumers are more likely to become victims of fraud in exchanges or firms that are not licensed by the SEC.

[1] The Travel Rule in Nigeria, aligned with the Financial Action Task Force (FATF) guidelines, mandates that any crypto transaction exceeding $1,000 must include detailed information about the originator and beneficiary. According to this rule, the names, digital wallet addresses, and other identifying details of the parties involved in a crypto transaction must be collected and verified. Transactions below this threshold ($1,000) are exempt but must still include the names and wallet addresses of both the originator and the beneficiary.

Element 6: Establish a Joint Monitoring Framework Across Different Domestic Agencies and Authorities.

30. The authorities have established an inter-governmental group to coordinate their actions on crypto issues. The SEC is the main regulator and supervisor of the crypto industry, and other relevant institutions include the CBN, the Financial Intelligence Unit (FIU), and the Office of the National Security Adviser. The working group meets on a regular basis, sharing information and discussing progress on their policy initiatives. To be effective, authorities must build and implement a formal monitoring framework that is comprehensive, covers a wide range of risks, including money laundering, terrorism financing, consumer fraud, tax evasion, and other relevant risks. The framework must be supported by availability of relevant market data.

Element 7: Establish International Collaborative Arrangements to Enhance Supervision and Enforcement of Crypto Asset Regulations.

31. The SEC has been an active member of the International Organization of Securities Commissions (IOSCO) and has participated in several key international fora to discuss policy and regulatory responses to crypto assets. SEC officials have been in regular communication with their peers in other jurisdictions about crypto issues. Moreover, the authorities are envisioning several enhancements to regulation in line with the IOSCO's Policy Recommendations for Crypto and Digital Assets.[2] The Nigerian authorities are also analyzing regulatory approaches and developments in other jurisdictions. They are also discussing cooperation with various foreign authorities on crypto issues.

Element 8: Monitor the Impact of Crypto Assets on the Stability of the International Monetary System.

32. The global marketplace for crypto assets is growing and evolving rapidly. At the end of December 2024, the global cryptocurrency market capitalization amounted to $3.9 trillion.[3] This represents a significant growth of 97 percent over the previous year, with Bitcoin (BTC) holding a dominant share of around 55.72%.[4] Given the active role that Nigerian residents, firms and individuals, play in the crypto market, it is important that Nigerian authorities continue monitoring the impact of crypto assets on the stability of the international monetary system and on their own financial system.

33. Because crypto assets could amplify existing vulnerabilities and pose new risks to global financial stability, the IMF recommends to closely monitor the following areas:[5] (i) crypto assets' impacts on gross and net cross-border capital flows; (ii) changes in financial

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[2] FR11/23 Policy Recommendations for Crypto and Digital Asset Markets

[3] 2024 Annual Crypto Industry Report | CoinGecko2024 Annual Crypto Industry Report (CoinGecko, 2024)

[4] 2024 Annual Crypto Industry Report | CoinGeckoAnnual Crypto Industry Report (CoinGecko, 2024)

[5] Elements of Effective Policies for Crypto Assets

intermediation, currency substitution, and international currency use; (iii) effects of exchange rate and capital account regimes as well as capital flow management measures; (iv) financial integrity risks; and (v) demand for and supply of global financial safety net resources.

Element 9: Strengthen Global Cooperation to Develop Digital Infrastructures and Alternative Solutions for Cross-border Payments and Finance.

34. Nigeria has an innovative marketplace composed of more than 600 Fintech firms providing financial services ranging from retail payments to loans and insurance products. In the area of cross-border payments, Fintech firms offer products to enable individuals and firms to receive payments from overseas at attractive fees. Fintech firms reach out to users in both urban and rural areas. Nigeria also licenses money transfer operators (MTOs) which play an important role in providing remittance payments to beneficiaries in Nigeria.

35. However, there are various challenges that hinder the development of more robust and digitalized cross-border payment system for Nigeria. One challenge is related to correspondent banking. Fintech firms and other non-bank financial intermediaries often have difficulties in finding correspondent banks willing to work with them to execute cross-border transactions due to perceptions (or assessment) of high ML/TF risks associated with these firms and/or significant weaknesses in their AML/CFT policies and procedures. Another challenge is that the prudential regulation applicable to Fintech firms tends to be laxer than the regulation applied to commercial banks for similar products and services, causing distrust among banks and even concerns about unfair competition and regulatory arbitrage. Finally, the occurrence of scams and fraudulent activities for users of Fintech companies has created distrust among segments of the population. Under this environment, crypto remains an attractive alternative for many users for their cross-border payment needs.

36. The IMF recommends that, in addition to putting in place an effective policy framework for crypto assets, the authorities should take advantage of progress in digital technology to meet other financial inclusion objectives.[6] Some of the underlying technologies of crypto assets could be used to facilitate the development of digital infrastructures and address existing inefficiencies in financial services. Digital public infrastructure, such as interoperable digital platforms, digital identification systems, digital payments, and trusted data sharing, can help solve problems, such as persistent inefficiencies in cross-border payments.

C. Conclusions

37. The widespread adoption of crypto assets in Nigeria presents serious potential challenges related to financial stability via capital outflows, currency speculation, money laundering, terrorism and proliferation financing, and consumer fraud. To address these risks, effective enforcement of the regulatory framework is essential and will require new efforts by regulators to shut down all crypto firms that are unwilling or unable to meet the licensing

[6] Elements of Effective Policies for Crypto Assets (IMF, 2023)

requirements of the SEC. Coordinated efforts with foreign authorities will be required to suspend the operations of institutions offering services to Nigerian residents from foreign jurisdictions. The authorities should continue to strengthen market surveillance by monitoring daily market turnover, including inflows, outflows, and domestic trading volumes. Gathering and analyzing data from existing market participants in Nigeria is critical to establishing an effective regulatory and supervisory regime. In addition, the SEC should regularly publish key statistics on the Nigerian crypto market—such as the number of licensed institutions, the number of crypto accounts, and daily crypto asset turnover. Lastly, ensuring the enforcement of the taxation regime for crypto investors is a crucial priority. This will require a concerted effort to ensure that capital gains are accurately reported and that investors are not using the crypto market to evade tax obligations.

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