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# BRIDGING THE REGULATORY GAP IN NIGERIA'S CRYPTO-FINTECH LANDSCAPE: A LEGAL AND POLICY BLUEPRINT


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## ABSTRACT

Nigeria has emerged as a leading hub of crypto-fintech innovation in Africa, driven by a tech-savvy youth population and economic instability. However, this growth has occurred amidst conflicting regulatory approaches, particularly between the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC), resulting in uncertainty for operators, investors, and consumers. This paper examines the legal and economic implications of this regulatory divide and draws on comparative international models to propose a unified legal framework. It recommends the establishment of a statutory inter-agency commission, the enactment of a comprehensive Virtual Asset Regulation Act, the institutionalisation of a joint regulatory sandbox, and the launch of a unified compliance portal to ensure clarity, investor protection, and innovation.


## Introduction

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The emergence of blockchain and cryptocurrency technologies has catalysed a digital finance revolution in Nigeria. Ranked among the top ten countries globally for crypto adoption, Nigeria's growing fintech ecosystem is fueled by youth-led demand for alternative financial solutions.[1] However, the sector operates in a near legal vacuum, largely due to the conflicting stances of the Country's primary financial regulators, the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC).

This paper evaluates the regulatory tensions between these regulators, the legal uncertainty created thereby, and how Nigeria can adopt best practices from international regulatory frameworks to harmonize its crypto-fintech landscape.

[1] Chainalysis, 'The 2024 Global Adoption Index: Central & Southern Asia and Oceania (CSAO) Region Leads the World in Terms of Global Cryptocurrency Adoption' 2024 <https://www.chainalysis.com/blog/2024-global-crypto-adoption-index/#top-countries> assessed 8th July, 2025

## 1. Crypto-Fintech Growth in Nigeria

Nigeria's financial inclusion challenges and macroeconomic volatility have driven the adoption of digital currencies. According to a 2008 survey by the Enhancing Financial Innovation and Access (EFInA), approximately 53% of Nigerian adults lacked access to financial services.[2]This exclusion has established cryptocurrency as a practical alternative for savings, investment, and cross-border transactions. transactions. In 2021 alone, Nigeria accounted for more than $400 million in peer-to-peer (P2P) crypto trade volume.[3]

This ecosystem is made possible by fintech companies like Quidax, Luno, and Bundle, which provide digital wallets and fiat-crypto trades that are accessible through mobile applications. However, these operators are now exposed to sudden changes in policy and operational uncertainty due to the lack of clear legal regulation.

## 2. REGULATORY FRAMEWORKS

### 2.1.CBN's Restrictive Approach

The CBN has consistently maintained a prohibitionist stance on cryptocurrencies. In a circular issued on the 5th of February 2021, the Bank instructed all Deposit Money Banks (DMBs), Non-Bank Financial Institutions (NBFIs), and Other Financial Institutions (OFIs) to close accounts associated with cryptocurrency transactions.[4] The circular stated that "Further to earlier regulatory directives on the subject, the Bank hereby wishes to remind regulated institutions that dealing in cryptocurrencies or facilitating payments for cryptocurrency exchanges is prohibited ... … accordingly, all DMBs, NBFIs and OFIs are directed to identify persons and/or entities transacting in or operating cryptocurrency exchanges within their systems and ensure that such accounts are closed immediately".[5]

- The CBN justified this stance based on risks relating to volatility, money laundering, terrorism financing, and lack of consumer protections.[6]

Although Nigeria's Central Bank Digital Currency (CBDC), eNaira, was introduced to provide a safer option, adoption has been slow because of a lack of trust and a lack of use cases.[7] This illustrates the gap between government innovation and grassroots crypto adoption.

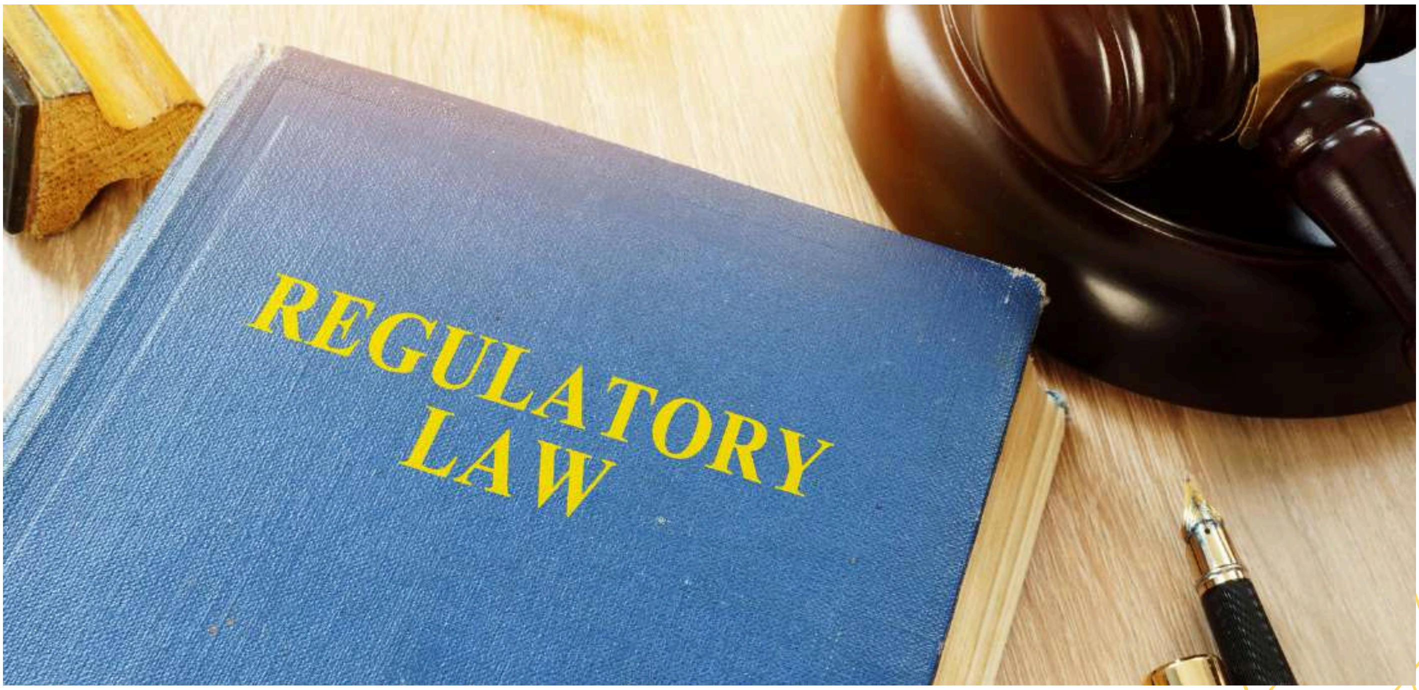
[2] CBN, 'Financial Inclusion' 2024 <https://www.cbn.gov.ng/fininc/> Assessed 8th July 2025.
[3] BBC, 'Cryptocurrencies: Why Nigeria is a Global Leader in Bitcoin Trade' 2021 <https://www.bbc.com/news/world-africa-56169917> assessed 8th July 2025.
[4] Central Bank of Nigeria, 'Circular on Cryptocurrency Transactions'. February, 2021. Ref:BSD/DIR/PUB/LAB/014/001
[5] ibid
[6] ibid
[7] R. Pratham, 'Nigeria's eNaira CBDC: What Went Wrong?' Cornell SC Johnson College of Business. 2023 <https://business.cornell.edu/hub/2023/04/28/nigerias-enaira-cbdc-what-went-wrong/> assessed 8th July, 2025

### 2.2 SEC's Progressive Regulatory Approach

In contrast, the SEC has adopted a more flexible regulatory sandbox model grounded in risk-based supervision. In its 2020 statement, the SEC declared that crypto assets would be treated as securities unless proven otherwise.[8] In 2022, it introduced regulations for Digital Asset Offering Platforms (DAOPs), Virtual Asset Custodians, and Virtual Asset Service Providers (VASPs) under the Investment and Securities Act 2007.[9]

Those rules aimed to align with international standards, including the Financial Action Task Force (FATF) guidelines.[10]

Here, institutional division is the main problem. While the CBN limits the financial infrastructure required to run these markets, the SEC acknowledges cryptocurrency marketplaces and works to regulate them. When platforms with licenses are refused banking services, it leads to legal ambiguity. Innovation is slowed down, enforcement is uneven, and compliance is unclear when there is no unified legal framework.




## 3. Legal and Economic Impact of the Regulatory Divide

### 3.1.Start-up Exit and Regulatory Arbitrage

The variability in regulation surrounding cryptocurrencies in Nigeria has created significant uncertainty for start-ups operating in this part of the world. This legal grey area has left many founders in a difficult position to innovate locally without risking

[8] SEC, 'Statement on Digital Assets and Their Classification and Treatment' 2020 <https://sec.gov.ng/statement-on-digital-assets-and-their-classification-and-treatment/> assessed 8th July, 2025
[9] Securities and Exchange Commission (SEC) Nigeria (2022). "New Rules on Issuance, Offering Platforms and Custody of Digital Assets."
[10] The FATF (Financial Action Task Force) Recommendations are a comprehensive set of measures designed to combat money laundering, terrorist financing, and the financing of weapons of mass destruction.

regulatory pushback. As a result, a growing number of Nigerian crypto start-ups increasingly seek incorporation in jurisdictions like Estonia, Seychelles, the British Virgin Islands, and the United Arab Emirates, where regulatory frameworks are more predictable, stable, and supportive of technological innovation.

By registering their businesses in these more predictable jurisdictions, these start-ups are not only shielding themselves from sudden policy shifts at home but also positioning themselves to access global markets more efficiently. This, in turn, leads to capital flight,[11] loss of tax revenue for the economy, and missed opportunities for local job creation.


### 3.2. Proliferation of Informal Markets

Peer-to-peer (P2P) platforms, which are largely a decentralised market because users transact directly with themselves, have become much more dominant as banks are restricted from servicing crypto-related businesses. While convenient, these informal channels expose users to fraud and identity theft due to the absence of Know Your Customer (KYC) and Anti-Money Laundering (AML) controls. This undermines consumer protection and national security objectives.[12]

### 3.3. Investor Distrust and Devaluation of Policy Authority

Institutional investors are cautious of the Nigerian market, largely due to inconsistent policy direction. This impairs the growth of the digital finance sector and undermines confidence in Nigeria's regulatory credibility. As trust in the system weakens, the divide between innovation and regulation continues to widen, leaving investors unsure and the entire ecosystem on shaky ground.[13]

[11] Capital flight refers to the rapid and large-scale outflow of assets and capital from a country, often due to economic or political instability
[12] Financial Action Task Force (FATF) 2021. "Updated Guidance for a Risk-Based Approach to Virtual Assets and VASPs."
[13] Yakubu, A. PhD, Kawugana PhD and Shuaibu S. A. 2024. Impact of Crypto Currency on Some Selected Deposit Money Banks in Bauchi, Bauchi State, IIARD International Journal of Banking and Finance Research, Vol. 10 No. 10 2024

## 4. Comparative International Frameworks

### 4.1. The European Union (EU): Markets in Crypto-Assets (MiCA) Regulation

In September 2020, the EU introduced the Markets in Crypto-Assets Act (MiCA' or MiCAR). The European Union's Markets in Crypto-Assets (MiCA) Regulation, which was implemented in 2023, establishes a single legal framework for cryptocurrency assets. It oversees asset-backed tokens, utility tokens, and virtual asset service providers (VASPs) throughout the EU. MiCA guarantees passporting rights, investor safety, operational resilience, and transparency. MiCA's framework applies to all crypto assets, including securities and e-money, and governs crypto-asset service providers (CASPs) participating in the European crypto economy. Importantly, MiCA applies to any CASP that serves European interests, regardless of where the provider is registered or created.[14]

### 4.2. Dubai: Virtual Asset Regulatory Authority (VARA)

The Virtual Asset Regulatory Authority (VARA) was established by Law No. 4 of 2022 to serve as the regulator for virtual assets in Dubai. Its mandate cuts across licensing and monitoring Virtual Asset Service Providers (VASPs), promoting innovation in the digital economy, and investor protection. In 2023, VARA introduced the Virtual Assets and Related Activities Regulations, setting out a rulebook system set to specific activities such as brokerage, exchange, advisory, and custody services.[15]

VARA operates together with the UAE Securities and Commodities Authority (SCA) to align regulatory oversight at the federal level, following a cooperation agreement signed in 2024 that allows shared supervision and nationwide licensing coverage.[17] The authority enforces compliance through fines, license suspensions, and audit penalties for non-compliance, ranging from AED 20,000 to AED 200,000. This has attracted major players like Binance[18], Deribit, CoinMENA and MANTRA, and supported innovations such as Dubai's real estate tokenisation initiative[19]. While some critics suggest that the regime may pose challenges for smaller start-ups or privacy-centric platforms, VARA is widely regarded as a global model for responsible and futuristic virtual asset regulation.[19]

[14] European Commission 2023. 'Markets in Crypto-Assets Regulation (MiCA).' <https://finance.ec.europa.eu> assessed 14th of July 2025
[15] Clyde & Co. 2023. Dubai VARA Issues Full Virtual Assets Regulatory Regime. <http://clydeco.com/en/insights/2023/02/dubai-vara-issues-regulations-virtual-asset-regime> assessed 14th of July 2025
[16] Fintech News Middle East. 2024. 'SCA and Vara Set Regulatory Framework for the UAE's Virtual Assets Sector.' <https://fintechnews.ae/22658/abudhabi/sca-and-vara-set-regulatory-framework-for-the-uaes-virtual-assets-sector/>14th of July 2025
[17] Reuters. 2024. Binance Obtained Dubai Licence to Target Retail Clients. https://www.reuters.com/business/finance/binance-obtains-dubai-licence-target-retail-clients-2024-04-18 assessed 14th of July 2025
[18] Dubai Land Department News and Media. 2025. Dubai Land Department Launches Pilot Phase of the Real Estate Tokenization Project. <https://dubailand.gov.ae/en/news-media/dubai-land-department-launches-pilot-phase-of-the-real-estate-tokenisation-project> assessed 14th of July 2025
[19] Dubai Virtual Assets Regulatory Authority (VARA). Framework Documents. 2022. <https://vara.ae>

### 4.3. Ghana and Kenya: Regulatory Sandboxes

Kenya's Capital Markets Authority and the Bank of Ghana have adopted regulatory sandboxes that allow fintech innovations to be tested in a controlled environment. The Capital Markets Authority of Kenya allows fintechs to test innovations under supervision. "The live testing is conducted under a less onerous regulatory regime, and it's expected to attract fintech companies and existing capital markets intermediaries seeking to add value through the application of technology to financial services, among other innovations. The platform is meant to aid CMA's understanding of emerging trends on financial technologies and provides an evidence-based tool for fostering innovation and regulation while at the same time allowing the Authority to remain vigilant to investor protection, financial stability and integrity risks." [20]. The Bank of Ghana's sandbox supports blockchain and crypto pilots with defined exit strategies and risk frameworks.

The regulatory sandbox is a virtual concept, a testing ground set up and administered by a regulatory authority, whereby participants can apply to test their innovative products and services in a controlled environment for a defined purpose and a predefined amount of time. The demand for regulatory sandboxes was initially driven by the growth and impact of big data on technological innovations, and the increasing complexity of such innovations. This sandbox approach should enable administrators to consider and try different regulatory and policy approaches to address their legitimate cybersecurity concerns in a way that will not delay the development of a digital society. For this to happen, regulators must be aware of potential impacts on data privacy and consumer protection. These models balance innovation with regulatory oversight, fostering evidence-based policy development. [21]

## 5. Recommendation

### 5.1. Establish a Virtual Asset Inter-Agency Commission

A statutory commission to coordinate actions among the Central Bank of Nigeria (CBN), Security Exchange Commission (SEC), the National Information Technology Development Agency (NITDA), the Nigeria Financial Intelligence Unit (NFIU), and private stakeholders. This commission would issue joint directives, resolve conflicts, and develop shared compliance frameworks. This strategy mirrors the European Union and Dubai system for unifying the regulations around digital/ virtual assets

[20] Regulatory Sandbox – Capital Markets Authority <https://www.cma.or.ke/regulatory-sandbox> assessed 14th of July 2025

[21] AfDB Regulatory Sandbox Report 2022. Understanding the importance of regulatory sandbox environments and encouraging their adoption. https://www.afdb.org/sites/default/files/documents/publications/afdb_regulatory_sandbox_report_220522 Assessed 14th of July 2025

### 5.2. Enact a Virtual Asset Innovation and Regulation Act

Nigeria, the continent's largest participant in virtual assets, requires a specific law that defines virtual assets, gives VASPs a legally identifiable status, and gives regulatory bodies more authority with more defined missions and operational scope. It ought to uphold consumer rights, promote competition via tiered licensing, and mirror FATF's risk-based approach.

### 5.3. Institutionalise a Regulatory Sandbox

To foster reasonable innovation in Nigeria's financial sector, the regulatory sandbox should be jointly administered by the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN). This collaborative framework offers a patterned and flexible ecosystem where fintech firms can test innovation and services under real market conditions. This will force both regulatory giants to form a unifying requirement that, in turn, promotes clarity in the sector and opens doors to eligible investors who want to invest in virtual assets using the available framework in Nigeria.


Both regulators will come together and devise a clear eligibility requirement, a transparent application process, and well-defined evaluation criteria that would help ensure that only credible innovations enter the sandbox. Participants would be supervised under light-touch regulation, having received unambiguously tailored regulatory guidance and feedback throughout the testing phase.

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#### 5.4. Launch a Unified Virtual Asset Compliance Portal

A central portal should allow crypto businesses to register, file reports, and meet tax and AML obligations across multiple agencies. Interoperable databases will improve supervision and reduce compliance costs. Estonia successfully operates this system, and it has made the country a run to for investors and innovators in the virtual asset and financial space.

## 6. Conclusion

Nigeria's crypto-fintech landscape holds transformative potential but is undermined by fragmented regulatory oversight. By adopting a unified legal and policy framework informed by international best practices, Nigeria can position itself as Africa's fintech leader. Coordinated action among regulators, dedicated legislation, and a transparent compliance infrastructure are essential to secure investor confidence, promote innovation, and protect the integrity of the financial system.

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