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CBDCs Stumble In Early Adopter Markets

Governments hoping to introduce central bank digital currencies (CBDCs) might look to two early adopters — the Bahamas and Nigeria — for an idea of why citizens have, by and large, held back from widespread adoption.

There are 134 countries in various stages of exploring or developing CBDCs, according to the Atlantic Council's tracker. CBDCs offer the promise of greater financial inclusion and easier cross-border payments, and can help governments keep pace with private digital currencies.

However, only three CBDCs are in active circulation: the Bahamian Sand Dollar launched in October 2020; Nigeria's eNaira in October 2021; and Jamaica's Jam-Dex in July 2022.

A fourth CBDC, the Eastern Caribbean Currency Union's DCash, was launched in March 2021, but was undone by an eight-week technical outage in 2022. Officials have since gone back to the drawing board to develop a new model.

An International Monetary Fund (IMF) survey of Latin American and Caribbean governments, many of which are relatively advanced in their CBDC development, published in June 2023, found that they viewed CBDCs as a means to enhance and broaden access to their payment systems by reaching unbanked people, giving them a state-backed alternative to stablecoins or cryptocurrency.

But the slow uptake in the Bahamas so far highlights the importance of building public awareness and robust technical infrastructure to promote CBDC adoption.

Nigeria's experience offers similar lessons, along with the complexities of operating in a larger market where public trust in the government is low.

"I don't think a CBDC is a bad thing; it has the potential to be really good for a country if it's done properly — the key phrase there being done properly," said Christopher Maurice, CEO of African cryptocurrency exchange Yellow Card.

"We've certainly seen a number of countries around the world that have done CBDCs and have not really done them in an effective way."

Citizen distrust

The eNaira has not seen the widespread uptake the Nigerian government was hoping for, despite the country having a large number of unbanked people who could benefit from it.

It had just N10.26bn ($7.8m) in circulation in the third quarter of 2023, with fewer than 0.5 percent of Nigerians using it, according to the Central Bank of Nigeria (CBN)'s most recent quarterly update.

Some Nigerians have protested in the streets over privacy concerns that will be familiar to any western observer: that the government might be able to monitor transactions and restrict payments.

But analysts say the greater issue is much more straightforward — namely, that the authorities lack the competence to reliably manage a complex piece of digital infrastructure.

"With the eNaira, there is a large population and diaspora, giving a meaningful potential user base," said Hadley Chilton, a partner at restructuring, specialist financial situations, and fund management firm Cork Gully.

"That said, in a country where the government fails to provide water, sanitation and electricity well, one can imagine why a government-controlled currency might struggle.

"The ends of efficient government, fraud reduction and financial inclusion are worthy, but historic and structural systems will take some time to change. For central bank-controlled transactions, it is important for the judicial systems to be and be seen to be reliable, fair and transparent."

The Nigerian central bank has moved to shore up the eNaira's reputation, taking the unusual step last September of responding to media reports that suggested the CBDC was a threat to financial stability.

"The eNaira structure continues to evolve and undergo modifications targeted at improving the user experience across all interfaces. We encourage Nigerians to embrace the technology for, amongst other things, greater financial inclusion," it said.

Last month, the CBN signed an agreement with blockchain platform developer Gluwa to help increase adoption. The company says it will allow fintech lenders to make direct eNaira transfers to customers, implement an authentication mechanism to address concerns around security and privacy, and facilitate cross-border credit scoring.

"Existing credit profiles are inherently domestic and lack accessibility beyond a country's borders. Recognising the critical role a credit profile plays in fostering financial independence, we believe that its scope should extend beyond national boundaries," the company said.

Small market advantage

Progress has been somewhat quicker in the smaller Caribbean market of the Bahamas.

The overall quantities are still small — the Bahamas Sand Dollar's total circulation is $2.1m, Shaqueno Porter, the country's deputy central bank governor, said at the Digital Euro Conference in Frankfurt earlier this year. That represents less than 0.5 percent of the Bahamas' total cash in circulation.

Some technical challenges remain, including patchy access on several of the country's islands, prompting the central bank to explore an offline CBDC.

But more people are dipping a toe in the water, according to Porter. More than 120,000 CBDC wallets have been opened, although it is not known how many of these belong to residents, who number about 400,000, or to tourists, whose numbers reached more than 9.6m last year.

Tourists may be a more obvious market than citizens: they are generally wealthier and use the funds for only a limited time, meaning they have less to fear.

They also do not have any existing financial footprint in the country, meaning there is no inertia preventing them from trying something new. If tourists start using the CBDC at scale, that may give locals the confidence to follow suit.

The central bank certainly wants its digital currency to cater to locals as well as tourists.

"When it was brought about, the Sand Dollar was touted as a direct method for government to provide emergency assistance in natural disasters, particularly hurricanes," Cork Gully's Chilton said.

The central bank is now working on creating awareness around digital currencies and educating the public about how they work. It is also running promotions and rebate offers at retailers such as supermarket chains to encourage merchants to accept the Sand Dollar and citizens to deposit funds, which they can do digitally or at automatic cash kiosks.

If those challenges can be overcome, the Bahamas may yet emerge as an interesting example for other central banks to follow when releasing their own CBDCs.

Jurisdictions

Bahamas Nigeria

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