



International Journal of Cryptocurrency Research

Publisher's Home Page: <https://www.svedbergopen.com/>



Research Paper

Open Access

Challenges and Prospects of Cryptocurrency in Islamic Finance in Nigeria

Abdulrasaq Ariwoola^{1*}

¹University of Lagos, Faculty of Law, Nigeria. E-mail: abdulrasaqariwoola@gmail.com

Article Info

Volume 3, Issue 2, December 2023

Received : 30 July 2023

Accepted : 18 November 2023

Published : 05 December 2023

doi: [10.51483/IJCCR.3.2.2023.57-62](https://doi.org/10.51483/IJCCR.3.2.2023.57-62)

Abstract

Islamic Finance operates with a set of rules different from the traditional finance world, guided by religious doctrines that date several centuries back. However, the Islamic Finance world is equally impacted by the growing reach of the borderless blockchain technology. As a result, cryptocurrency, a notable use case of the technology, has gained wide adoption in both secular and non-secular countries. This paper finds that cryptocurrencies, while novel, have some element much similar to the Islamic Finance principle. The transparency and accountability of cryptocurrency networks align very much with Islamic standards. In exploring these similarities, the paper finds that cryptocurrencies can benefit Islamic Finance in Nigeria.

Keywords: *Islamic Finance, Nigeria, Cryptocurrency, Adoption*

© 2023 Abdulrasaq Ariwoola. This is an open access article under the CCBY license (<https://creativecommons.org/licenses/by/4.0/>), which permits unrestricted use, distribution, and reproduction in any medium, provided you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license, and indicate if changes were made.

1. Introduction

The form in which money exists has constantly changed from time to time. From the crude exchange by barter to the use of gold and silver before the introduction of paper money, the distinctive features that make money a financial instrument have remained entrenched; serving as a medium of exchange, a standard of worth, a unit of account and backed by the general acceptance of the people.¹ The emergence of cryptocurrencies, like that of paper money, gold, and silver, represents an epoch shift in the financial world and the transactions therein. However, the emergence hasn't been met with much acceptance.² In fact, unlike paper money, gold, and silver, the widespread cryptocurrency is perceived as a force capable of destabilizing traditional fiat currencies and state economies across the world.

The concern for Muslims however stretches beyond the threat cryptocurrencies pose to world economies and well beyond the advantages associated with its use. It is a question of its permissibility in Islamic purview and the extent to which Muslims could make use of them. The thrust of this essay is therefore to examine the distinctive features of cryptocurrencies, analyze their applicability in the Nigerian legal and economic system.

* Corresponding author: Abdulrasaq Ariwoola, University of Lagos, Faculty of Law, Nigeria. E-mail: abdulrasaqariwoola@gmail.com

¹ Abu, Bakr. (2017). *Is Bitcoin Halal? A Shariah Analysis*. Retrieved from <https://blossomfinance.com/is-bitcoin-halal-shariah-analysis-of-bitcoincryptocurrency-and-blockchain> Accessed on August 11, 2021.

² *Ibid.*

It then proceeds to explore the applicability of cryptocurrencies in Islamic finance in Nigeria while touching on the challenges and prospects that accompanies its use in Islamic finance in Nigeria.

2. The Legal Nature of Cryptocurrencies

A cryptocurrency is a virtual currency that is secured by cryptography and distributed across many computers.³ It relies on the use of blockchain to ensure the integrity of its transactional data. Bitcoin was the first cryptocurrency created in 2008 by Satoshi Nakamoto (a mysterious person/group).⁴ The concept of bitcoin is anchored on the need to develop a decentralized authority transaction system without a third party that verifies transactions using the digital signature concept.⁵

Bitcoin is a decentralized cryptocurrency, managed by peer-to-peer technology and without a central authority. It is also the most widely used cryptocurrency, with a market capitalization of over \$850 bn.⁶ Based on its popularity and similar technical attributes with most cryptocurrencies, Bitcoin has been the most citable example to address cryptocurrencies issues. Such will also be adopted in this work in assessing the permissibility of cryptocurrencies in Islamic finance in Nigeria.

The idea behind the birth of bitcoin is rooted in need to take away monetary control from the government, which controls as a centralized authority. It developed around the idea that the government or the central bank does not manage a good currency.⁷ The use of cryptocurrencies therefore threatens the fundamental monetary policies in countries and the attendant power of the government to issue and implement binding policies.⁸ The reaction to the emergence of cryptocurrency, as expected, was met with heavy restrictions and bans in several countries. But lately, as its spread dominated the global stage, some countries like Dubai legalized it and utilized its underlying technology, 'the Blockchain,' to establish plans for a smart city. Some countries, like Venezuela, went further by issuing state-backed currencies.⁹

3. Cryptocurrency in Islamic Banking and Finance

Islamic Finance is a financial system that is operated based on the principles of Shariah (Islamic law). Islamic finance is therefore orchestrated with compliance with the complete principles that guide the Shariah and permissibility of activities or action in Islamic.¹⁰ The guiding principle, which makes Islamic Finance different from others, is the prohibition of payment or acceptance of interest charges (riba) and the use of money to facilitate the provision of goods or services that are contrary to Islamic principles.¹¹

In determining the applicability of cryptocurrencies within their territories, the concern for Islamic countries and Muslims extends beyond the volatility, whether the rise of the cryptocurrency threatens their economic systems or whether it should be adopted. The dilemma lies majorly in determining whether the use of cryptocurrencies is "Halal"¹² or "Haram."¹³ In existing cases, some scholars have pronounced cryptocurrencies Haram and their use impermissible based on the accounts of ambiguity and excessive risk involved. In contrast,

³ *Ibid.*

⁴ M. Adam. (2017). [Bitcoin: Shariah Compliant?](https://afinance.org/2017/08/24/bitcoin-shariah-compliant/). Accessed on August 8, 2021.

⁵ I.B.Alzubaidi. and A. Abdullah. (2017). [Developing a Digital Currency from an Islamic Perspective: Case of Blockchain Technology](https://doi.org/10.5539/ibr.v10n11p79). *International Business Research*, 10, 1-9. Available at doi:<https://doi.org/10.5539/ibr.v10n11p79>

⁶ https://ycharts.com/indicators/bitcoin_market_cap

⁷ *Ibid.*

⁸ *Ibid.* at 5

⁹ Mohammad Rashed. (2020). [Is Bitcoin Halal or Haram in the Islamic Banking and Finance? An Overview](https://www.doi.org/10.5539/ibr.v10n11p79). *Journal of Economics, Business and Market Research*, 1(2) 96-104. The Venezuelan government introduced the cryptocurrency to fight hyper-inflation in the country. See also Nicolas Martin, D.W. (2021). [Venezuelans Try to Beat Hyperinflation with Cryptocurrency Revolution](https://www.dw.com/en/venezuelans-try-to-beat-hyperinflation-with-cryptocurrency-revolution/a-57219083). available at <https://www.dw.com/en/venezuelans-try-to-beat-hyperinflation-with-cryptocurrency-revolution/a-57219083>. Accessed on August 22, 2021.

¹⁰ Mahmud Lafee. (2020). [Virtual Currencies \(Bitcoin\): The Stand of Islamic Economy on the Use of Such Currencies](https://www.doi.org/10.5539/ibr.v10n11p79). *Journal of Critical Reviews*, 7(15), 2394-5125.

¹¹ *Ibid.*

¹² Acts or things that are permissible or allowed by Islamic law.

¹³ Acts or things that are forbidden or proscribed by Islamic law.

others deemed it Halal, asserting that it might be more permissible than the debt-based fiat currencies we use today.¹⁴

Islam strongly advocates the use of money in exchange and prohibits money with an element of usury.¹⁵ All transactions executed with money as a financial instrument must not contain gambling, obscenity, and fraud, which are all forbidden and haram.¹⁶ Further, Islam views money only as a medium of exchange, not as a commodity. Therefore, the motive for the demand for money must be to meet transactional needs. It is on this basis that many of the arguments against cryptocurrencies as halal have risen.

The Saudi government, through Sheikh Assim, in December 2017, declared that the digital currency "bitcoin" was prohibited under Islamic law, citing issues such as money laundering, sales of drugs, and smuggling as key reasons which qualify the currency as unlawful.¹⁷ In the same vein, Palestine's Fatwa Center also issued statements relating to Bitcoin, cryptocurrencies, and their permissibility.¹⁸ Unlike the statement from the Saudi government, however, their judgment went further than the illegal activities associated with cryptocurrencies. The reasoning for prohibition touched on issues such as that cryptocurrencies are not backed by the government and are subject to high speculation.

Statements issued by the Directorate of Religious Affairs in Turkey and Dar al-Ifta in Egypt aligned with the same reasoning.¹⁹ The explanation isn't far-fetched, and in all their statements, there seems to be the reoccurrence of issues such as the possibility of illegal activities in cryptocurrency use, the lack of a central and regulatory authority, and the fact that it is subject to high speculation. However, a Saudi-based scholar, Abdullah bin Muhammad bin Abdul Wahab Al-qil²⁰, had a rather curious take on the use of cryptocurrencies.²¹ Although ruling their use to be impermissible, he held that mining in bitcoin is permitted using ju'alah²² contracts.

On the other side of the divide are scholars and academics who believe that cryptocurrencies conform to the requirements laid out by Islamic law. A comparison is drawn between virtual currencies and fiat currencies in determining whether the use of cryptocurrencies should be considered valid. Countering the argument that cryptocurrencies facilitate the commission of illegal activities, it is contended that fiat currencies are also equally used, if not more than. The US Dollar, the widely used currency in international transactions, is cited as the currency through which money laundry, human trafficking, and several other illegal acts are facilitated.²³

Further, it is argued that under the rules of Shariah, things should be considered halal unless one discovers information about them, making them Haram.²⁴ As a follow-up, another argument was canvassed based on the Shariah limping away from the rapidly developing dynamics of human life. They assert that the development of the Shariah is always more in a wait-and-see position, not as an active force but only as a reactionary.²⁵ Thus, uncertainties that arise from this place people in a confusing situation regarding the legality of an action or activity deriving from something novel to Islam.

Another argument was also drawn from the fact that cryptocurrencies were not developed to foster the commission of crimes. The contention is that the mere fact that people have employed them for that use is not enough reason to rule them as impermissible. Drawing strength from a Hadith of the Prophet Muhammad (peace be upon him) where he forbade the sale of grapes to a wine merchant since making wine is impermissible

¹⁴ *Ibid.*

¹⁵ *Ibid.* at 10.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ Al-Ghanim Abed Al-Mutaleb. (2018). *The Shariah-based Controls Enforced on Digital Currencies*, 1st Edition, Asrar Al-Kutub Publishing and Distribution House.

²⁰ A Sharia Faculty Doctorate at the Islamic University of Madinah, Saudi Arabia.

²¹ *Ibid.* at 16.

²² Ju'alah is a contract whose subject matter is a work or task to be done.

²³ *Ibid.* at 10.

²⁴ Vogel, Frank, Samuel. and Hayes. (1998). *Islamic Law and Finance: Religion, Risk and Return*. The Kluwer Law International, Cambridge, p. 345.

²⁵ *Ibid.*

but did not forbid the production or trading of grapes for lawful purposes.²⁶ Thus, should an individual use cryptocurrency to facilitate legal transactions, it should be permissible for that purpose.

However, those who deem cryptocurrencies impermissible in Islamic finance have their victory in the absence of reparation for any harm occurring from crypto-related fraud and mishap. Since it is barely recognized in a lot of jurisdictions, with no legal sanction to back up activities within that space, it is believed that dealing in cryptocurrencies is a dangerous affair that could leave the victims of such mishaps in a precarious situation. Also, its high volatility exposes its users to risks that could occur without expectation and result in devastating losses.

4. Permissibility of Cryptocurrency in Islamic Finance in Nigeria

Like several other countries of the world, Nigeria has banned the use of cryptocurrencies within the country and imposed legal sanctions on those who facilitate or help facilitate crypto-related activities. In the circular it issued, the Central Bank of Nigeria (CBN) cited issues such as cryptocurrencies lacking the status of a legal tender, the high-risk exposure, and the numerous illegal activities that occur within the space.²⁷ The reaction from relevant stakeholders was mixed; Simultaneously, some supported the ban leaning on the CBN's reasoning. Others criticized the ban claiming that the widespread use and trade of cryptocurrencies in the country served as an income-generating means for many Nigerians.²⁸ Despite this ban, crypto-related activities have thrived, only forcing their operations to the black market.²⁹

Islamic finance is still struggling to gain ground in Nigeria. Although the sector has witnessed remarkable growth in the last decade, sentiments still exist as to the existence of Islamic finance as a tool to facilitate the Islamization of the country.³⁰ Even though Nigeria is home to the largest Muslim population in sub-Saharan Africa, the growth rate has not been outstanding.³¹ To date, only two non-interest (Islamic) banks exist in Nigeria³², which has hindered the deep penetration of Islamic Finance in the country.

Although Nigeria is not an Islamic country, the Shariah principles that apply to transactions in Islamic countries apply to Islamic finance operations in Nigeria. The ban by the CBN already blocks the possibility of Islamic finance dabbling into cryptocurrency operations in the country. Nonetheless, the challenges and prospects of the use and trade in cryptocurrency will be considered, emphasizing how it can help further facilitate Islamic finance operations in the country.

4.1. Challenges

The uncertainties that cloud the applicability and permissibility of cryptocurrencies and crypto-related activities in global Islamic finance operations automatically apply. It is further worsened by the ban imposed on it by the CBN in Nigeria. Aside from the restriction in its use in the country, the lack of technological means necessary to better understand the technology on which cryptocurrencies run is a big challenge that might hinder, and frustrate its use within the country, even if the ban is lifted. The preservation and protection of wealth are one of the fundamental objectives of Shariah,³³ and the high volatility of cryptocurrencies is a clear threat to that.

²⁶ Reported by al-Tabarani in *Al-Awsat*, and classified as sahih by al-hafiz in *Bulugh al-Maram*.

²⁷ Central Bank of Nigeria. (2021). *Response to Regulatory Directives on Cryptocurrency*. < <https://www.cbn.gov.ng/Out/2021/CCD/CBN%20Press%20Release%20Crypto%2007022021.pdf>. Accessed on August 20, 2021.

²⁸ Quartz Africa. (2021). *Nigeria's Crypto Startups and Traders are Still at the Mercy of its Central Bank*. Available at < <https://qz.com/africa/1985223/nigerias-crypto-ban-has-startups-and-traders-in-a-frenzy/>. Accessed on August 19, 2021.

²⁹ Coindesk. (2021). *Crypto-Booming in Nigeria Despite Banking Ban*. Available at <<https://www.coindesk.com/crypto-booming-in-nigeria-despite-banking-ban>. Accessed on August 18, 2021.

³⁰ Proshare. (2020). *Nigeria Among Top 15 Most Advanced Islamic Finance Markets Globally* (Proshare, December 15, 2020) <<https://www.proshare.com/news/Islamic%20Finance/Nigeria-Among-Top-15-Most-Advanced-Islamic-Finance-Markets-Globally/54760>. Accessed on August 12, 2021.

³¹ *Ibid.*

³² Jaiz Bank PLC. and Taj Bank. (2021). See NDIC. *List of Non-Interest Banks*. < <https://ndic.gov.ng/supervision/list-of-non-interest-banks/>. Accessed on August 19, 2021.

³³ *Hifz al mal* (preservation of wealth) is one of the most important objectives of the Shariah. See also Maybank. (2021). *The Application of Maqasid al-Shariah in Islamic Finance*. Available at <https://www.maybank2u.com.my/iwov-resources/islamic-my/document/my/en/islamic/scoe/knowledge-centre/articles/Application_of_Maqasid_al-Shariah.pdf. Accessed at August 15, 2021.

More so, the mining process through which new Bitcoins are produced is energy-intensive. In context, the electrical power needed to carry out 400 mining operations per is 32 Watts, the amount of electrical power required to operate one network. A whole country, Denmark, consumes the amount of electrical energy consumed through that operation.³⁴ The heavy restriction will further frustrate the possibility of advanced cryptocurrency operations in the country and limit the utilization of the technologies behind cryptocurrencies being used to facilitate Shariah-backed transactions.

More than anything, however, the lack of legal status that would have qualified cryptocurrencies as acceptable legal tender in the country will frustrate its use in Islamic finance. With no central authority and no adoption, the cryptocurrency is viewed as a threat to the "Naira," which is the accepted tender in the country. This is due to the economic consequences that could arise from the high use of cryptocurrencies in trading activities in the country against the recognized legal tender. Not only will this likely frustrate economic policies and actions, but it could also lead to a catastrophic financial failure which would leave the country in shatters considering the international value of the naira now.

4.2. Prospects

The prospects of cryptocurrencies in Islamic finance in Nigeria are as numerous as the challenges. On a scale of benefits, the opportunities seem to displace the challenges, only if the reasons for the challenges aren't fundamental and didn't go to the roots of the country's economic system. The speed at which international transactions are completed is one of the reasons why cryptocurrencies grew tremendously in the last decade. They eliminate the need for a middle man who would have been needed in the traditional mode of conducting international transactions. Thus, it will aid the fast delivery of cross-border financial services.

Unlike traditional financial systems, it is mathematically impossible to manipulate the laws and rules governing Bitcoin mining transactions because the cryptographic technology on which the currency runs prevents it. Thus, the determination of the worth of the Bitcoin is left to the market forces of supply and demand and erases the power of the government to devalue a currency or restrict its spread. It places the power in the people and eliminates the possibility of an arbitral exercise of control over the currency.³⁵

Additionally, Bitcoin is run on blockchain technology, which is much more secured than any centralized system used by a government or central authority. This aids more security in financial activities and prevents the possibility of theft. For instance, the SWIFT network is one of the most used centralized systems to facilitate inter-bank transactions. In February 2016, USD 1 bn was stolen from the Federal Reserve Bank of New York from the account of the central bank of Bangladesh.³⁶ This places blockchain technology as a better alternative to centralized systems and could help raise security levels and data protection if utilized in the country.

5. Conclusion

Considering the above discussion, it can be concluded that cryptocurrencies consist of halal and haram elements, which equally applies to their applicability in Islamic finance in Nigeria. There is no doubt that cryptocurrencies have come to stay, regardless of little legal backing to their relevance in many jurisdictions. The problem is double-ended for Muslims across the world, Nigeria inclusive, as to its permissibility.

To clear the fog of permissibility, an author suggests three categories/levels at which permissibility of the currency could be considered in Islam: (a) In an instance where the government has banned its usage, then it is impermissible to deal in it and engaged with it; (b) Where the government has warned about its usage, it is permitted to deal with cryptocurrencies; and (c) Where the government has allowed its use within the country, it is permissible to use and transact in cryptocurrencies.³⁷ Flowing from this, it can be said that the use of cryptocurrencies in Islamic finance in Nigeria is impermissible.

³⁴ *Ibid.* at 19.

³⁵ *Ibid.* at 1.

³⁶ *Ibid.*

³⁷ *Ibid.* at 9.

In conclusion, the blockchain on which cryptocurrencies are run could be a step towards attaining the Shariah requirements of transparency and disclosure. It could also help reinforce trust in the monetary system and help actualize the fundamental ideas rooted in Islamic Finance. Nonetheless, the ban on cryptocurrencies puts the possibility of these happening in uncertainty and reinforces the impermissibility of cryptocurrency and crypto-related activities in Islamic Finance in Nigeria.

Cite this article as: Abdulrasaq Ariwoola. (2023). [Challenges and Prospects of Cryptocurrency in Islamic Finance in Nigeria](#). *International Journal of Cryptocurrency Research*, 3(2), 57-62. doi: 10.51483/IJCCR.3.2.2023.57-62.