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CRYPTOCURRENCY IN NIGERIA: A REVIEW FROM CONTEMPORARY ISLAMIC SCHOLARS' PERSPECTIVE[1]

Abubakar Balarabe*, Md. Faruk Abdullah, Abdur Rahman*****

*Faculty of Business and Management, Universiti Sultan Zainal Abidin, Jalan Gong Badak, 21300, Kuala Nerus, Terengganu, Malaysia
*Department of Shariah and Economics, Academy of Islamic Studies, Universiti Malaya, 50603 Kuala Lumpur, Malaysia
*Department of Business Administration, Eastern University, Road 6, Block B, Ashulia Model Town, Savar, Dhaka 1345, Bangladesh

*(Corresponding author) e-mail: farukabdullah@um.edu.my

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ABSTRACT

This study aims to investigate the Sharīʻah-compliance status of cryptocurrencies in Nigeria, with a particular focus on the Northern region of Arewa. Adopting a qualitative research methodology, the study utilises library research and document analysis to review contemporary Islamic scholars' perspectives on cryptocurrencies in the region. The findings revealed that while the use of cryptocurrencies is not generally prohibited for public use, financial institutions are restricted from engaging in cryptocurrency transactions. The debate on whether using cryptocurrencies is ḥalāl (lawful) or ḥarām (prohibited)

[1] An earlier version of the article was presented at the 4th UUM International Islamic Business Management Conference (IBMC 2022) held online on 24–26 November 2022.

remains contentious, with some scholars classifying it as ḥarām due to concerns regarding their intrinsic value and lack of governmental recognition as legal tender. Such attributes are perceived to pose risks related to gambling, money laundering, and other prohibited activities. The study recommends prudent regulation and management of cryptocurrency by the Central Bank of Nigeria (CBN) and financial institutions in order to gain acceptance among Muslims in Northern Nigeria.

Keywords*: cryptocurrency, Sharīʻah, Nigeria, Islamic scholars, gharar*

INTRODUCTION

Cryptocurrency has emerged as a virtual currency used for online transactions and a medium of exchange. It is intangible and cannot be touched upon. Crypto is a digital asset that serves as a means of exchanging money. Blockchain protects transactions through cryptography, generates new units, and confirms the transfer of assets and values in a noncopy manner.[2] Currency was developed by a community of people known as prospectors. The majority of cryptocurrencies are based on a technology known as "blockchain," which ensures transparency, speed, and confidence in transmission.[3]

The number of people worldwide adopting cryptocurrencies as a means of payment continues to increase.[4] Cryptocurrency is gaining influence in people's daily lives, and the issues of whether cryptocurrency is relevant, compliant with *Sharīʻah* criteria, and permissible for use by Muslims and financial institutions are growing.[5] The key issue is whether cryptocurrency

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[2] Teddy Kusuma, Veithzal Rivai Zainal, Iwan Kurniawan Subagja, Salim Basalamah & Suharto. The Perspective of Islamic Law on Cryptocurrency for Commodity Future Exchange in Indonesia. *Journal Of Islamic Studies And Culture*, 8(1) (2020): 1-12 https://doi.org/10.15640/jisc.v8n1a1

[3] Marwan Mohamed Abdeldayem, Saeed Hameed Al Dulaimi, Ramzi Nekhili. Cryptocurrency as a FinTech Instrument and Islamic Finance: The GCC Perspective. *Journal of Xi'an University of Architecture & Technology*, Vol XII, Issue II, (2020): 2736.

[4] Oziev, Gapur and Yandiev, Magomet. *Cryptocurrency from Shari'ah perspective*. Available at SSRN: https://ssrn.com/abstract=3101981 or http://dx.doi.org/10.2139/ssrn.3101981 (2017): 1-18

[5] Marwan Mohamed Abdeldayem, Saeed Hameed Al Dulaimi, Ramzi Nekhili. Cryptocurrency as a FinTech Instrument and Islamic Finance: The GCC

complies with Sharī'ah principles, particularly in avoiding *gharar* (uncertainty) and *ribā* (usury), which are prohibited in Islam.

As long as internet access is available, cryptocurrencies are widely available to everyone, including Islamic financial institutions and the public. However, the issue of whether cryptocurrencies meet *Sharī'ah* requirements remains unresolved, despite technological advances. While technologies like blockchain ensure transparency and security, they also introduce challenges such as volatility and speculative elements, which may conflict with *Sharī'ah* principles.

This study focuses on Islamic scholars' perspectives on the prohibition of cryptocurrency use in Nigeria, especially in the northern region. The majority of Nigerians in the northern region belong to Muslim communities, where adherence to *Sharī'ah* principles deeply influences financial practices. Northern Nigeria is significant because its predominantly Muslim population relies heavily on informal financial systems owing to limited access to conventional banking. Cryptocurrencies can address these challenges by offering decentralized financial solutions.

The issue associated with cryptocurrency is critical to study from an Islamic perspective because it influences the interests of a large audience. This study aims to provide insights into the intersection of cryptocurrency and Islamic finance, particularly in Nigeria. The research also examines potential frameworks to reconcile cryptocurrencies with *Sharī'ah* principles, proposing practical strategies to address challenges, such as *gharar* and *ribā*.

The remainder of this paper is organized as follows. The second section examines the literature, how cryptocurrencies work, and their advantages and disadvantages. The data and methodology are described in the third section. The results are presented in the fourth section. Finally, the conclusions and implications of this study are discussed in the final section. To the best of our knowledge, this study is the first to examine the Islamic viewpoint on cryptocurrency transactions based on qualitative data in Nigeria.

Perspective. *Journal of Xi'an University of Architecture & Technology*, vol. XII/II (2020): 2736.

LITERATURE REVIEW

1. Definition of Cryptocurrency

Cryptocurrencies are designed to operate via Internet networks through computers, smartphones, and other electronic devices. They are a type of digital currency that allow people to transact directly. Cryptocurrencies have emerged from the use of cryptography to secure and manage networks, without relying on government agencies, banks, and financial institutions.[6] The first cryptocurrency was Bitcoin, launched in 2009 and opened as a P2P transaction. Several cryptocurrency platforms were launched in June 2023, with over 25,000 in the market, and many having a market capitalization of over $1 billion.[7] Digital currencies include both electronic and virtual money. Owing to the development conditions of the era and the creation of new units, paper money has been converted into electronic money. Paper money, which is recognized as a legal tender, has been created in digital form and used as banknotes. Moreover, electronic money, such as Bitcoin, also has a legally transferable value that corresponds to the value of a certified note in electronic form.

By contrast, virtual currency is a digital manifestation of value that can be easily exchanged electronically under any circumstances. Virtual currency functions as a transferable value that corresponds to the traditional functions of money, including the store of value, unit of account, and medium of exchange. This is at odds with Islamic concepts.[8] Virtual currencies have several basic characteristics including a lack of legal tender status. They are available only in digital form and have neither a physical equivalent nor an intrinsic value such as fiat currencies. In addition, a virtual currency can be used as a convertible currency, allowing the exchange of physical currencies, or it can be decentralized and non-convertible, preventing such transfers by using a decentralized system to record transactions and issue new units. There are differences between virtual

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[6] Sherman S.M. Chow, Kim-Kwang Raymond Choo, Jinguang Han. Editorial for accountability and privacy issues in blockchain and cryptocurrency. *Future Generation Computer Systems*, vol. 114 (2021): 647-648.

[7] Schwab. Cryptocurrencies: What Are They? https://www.schwab.com/learn/story/cryptocurrencies-what-are-they. (February 23, 2024).

[8] Adedipe Oghenetega. The Prohibition of Cryptocurrency Transactions by the Central Bank of Nigeria. Available at SSRN: https://ssrn.com/abstract=4023644 or http://dx.doi.org/10.2139/ssrn.4023644 (2021): 1-7

currency and cryptocurrency. Virtual currency is a general or umbrella term that covers all types of money in a digital system. On the other hand, cryptocurrencies are digital currencies that use cryptography to control and manage transactions using blockchain networks such as Bitcoin and Binance.[9]

Cryptocurrencies bypass conventional financial institutions such as banks. It functions as a fully decentralized system that employs blockchain technology to monitor transactions. Currently, there are over 700 distinct cryptocurrencies including Bitcoin, Bitcoin Cash, Binance Coin, Bitcoin Satoshi Vision (BSV), Altcoins, Ethereum, Ripple (XRP), Tether, Swisscoin, Litecoin, Dogecoin, Onecoin, Namecoin, Polkadot, Peercoin, Libra, Monero, Zcash, Chainlink, and EOS.[10]

The operational mechanics of cryptocurrencies can be examined in the following practical context. Assume that Abubakar intends to pay for the purchase of a bicycle from Faruk with Bitcoin, his preferred cryptocurrency. Abubakar initiates access to his Bitcoin wallet by entering a private key, which is a distinctive sequence of alphanumeric characters. In conventional financial institutions, banks execute transactions that document the withdrawal of funds from one account and deposit them in another. No banks or intermediaries participated in this case. Instead, Abubakar's transactions were disseminated to all participants in the Bitcoin network. The computer network subsequently incorporates Abubakar's transaction into a collective record of recent transactions, referred to as a "block." Every 10 min, this transaction block is appended to a chain of preceding blocks. A segment of the Bitcoin network competes to resolve the mathematical challenge of verifying each block in a chain. The first solver is granted the authority to document the block of transactions, which thereafter serves as the authoritative record of that transaction. In exchange, they receive Bitcoin and a new block is added to the chain. This complete procedure is referred to as mining. Miners deciphered intricate puzzles instead of excavating the rocks. The rivalry between numerous computers to validate a block ensures that no individual machine dominates the Bitcoin network. This competitive element ensures equity, and riddles increase in difficulty as additional

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9 Raga Gottimukkala & John Jenq. 'The impact and trend of virtual currency,' In *25th World Multi-Conference on Systemics, Cybernetics and Informatics*, International Institute of Informatics and Systemics, IIIS. WMSCI. Vol. 19/5 (2021): 126-130.

10 Chien-wen Shen, Li-chin Chang, Tzu-chuan Su. Research development of Bitcoin: a network and concept linking analysis. Library Hi Tech, https://doi.org/10.1108/LHT-10-2019-0210 Vol. 39/2 (2021): 488-505.

machines participate. The Bitcoin protocol stipulates that mining will persist until a total of 21 million Bitcoins are achieved, which is anticipated to occur around 2140, contingent upon the longevity of Bitcoin.[11]

2. The Operation of Cryptocurrencies

A user can obtain a cryptocurrency coin by mining it and purchasing or exchanging it for traditional fiat currency (e.g., United States dollars or British pounds) through a cryptocurrency exchange or trading platform, or directly from the coin owner. The owner of the cryptocurrency coin would then be the owner of a "digital wallet" connected to the coin. The system uses various cryptographic methods and encrypts the currency owner identities to ensure record-keeping accuracy. By transferring coins or money from one digital wallet to another, coin owners can use their coins to buy any items or conduct any business activity.

A public ledger is checked to confirm each transaction. The ledger ensures that the associated digital wallets have an exact spendable balance and that new transactions are verified for authenticity, that is, to ensure that each transaction spends only the coins that the spender currently owns to prevent fraud or double spending in the system. The transaction is recorded in a public ledger after confirmation.

The mining process involves adding newly verified transactions to the public ledger and confirming the existing transactions. This process required 10–20 min. It uses an encrypted electronic signature, also known as a cryptographic signature, which is an encrypted piece of data that mathematically proves that the transaction originated from the owner of the wallet. Verifiers of transactions, referred to as miners, must resolve an increasingly difficult computational challenge before they can add new transactions to the ledger, similar to a mathematical puzzle. There are many miners in various locations worldwide. After a transaction is announced, the first miner, to solve the problem and verify, adds a block of transactions to the ledger. All subsequent transactions are final and irrevocable, once a block is recorded in the ledger. A small transaction charge increases a miner's wallet. Additionally, as payment for successful mining, new currencies are created out of thin air and added to the miner's wallet. The

[11] Andrew Kamsky. What Happens to Bitcoin After All 21 Million Are Mined? *CCN*. https://www.ccn.com/education/what-happens-to-bitcoin-after-all-21-million-are-mined/#:~:text=By%202140%2C%20all%2021%20million,rely%20solely%20on%20transaction%20fee. (October 14, 2024 12:49 PM).

mining process involves the creation of new crypto coins and payment to miners who are in charge of keeping ledgers up-to-date.

Because of the widespread global mining, duplicated ledgers may have been created during the mining process. To solve this, miners - who can be anyone but are typically developers or programmers - conduct a type of fictitious voting in which the ledger used by the majority of miners at any given time prevails and is used by all miners for the ensuing transactions.[12]

3. Advantages and Disadvantages of Cryptocurrency

The advantages of cryptocurrency include promoting real-time financial transaction completion and supporting financial inclusion by increasing the speed and efficiency of payment and transfer processes, especially across geographical borders. This may explain why their use is spreading globally. Additionally, the distributed ledger technology that underpins cryptocurrency schemes has potential advantages that extend far beyond the virtual currencies themselves. This is an inventive decentralized method for monitoring transactions in a vast network. Furthermore, cryptocurrencies are unaffected by subsidies from the government or national political authorities.[13]

However, cryptocurrencies are associated with significant risks. First, they can be used as tools for tax avoidance, fraud, money laundering, and terrorist financing. These factors might have contributed to their development. Moreover, this can lead to long-term financial instability. In addition, owing to the absence of government control and oversight over transactions, transactions are irreversible once confirmed. There are also concerns regarding the potential for deflation with some form of fixation on the supply of cryptocurrencies.[14]

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[12] Sherman S.M. Chow, Kim-Kwang Raymond Choo, Jinguang Han. Editorial for accountability and privacy issues in blockchain and cryptocurrency. *Future Generation Computer Systems*, Vol. 114 (2021): 647-648.

[13] Izwan Amsyar, Ethan Christopher, Arusyi Dithi, Amar Najiv Khan & Sabda Maulana. The Challenge of Cryptocurrency in the Era of the Digital Revolution: A Review of Systematic Literature. *Aptisi Transactions on Technopreneurship (ATT),* https://doi.org/10.34306/att.v2i2.96 Vol 2/2 (2020): 153–159.

[14] Abdullateef Abdul. Cryptocurrencies in Nigeria: a legal analysis. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3106296. (2018): 1-10

4. Previous Studies and Research Gap

Previous studies on cryptocurrency have explored various aspects, including its impact on societal and economic structures, its compliance with *Sharīʿah* principles, and its associated risks.

a) Risks and Regulation Related to Cryptocurrency

Research has highlighted the risks linked to cryptocurrencies and the importance of regulatory frameworks. Kfir emphasized the risks of terrorism caused by cryptocurrencies to national security. The findings reveal that there is no global regulatory framework to regulate cryptocurrency transactions.[15] Krishnan et al. used a qualitative approach to examine the impact of blockchain technology on societal resistance and terrorism. They highlighted the need to control Bitcoin activity.[16]

b) Economic Impact of Cryptocurrency

The economic implications of cryptocurrencies, particularly in developing regions, have been widely examined. Agu used a qualitative research approach to assess the impact of cryptocurrencies on the African economy. This research discovered that several African nations use cryptocurrencies for proper commercial operations, although some African governments have outlawed their use.[17] Ekong and Ekong studied how the growth of digital currencies affected Nigeria's financial inclusion between 2006 and 2020. Their findings show that digital money had a cumulative positive impact of approximately 7% on financial inclusion in Nigeria.[18]

c) Cryptocurrency from an Islamic Perspective

Islamic scholars have debated the compliance of cryptocurrencies with *Sharīʿah* principles. Abdeldayem reviewed the idea of using cryptocurrencies as legal tenders and authorized the means of exchange in Islamic finance. This study adopted a qualitative research approach using an

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[15] Isaac Kfir. Cryptocurrencies, national security, crime and terrorism. Comparative Strategy, 39(2), (2020): 113-127.

[16] Saravanan Krishnan, Valentina Emilia Balas, E. Golden Julie, Harold Robinson Yesudhas, S. Balaji, Raghvendra Kumar. Handbook of research on blockchain technology. Academic Press. (2020): 48

[17] Chima James Agu. Impact of cryptocurrency on Africa's economy. Working Paper. https://www.researchgate.net/publication/347089003 (2020): 1-4

[18] Uduak Michael Ekong & Christopher Nyong Ekong. Digital currency and financial inclusion in Nigeria: lessons for development. *Journal of Internet and Digital Economics*, https://doi.org/10.1108/jide-11-2021-0018 Vol 2(1), (2022): 46–67.

inductive descriptive approach. These findings indicate a lack of consensus regarding whether cryptocurrency is permissible (*ḥalāl*) or prohibited (*ḥarām*) under Islamic law. However, there is a general inclination towards recognizing the permissibility of the underlying blockchain technology in Islam. In addition, the results suggest that the Islamic economic system does not adhere to any currency. [19] Oziev and Yandiev investigated cryptocurrency from the *Sharī'ah* perspective. The authors believe that cryptocurrencies are permissible under strict conditions.[20] Siswantoro et al.. used a qualitative approach to investigate the requirements for cryptocurrencies to be used as money. The results show that cryptocurrency is highly unpredictable and has a limited ability to function as money, as it is restricted and utilized for speculating, which is against Islamic law.[21]

d) Research Gap in the Context of Nigeria

Despite the expanding literature on cryptocurrency, limited attention has been paid to *Sharī'ah* compliance in Nigeria. While Oziev and Yandiev addressed cryptocurrencies from an Islamic perspective[22] and Abdeldayem considered their potential as legal tender and a general medium of exchange in Islamic finance, there remains a notable gap in the literature in the context of Nigeria.[23] A significant gap remains in examining the perspectives of Nigerian *Sharī'ah* scholars. This is because the socio-economic and regulatory landscape of Northern Nigeria demands targeted research. This study addresses this gap in literature.

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19 Marwan Mohamed Abdeldayem, Saeed Hameed Al Dulaimi, Ramzi Nekhili. Cryptocurrency as a FinTech Instrument and Islamic Finance: The GCC Perspective. *Journal of Xi'an University of Architecture & Technology*, Vol XII, Issue II, (2020): 2736.

20 Oziev, Gapur and Yandiev, Magomet. *Cryptocurrency from Shari'ah perspective*. Available at SSRN: https://ssrn.com/abstract=3101981 or http://dx.doi.org/10.2139/ssrn.3101981 (2017): 1-18

21 Siswantoro, D., Handika, R., & Mita, A. F. (2020). 'The requirements of cryptocurrency for money, an Islamic view,' *Heliyon*, 6(1): 03235.

22 Oziev, Gapur and Yandiev, Magomet. *Cryptocurrency from Shari'ah perspective*. Available at SSRN: https://ssrn.com/abstract=3101981 or http://dx.doi.org/10.2139/ssrn.3101981 (2017): 1-18

23 Marwan Mohamed Abdeldayem, Saeed Hameed Al Dulaimi, Ramzi Nekhili. Cryptocurrency as a FinTech Instrument and Islamic Finance: The GCC Perspective. *Journal of Xi'an University of Architecture & Technology,* Vol. XII/II (2020): 2736.

METHODOLOGY

This study adopted a qualitative approach because the researcher obtained the secondary data needed to illustrate cryptocurrencies from the library.[24] In qualitative research, the method involves understanding phenomena within specific contexts, which in this study included examining the perspectives of Islamic scholars and analyzing related documents.[25] Given this study's objective and background, this approach helped the researcher address specific issues and uncover significant insights.[26] The researcher relied on various data sources, including encyclopedias, journals, books, and fatwa from Islamic scholars, to ensure a comprehensive understanding of the topic. The sources were chosen based on their prominence as Islamic scholars in Islamic finance and jurisprudence, and their geographical relevance to Nigeria or similar regions.

Additionally, thematic analysis was used to analyze the data, where the researchers conducted a systematic analysis to identify themes and categorize the data. After thoroughly reading all documents, the researchers coded key phrases, grouped them into broader themes, and prioritized recurring themes. The data were further categorized based on specific research questions.

FINDINGS AND DISCUSSION

1. The Central Bank of Nigeria (CBN) 's Position on Cryptocurrency

Nigerians are among the world's most significant cryptocurrency users, and are highly interested in digital currencies.[27] Nigeria is ranked fifth globally, with 11 percent of Internet-connected Nigerians utilizing or possessing

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24 Abubakar Balarabe, & Md. Faruk Abdullah. Ujrah-Based Islamic Credit Card: A Shariah-Compliancy Analysis. *International Journal of Islamic Economics and Finance Research*, 5/1 July (2022): 54-68.

25 Joan E. Dodgson. About research: Qualitative methodologies. *Journal of Human Lactation*, vol. *33*/2 (2017): 355-358.

26 Joseph A. Maxwell. Why qualitative methods are necessary for generalization. Qualitative Psychology, https://doi.org/10.1037/qup0000173 Vol. 8/1 (2021): 111–118.

27 Olumide Adesina. 'Nigerians' love for cryptocurrencies is on the rise, as it offers cheaper ways to transfer funds. Nairametrics.' *Nairametrics*. https://nairametrics.com/2020/05/24/nigerians-love-for-cryptocurrencies-on-the-rise-as-it-offers-cheaper-ways-to-transfer-funds/ (24 May 20202).

cryptocurrencies or Bitcoins.[28] According to Google Trends, Lagos, Nigeria, had the most global online search for Bitcoin in 2019.[29] Despite the widespread use of cryptocurrencies in Nigeria, the CBN's first attempt was to regulate the country's banking and security market. In a letter dated February 5, 2021, the CBN notified all deposit banks and financial institutions that engaged in cryptocurrency transactions, and enabled payments for crypto exchanges are prohibited.

Additionally, the CBN ordered all banks and other financial institutions to locate and terminate the accounts of people and organizations who deal with cryptocurrencies or operated crypto exchanges. Nigerians responded to this letter with high emotions, particularly over how detrimental it would be for the country's rapidly expanding fintech sector and cryptocurrency exchanges. The CBN subsequently released a press addressing this issue.[30]

Among the justifications provided in the press release, the CBN mentioned that the prohibition on participating in crypto was not new. Banks and other financial institutions were forbidden from using, owning, trading, and transacting cryptocurrencies under the 2017 circular. In its Press Release in 2018, the CBN further modified its stance on cryptocurrencies, acknowledging that it is illegal in Nigeria because it is not recognized as legal cash and is not regulated or licensed.[31] Owing to their anonymity, cryptocurrencies have been used illegally to commit and conceal crimes, such as tax evasion, drug trafficking, terrorism financing, money laundering, and the illegal purchase of weapons and ammunition. CBN also mentioned that the instability of cryptocurrencies exposed some nations' financial systems to risk. Nonetheless, the CBN letter prohibits banks and other financial institutions from dealing with cryptocurrencies, and enables

[28] Tomiwa Onaleye. 'Nigerian Government Likely to Regulate Cryptocurrency Trading as Citizens Grow Interest and Risk Appetite.' *Tecknect.* https://technext24.com/2020/07/15/south-africa-cbn-and-the-choice-between-regulating-and-prohibiting-the-nigerian-crypto-market/#google_vignette . (15 July 2020).

[29] Steve Kaaru. 'Nigeria remains global leader in 'Bitcoin' Google searches amid government crackdown.' *COINGREEK.* https://coingeek.com/nigeria-remains-global-leader-in-bitcoin-google-searches-amid-government-crackdown/ (13 June, 2024).

[30] Spurt! Research Reports. 'Tracing Cryptocurrency Adoption, Regulation, and Innovation in Africa (2012-2023).' https://www.linkedin.com/pulse/tracing-cryptocurrency-adoption-regulation-innovation-africa-n29lf/ (January 25, 2024).

[31] Nwanisobi Osita. 'Central Bank of Nigeria Press Release Response to Regulatory Directive on Cryptocurrencies.' www.cbn.gov.ng (2021).

cryptocurrency payments. It does not forbid or render the public illegal to use or exchange cryptocurrencies.[32]

However, the Securities and Exchange Commission (SEC) initially expressed skepticism about virtual currencies, implicitly rejecting them. The SEC has warned banks, financial institutions, and capital market operators of the risks associated with cryptocurrencies. However, the SEC's position has shifted over time, moving towards the official validation and recognition of cryptocurrencies. This shift highlights a significant contrast as the two regulatory bodies have adopted opposing views on the legitimacy of cryptocurrencies.

Regarding the impact of the CBN letter on cryptocurrency trading in Nigeria and the fintech industry, it is argued that Nigeria has the second-largest Bitcoin market in the world, with trade worth up to $500 million occurring in the country over the previous five years. This letter may significantly impede the development of Bitcoin trading in Nigeria since banks can no longer facilitate transactions. Platforms that offer exchange services enabling dealers to pay in the naira or use a Nigerian bank card to purchase cryptocurrencies may face initial challenges, even though crypto dealers have found a way to circumvent CBN restrictions.[33] Additionally, the cryptocurrency exchange platform highlighted this concern after the letter was issued as it was forced to stop allowing naira deposits and withdrawals on its platform. This restriction may make purchasing cryptocurrencies more challenging.[34] Furthermore, many Nigerian youth have found work and enrichment through cryptocurrency trading, which may negatively impact their position.[35]

No law prohibits cryptocurrency transactions in Nigeria. Despite CBN's instructions to financial institutions to cease cryptocurrency-related

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[32] Chidi Halliday & Goodtime Okara. 'Legal Impact of the Finance Act 2019 on Taxation, Mergers and Other Business Combinations in Nigeria,' *Journal of Commercial and Property Law*, 8/4 (2021): 30-40.

[33] Emmanuel Akinwotu. 'Out of control and rising: why bitcoin has Nigeria's government in a panic,' *The Guardian*. https://amp.theguardian.com/technology/2021/jul/31/out-of-control-and-rising-why-bitcoin-has-nigerias-government-in-a-panic?__twitter_impression=true (Sat 31 Jul 2021 16.00 BST).

[34] Spurt! Research Reports. 'Tracing Cryptocurrency Adoption, Regulation, and Innovation in Africa (2012-2023).' https://www.linkedin.com/pulse/tracing-cryptocurrency-adoption-regulation-innovation-africa-n29lf/ (January 25, 2024).

[35] Nwanisobi Osita. 'Central Bank of Nigeria Press Release Response to Regulatory Directive on Cryptocurrencies.' www.cbn.gov.ng (2021).

activities, cryptocurrencies remain legal. While this directive is primarily aimed at regulated financial institutions and may lead to administrative consequences for them, it does not constitute a legal ban on cryptocurrency trading. Nigerians or residents of Nigeria who have foreign bank accounts are free to trade cryptocurrencies using those accounts without violating any laws in Nigeria. Conducting is considered acceptable when an act or omission is not explicitly prohibited.

Consequently, a person cannot be found guilty of a crime unless the offence is actually defined and the corresponding punishment is specified in written law, as stated in Section 36(12) of the Constitution of the Federal Republic of Nigeria, 1999, as amended. Courts consistently upheld this principle. Therefore, creating, using, or dealing with cryptocurrencies in Nigeria is legal as there is no statutory ban on these activities. However, cryptocurrencies are not recognized as authorized legal tenders in Nigeria.[36]

Money is accepted as a legal tender for payments for goods and services, and repayments of debts and other obligations within the boundaries of a particular jurisdiction. A legal tender refers to the money that a creditor is obligated to accept from a debtor as payment for a monetary obligation.[37] The primary medium of exchange within a jurisdiction, known as a legal tender, consists of coins and banknotes produced and issued by the government, authorized by national laws or regional entities. Each type of legal tender has a distinct name, which links it to a specific country or region.

A CBN is an entity authorized by law to issue legal money in Nigeria. The Naira, divisible by 100 Kobo, is the currency unit and its subdivision, as prescribed by law. The CBN Act states that the CBN shall have the exclusive right to issue banknotes and coins throughout the country as provided by the constitution. No entity, including the Federal Government, any State or Local Government, or any individual or authority, shall issue banknotes, coins, or any documents or tokens that are payable to the bearer on demand and may be perceived as legal currency.

CBN-issued notes and coins are accepted as legal tenders for payment of any amount at face value in Nigeria. The creation or use of counterfeit money

[36] Festus O Ukwueze. 'Cryptocurrency: Towards Regulating the Unruly Enigma of Fintech in Nigeria and South Africa.' *Potchefstroom Electronic Law Journal (PELJ)*, vol 24/1 (2021): 1–38.

[37] Emmanuel Akinwotu. 'Out of control and rising: why bitcoin has Nigeria's government in a panic.' *The Guardian*. https://amp.theguardian.com/technology/2021/jul/31/out-of-control-and-rising-why-bitcoin-has-nigerias-government-in-a-panic?__twitter_impression=true (31 Jul 2021).

and related crimes, including holding, using, dealing with, uttering, importing, and exporting it, are all against the law. CBN law prohibits importing or exporting any currency, regardless of whether it is considered a legal tender in Nigeria. It also prohibits actions that undermine the value of the national currency, such as selling coins at a discount or above face value. In 2007, most of these rules were applied only to Nigerian money, and when they did, they appeared to be intended for international fiat currencies rather than virtual ones.[38] However, cryptocurrency is not considered a legal tender, because it is not issued by a central bank or its equivalents in other countries. Therefore, they are not subject to the same regulations that apply to fiat currencies. For cryptocurrency to gain widespread recognition by the government, it must first be incorporated into the country's monetary system and related to the fiat currency. This indicates that fiat money should be converted into virtual currency and vice versa when using cryptocurrency. However, recent statements from the top financial regulators of the CBN and Nigeria suggest that the nation has taken a cautious approach to payment services and does not recognize payments made using cryptocurrencies. This fundamental barrier must be removed for cryptocurrencies to be effectively used in the country, and removing such barriers requires modifying current monetary laws.

2. The Viewpoint of Contemporary Islamic Scholars on Cryptocurrencies in Nigeria

In response to the ongoing debate on the adoption of digital currencies in Nigeria, the University of Lagos Muslim Alumni (UMA) has explored Islamic perspectives, benefits, and limitations of Muslims regarding this issue. During an online webinar titled "Digital Currency Technology: Islamic Perspective and Developing Concerns," experts analyzed the situation and concluded that the CBN's decision to ban cryptocurrencies was not in the best interest of the nation's citizens.

The event host, M. Banire, praised the association to establish a platform for learning more about cryptocurrency. He noted that discussions on cryptocurrencies have already taken place across the country. When a CBN decided to prohibit money deposits from cryptocurrency operators, it was one of the first individuals to speak out against it. Although he does not fully trust cryptocurrencies, he believes that virtual currencies should not be banned.

38 Festus O Ukwueze. 'Cryptocurrency: Towards Regulating the Unruly Enigma of Fintech in Nigeria and South Africa.' 1–38.

Banire noted that the CBN has recently begun to act as an authoritarian, effectively intimidating various sectors of the economy, particularly the banking sector. One argument against cryptocurrencies is that their operators' identities remain anonymous, raising concerns that they could be used for illegal activities. One argument in favor of cryptocurrencies is that there are always better ways to deal with defaults. Many young people involved in cryptocurrencies will become unemployed due to the ban on cryptocurrencies, thereby increasing issues related to social crises and insecurity in the country. Vice President Y. Yemide added that there are other ways to deal with these issues, such as through regulations, as in the USA and the UK.

Bashir Oshodi, the managing director of Trust Banc Arthur, highlighted that *Sharīʻah* scholars have not decided whether digital currency is acceptable. Most scholars agree that it is prohibited because it does not abide by the law. [39] Saleh et al. identified three criteria that disqualify cryptocurrencies from the money category: unstable, lack an anonymous bearer, and have no intrinsic value. The authors argue that digital currency does not secure wealth. However, a minority of scholars who have accepted digital currency support their claims by pointing out that paper money was initially rejected until it gained global acceptance.[40]

According to Ogunseni, an associate director at EY, virtual currency is any kind of money that is not physically formed, but can be used as a medium of exchange or value storage. He also explained that one of the critical differences between cryptocurrencies and traditional banks is that any transaction executed with cryptocurrencies is publicly available to all network members. Furthermore, he highlights the reliability, security, and durability of cryptocurrencies. However, he urged anyone interested in using cryptocurrencies to educate themselves.

S. Salis, president of the University of Lagos Muslim Alumni (UMA), emphasized the importance of educating people about digital currency, as many individuals, including Muslims, are unfamiliar with it. The UMA's initiative aims to create a platform for enlightenment and education, helping people to understand and become more comfortable with digital currency.

[39] Shakirah Adunola. Islamic perspective on cryptocurrency, by scholars. Guardian Newspapers. https://guardian.ng/features/islamic-perspective-on-cryptocurrency-by-scholars/ (19 March 2021 - 2:35 am).

[40] Al-Hussaini Abulfathi Ibrahim Saleh, Adamu Abubakar Ibrahim, Mohamad Fauzan Noordin, H Mohd Mohadis. 'Islamic approach toward purification of transaction with cryptocurrency,' *Journal of Theoretical and Applied Information Technology*, Vol. 98/6 (2020): 1050-1067.

Additionally, he highlighted the importance of considering the perspectives of Islamic finance and exploring how digital currency can be governed, especially since it has been adopted much like other virtual communication applications.

Oyewale, the chief executive officer of Marble Capital Ltd., stated that regulators' concerns about individuals facing investment losses are the primary reason for the outright prohibition of digital currencies. He further explains that regulators are apprehensive about cryptocurrencies because they can facilitate money laundering, which may be used to finance terrorism and other illegal activities.[41]

According to A. al-Hakeem, a renowned scholar of the 20th century and an Imam in Saudi Arabia, cryptocurrencies facilitate money laundering, the sale of illegal drugs, and the use of *ḥarām* (forbidden) currency. Islam allows hand-to-hand currency exchange, a function for which virtual currencies do not qualify.

The position of the Central Bank of Nigeria (CBN) and contemporary Islamic scholars is different in terms of the use and regulation of cryptocurrencies, mainly in terms of their validity, risks, and potential integration into Nigeria's financial system. Both groups stressed on regulatory and ethical considerations. CBN prioritizes curbing risks, for instance, ensuring economic stability and money laundering, while Islamic scholars emphasize aligning financial innovation with principles of *Sharīʿah*. However, both groups acknowledge blockchain technology's ability to improve transparency and efficiency. The gap in cryptocurrency regulations in Nigeria emphasizes the need for collaboration between CBN, Islamic financial institutions, and Islamic scholars to create a comprehensive regulatory framework.

The divergent views of Islamic scholars have significantly impacted the acceptance of cryptocurrencies among Muslims in Northern Nigeria. Scholars considering cryptocurrencies have highlighted their financial inclusion and economic empowerment capacity, especially in areas with restricted access to traditional banking systems, such as Northern Nigeria. In contrast, experts who consider cryptocurrencies unacceptable highlight issues such as excessive speculation (*gharar*) and lack of intrinsic value. These divergent perspectives generate confusion and hinder their widespread acceptance among Muslims.

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41 Shakirah Adunola. 'Islamic perspective on cryptocurrency, by scholars,' *Guardian Newspapers*. https://guardian.ng/features/islamic-perspective-on-cryptocurrency-by-scholars/ (19 March 2021).

The concepts of *gharar* (extreme uncertainty) and *ribā* (usury) are fundamental in critiquing cryptocurrencies. *Gharar* denotes excessive uncertainty and ambiguity in a contract or transaction, a significant prohibition under *Sharīʿah* law. This occurs when the results or conditions of a financial agreement are ambiguous or uncertain. In cryptocurrency, *gharar* emerges from the volatility and speculative characteristics of cryptocurrencies, resulting in financial risks that are incompatible with *Sharīʿah* standards. Therefore, to achieve permissibility in the *Sharīʿah*, Muslim investors should avoid highly speculative cryptocurrencies and consider stablecoins or asset-backed cryptocurrencies as possibly acceptable alternatives.

On the other hand, *ribā* involves earning an interest in loans or financial transactions, which is forbidden in Islamic finance. *Ribā*-related concerns arise from interest-bearing transactions on cryptocurrency platforms. Scholars advocate *Sharīʿah*-compliant frameworks such as fee-based or profit-sharing models to be free from *ribā*.

CONCLUSION

This study investigated *Sharīʿah* scholars' opinions on the use of cryptocurrencies in Nigeria. The findings indicate that, while the public is not prohibited from using cryptocurrencies, financial institutions are not allowed to engage in cryptocurrency transactions. It remains unclear whether cryptocurrency is *ḥalāl* or *ḥarām*. While some religious scholars view cryptocurrencies as *ḥarām*, others do not. However, most scholars view cryptocurrency trading as unpermissible because it has no intrinsic value. Furthermore, no significant government authority has recognized it as a currency, and its value is solely based on market fluctuations. There is a concern that cryptocurrencies may be used for gambling, money laundering, and other prohibited activities. Therefore, cryptocurrencies are an uncertain issue for Nigerian *Sharīʿah* scholars. However, scholars who consider cryptocurrency permissible often emphasize its potential for financial inclusion and economic empowerment. They contend that specific cryptocurrencies, such as stablecoins or asset-backed digital currencies, could conform to *Sharīʿah* principles if free from excessive speculation (*gharar*) and interest-based transactions (*ribā*).

This study suggests establishing a national *Sharīʿah* advisory committee comprising prominent Islamic scholars, financial experts and technologists to evaluate cryptocurrencies against *Sharīʿah* principles. It also suggests collaboration with regulatory authorities such as the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC) to create a unified framework that addresses regulatory and *Sharīʻah* compliance concerns. In addition, CBN could use blockchain analysis tools to enhance transaction transparency and comply with anti-money laundering and counterterrorism financing regulations. Educational initiatives for the Muslim community could raise awareness of cryptocurrencies and facilitate dialogue among scholars, regulators, and industry stakeholders.

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