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Is Nigeria ready to become the Fintech hub of Africa

Kaan ZABTIYOGULLARI- January 2025

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Introduction

Decentralized Finance (DeFi) and Peer-to-Peer (P2P) finance are at the forefront of technological innovations disrupting traditional financial systems. These systems use blockchain technology and decentralized structures to provide financial services without the need for intermediaries, enabling transparency, accessibility, and efficiency (Auer et al., BIS, 2021). As financial technologies evolve, they present unprecedented opportunities to address global financial exclusion, especially in developing regions like Africa. This thesis focuses on the legal and regulatory aspects governing DeFi and P2P finance, their impact on startups, and their potential to enhance financial inclusion in unbanked regions, with Nigeria serving as the primary case study (Salami, 2021).

Despite rapid technological advancements, most parts of the African population remain excluded from conventional financial systems. Over 350 million people across the continent have no access to banking services, in other words, unbanked, this stresses the critical need for innovative solutions (World Bank, 2021). DeFi and P2P finance are uniquely positioned to fill this gap by offering decentralized, affordable, and borderless financial services (EFInA, 2021). Nigeria, as Africa's largest economy and a fintech leader, has emerged as a hub for blockchain adoption and financial innovation (Atlantic Council, 2021). The country's regulatory environment however, has been marked by ambiguity and inconsistency hence creating significant challenges for DeFi and P2P startups (Central Bank of Nigeria, 2021). This duality of opportunity and regulatory uncertainty makes Nigeria an ideal context for examining the implications of financial regulations on DeFi systems.

The regulatory landscape in Nigeria is shaped by existing legal frameworks such as the Central Bank of Nigeria's circulars, the Payment Service Providers Guidelines, and the Investment and Securities Act (CBN, 2021). These regulations are primarily designed for traditional financial institutions, leaving gaps in their applicability to decentralized financial systems (Orji, 2021). Furthermore, policies such as the prohibition of cryptocurrency transactions by financial institutions reflect a cautious approach by regulators, aimed at mitigating risks such as fraud, money laundering, and consumer protection failures (FATF, 2021). However, these measures often block the way for innovation and limit the potential of DeFi to drive financial inclusion and economic empowerment (Auer et al., 2021).

Startups operating within the DeFi and P2P sectors face significant barriers, including high compliance costs, limited access to funding, and uncertainty regarding the legal status of their operations (Salami, 2021). These challenges are compounded by cybersecurity risks and the technical complexity of the sector associated with decentralized technologies (Friesendorf, 2023). Nevertheless, several African success stories demonstrate the transformative potential of DeFi and P2P finance (McKinsey, 2022). These platforms have enabled small businesses to access funding, facilitated payments, and provided secure savings and lending options for unbanked populations. By examining these case studies, this thesis will explore how tailored regulatory frameworks can open the way for a similar progress in Nigeria.

A critical aspect of this research is the analysis of global regulatory models, such as the EU's Digital Finance Package and Malta's Virtual Financial Assets Act (OECD, 2021). These frameworks

provide valuable insights into balancing innovation with consumer protection and financial stability. By comparing Nigeria's regulatory approach with international best practices, the thesis aims to propose recommendations for fostering an enabling environment for DeFi and P2P finance.

In conclusion, this research seeks to highlight the intersection of innovation and regulation within the context of decentralized finance in Africa. By focusing on Nigeria, the thesis will explore the potential of DeFi and P2P finance to address financial exclusion while proposing strategies to create a balanced regulatory environment. This study underscores the importance of leveraging technology for inclusive economic growth.

Conceptual Framework

DeFi and P2P finance are redefining financial systems by enabling financial transactions without traditional intermediaries. Leveraging blockchain technology and smart contracts, these systems prioritize transparency, efficiency, and accessibility (Auer et al., 2021). For regions like Nigeria, where financial exclusion persists, these innovations provide unique opportunities to expand financial access. However, to realise this potential, the key is to establish regulatory frameworks tailored for Nigeria's specific socio-economic and technological conditions.

DeFi's principles- decentralization, disintermediation, and automation- align closely with the needs of Nigeria's financial landscape. Decentralization reduces reliance on traditional institutions, reducing costs and facilitating access to unbanked populations. Disintermediation allows direct transactions, minimizing dependency on conventional banking systems. Automation ensures transparency and reduces the risks of fraud or human error (Salami, 2021). These features are particularly relevant in Nigeria, where a significant portion of the population remains unbanked or underbanked (EFInA, 2021).

Nigeria's regulatory environment, however, presents challenges to the adoption of DeFi. Existing policies, such as the Central Bank of Nigeria's (CBN) ban on cryptocurrency transactions, reflect concerns over fraud, money laundering, and consumer protection (CBN, 2021). While these measures aim to mitigate risks, they also create barriers to innovation. Unlike global frameworks like the EU's Digital Finance Package, Nigeria requires flexible, adaptive regulations that consider its unique position as Africa's largest fintech market.

To address these challenges, Nigeria could implement regulatory sandboxes to test DeFi solutions under controlled conditions, enabling regulators to assess risks while fostering innovation (Atlantic Council, 2021). Additionally, policies must address infrastructural and educational gaps. Unlike regions with high digital literacy, Nigeria requires initiatives to enhance financial and digital literacy to ensure equitable participation in DeFi systems (McKinsey & Company, 2022). Furthermore, cybersecurity and fraud prevention must be central to any regulatory framework, given the varying levels of technological proficiency among users (Friesendorf, 2023).

Stakeholder engagement is crucial to crafting effective regulations. Collaboration with startups, developers, and consumer groups can ensure policies are practical and inclusive. By leveraging its position as a fintech leader, Nigeria has the opportunity to create a regulatory model that balances innovation with oversight, allowing DeFi's potential for financial inclusion and economic growth (Salami, 2021).

Legal and Regulatory Landscape in Nigeria

The regulatory framework governing DeFi and P2P finance in Nigeria is both dynamic and complex. As Africa's largest economy and a hub for fintech innovation, Nigeria is uniquely positioned to leverage digital financial systems for economic growth and financial inclusion. However, the existing legal and regulatory structures often fall behind the rapid evolution of decentralised technologies, presenting significant challenges for stakeholders in the DeFi and P2P ecosystems.

The Central Bank of Nigeria (CBN) plays a pivotal role in shaping the financial regulatory environment. The Central Bank of Nigeria (CBN) Act, 2007, serves as a foundational statute, granting the CBN authority to regulate the financial sector. Under **Section 2(d)**, the CBN is tasked with promoting a sound financial system, which extends to emerging financial technologies such as DeFi. This broad mandate allows the CBN to issue directives and guidelines affecting digital finance. Furthermore, Section 17 empowers the CBN to control the issuance of legal tender, indirectly influencing the regulation of cryptocurrencies and digital assets that may challenge the traditional financial system. Its policies and guidelines, such as the Payment Service Providers Guidelines and circulars on cryptocurrencies, aim to safeguard financial stability and protect consumers. For instance, the CBN's 2021 directive prohibiting financial institutions from facilitating cryptocurrency transactions reflects a cautious approach to mitigating risks such as

fraud, money laundering, and terrorist financing. While this policy underscores the regulator's concerns, it has also created uncertainty and operational challenges for DeFi and P2P startups (CBN, 2021).

In addition to the CBN, the Securities and Exchange Commission (SEC) regulates investment and securities-related activities. The SEC has attempted to bring clarity to the digital asset space by classifying cryptocurrencies as securities, subjecting them to existing laws under the Investment and Securities Act. However, the regulatory overlap between the SEC and CBN has often led to confusion, with no unified framework specifically addressing DeFi or P2P platforms. For instance, the CBN Circular on Cryptocurrency Transactions (2021) prohibited banks and financial institutions from facilitating cryptocurrency transactions, citing risks related to fraud, money laundering, and consumer protection. The circular instructed financial institutions to identify and close accounts linked to cryptocurrency trading although they were classified as securities. Nigeria's regulatory approach contrasts with global benchmarks such as the EU's Digital Finance Package and Malta's Virtual Financial Assets Act, which provide comprehensive frameworks for digital financial systems. Nigeria in the other hand plays a secure game, The Banks and Other Financial Institutions Act (BOFIA), 2020, plays a critical role in shaping the operational environment for fintech companies. Section 2(1) of BOFIA prohibits any entity from conducting banking services without a valid license from the CBN, thereby affecting DeFi platforms that offer lending, savings, and financial intermediation services. In addition, **Section 66** highlights the obligation of financial institutions to adopt anti-money laundering measures and combat the financing of terrorism. This provision underscores the CBN's concerns regarding the risks associated with unregulated DeFi platforms, particularly in the areas of fraud and illicit financial flows. Global models emphasize clarity, consumer protection, and fostering innovation. However, Nigeria's regulatory strategy must address its unique socio-economic realities, including widespread financial exclusion, a large informal economy, and varying levels of technological literacy.

One significant challenge is the lack of a sandbox approach for testing DeFi and P2P innovations. Regulatory sandboxes, as seen in jurisdictions like the UK, allow startups to operate under regulatory oversight in a controlled environment. Introducing such a framework in Nigeria could encourage innovation while enabling regulators to understand and address risks before full-scale implementation. This approach would also facilitate collaboration between regulators and innovators, ensuring that policies are informed by practical insights from the industry.

Another critical area for regulatory development is consumer protection. DeFi and P2P platforms operate in a largely unregulated digital space, exposing users to risks such as fraud, cybersecurity breaches, and loss of funds. Policies that mandate clear disclosure requirements, enforceable contracts, and robust data protection measures are essential to build trust and encourage wider adoption. The Nigerian Data Protection Regulation (NDPR) provides a foundation for safeguarding user data, but its application to decentralized systems remains unclear and requires further elaboration.

Moreover, addressing financial literacy and digital education is crucial. Unlike regions with high digital penetration, Nigeria faces significant disparities in access to technology and education. Tailored initiatives to improve financial and digital literacy are essential to ensure equitable participation in DeFi and P2P finance. These efforts could include partnerships between the government, private sector, and non-governmental organizations to deliver targeted training programs, especially in rural and underserved areas.

To create a cohesive regulatory framework, Nigeria's policymakers must prioritize dialogue with stakeholders across the DeFi ecosystem. Collaboration between startups, developers, consumer groups, and financial institutions will ensure that regulations are inclusive and pragmatic. This participatory approach will also help identify and address emerging risks while fostering a culture of innovation.

While Nigeria's current regulatory framework has made strides in addressing traditional financial systems, it requires significant adaptation to accommodate the unique challenges and opportunities presented by DeFi and P2P finance. By introducing regulatory sandboxes, enhancing consumer protection measures, and investing in digital education, Nigeria can position itself as a leader in decentralized finance innovation. Such a tailored approach will not only drive financial inclusion but also strengthen the country's role as a fintech powerhouse in Africa.

Impact on Startups and Financial Inclusion

The rise of DeFi and P2P finance in Nigeria holds immense potential for startups and financial inclusion. These innovations can revolutionize access to capital, reduce transaction costs, and provide affordable financial services to underserved populations. However, the impact of regulatory frameworks, operational challenges, and socio-economic conditions on these sectors must be critically examined to understand their implications.

For startups, DeFi and P2P finance provide an unprecedented opportunity to disrupt traditional financial systems. By leveraging blockchain technology and smart contracts, startups can offer innovative solutions such as decentralized lending, digital wallets, and cross-border payments without relying on intermediaries. These services are particularly relevant in Nigeria, where startups often struggle to access funding due to high interest rates and limited access to traditional financial institutions. DeFi platforms can bridge this gap, enabling startups to raise capital directly from investors through decentralized channels, thereby reducing dependency on conventional lenders (EFInA, 2021).

However, regulatory ambiguity in Nigeria presents significant barriers for startups. Policies such as the CBN cryptocurrency ban have created uncertainty for DeFi and P2P platforms, discouraging investment and stifling innovation. Startups operating in this space often face challenges in navigating compliance requirements, which can lead to operational inefficiencies and increased costs (CBN, 2021). Additionally, the lack of clear guidelines on the taxation and classification of digital assets further complicates their operations.

Despite these challenges, the potential of DeFi and P2P finance to enhance financial inclusion in Nigeria is substantial. With over 60% of the population unbanked or underbanked, decentralized systems can provide access to affordable and secure financial services, particularly in rural and underserved areas (World Bank, 2021). For instance, P2P lending platforms can enable small businesses and individuals to access credit without the stringent requirements of traditional banks. Similarly, DeFi platforms can facilitate remittances at lower costs, a critical service in a country where remittances constitute a significant portion of household income.

One notable success story is the adoption of mobile money systems in Nigeria, which demonstrates the population's willingness to embrace digital financial solutions. DeFi and P2P platforms can build on this foundation by integrating blockchain technology to enhance transparency and reduce fraud. However, widespread adoption requires addressing infrastructural challenges, such as limited internet penetration and unreliable electricity supply, which disproportionately affect rural communities (McKinsey & Company, 2022).

Consumer trust and protection are also critical for the growth of DeFi and P2P finance. In a largely unregulated digital space, users are vulnerable to risks such as fraud, cybersecurity breaches, and loss of funds due to system failures or hacking. Strengthening consumer protection measures, such

as mandating transparent terms of service, enforcing data privacy regulations, and establishing recourse mechanisms, is essential to build trust and encourage participation. The Nigerian Data Protection Regulation (NDPR) provides a foundational framework for safeguarding user data, but its application to decentralized systems remains limited (NDPR, 2019). NDPR, **Article 2.1(1)** mandates the protection of personal data processed by financial and digital platforms. This regulation applies directly to DeFi platforms handling user information, reinforcing the need for robust data protection and cybersecurity measures in decentralized financial systems.

To unlock the full potential of DeFi and P2P finance, Nigeria must adopt a tailored regulatory approach that balances innovation with oversight. Policies should include regulatory sandboxes to test new technologies, tax incentives for startups, and public-private partnerships to improve infrastructure. Moreover, investments in digital and financial literacy programs are crucial to ensure that all segments of the population can participate meaningfully in decentralized finance ecosystems (Atlantic Council, 2021).

While regulatory and operational challenges exist, the potential of DeFi and P2P finance to transform Nigeria's financial landscape is undeniable. By fostering a supportive ecosystem for startups and prioritizing inclusive policies, Nigeria can lead the way in leveraging decentralized finance to achieve economic growth and financial inclusion.

Challenges and Policy Recommendations

The adoption of DeFi and P2P finance in Nigeria is fraught with challenges that hinder their full potential. While these systems promise financial inclusion and economic empowerment, several obstacles must be addressed to create an enabling environment for their sustainable growth. These challenges include regulatory uncertainty, infrastructural deficiencies, limited digital literacy, cybersecurity threats, and consumer protection issues. Addressing these challenges requires tailored policy recommendations that align with Nigeria's unique socio-economic and technological landscape.

One of the most pressing issues is regulatory uncertainty. CBN prohibition on cryptocurrency transactions has created confusion for DeFi and P2P platforms, discouraging innovation and investment. Without clear regulatory guidelines, startups and investors face significant risks, which

hinder the sector's growth (CBN, 2021). A lack of clarity also affects taxation, licensing, and compliance, making it difficult for businesses to operate efficiently. To address this, Nigeria needs a cohesive and adaptable regulatory framework that encourages innovation while mitigating systemic risks. Introducing regulatory sandboxes would allow for controlled experimentation with DeFi applications, enabling policymakers to assess their impact and refine regulations accordingly (Atlantic Council, 2021). A possible amendment in BOFIA 2020 to create sandboxes for DeFi startups can be as follows:

Purpose and Scope:

- a. The Central Bank of Nigeria (CBN) shall establish and administer a regulatory sandbox to enable financial technology (fintech) and decentralized finance (DeFi) companies to develop and test innovative financial products and services under a controlled regulatory environment.
- b. The sandbox shall cover services, platforms, and technologies, including but not limited to digital lending, blockchain-based financial services, decentralized finance applications, and peer-to-peer lending platforms.

Eligibility for Participation:

- a. Any fintech, DeFi startup, or financial institution incorporated in Nigeria may apply to participate in the regulatory sandbox.
- b. Participants must demonstrate innovation in financial services and show potential to enhance financial inclusion, improve market efficiency, or expand access to finance for underserved populations.

Duration and Conditions:

- a. Participants in the sandbox shall operate under specific conditions for a period not exceeding 18 months, with the possibility of extension upon review.
- b. The CBN shall monitor activities within the sandbox and provide periodic assessments of participants' compliance with financial and consumer protection laws.
- c. Participation in the sandbox does not exempt entities from existing anti-money laundering (AML), data protection, and know-your-customer (KYC) regulations.

Exemptions and Temporary Relaxations:

- a. The CBN may, at its discretion, temporarily exempt sandbox participants from certain regulatory

requirements during the testing phase, provided that such exemptions do not compromise consumer protection, financial stability, or market integrity.

Transition to Full Licensing:

- a. Upon successful completion of the sandbox period, participants may apply for full licensing or registration under applicable financial laws.
- b. The CBN shall facilitate a streamlined licensing process for sandbox graduates, recognizing the outcomes of their testing phase.

Consumer Protection and Risk Mitigation:

- a. All participants must provide clear disclosures to consumers, including the experimental nature of the service, potential risks, and recourse mechanisms in the event of financial loss.
- b. The CBN shall establish a grievance redress mechanism specifically for users of services within the sandbox.

This fictional amendment needs a rationale to be explained. Nigeria's financial regulatory landscape, led by the CBN, is anchored in the BOFIA framework, which provides the legal foundation for banking and non-banking financial institutions. However, the existing provisions under BOFIA do not adequately account for the unique challenges posed by DeFi and emerging fintech services. Traditional financial regulations often impose rigid licensing requirements, making it difficult for startups to enter the market. By amending BOFIA to introduce a sandbox model, Nigeria can strike a balance between regulatory oversight and technological innovation, allowing startups to test their products in a controlled space while remaining compliant with essential financial regulations.

The rationale for this amendment is multifaceted, reflecting the need to address not only regulatory gaps but also infrastructural deficits that continue to limit financial inclusion across the country. Infrastructural barriers such as limited internet penetration, unreliable electricity supply, and poor digital infrastructure disproportionately affect rural areas, where financial inclusion efforts are most critical. A regulatory sandbox, by design, encourages fintech startups to develop solutions that cater to these underserved regions. By allowing fintech innovators to pilot blockchain-based services that function in low-connectivity environments or energy-efficient mobile financial solutions, the sandbox becomes a platform for infrastructural innovation alongside financial experimentation.

This approach mirrors global best practices. Countries like the United Kingdom, South Africa, and Singapore have implemented regulatory sandboxes with significant success, allowing financial

regulators to monitor emerging technologies while enabling startups to refine their models before full-scale deployment. The South African Reserve Bank's sandbox, for example, focuses on fostering innovation that addresses financial inclusion, a model Nigeria can adapt to meet its unique socio-economic landscape.

Moreover, introducing a sandbox aligns with Nigeria's ambition to become a leading fintech hub in Africa. The current regulatory approach, exemplified by the CBN's 2021 ban on cryptocurrency transactions, reflects legitimate concerns over fraud, money laundering, and consumer protection. However, blanket restrictions risk stifling innovation and driving DeFi projects offshore. A sandbox offers a compromise—providing the CBN with visibility into emerging financial technologies while enabling startups to operate within a structured, monitored environment.

Consumer protection and risk mitigation are integral to this amendment. By mandating clear disclosure requirements and grievance redress mechanisms, the sandbox ensures that financial innovations do not compromise user safety. Participants would be required to notify consumers of the experimental nature of sandbox products, fostering transparency and trust in emerging financial services.

Additionally, the amendment proposes a streamlined transition from sandbox participation to full licensing, ensuring that successful products are integrated into the financial ecosystem without undue regulatory burdens. This transition not only incentivizes innovation but also accelerates the path to market for fintech solutions that demonstrate tangible benefits for financial inclusion and market efficiency.

In addition to that, infrastructural challenges further impede the adoption of decentralized finance. Limited internet penetration, unreliable electricity supply, and inadequate technological infrastructure disproportionately affect rural areas, where financial inclusion efforts are most needed. Public-private partnerships could play a crucial role in expanding digital infrastructure, ensuring reliable internet access, and promoting energy solutions tailored for underserved regions (McKinsey & Company, 2022). Such initiatives would create a more inclusive environment for DeFi and P2P platforms to thrive.

Another critical barrier is the lack of digital and financial literacy among large segments of Nigeria's population. While the youth and urban populations have embraced digital technologies, rural communities and older demographics often lack the skills to navigate decentralized platforms. Targeted education programs, including workshops and online courses, are essential to equip individuals with the knowledge required to participate in DeFi and P2P ecosystems. Collaborations between government agencies, non-profits, and private sector entities can ensure these programs reach underserved areas effectively (EFInA, 2021).

Cybersecurity threats and fraud pose significant risks to users and platforms in the largely unregulated digital finance space. DeFi platforms, while decentralized, are not immune to hacking, phishing, and other cybercrimes. Strengthening cybersecurity standards and requiring platforms to adopt robust security measures, such as multi-factor authentication and end-to-end encryption, is essential. Additionally, Nigeria's Data Protection Regulation (NDPR) should be expanded to address the specific needs of decentralized systems, ensuring that user data is adequately safeguarded (NDPR, 2019).

Consumer protection is another critical area that requires immediate attention. Transparent terms of service, dispute resolution mechanisms, and clear recourse processes must be mandated for all platforms operating in the DeFi and P2P spaces. These measures will build trust among users and encourage wider adoption. Regulatory bodies should work closely with consumer advocacy groups to ensure policies are not only protective but also user-centric.

Lastly, fostering collaboration between stakeholders is vital for the success of decentralized finance in Nigeria. Policymakers, startups, developers, financial institutions, and consumer groups must engage in ongoing dialogue to ensure regulations are inclusive and practical. A multi-stakeholder approach will help identify emerging risks, promote innovation, and create a balanced ecosystem that benefits all participants (Salami, 2021).

In conclusion, while challenges such as regulatory uncertainty, infrastructural deficiencies, and cybersecurity risks exist, they are not insurmountable. With targeted policies that prioritize innovation, education, and infrastructure, Nigeria can create a thriving environment for DeFi and P2P finance. By addressing these challenges strategically, the country can unlock the potential of decentralized finance to drive economic growth and financial inclusion.

Case Studies: Real-World Impact of DeFi and P2P Finance in Nigeria and Africa

The impact of DeFi and P2P finance in Nigeria can best be illustrated through case studies that highlight their practical applications in promoting financial inclusion and empowering startups. By examining successful projects and initiatives across Nigeria and Africa, we can better understand how these innovations operate within existing regulatory frameworks and where adjustments are necessary to foster growth.

Case Study 1: Cowrywise – Digital Wealth Management and Savings

Cowrywise, a Nigerian fintech startup, leverages blockchain technology to provide accessible savings and investment solutions. Through its platform, users can save and invest in various financial instruments with minimal barriers to entry. Cowrywise employs smart contracts to ensure transparency and security, enabling users to automate their savings. This model reflects the core principles of DeFi, where intermediary roles traditionally held by banks are replaced by decentralized systems. Cowrywise's success illustrates how DeFi platforms can expand financial access to underserved populations while promoting a culture of saving and investment (McKinsey & Company, 2022).

Case Study 2: Kuda Bank – P2P Banking and Mobile-First Solutions

Kuda Bank has revolutionized the Nigerian banking sector by providing a mobile-first, branchless banking experience. Kuda's platform integrates P2P payment services, allowing users to send and receive money without traditional bank infrastructure. This fintech solution aligns with DeFi principles by reducing transaction costs and expanding access to financial services. Kuda's rapid growth highlights the demand for alternative banking solutions in Nigeria, particularly among the youth and digitally literate population. However, regulatory uncertainty regarding P2P transactions underscores the need for clearer guidelines to protect users and foster innovation (Atlantic Council, 2021).

Case Study 3: M-Pesa – A Model from Kenya

While not strictly DeFi, Kenya's M-Pesa mobile money platform serves as a powerful example of how decentralized systems can transform financial landscapes. M-Pesa allows users to conduct transactions, pay bills, and access credit through mobile phones, bypassing traditional banking systems. This model has significantly boosted financial inclusion, with over 90% of Kenyan households utilizing M-Pesa. Nigeria can draw valuable lessons from Kenya's success by adapting similar regulatory approaches that support fintech growth while safeguarding user interests (World Bank, 2021).

Lessons and Implications for Nigeria

These case studies reveal several key takeaways: such as accessibility and affordability like platforms like Cowrywise and Kuda demonstrate how DeFi and P2P systems reduce financial barriers, offering low-cost solutions to the unbanked. This is critical in Nigeria, where high banking fees deter many from using traditional financial services. And consumer trust and security also matters. Building trust through transparency and secure transactions, as seen with Cowrywise, is essential for driving adoption is crucial. Smart contracts and clear regulatory guidelines can enhance security and foster user confidence. However doing so, Nigeria must prioritise regulatory clarity. Kenya's regulatory flexibility with M-Pesa provides a roadmap for Nigeria. By crafting adaptive policies that allow for innovation while monitoring risks, Nigeria can create an enabling environment for DeFi platforms.

Comparative Analysis: Nigeria vs. Other Emerging Markets in DeFi Regulation

A comparative analysis of Nigeria's approach to regulating DeFi and P2P finance against other emerging markets provides valuable insights into developing a framework that balances innovation with risk mitigation. While Nigeria grapples with regulatory uncertainty, countries like Kenya, South Africa, and Ghana have adopted more progressive policies that encourage fintech growth while safeguarding financial stability.

Kenya

Kenya's regulatory environment has played a pivotal role in the success of its fintech sector, particularly with mobile money platforms like M-Pesa. The Central Bank of Kenya (CBK) adopted a wait-and-see approach, allowing M-Pesa to scale without immediate regulatory constraints. Over time, Kenya established a dedicated regulatory framework that accommodates mobile money services, fostering financial inclusion for millions of unbanked citizens (World Bank, 2021). This flexible model demonstrates how regulatory leniency can stimulate innovation while enabling regulators to craft policies that evolve alongside technological advancements.

South Africa

South Africa's regulatory landscape for digital finance reflects a balance between innovation and oversight. The South African Reserve Bank (SARB) has implemented regulatory sandboxes, allowing fintech startups to test their products in a controlled environment without facing immediate legal repercussions. This approach encourages innovation while providing regulators

with real-time data to shape future policies (McKinsey & Company, 2022). South Africa's Financial Sector Conduct Authority (FSCA) also introduced guidelines for cryptocurrency and digital asset providers, ensuring that DeFi platforms operate transparently and securely.

Ghana

Ghana has adopted a forward-looking approach by introducing fintech-specific licenses under the Payment Systems and Services Act, which provides a structured pathway for DeFi platforms to operate legally. This licensing regime has attracted significant investment in Ghana's fintech ecosystem, contributing to the growth of P2P platforms and digital wallets. By offering regulatory clarity, Ghana fosters innovation while maintaining oversight to mitigate risks like fraud and cybercrime (Atlantic Council, 2021).

In contrast to these models, Nigeria's regulatory stance has been marked by caution, as exemplified by the CBN ban on cryptocurrency transactions in 2021. While intended to protect consumers and mitigate money laundering, this policy has stifled innovation and driven DeFi activities underground (CBN, 2021). Unlike Kenya's flexible approach or South Africa's sandbox initiatives, Nigeria lacks a structured pathway for startups to engage with regulators, resulting in fragmented oversight.

However, Nigeria's fintech sector remains one of the most vibrant in Africa, driven by a tech-savvy youth population and increasing demand for alternative financial solutions. The absence of clear guidelines creates operational challenges for DeFi startups, forcing them to navigate ambiguous regulatory waters. As a sum of the ideas presented, key concepts that Nigeria must adapt and implement are regulatory sandboxes, tiered licensing and phased implementation. Adopting South Africa's sandbox model would enable Nigeria to foster innovation without compromising regulatory oversight. Startups could test DeFi products under controlled conditions, allowing regulators to gather insights and develop adaptive policies. Also, Ghana's licensing framework provides a template for Nigeria to create a tiered system that accommodates startups at different stages of development, reducing entry barriers while ensuring compliance. In addition to that, Kenya's gradual regulatory evolution highlights the benefits of phased implementation. Nigeria could adopt a similar approach, starting with lenient regulations to encourage innovation, followed by comprehensive guidelines as the sector matures. While Nigeria's regulatory framework for DeFi and P2P finance remains nascent, lessons from Kenya, South Africa, and Ghana illustrate the importance of fostering innovation through adaptive policies. By embracing regulatory sandboxes,

tiered licensing, and phased implementation, Nigeria can position itself as a leader in Africa's digital finance landscape, driving financial inclusion and economic growth.

Conclusion

The exploration of DeFi and P2P finance in Nigeria reveals immense potential to reshape the financial landscape, drive economic growth, and address long-standing issues of financial exclusion. DeFi's decentralized, transparent, and cost-effective systems provide viable alternatives to traditional banking models, particularly in regions with underdeveloped financial infrastructure. However, the realization of this potential hinges on Nigeria's ability to craft regulatory frameworks that balance innovation with consumer protection and systemic stability.

Throughout this analysis, the challenges faced by Nigeria's DeFi and P2P sectors have been highlighted, including regulatory uncertainty, infrastructural deficits, cybersecurity risks, and limited financial literacy. CBN prohibition on cryptocurrency transactions exemplifies a cautious regulatory stance that, while aimed at protecting consumers, inadvertently stifles innovation and forces startups to operate in ambiguous legal environments. This regulatory gap leaves Nigeria trailing behind peers like Kenya, South Africa, and Ghana, whose progressive policies have spurred fintech growth and broadened financial access (CBN, 2021; Atlantic Council, 2021).

Key case studies, such as Cowrywise and Kuda Bank, demonstrate the potential of Nigerian startups to harness DeFi principles to provide innovative financial solutions. These success stories illustrate the demand for decentralized financial services and highlight the importance of regulatory environments that foster, rather than inhibit, innovation. Comparisons with Kenya's phased regulatory model, South Africa's sandbox initiatives, and Ghana's tiered licensing approach offer valuable lessons on how Nigeria can craft adaptive, forward-looking policies to stimulate growth in the sector (World Bank, 2021; McKinsey & Company, 2022).

For Nigeria to emerge as a leader in decentralized finance, several strategic recommendations must be adopted: the introduction of regulatory sandboxes to facilitate controlled experimentation, the implementation of tiered licensing to accommodate startups at various stages, and a focus on enhancing digital and financial literacy. Additionally, strengthening cybersecurity frameworks and consumer protection measures will foster trust and encourage greater adoption of DeFi platforms.

In conclusion, DeFi and P2P finance represent transformative forces that can unlock new pathways for economic empowerment in Nigeria. By embracing adaptive regulations and fostering collaboration between regulators, startups, and financial institutions, Nigeria can position itself at the forefront of Africa's digital finance revolution, driving inclusive growth and enhancing financial resilience across the country.

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