

CASHLESS POLICY AND NAIRA REDESIGN OF THE CENTRAL BANK OF NIGERIA (CBN): A REVIEW

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Abstract

Compared to other nations of the world particularly developed countries, the Nigerian economy is dominated by the use of cash in carrying out transactions. This necessitated the formulation and implementation of cashless policy in 2012 and naira redesign in 2023 to conform to global best practices in currency management since the introduction of cashless systems where transactions are carried out without the use of cash is gaining global attention. This study was conducted to review some of the pros and cons of the cashless policy and naira redesign by the Central Bank of Nigeria. The empirical information gathered are from research works by some analysts across the country, press briefings by the Apex Bank, Government Ministries, Agencies and Departments (MDAs), Presidency, newspaper reviews, etc. Findings from the study showed that the policy was well conceived considering the various opportunities that come with it. Notably, the fact that it reduced the number of unbanked population to an extent, increased employment generation through the influx of mobile banking operators and Point of Sale (POS) agents. However, it was generally opined that the policy implementation timeline was ill-advised. Due to the attendant consequences of the policy which made life somewhat unbearable for most citizens during the period, it was recommended that there be synergy between the three tiers of government (Executive, Legislature and Judiciary) while prioritizing stakeholders' engagement and public awareness.

Keywords: *Cashless Policy, Naira Redesign, Nigeria.*

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1. Introduction

Cashless policy is a macroeconomic policy targeted at reducing the total amount of physical currency in an economy thereby creating room for electronic-based payments (Ejiobih et al., 2019). It is a strategy that is usually deployed by the Apex Banks of many nations to reduce the use of currency for carrying out transactions. To Meseigha and Ogbodo, (2013), it is a system that makes payment for goods and services possible and offered through the Internet or any type of electronic fund transfer system. These opinions stress the fact that a cashless economy/policy is intended to ease transaction processes without the hassle of getting to hold money physically. However, this does not necessarily mean that physical cash would completely be out of reach. In this vein, Akhalume and Ohiokha, (2012) are of the view that contrary to what is suggestive of the term, the cashless economy does not refer to an outright absence of cash transactions in the economy in question, but when the amount of cash-related transactions are reduced to a very large extent as possible. In such economies, transactions of any nature are predominantly carried out through electronic means: Automated Teller Machines (ATM) transfers, online banking and mobile applications, and other means like the use of cheques, direct bank transfers, mobile money transfer operations etc.

In more advanced nations, the practice of cashless system is not new. The policy has been in existence for more than two (2) decades and it's still gaining attention in both less developed and in emerging economies where there is strong advocacy for reduction in the use of cash in carrying out transactions. This is considered very imperative giving the implication of cost of printing notes on one hand, and on the other, the risks of various kinds and associated corruption. In countries where cashless policies are in place, the key drivers who serve as the regulators and implementers of the policy are usually the Central Banks, Deposit Money Banks (DMBs), Micro Finance Banks (MFBs) etc. These are establishments that are charged with the responsibilities of carrying out regulatory activities including monitoring and evaluation of the policy on behalf of the government.

In cashless economies, there are macroeconomic tools/strategies that are deployed from time to time, to implement the policies. Such tools by the Apex Banks could take the form of monetary policy, or fiscal policies. Monetary policy according to Jhingan, M.L (2016) refers to credit control measures adopted by the central bank of a country. It can also be referred to as the specific actions taken by the central bank to regulate the value, supply and cost of money in the economy with a view to achieving government's macroeconomic objectives (Central

Bank of Nigeria {CBN}, 2006). Fiscal policy on the other hand, is the use of government expenditure through taxation and other means to regulate inflow and outflow of monies in an economy.

Above tools are generally carried out through any or more of the following depending on the policy direction of the government: Reserve Requirement (requires DMBs to hold a fraction of their deposit liabilities also known as reserves as vault cash and or deposits with it), Fractional Reserve (limits the amount of loans banks can make to the domestic economy and thus limit the supply of money), Open Market Operations usually otherwise known as OMO is another tool that is used. OMO is the buying and selling of securities on behalf of the Fiscal Authorities by the central bank. The Central Bank can also regulate monetary flows through the provision of credit facilities to DMBs, and Minimum Rediscount Rate (MRR) thus affecting the level of reserves and the monetary base. (CBN, 2006).

Sometimes, the Apex Banks do use Direct Credit Control, Exchange rates, Prudential guidelines, contractionary or expansionary fiscal policies etc. which all form part of the tools used by the Apex Banks in regulating monetary activities in the country. In Nigeria today, OMO is the major instrument of monetary policy at the CBN. Other supporting instruments are discount window operations, moral suasion, forex sales and the standing facility introduced in December 2006 (CBN, 2006).

Considering the premises and objectives upon which central banks design the cashless policy, it is apparent why some countries use withdrawal limits, and others use currency redesign while many others combine these strategies. Whichever way, cashless policy is not possible without policy tools or drivers and the essence is usually to ensure that the policy thrust which is the reduction of cash-based transactions to the barest minimum is achieved to a very large extent. It is worthy of note that in pursuant to the achievement of the policy objectives of cashless policy, contractionary fiscal and monetary policies are usually the main strategies.

Overview of the Two-In-One Policy: Naira Redesign and Cashless Policy By CBN

From inception, back to precolonial days, Nigeria has used different currencies as a means of exchange. So, the currency has gone through series of phases in terms of redesign just as its done in other climes. After colonial leadership, the naira has been changed quite a number of times as a result of many reasons some of which are strategic, political etc. for instance, as opined by (Ige, 2023), the first time that the naira would be redesigned was when Nigeria

became a republic in 1962 hence, the notes had to change to reflect that transition. In 1968 the decision to change the naira yet again surfaced, but the decision was no longer on the need to reflect that Nigeria has become a Federal Republic, but as a result of the abuse of the currency during the Civil war. It was an opportunity to use it as a strategic tool to fight the opposing civilians during the war. In 1973, there was another change in the currency which was launched by Shehu Shagari and this time around, it was about the decimalization of the country's monetary system thereby introducing naira/kobo, which was then used to replace the Nigerian pound having used British Pound Sterling in the past.

According to CBN, (2023)b. in telling the history of Nigerian currency, it was observed that on 11th February 1977, new bank notes with the value of twenty naira was issued being the highest denomination the country ever had from the phases of the currencies. Again, it was the first currency that had the portrait of Late General Murtala Muhammed – former Nigerian head of state who was assassinated on 13th February, 1976. Hence, the currency was issued on the 1st anniversary of his assassination. Subsequently, one naira, five naira, and ten naira notes were issued on 2nd July, 1979.

In 1984, during the Buhari-Idiagbon led administration made a move to redesign the naira notes (the colours) to address issues of corruption and currency trafficking prevalent in the country. Another major change took place again in 2007 when twenty-naira note was printed in polymer substrate, while the fifty, ten and five naira notes including the coins were also redesigned. In 2009, the newly redesigned currencies (fifty, ten and five naira) were converted to polymer substrate just like the twenty naira. The CBN although wasn't necessarily as a result of political or economic strategy, also changed the design of both hundred naira and fifty naira note in 2010 and 2014 to reflect the commemoration of the country's 100 years of existence. All these activities were carried out by the CBN as the Apex Bank in Nigeria with the mandate (CBN Act of 2007).

It is pursuant to this mandate that the CBN made a move in October 2022 to redesign the currency of Nigeria. The thrust of the policy is in two poles: The desire to achieve full liquidity of the money supply (M1) in circulation, and on the need to check vote buying behavior which is considered very inherent in the political space of Nigeria. According to CBN Update, (2022), the Apex Bank also adduced that the currency redesign would help to effectively manage and mop up the currency in circulation, curb racketeering and counterfeiting, as well as hamper ransom payment to terrorists and kidnappers.

Going by the above premise, the President of Nigeria – Muhammadu Buhari, GCFR through the CBN on November 23rd, 2022 announced the birth of the policy, reeled out the aim, and unveiled it while encouraging the populace to embrace the policy wholeheartedly for the common good of all. Going by the close timeliness of the implementation phase, many Nigerians already predicated a failure of the policy ahead considering the fact the it was also an electioneering period. However, the CBN management were very confident that the policy was going to be implemented with ease and there was a need for all Nigerians to be confident too.

To convince Nigerians, the CBN governor noted that the country faced several challenges that had continued to grow in scale and sophistication, saying that the unintended consequences threatened the integrity of both the CBN and the country (CBN update, 2022). As further disclosed, the Governor opined that as at June, 2022, the amount of money hoarded by the public totaled N2.72 trillion out of which the N3.26 trillion currencies in circulation outside the vaults of commercial banks across the country. This when viewed statistically, shows that 84.71% of the money in circulation were not under the custody of the commercial banks in the country as they only have to about 15.29% in the CBN and the vaults of the commercial banks (CBN Update, 2022).

Considering the numerous questions and rationale of the policy in relation to the timelines and electioneering period which the citizens greeted with political games - a purported attempt to arm-twist selected citizens in the country particular politicians, many citizens were not convinced that the policy was going to be hitch-free. Whichever way, the CBN in an attempt to dissuade the masses of unnecessary suspicions, published a Frequently Asked Question (FAQ) which was published on its website for which some of the issues raised were responded to accordingly. On the publication, the Apex Bank explained that “data have shown a large volume of banknote hoarding by the public, which has led to a shortage of clean and fit banknotes. Increase in the rate of counterfeiting in the country and the long span of re-designation of naira notes, which according to best practice, should be undertaken every 5 to 8 years.” (CBN-FAQ, 2022). Going by this assertion, it then means that Nigeria hasn’t carried out this function in the past 20 years.

CBN did assured the citizens that enough currencies would be printed, and the old and new currencies (N200, N500 and N1000) would be used concurrently until the deadline of 31st January 2023 before the old currencies would cease to be used as legal tender.

With these assurances, and the launching of the policy by President Muhammadu Buhari, GCFR on 23rd November 2023, paved way for the new currency as it was declared legal tender to be used as a means of exchange for goods and services like every other currency in the country with the guarantee that the initiative will help “strengthen the economy, reduce expenditure on cash management, promote financial inclusion, and enhance the CB’s visibility of money supply.” (CBN-FAQ, 2022). After the launch, the new notes then went into circulation on 15th December, 2022. The policy appeared very apt and promising but many citizens though some predicted, never knew that within the short run, naira would be used to purchase naira.

For the cashless policy, the journey started in Nigeria as far back as 2011 during the tenure of the then CBN Governor, Sanusi Lamido Sanusi. As reported by Ovat, (2012), the cashless policy in Nigeria took effect from April 1, 2012 in Lagos as a pilot project which pegs daily cash transactions over the counter for individuals and corporate bodies at one hundred and fifty thousand naira (N150,000) and one million naira (N1,000,000) respectively. Nonetheless, the limits were later upwardly reviewed to five hundred thousand naira (N500,000) and three million (N3,000,000) for individuals and corporate organizations respectively. Otherwise, an amount over these set limits attracts a charge. This was meant to discourage the withdrawals of large sums. Ever since, the policy has been in operation and has been implemented to a very large extent with pockets of adjustments and amendments here and there.

2. Objectives of the Policy and the New Withdrawal Limit

According to the press remarks issued by the CBN Governor on October 26, 2022 which was called to brief the general public on the need for the Apex Bank to address persisting concerns it was facing as regards management of the currency in circulation, the governor underscores the currency management function of the Apex Bank as stated in Section 2 (b) of the CBN Act, 2007. Hence, the policy is designed to achieve the following objectives amongst others:

- i. To deepen the drive to entrench cashless economy as it will be complemented by increases in minting of eNaira.
- ii. To address the hoarding of naira banknotes outside the banking system
- iii. To check counterfeiting of naira
- iv. To check the prevailing level of insecurity in the country particularly activities related to terrorism.

- v. To check vote buying activities (CBN, 2022)

Sequel to the above set objectives, the CBN announced full implementation of the cashless policy which the Apex Bank pegged to start from 9th January, 2023. In comparison of this new cashless policy to that of the previous one in 2012, it could be observed that the recent policy became stricter. This was with the assumption by the CBN, that the technology infrastructure that were not in place or deployed in the banking sector that led to the suspension of the policy in 2015, would have been deployed. Hence, the need for full implementation to achieve 100% cashless economy. This view is in line with (Ige 2023) who observed that the CBN placed a stricter cash withdrawal limit compared to the initial limits placed when the policy was introduced in 2012.

So, the new directive based on the stated dates, mandated individual bank customers in a day, to withdraw cash not more than N100,000 through the ATMs, over the counter, POS etc. The measure also directed that to withdraw the full N100,000 in a day, POS and ATMS would only dispense N20,000 in a day except over the counter. This withdrawal limits were also extended to corporate organizations whose withdrawal limits were set to N1,000,000 per day. Irrespective of these limits set, the Apex Bank is aware that there could be a compelling need for an individual or corporate organizations to want to withdraw above the identified limits. Hence, CBN placed a redressed mechanism in place which was contained in a letter written by Haruna Mustapha – Director of Banking Supervision on the 21st December, 2022 to the DMBs, other Financial Institutions and Mobile Money Operators in the country. The letter read that “in compelling circumstances where cash withdrawal above the limits is required for legitimate purposes, such requests will be subject to a processing fee of 3% and 5% for individuals and corporate organizations, respectively.”

3. Review of the New Naira Redesign Policy

The Naira redesign policy only featured the highest denominations in the country (N1000, N500, and N200) and were launched on 15th December, 2022 to become a legal tender alongside the old notes of same denomination until January 31st, 2023. (Aliemen, 2022). According to (CBN, 2022), the newly redesigned currency retained all its features, except the fact that they have been rebranded to new colors and other new security features which have all been added to make it difficult to counterfeit. Notably, the N200 note now has a red colour,

while the N500 and N1000 have green and blue colours respectively and were printed by the Nigerian Security Printing and Minting Company.

During the launch, CBN gave directives to DMBs in the country to start receiving deposit by customers, while suspending deposit charges to ensure smooth deposit of the old notes. In order to accommodate both withdrawals (new notes) and deposits of old notes based on the directives, DMBs were encouraged to open operations on Saturdays while emphasizing the need for customers to be aware that the old notes still remain as legal tender.

4. Benefits of the New Naira Redesign Policy

Based on popular opinion, there is no doubt that the new currency design was with good intentions and were well spelt out although there has been a pocket of some contending views about the policy here and there. However, this segment tends to analyze the benefits of the policy during and after the implementation phase.

As designed, the policy according to CBN Governor, was to make the macroeconomic policy of the country very efficient such that would lead to a drastic reduction in the rate of inflation in Nigeria, and also, stability of the exchange rate being the major macroeconomic issues faced by the country at the moment. Again, it was anticipated that the policy would increase financial inclusion in the country by reducing the number of the unbanked population particularly those at the rural areas.

No doubt; the policy certainly addressed the issue of financial inclusion and was achieved to a very large extent. This was made possible as a result of the compelling need to use bank accounts during the implementation phase. As observed, many mobile banking Agents, POS Operators sprang up across the country, helping the unbanked population have access to banking services including account opening.

With the increase in the number of mobile banking operators, the policy has increased the number of employment in the country across urban and rural areas. In support of this view, (Emejo, 2023) opined that if anything, the number of employment opportunities already created by the policy further demonstrates that rather than impoverishing Nigerians, the cashless policy has the potential to boost wealth creation across the country.

Again, since the beginning of the implementation of the new currency redesign, activities of kidnappers particularly for ransom reduced to an extent owing to the fact that there were no longer huge cash sums available in circulation to carry out ransom payment. This complements the promise made by the CBN governor during a press briefing that the policy would support the efforts of the security agencies in Nigeria in combating banditry and ransom-taking in the country.

Based on the objectives of the policy, another major benefit is the need to ensure that the money in circulation is actually put into economic use. According to CBN, (2023), as of October 2022, currency in circulation in Nigeria rose to N3.23 trillion out of which only N500 billion was within the banking system and N2.7 trillion was out of the banking system thereby making it difficult for keeping the volume of money in circulation under the custody, regulations, supervision and control of the CBN.

In reeling out the gains of the policy, the Apex Bank through the Governor admitted that “since the commencement of the programme, CBN had collected about N2.1 trillion, leaving the country with about N900 billion to be collected. Apparently, the currency redesign policy has in many ways than one, helped in mopping currencies outside the banking system.

(Peter, 2023) opined that redesigning of currency has the capability of increasing a currency’s security as the policy in many ways, help to check the issues of counterfeiting. Additionally, it helps to boost the economy, reduce cash management costs, promote financial inclusion, and improve the control and monitoring of the money supply in the country.

Generally speaking, many researchers and analysts have also opined that redesigning of a nation’s currency can decrease inflationary pressure. Hence, it can be concluded that the policy would have had some level of impact on our inflation as the policy usually reduces money in circulation. and, as a result, slow the long-term course of inflation by reducing the amount of currency held outside of banks.

One of the objectives of the policy was to ensure that vote buying which is usually a characteristic of election in Nigeria, is checked. Hence, the policy implementation was moved very close to the general election that was held in Nigeria in March, 2023. From the outcome of the election which clearly shows that there were hardly cases of vote buying across the nation, it can be concluded that the policy achieved that particular stated objective to a large

extent. In support, (Peter, 2023) argued that redesigning the naira, which was implemented close to the 2023 general elections, may have lessened the inclination to buy votes.

From economic point of view, many Analysts have also written in support of the policy considering the benefits in the areas of long run increase in aggregate demand and economic growth. For instance, (Peter, 2023) is of the view that the naira redesign and cashless policy will strengthen financial institutions and improve banks' performance due to a sharp increase in the use of electronic banking channels, and the fact that more agents would be able to access the government's tax collection system.

Considering the fact that cash based economy usually comes with huge cost spanning from cost of printing and movement of cash, it can be concluded that the policy would have in many ways, reduced government expenditure on currency printing and management. As noted by (CBN, 2011), the cost of cash to Nigeria's financial system is high and increasing. It was estimated to reach N192 billion in 2012.

Above views are some of the positive achievement recorded during the implementation phase of the policy. There are however, other views that tend to see the policy in a different light.

5. Challenges Encountered During Implementation

In as much as the policy was conceived with good intentions, the short period of implementation which was barely three months, was ill-conceived as most citizens were short of the new cash to spend. Whereas the CBN claimed to have printed enough to meet the needs of citizens, it wasn't evident as the cash was not available to spend. Some citizens accused the CBN for not printing enough, while other blamed the Commercial Banks for hoarding the money and giving them out to politicians and preferred customers.

At some point, the former FCT Minister and the current Governor of Kaduna State – Mallam Nasir El-Rufai accused the apex bank for compelling the citizens to deposit about two trillion naira which the Apex Bank withdrew from circulation, only to have them replaced with just four billion naira. This was considered very inadequate hence the reason it was difficult for citizens to access cash.

During the implementation phase, there were several cases where the new currency was exchanged at high prices. For instance, five thousand naira (N5,000) was bought for six

thousand naira (6,000) in some locations in Nigeria. In some other places, it was way higher. These cash were said to have been those hoarded by commercial banks and secretly sold to POS Agents who in turn resell to citizens. Based on some reports by the Economic and Financial Crimes Commission (EFCC), as reeled out by the spokesperson (Wilson Uwujaren) in an interview on television, it was revealed that the Commission based on intelligence, arrested a syndicate group in Deidei Abuja for selling the currency. The spokesperson noted that the operation followed intelligence on activities of unscrupulous currency speculators who were exploiting citizens by offering them the new naira notes for foreign currencies at below the going rate (Sanusi, 2023).

Considering the high number of the unbanked population particularly amongst entrepreneurs and retailers, it was evident that sales declined to a very large extent. Many retailers particularly those selling agricultural commodities that are perishable in nature complained about slow sales as a result of low availability of cash in circulation and the fact that they didn't have online banking platforms to receive monies from customers.

The views of (Ise, 2023) also suggested that during the implementation, Nigerians suffered more hardship as they could not access the new notes while their old bank notes were withdrawn from them and that indeed, some Nigerians slumped and died as they queued in bank for cash, some had themselves unclothed in the banking hall to protest their inability to access the cash they already deposited at the banks but which on demand, could not be cashed; some lost their loved ones in hospitals over inability to access cash to pay for services etc.

To ameliorate the challenges of the unbanked particularly in depositing old currency to swap for the new notes, and the outcry that trailed the non-availability of the new banknotes coupled with the lack of public awareness across the country (Ameh, 2023) the CBN had assured Nigerians that they were in partnership with Agents from Commercial banks. However, the launch of the cash-swap programme gained little or no success. As opined by (Bella & Oguntuase, 2023) reports from the rural and underserved areas indicated that the cash swap programme didn't achieve the expected results within the timeline as there were virtually no similar cash swap arrangements in the urban centers to facilitate the exchange of the old notes with the new banknotes. According to this view, some of the bank customers who managed to deposit their old notes within the specified timeline didn't stop lamentation over their failure to gain access to the newly printed currency from the bank or via their platforms.

Another key challenge experienced was the series of failed online transactions. All through the period, many customers were faced with this challenge as a result of the upsurge in the use of online banking platforms as against cash transactions. It was again very difficult to have the issues resolve within a short period of time as banks were over crowded. Hence, many transactions were pending for a long time without the banks being able to resolve these issues. Respite only came when the Supreme court of Nigeria ruled that the old notes be brought back to circulation till 31st December, 2023 following the case instituted by three seating Governors (Kaduna, Zamfara and Kogi) against the Federal Government of Nigeria (FGN). Hence, on the 8th of February, 2023, the Supreme Court granted an interim injunction restraining the FGN and CBN from implementing the deadline of February 10, 2023.

There are several other evidences to show that the policy timeline was grossly inadequate. This is evident from the series of events that transpired during the period. For instance, the Apex Bank had to extend the deadline dates from 31st January as previously directed, to 10th February, 2023 which wasn't still sufficient enough to have the money circulated across the country. More so, President Muhammadu Buhari, on February 16, 2023 during a national broadcast, extended the legal tender status of the old two hundred naira (N200) from the initial deadline of 10th February, to 10th April, 2023, hence directed the CBN to recirculate the old notes alongside the other new notes. In the view of the president, it would cause no harm since N200 was the smallest denominations amongst the three highest affected currencies in the country. However, this last-minute change only showed that the period of implementation was not well conceived.

6. Discussion

Experiences from many Analysts all through the period of implementation didn't suggest that the policy though with good intentions was well implemented. Many Nigerians including the rich experienced untold hardship in the country within the period and from different opinions, this hardship was avoidable. The struggle for cash continued until the Supreme Court of Nigeria brought respite and ruled that the CBN reverses the policy to make sure that the old currencies are brought back into circulation and runs with the new notes until the Apex Banks puts their arts together. Apparently, if the three governors didn't intervene by running to the apex bank for support, the struggle would have continued hence, defeating the aim of the policy no matter how well conceived.

With the cash hoarding and sale of naira notes experienced during the period, it suggests that Nigerians do take undue advantages of events to further exacerbate a certain situation. In other saner climes, such policies are carried out with the belief that it would benefit all citizens. But in the case of Nigeria, it was rather an opportunity to enrich oneself.

There is no doubt that policy summersault still remains another major challenge we face as a nation. This was very evident during the implementation face where many counter directives were experienced across the three arms of government (Executive, Legislature and Judiciary). At one point, the Executive is giving a separate directive, and the others doing the contrary. In the end, those who are at the receiving end (the masses) would be left to suffer the consequences of the lack of synergy between the arms of government and implementing Government Ministries, Departments and Agencies (MDAs).

All through the period, many citizens didn't know what measures to take to best handle issues related to the policy particularly on the online banking. This suggests also, that there was little or no public awareness on the policy especially on the timelines.

7. Conclusion and Recommendations

Considering the challenges encountered during the period, it can be concluded that the policy was well conceived considering the various opportunities that come with it. Notably, the fact that it reduced the number of unbanked populations to an extent, increased employment generation through the influx of mobile banking operators and POS agents. However, it was generally opined that the policy implementation timelines were ill-advised. Due to these attendant consequences of the policy which made life somewhat unbearable for most citizens during the period, the following are recommendations for future policy implementation of this nature;

- i. There is always a need for synergy between the three tiers of government (Executive, Legislature and Judiciary) and government policy implementing MDAs.
- ii. Mass awareness about policies before implementation especially via National Orientation Agency (NOA) is very important as it would preempt the citizens on what to expect.
- iii. There is a need to begin to scale up to polymer notes that are now better done, harder to forge and probably give a more extended deadline to reduce the immediate shock the urgency of the Naira redesign has caused. (Peter, 2023).

- iv. During any policy design and formulation stage, it is always important to ensure that the infrastructure that would aid implementation is clearly spelt out and made available before implementation.
- v. Government should be ready to make adjustments when the need arises particularly during implementation.

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