

# **An Examination of the Nigeria's Controversial Currency Redesign Policy and The Reasons for the Policy Failure: A Political - Economic Ramifications Perspectives.**

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## **Abstract**

The financial sector reform process is critical for economic growth and development. These perspectives are frequently emphasised in empirical research that relate financial sector expansion to economic growth. Recognising this, Nigerian economic managers have concentrated on the banking sector as a tool for influencing economic policy changes and adjustments. The most recent economic policy enacted by these financial sectors was the formal introduction of cashless financial policy in December 2022. This article extends on prior research and examines the performance of the Naira revised policy, what caused its failure, and what might have been done to make it effective.

This research looked at how a currency redesign policy paired with a cashless policy plan affected financial performance and the Nigerian macroeconomy. To look into this, the researcher did a systematic literature review (SLR). A SLR was performed on a sample of 120 research papers selected from a pool of 400 publications obtained from Scopus, Web of Science, Google Scholar, ABS journals, and other sources. As a result, the currency reform strategy provides significant benefits for the financial sector. It is recommended that a suitable infrastructural and legal framework be built to facilitate the programme's efficient execution. The redesign of Nigerian currency, the naira, resulted in a cash shortage and economic hardship for the Nigerians. Policymakers can still implement recommendations by taking into account a variety of issues.

**Keywords**-Naira Redesign Policy, Banking Industry, Cashless Policy, Financial Performance, Monetary Policy, Macroeconomy, Nigerian Economy

## **Introduction**

This paper built on my earlier paper on cashless policy (Owwoye 2023). This paper examined the Central Bank of Nigeria (CBN) Cashless policy and its implementation from the socio-economic ramifications perspectives. Further to this, redesign of the Nigerian currency was a policy pursued by the Central Bank of Nigeria.

In 2022, Nigeria's economy faced difficult obstacles. The protracted petrol shortage is one of the biggest of these issues; it seems to be impeding economic growth, raising inflationary pressure, weakening the value of the Naira, and driving more Nigerians into poverty. On October 26, 2022, the Central Bank of Nigeria (CBN) revealed intentions to revamp the nation's currency, notably the higher denominations, while many companies and average Nigerians were coming up with ideas to lessen the impact of fuel scarcity and growing inflation. The statement included a strict timeline to phase out the old N200, N500, and N1,000 notes—which makes up 95.6% of the entire value of the currency in circulation—by January 31st, 2023.

Given the history of currency redesigns, which included the lower denomination banknotes acquired in 2007 and 2009, the CBN's choice to redesign some Naira denominations is not unique in Nigeria. Sections 18(a) and (b) of the Central Bank of Nigeria Act of 2007 allows the currency redesign policy. The Act states that the CBN will: (a) coordinate the minting and printing of coins and currency notes; and (b) issue, reissue, and exchange coins and currency notes at the Bank's offices and any agency it may create or designate from time to time.

When analysing the policies and the merits of the choice to redesign the currency notes, it's crucial to consider the motivations for the redesign as well as the timing of the change. The CBN provided five (5) primary justifications for their choice.

Firstly, there was a case of hoarding of banknotes by the Nigeria public. The Central Bank of Nigeria argued that of the N3.01 trillion of money in circulation as of December 2022, N2.56 trillion (or 85%) was held outside of banks. The CBN claimed that there are shortages of excellent and suitable notes as a result of banknote hoarding. These hoarding activities was not suitable for the stability of the economy and price stability.

Secondly, the naira redesign was to guard against currency counterfeiting. The development of technology has made it simpler to produce counterfeit Naira notes. The rate of money counterfeiting has increased, according to the CBN. Consequently, a redesign was required to address the growing issue of counterfeiting that security reports had exposed.

Thirdly, the Central Bank of Nigeria argued that naira redesign policy will bring about an alignment with the global best practice. According to the CBN, nations must update their currencies every five to eight years to comply with global norms. However, Nigeria's currency reform was delayed.

Fourthly, The Central Bank argued that naira redesign policy should curb insecurity. The introduction of new banknotes is anticipated to halt terrorist activity and kidnappings as money from outside the banking system is used to pay ransom.

Lastly, It was argued that this policy will promote price stability, financial inclusion and a cashless economy. Additionally, the CBN said that the policy might encourage a cashless society backed by the eNaira, lessen inflationary pressure, and increase financial inclusion because fewer people will need to have bank accounts in order to conduct economic transactions.

In addition to stimulating the economy, the Naira currency is significantly more valued because it symbolises Nigeria's pride and legacy than its face value and purchasing power. About 90% of transactions in Nigeria still involve cash, making it a crucial component of the country's economic activity. Therefore, long-term shortages have an impact on the Nigerian economy and the populace generally on an economic and sociocultural level. Examples of such shortages include the Naira scarcity that has been there since the fourth week of January 2023 because of the CBN's limited printing of Naira notes, financial institutions' hoarding, and the breakdown or malfunction of digital financial platforms.

In general, the Nigerian economy is dealing with persistent fluctuations in currency rates, heightened inflationary pressure, and additional macroeconomic difficulties. Due to these problems, socioeconomic situations have gotten worse, leading to an increase in crime, food shortages, and insecurity. Even though there are a number of structural issues at play, the economy's predicament is being made worse by the terrible way the redesign policy has been implemented, primarily as a result of the importance of "cash-in-hand" to economic activity and the actors' lack of readiness for the sudden and drastic changes that have occurred. In order to address the unforeseen realities resulting from policy execution, this research provides a vital path forward through an analysis of the CBN's Naira redesign programme.

Onu (2023) argued that, can Nigeria effectively reinvent its currency, the naira, despite the informal sector accounting for 65% of GDP, 93% of employment, and 90% of cash transactions?

On October 26, 2022, the Central Bank of Nigeria (CBN) issued new banknotes in naira denominations of 200, 500, and 1,000. Godwin Emefiele, the CBN governor at the time, proposed the redesign policy to improve Nigeria's monetary policy, encourage digital alternatives like the eNaira, and strengthen the currency's integrity. It intends to decrease cash circulation for illegal operations such as abduction for ransom and vote-buying. The new naira notes were in circulation starting from December 15th, 2022.

Currently, the redesign policy has not met most of its objectives. The approach led to a cash scarcity and an illicit market for trading naira notes, posing economic challenges for Nigerian businesses and individuals that rely largely on cash. The strategy has had a negative impact on Nigerians, but it has also led to reforms in the country's economy and leadership. The new administration has abolished fuel subsidies, increased energy tariffs, and harmonised the country's currency rate, resulting in greater inflation, reduced disposable income for households, and decreased company productivity. (Alonge, 2023)

Implementation challenges include insufficient alternative financial products, inadequate infrastructure, low public trust, limited public sensitization, and tight deadlines. However, improved implementation is conceivable. Nigeria might learn from nations like Canada, Australia, Norway, Singapore and Sweden that have successfully implemented similar measures in recent years. These instances provided useful ideas for Nigerian authorities and partners to examine.

Despite the fact that the CBN allegedly generated billions of new naira notes and announced many distribution channels, Nigerians are experiencing unfathomable anguish as a result of the shift to using them. This was supposed to be the first step towards a cashless economy, but the reality on the ground shows that we are not yet ready. Cries are coming from all directions.

This article expands on the prospects of the naira redesign policy, as well as its benefits and downsides in light of the country's political-economic situation.

This study is arranged in the following sections: Part 2 introduced the study methods section, and Part 3 described the theoretical approach. Part 4 provided a literature review to address the study questions. Part 5 provides critical observations, while Part 6 offers the paper's conclusion and consequences.

### **Research Methodology**

The systematic literature review (SLR) was used in this work. The SLR identifies, selects, and assesses research that addresses a given topic. Before beginning the systematic review, the criteria should be explicitly established. The author described the key sources of literature for each of the study subjects using SLR. The author conducted an SLR using a sample of 120 research publications. These articles were selected from a pool of 400 papers gathered from various relevant sources. The publications were chosen based on their citation count in Google Scholar, Scopus, and the journal's impact factor.

Furthermore, the author used the QCA to synthesise the literature and apply it to produce solutions to the study topic. Because cashless policy and currency redesign (Revised Cash Withdrawal Limits) have been major issues in academic study during the last 13 years, the author selected the most recent publications from 2011 to 2024 that were mentioned by multiple scholars. The SLR, as defined by Okoli and Schabram (2010), is a systematic, clear, thorough, and repeatable approach for identifying, analysing, and synthesising current research, academic, and practice literature.

The SLR is then completed in five steps: discovering relevant papers, developing a screening approach, assessing the quality, extracting useful information, and analysing and synthesising the findings. Finally, the review is reported on and the findings summarised (Xiao & Watson, 2019). Qualitative comparative analysis (QCA) is a technique for identifying the elements that contribute to certain results. This is a research method for extracting acceptable conclusions from contextual data in order to provide comprehension, new ideas, and fact interpretation along with practical application guidance. The objective is to provide a complete picture of the phenomenon. QCA concepts or categories are commonly used in the development of models, conceptual maps, conceptual systems, and categories. QCA maybe handled in two ways: inductively and deductively. Inductive reasoning is utilised when there is insufficient prior knowledge of the subject. Nonetheless, deductive content analysis was developed to examine fresh data or to verify theories (Elo & Kyngäs, 2008). The author utilised an inductive technique to critically evaluate the work. There were three stages to consider. To begin, the author selected bits of search papers that covered the three study subjects. The author then selected sentences from each part to address the study's research issues. This research will examine the critical issues stated above. The next section will provide a comprehensive review of the theoretical standpoint of currency redesign policy.

### **THEORETICAL FRAMEWORK**

The study will be based on the Bank Focused Theory. In addition, two more relevant notions are explored. The Bank Focused Theory emphasises the branchless banking paradigm. Because the concept of electronic payment is based on branchless banking.

#### **Bank Focused Theory**

Kapoor (2010) suggested this concept, which focuses on banks adopting non-traditional yet common low-cost distribution means to give services to their numerous customers. Such channels include automated teller machines (ATMs), internet banking, and point-of-sale (POS). Using these channels, banks may deliver a variety of services to their consumers in

several places at the same time. Transactions are completed once clients enter the appropriate information into the financial systems. This method lends legitimacy to this study because it focuses on electronic platforms as a means of delivering services.

### **Bank-Led Theory**

Lyman et al. (2006) examined a banking theory that emphasised branchless banking principles. The theoretical approach stressed the function of an agent, as being responsible for acting as a liaison between banks and clients. Under the circumstances, the agents interact directly with bank clients and act on behalf of the bank by accepting cash payments or collecting deposits (Owens 2006). Finally, this agent is expected to electronically send to the bank all of his transactions with bank clients (by phones, the internet, etc.).

### **Non-Bank-Led Theory**

This hypothesis was proposed by Hogan (1991). According to his hypothesis, clients do not engage with banks and do not have bank accounts. Customers of the bank exclusively engage with a non-bank firm, such as a mobile network provider or prepaid card issuer, to exchange cash for an e-money account. The consumers' e-money accounts are then saved on the non-banking agency's server. This is the most risky platform among electronic payment systems since there is no current regulatory framework under which these e-agents operate.

## **Literature Review**

### **Currency Redesign**

#### **Brief History of Global Currency**

Reserve currencies have changed as the global geopolitical system has evolved. Aside from the ones included here, historical examples of international money include the Greek drachma, which was minted in the fifth century BC (Pillay 2023). Roman denarii, the French franc, the Byzantine solidus, and the Arab dinar during the Middle Ages. From the 13th to the 16th centuries, the Venetian ducat and the Florentine Florin emerged as the preferred gold-based currencies between Europe and the Arab world. This was because gold was more easily minted in uniform proportions and transported across great distances than silver. But to provide in sufficient supplies of silver from Spanish America, the Spanish silver dollar established the first real global reserve currency recognised throughout Europe, Asia, and America from the 16th to the 19th century (Gary, 1996).

During the 17th and 18th centuries, the Dutch guilder served as a relatively smaller reserve currency between Europe and the Dutch colonial empire's colonies. However, it was also a silver standard currency that was fueled by Spanish American money that was passing via the Spanish Netherlands. An early example of modern monetary policy can be found in the Dutch establishment of the Amsterdam Wissel bank (the Bank of Amsterdam), which was also the first to create a reserve currency with a stabilised monetary unit through the use of Spanish fiat and American money output (Coyle, Kim, & O'Brien, 2021).

Therefore, when the Bank of England was established in 1694 and the Bank of France in the 19th century, the Dutch served as the model for bank money and reserve currencies stabilised by central banks. In particular, the British Pound Sterling was set to challenge the Spanish dollar's hegemony when the rest of the globe moved to the standard gold coin in the last quarter of the 1800s. Around 60% of global commerce at that time was invoiced in pounds sterling, and the UK was the world's leading exporter of manufactured products and services. British banks were also growing abroad; London served as the global hub for the commodities and insurance markets, and British money was the main source of foreign investment globally. Sterling quickly established itself as the accepted currency for cross-border business dealings (Gary, 1996). During the Interwar years, attempts were made to bring back the gold standard. The Gold Bullion Standard Act 1925 was revived by the British Gold Standard Act and was subsequently adopted by several other nations. Due to the start of the Great Depression and other causes, this resulted in a period of relative stability that was followed by deflation; nonetheless, global commerce drastically decreased, and the gold standard was abandoned. In 1931, speculative attacks on the Pound prompted Britain to completely abandon the golden standard (Pillay 2023).

Following World War II, a formal agreement known as the Bretton Woods system oversaw the international financial system. Under this system, the US dollar was purposefully positioned as its anchor, with the US government guaranteeing other central banks that they could exchange their dollar reserves for gold at a fixed rate. The Triffin Dilemma, which describes the conflict of economic interest that results between short-term domestic goals and long-term international objectives when a national currency also serves as a global reserve currency, is cited as the reason for the system's failures in the late 1960s and early 1970s.

Furthermore, the US Dollar's convertibility to gold was halted by President Richard Nixon in 1971, establishing the fiat global reserve currency system. Nonetheless, following the demise of the traditional gold standard, gold has continued to be a substantial reserve asset (Pillah, 2023). The IMF expressed concerns about "a new Bretton Woods moment" after the 2020 financial crisis, which may indicate the need for a new worldwide reserve currency system. At the 1945 Bretton Woods Conference, John Maynard Keynes advocated the *bancor*, a super national currency to be used as a unit of account in international commerce and as a reserve currency. US Dollar was accepted in lieu of the *bancor* (Pillah, 2023).

The US dollar should no longer be the only significant reserve currency, according to a 2010 report published by the United Nations Conference on Trade and Development. According to the paper, in order to establish a more stable global financial system, the new reserve system should not be based on a single currency or even a number of currencies, but rather allow for international liquidity. A number of nations, including the Gulf Cooperation Council, China, and Russia, as well as central banks and economists, have argued that they want to see an independent new currency take the place of the dollar as the reserve currency (Pillah, 2023, Owwoye, 2023).

### **History of Nigerian Currency**

In pre-colonial times, many societies exchanged goods using a wide range of objects. These featured, among other things, cowries, manilas, beads, bottles, and salts. Following the colonial edict of 1880 that established the Shillings and Pence as legal cash in British West Africa, Nigeria undertook its first significant currency issuance. Up until 1912, the Bank of British West Africa, a private bank, supplied coins in the denominations of one shilling per pence, ½ penny, and one tenth penny, which were supervised by the Bank of England (Pillah, 2023).

Nigeria, Ghana, Sierra Leone, and the Gambia received their first batch of banknotes and coins from the West African Currency Board (WACB) between 1912 and 1959. Coins were removed from the highest banknote, which was printed by the WACB. The currency was not altered to reflect the nation's republican status until July 1st, 1962. The top of the banknotes that once read "Federation of Nigeria" was now imprinted with "Federal Republic of Nigeria." After the currency bills were misused during the circular, the notes were altered once again. The name of the Nigerian currency was changed in January 1973 as a result of the Federal Government's decision to switch from metric to decimal. One naira, which was equal to 10 Shillings, replaced the one pound, which was the primary unit of money. The minor unit was known as the Kobo, which was made up of hundreds of Kobos to make one naira.

A brand-new banknote for twenty naira (N20) was introduced on February 11th, 1977. Due to the expanding economy, the inclination for cash transactions, and the demand for ease, it was the highest denomination that had been issued at the time. For the first time in Nigeria, the bank note featured the image of a notable citizen, the late Head of State, General Ramat Murtala Mohammed (1938–1976), who led the country's revolution in July 1975. In honour of a distinguished son of Nigeria, the letter was released on the first anniversary of his murder. He was proclaimed a National Hero on October 1st, 1978. Chief Obafemi Awolowo, the first premier of Western Nigeria and subsequently the federal commissioner of finance, is credited with coining the moniker "naira" from the word Nigeria. Because Nigeria was under British colonial rule, the Pound was the official currency of the country until December 1972, when the first Naira was launched, replacing the Pound at a rate of two Naira to one Pound. Nigeria became the first former colony to switch from the pound to the decimal currency system.

The Central Bank of Nigeria was founded in 1958. The Bank is the supreme monetary authority of Nigeria, with its headquarters situated in Abuja, Nigeria, Africa. In addition to acting as the country's banker of last resort and offering the federal government of Nigeria (FGN) financial and economic advice, the CBN issues legal tender currency in Nigeria and maintains external reserves to protect its value internationally.

### **Nigerian Monetary Policy and Currency Redesign**

Currency serves as a medium of exchange, a unit of account, or a store of value that enables private and public sector actors from many nations to engage in international economic and financial activities. The achievement of an external and internal balance of payments has consistently been the goal of monetary policy over the years. But over time, the focus on methods

and tools to accomplish those goals has shifted. The pursuit of monetary policy has been divided into two main periods: before and after 1986. While the second phase depends on market processes, the first phase prioritised direct monetary restrictions.

Monetary policy in 2021 was geared on mitigating the effects of shocks to the Nigerian economy resulting from diverse events in both the local and global economies (CBN, 2021). This led to the general consensus in Nigeria that the financial crisis was caused by the banking system's shortcomings, both initially and thereafter. Nonetheless, the discussion on its basic roots is still more open.

To combat the widespread money trafficking at the time, all banknotes in circulation in Nigeria were recolored in April 1984, with the exception of the 50 Kobo bill. The 50K and 1 Naira were both coined in 1991. While the coins and banknotes issued by the WACB were removed, the Central Bank of Nigeria (CBN) began issuing banknotes denominated in Nigerian money on July 1st, 1959. The currency was not altered to reflect the nation's republican status until July 1st, 1962. The top of the banknotes that formerly said "FEDERATION OF NIGERIA" was now imprinted with "FEDERAL REPUBLIC OF NIGERIA." In 1968, new notes were issued in response to the misappropriation of the cash during the American Civil War (Pillah, 2023, Owoeye, 2023)

Following the government's decision to switch from metric to decimal, the Nigerian currency's name was altered in January 1973. The one naira, which was worth ten shillings, replaced the major unit of currency, which was the £1. The minor unit was known as the kobo, and one kobo was made up of 100 kobos. A brand-new 20 naira banknote was introduced on February 11th, 1977. Due to the necessity for ease, the inclination for cash transactions, and the expansion of the economy, it was the highest denomination introduced at the time.

On July 2, 1979, new currency banknotes in three denominations were introduced: 1, 5, and 10. The notes had the same size (151 x 78 mm) as the 20-note introduced on February 11, 1977. To aid identification, unique hues were utilised for the various denominations. On October 1, 1978, three prominent Nigerians were honoured as national heroes. Their images were included on the notes. The engravings on the reverse of the notes represented different cultural features of the country (The Guardian, 2022).

In April 1984, all banknotes in circulation, save the 50 Kobo, were replaced to combat cash trafficking. In 1991, the 50K and 1 Naira coins were both created. The CBN launched 100, 200, 500, and 1000 Naira banknotes in December 1999, November 2000, April 2001, and October 2005 to support economic growth and improve payment efficiency (CBN, 2015). As part of economic reforms on February 28, 2007, the 20 banknotes were released on polymer substrate for the first time. The 50, 10, and 5 banknotes, as well as the 1 Naira and 50K coins, were reissued in new designs. The 2 Naira coin was launched. On September 30, 2009, the redesigned 50, 10, and 5 banknotes were switched to polymer substrate, after the success of the 20 (polymer) banknote. All lower denomination banknotes were printed on the polymer substrate.

To commemorate Nigeria's 50th anniversary of independence and 100 years of existence, the CBN issued the 50 Commemorative Polymer banknote on September 29, 2010 and the N100 Commemorative banknote on December 19, 2014. According to Godwin Emefiele, the then Governor of the Central Bank of Nigeria, only a trillion naira notes have been accounted for by banks, despite the fact that over three trillion are reportedly in circulation. The assumption is that the remaining unexplained billions are stashed someplace.

#### **What factors contributed to the Naira Redesign Policy's outcomes?**

The naira redesign policy, implemented in October 2022, has not achieved the majority of its objectives. Between the CBN's announcement and March 2023, governmental and regulatory activities led the bank to prolong the validity of the old notes to December 31, 2023 (see Table 1). Failures in implementation may be attributed to four factors: inadequate digital alternatives to cash, inefficiencies in current financial infrastructure, poor public confidence and sensitization, and tight timeframes.

**Table 1- Timeline of Key Actions taken by Central Bank Of Nigeria for the Implementation of Naira Redesign Policy**

S/N	Key Dates	Key Actions Taken by Central Bank Of Nigeria
1.	October 26, 2022	The Central Bank of Nigeria in a communique announced its intension to implement a policy – naira redesign policy. The Central Bank Of Nigeria set January 31, 2023 as the deadline for the old cash swap for the public.
2.	November 17, 2022	The Central Bank of Nigeria in a communique provided a directive to particularly deposit money bank- commercial banks to provide extended

		working hours to weekends. However, the CBN did not considered the implications of this on the commercial banks and bank staffs.
3.	November 23, 2022	The Central Bank Of Nigeria in a press conference introduced the samples of new notes and this was unveiled by the President Muhammadu Buhari.
4.	December 15, 2022	The CBN authorised the Commercial Banks in Nigeria to dispense, distribute/ exchange the new notes to the public.
5.	January 7, 2023	There was public outcry of uneven distribution of new notes. The Central Bank of Nigeria suspended the over-the-counter (OTC) withdrawal of the so-called new notes.
6.	January 29, 2023	Due to the limited number of new notes available for circulation, the deadline for the cash swap was extended to February 10, 2023 to give further opportunities for access to the new notes. As at this date, the Central Bank had recovered about 2 trillion value of old naira notes.
7.	February 2, 2023	After public outcry and the Central Bank claimed of making available more naira notes for circulation. As a consequence, the Central Bank ordered the Commercial Banks to start the payment of new notes on demand over the counter.
8.	February 8, 2023	The Governors of the States sued the Federal Government at Supreme Court for interpretation of the constitution on the process of the CBN in respect of the deadline of the cash swap. The Supreme court restrained the Central Bank from enforcing the deadline of February 10 <sup>th</sup> , 2023.
9.	February 15, 2023	The Central Bank of Nigeria introduced a portal for the Nigerian public. This portal was used to collect the old naira notes. The Central Bank also participated in the collection of the old notes and circulation of the new notes.
10.	February 16, 2023	The shortage of supply of the new naira notes and the rejection of the old notes. This created artificial scarcity of the Nigerian currency. The then President Buhari, extended the validity of old the 200 naira to April 10, 2023 but the 500 and 1000 notes remained unacceptable and thus cannot be used for transactions.
11.	March 3, 2023	The Supreme Court being the Court of Policy made further pronouncement by extending the expiration of the old naira notes of 200, 500 and 1,000 notes and stated irrevocably that the naira denominations remain legal tender until December 31, 2023.
12.	March 7, 2022	As a consequent of the Supreme Court ruling, the Central Bank issued a circular directing the Commercial Banks to resume collections of old notes and circulation of new notes.
13.	March 13, 2023	Due to pressure from Nigerians, State Governors, Supreme Court threaten to issue an arrest warrant on the Central Bank Governor, the Central Bank conformed with the Supreme Court ruling that the old notes should remain legal tender and valid to December 31, 2023.
14.	November 13, 2023	The Supreme Court made further pronouncement and ruled that the old notes 200, 500- and 1,000-naira notes should remain legal tender and coexist with the new notes until further notice. This remain the current situation.

Source: Compiled by the Author

#### Limited financial options, leading to cash shortages.

From December 2022 to March 2023, the money supply in circulation declined faster than demand, in accordance with CBN guidelines. The eNaira, the CBN's currency alternative, could only partially replace banknotes in circulation (Monye, 2024). Emejo et al (2023) argued that in March 2023, customers returned just over 1.3 trillion-naira worth of old notes to financial institutions, accounting for 40.6% of the total 3.2 trillion naira in circulation. The CBN created just 3-billion-naira worth of eNaira, representing only 0.09 percent of the entire cash supply. This was inadequate to replace the old banknotes deposited by consumers. In late 2022, barely 0.5 percent of Nigerians used eNaira, indicating its limited adoption (Onu 2023).

**Inefficient infrastructure leads to trillions of naira loss.**

The cash scarcity led to a spike in digital transactions, which exceeded the capacity of the digital financial infrastructure. During the cash shortage, many people used smartphone applications and Unstructured Supplementary Service Data messages to transfer money. However, the existing digital payment infrastructure was unable to accommodate the rush. Yusuf (2023) argued that network failures caused many transactions to fail or be reversed, costing the Nigerian economy an estimated 20 trillion naira (about \$40 billion).

**Low public trust in digital alternatives hinders cash utilisation.**

The naira redesign policy failed to achieve its aims due to popular distrust in digital financial goods, mostly due to suspicions of fraud. As an example, a poll conducted by EFInA found that 51% of Nigerian respondents encountered attempted digital scams or fraud during the COVID-19 pandemic's first year (Warren, 2020). Many financial consumers prefer cash over digital products, which is unsurprising. For instance, in a survey conducted by the World Bank in 2021 which examined the Use of Digital Services compared with Cash-Based Services in Nigeria. The results revealed that the percentage of Nigerians, ages 16 and above prefer to receive payment for agricultural products in cash which shows that 84% of the participants preferred to accept cash to the use digital services. The results of the survey revealed that 73% of the Nigerians still prefer to pay their utility bills with cash and only 11% prefer the use of digital tool. Furthermore, 42% of the participants preferred to receive their wages with cash to 21% that preferred the digital services and 36% prefer cash to receive remittances and only 6% prefer the digital services.

**Lack of public awareness and tight deadlines hinder policy effectiveness.**

The redesign policy failed to educate financial customers about the CBN's requirements and timeframes. On January 19, 2023, the National Orientation Agency (NOA) initiated a campaign to promote awareness about the policy across Nigeria's 774 local governments. The campaign faced two main issues: time and clarity. NOA agents in several localities said that many believed the awareness campaign should have started earlier and the validity period for old notes should have been extended. Additionally, there was a communication gap between what the CBN said and what customers comprehended. Eyi (2023) emphasized that commercial actors, including petty dealers and point-of-sale agents, allegedly stopped taking old notes due to concerns about not being able to swap them by the deadline.

**What has changed in Nigeria after the Redesign Policy's implementation?**

Nigeria has experienced substantial changes since the policy's implementation. Challenges have included a reliance on cash, company losses, macroeconomic shifts, and leadership changes.

**Changes in money supply and continued reliance on cash.**

The initiative aimed to lessen dependency on cash and promote digital alternatives. Iyatse (2023) and Sami (2023) argued that the money supply decreased to 982 billion naira in February 2023 from around 3.3 trillion naira at the end of October 2022, when the strategy was initially announced. The announcements by Muhammadu Buhari and Bola Tinubu to extend the validity of old naira notes led to a significant increase in the money supply, reaching 2.4 trillion naira by April 2023 (Dumebi 2023).

**Business Losses in Profits and Capital**

Cash constraint caused losses in income and capital for many Nigerian firms across several industries. The firms included United Africa Company, which deals in food and beverage, real estate, paint, and logistics, ABC Transport, and Dangote Cement. Nigerian Breweries, a unit of Heineken N.V., saw the impact of cash constraint on their operations, resulting in the company's lowest February sales in 15 years in 2023. Onu and Osae-Brown (2023) argued that the corporation relied heavily on cash for 80 percent of retail sales, making cash shortages a significant issue. Nwachukwu (2023) argued that Profits declined by 10.5% from Q1 2022 to Q1 2023, while sales decreased by 29.7% over the same period.



### **Macroeconomic Changes**

On June 14, 2023, the Tinubu administration implemented a unified currency rate system. This approach enables qualified individuals to access foreign exchange through the investors and exporters window at market-determined prices. Increasing transparency and predictability reduces exchange rate risks and transaction costs, thereby benefiting the country's economy over time.

However, the current arrangement has led to a rise in the official selling price of the naira per dollar. In June 2023, the official rate was 632 naira per dollar. On October 19, 2023, the value reached 774 naira. CBN (2023) emphasized that over the same period, black-market pricing increased to an average of 1,035 naira per dollar. The country's GDP growth rate declined from 3.5% in Q4 2022 to 2.3% in Q1 2023. Although telecommunications and financial institutions are expanding, critical industries such as rail transportation, petroleum, natural gas, oil refining, power, and agriculture production continue to decrease.

During the cash crisis in early 2023, the labour-intensive agriculture industry experienced significant losses, with the Poultry Farmers Association of Nigeria reporting losses of over 30 billion naira for eggs. Olurounbi (2023) argued that the situation continues severe, with a 22% inflation rate in March 2023 and a petrol price increase in July 2023.

Furthermore, Olurounbi (2023) argued that the macroeconomic impact of the naira redesign programme has deteriorated the country's economic predicament and reduced discretionary incomes for Nigerians, who are still recuperating from its repercussions. Rising exchange rates undermine import-dependent countries like Nigeria, causing increased food and commodity costs that affect both companies and consumers.

### **Leadership Changes**

Nigeria's Presidency and Central Bank leadership have changed after the policy was implemented in October 2022. Erezi (2023) argued that the Tinubu's presidential inauguration speech in May 2023 said that both old and new banknotes will remain legal tender until a policy review is conducted. Following his inauguration, the new president suspended former CBN governor Emefiele, who is currently facing a twenty-count accusation of financial embezzlement. After a four-month interim term by Emefiele's former deputy, Folashodun Shonubi, Yemi Cardoso became the CBN governor.

### **Currency/Cash Crunch**

The Naira redesign strategy is negatively impacting Nigeria's economy by reducing the amount and value of currency in circulation. CBN data shows that the currency's value in circulation in 2022 was N3 trillion, down from N3.3 trillion and N3.2 trillion in October and November 2022, respectively. The cash crisis has impacted households, informal and formal enterprises, including Nano, Micro, Small, and Medium Enterprises (NMSMEs), which are critical to the private sector-driven economy.

Banks typically experience long and continuous lineups due to failed cash withdrawal attempts. Attempting to get fresh notes interrupts economic activity and makes it difficult for individuals to engage in daily activities, such as commuting. This is especially true when economic agents do not accept e-payments or bank transfers. Local money-changing agents and Point-of-Sale (PoS) vendors scam clients who use cash instead of debit cards or mobile money transfers, charging up to 20-30% markups.

### **Increased pressure on the banking system.**

The constrained timeframe for executing the Naira redesign programme put the financial industry under significant pressure. The inability of Deposit Money Banks (DMBs) to satisfy cash requests indicates that the financial sector is unprepared for a fast transition from old Naira notes to new ones, or to a cashless economy. The CBN extended the deadline for old notes to be legal currency by 10 days from January 31st, 2023, but banks continue to under pressure.

### **Increased societal tensions**

Inadequate monetary supply and policy uncertainties have led to increased social tensions. Excessive demand for money has caused societal instability in several states, including Ogun, Edo, and Oyo. Concerns about low liquidity during the elections may increase tensions. As elections approach, there is a higher danger of violence. The policy's impacts may exacerbate tensions.

### **Why has the Naira redesign policy not been successful?**

The challenges of the Naira redesign might be attributed to policy-related factors. This includes:

### **Improper timing**

Due to the informal nature of the economy, the policy's implementation duration is likely to be shorter than in other nations. In 2016, India demonetised 86% of its currency to curb counterfeiting and black-market activity, despite having a strong informal economy. For several weeks, individuals hurried to banks to exchange their old notes for new ones. The economy had a serious cash shortage and lengthy bank lineups. The demonetisation programme was failed and predicted to cost the economy at least 1% of GDP and 1.5 million jobs.

The Naira makeover policy was implemented during high-spending seasons, such as the end-of-year festival season and election season, when currency is more widely used. During these seasons, there is a higher need for cash. Therefore, the timing undermines the policy's good objectives and causes suffering for individuals.

### **High level of informality**

The informal sector accounts for around 65 percent of Nigeria's GDP. Unless the informal sector is significantly curtailed, the money outside the banking system will continue to grow, even after the new naira notes are widely distributed.

### **Low financial inclusion rates.**

EFInA anticipated a financial inclusion rate of 64.1% in 2020. Unbanked individuals have additional barriers to accessing fresh banknotes compared to those with bank accounts. Unless a significant number of unbanked adults join the financial system, the CBN will struggle to control cash outside bank vaults.

### **Ineffective policy coordination.**

The disagreement between the Central Bank of Nigeria (CBN) and the Federal Ministry of Finance over the Naira redesign raises concerns about effective policy coordination. Investors' confidence in the economy may suffer owing to policy uncertainty, raising concerns about the economy performance in the years to come.

### **Lack of public awareness and stakeholder participation.**

The CBN has the constitutional power to execute the Naira redesign strategy, but failed to engage industry stakeholders to develop effective implementation plans and gain their support. The public lack of understanding of the programme's motivations and advantages led to confusion and delays in transitioning to the new policy.

## **Global Perspective of Currency Redesign**

This section examined the experiences from advanced economies and how effective its currency redesign policy in enhancing the increase in the use of digital payments.

Monye (2024) argued that can Nigeria financial institution learn from the India and Sweden's experiences and how to leverage on the experiences to increase the use of digital payments.

Furthermore, Monye (2024) emphasized that India and Sweden's experiences provide useful suggestions for smoothly transitioning to new naira notes and promoting digital alternatives.

A critical examination of the Monye (2024) paper, he argued that India and Nigeria share similar policy aims and execution tactics, but Sweden's successful cashless transition offers valuable insights into the measures taken. This paper is of the view that Nigeria may not have the technological developments of Sweden or India's fintech infrastructure, but policymakers may draw from these nations' triumphs to generate long-term structural improvements towards a cashless society. These modifications might improve the effectiveness of measures such as the naira redesign. Owioye (2023) paper on cashless policy review argued that the structural problems and technological advancement does limit the implementation of financial policies in Nigeria such as naira redesign and cashless policy.

## **Sweden**

Meaker (2020) and Alderman (2017) argued that Sweden is a global leader in cashless society, with cash accounting for barely 1% of its GDP since 2018. The cashless movement aims to enhance personal privacy, competition, cross-border

payments, and disaster readiness (Armeliu et al (2020). Siano et al (2020) and Mugume and Bulime (2022) argued that Sweden's success may be ascribed to various elements, including dependable digital payment options, a tech-savvy populace, and existing financial infrastructure that promotes digital adoption.

Sweden's financial consumers have access to a variety of dependable digital options. Swish, a mobile payment system with 8.6 million private users (about 80 percent of Sweden's population of 10 million), enables people to receive and transfer money using their phones (Statista 2023).

Sweden ranks fourth in information and communication technology and tenth in technical and vocational education on the United Nations Development Programme's Global Knowledge Index, indicating its tech-savvy populace (Statista 2023).

Sweden's successful transition to a cashless society is also attributed to its strong infrastructure. One example is the BankID, an electronic identification system available to everyone having a Swedish personal identity number. Monye (2024) argued that users in Sweden utilise the system for various purposes, including mobile payments, e-government websites, and medical records. Government incentives, such as tax breaks for electronic payments, increase the appeal of cashless transactions.

## **India**

In November 2016, the Reserve Bank of India (RBI) announced a demonetization scheme, recalling higher denomination 500 and 1,000 rupee notes. Prior to demonetization, these banknotes accounted for 86.4 percent of the money in circulation. India's programme is to digitise, broaden the tax base, remove counterfeit currency, formalise the economy, and seize undeclared wealth (Rowlatt 2016).

Belorgey and Jaffrelot (2021) paper argued that India, like Sweden, has used existing infrastructure and financial alternatives to accelerate financial digitization. India Stack, a digital identity and payment system, uses an open API. The system merges user information from Aadhaar, a national identity programme with 1.25 billion enrolled users. Furthermore, Kearns and Mathew (2022) emphasized that the RBI established the Unified Payments Interface for mobile phones to improve digitalization and provide access to about 400 million rural residents by enabling transactions across different bank accounts through a single mobile app. Financial user have access to many digital payment options, including RuPay, Paytm, and Razorpay. Kearns and Mathew (2022) argued that over the last five years, India has seen a 50% average yearly rise in digital payment volumes, making it one of the world's fastest-growing markets.

## **Canada**

In 2011, Canada issued a new generation of polymer banknotes to replace old paper notes. This modification not only improved durability and security, but it also saved the government millions of dollars in production expenses. This allowed additional funding to be given to other sectors of the economy.

## **Australia**

In 2016, Australia introduced a new generation of banknotes with improved security and a fresh look. This makeover was intended to combat counterfeiting and increase the currency's longevity. It also boosted the country's tourist business, as the new notes depicted renowned Australian sites.

## **Norway**

Norway changed its banknotes in 2017 with more sophisticated security measures and a new, modern look. This not only helped to prevent counterfeiting, but it also improved cash handling efficiency and lowered company expenses, all of which contributed to the country's successful economy.

## **Singapore**

Singapore issued a new series of banknotes in 2016 that included improved security measures and a fresh design. This makeover was created to keep ahead of counterfeiters and promote the usage of cashless payment options. It also served to strengthen the country's position as a worldwide financial powerhouse, drawing more foreign investment and contributing to its growing economy.

Based on the findings from the currency redesign in those countries above, it is clear that the objectives of the policy were centred on combat counterfeiting, increase the currency's longevity, promoting cashless policy, improved cash handling efficiency and financial stability.

The naira redesign programme intends to improve Nigeria's monetary policy, encourage cashless transactions, and strengthen the currency's legitimacy. Unfortunately, the programme has had primarily negative effects, including as cash shortages, black-market sales of fresh naira notes, and significant losses for companies and consumers. Despite obstacles, there is still hope for a seamless transition to new banknotes and digital alternatives. The CBN might investigate various options to phase out obsolete notes and promote digital money use.

### Lessons from the Advanced Economies

The countries' experiences indicate that a successful transition to digital currency requires three conditions: innovative and competitive digital financial products, digital infrastructure to support fintech adoption, and prioritising STEM-focused education.

#### Support the use of digital alternatives.

The CBN governor must ensure adequate naira supply to fulfil demand through cash or digital means. The CBN can progressively deploy the eNaira in a regulated setting to minimise cash dependency by increasing digital transactions between individuals, businesses, governments, and government entities. Tax incentives, like those utilised in Sweden, Australia and Canada can boost adoption rates. Small firms may benefit from tax benefits for paying in eNaira, while government workers may earn higher interest rates on eNaira salaries and savings.

#### Support the development of infrastructure backbones.

The Nigerian government should collaborate with stakeholders to create infrastructure, such as India Stack, that connects to and leverages current financial technologies. Table 3 illustrates system components that might be incorporated. A Nigeria Stack could connect financial transaction data from the Nigeria Inter-Bank Settlement System to know-your-customer data from the National Identity Management Commission. The Nigerian government should ensure a robust data management process that will bring all customer data together on a single platform that will greatly assist in the verification process. This would enable fintech providers to offer tailored digital products to Nigerian financial consumers across various income brackets. Nigeria has already implemented a bank verification number as part of its know-your-customer initiative.

Table 3: Components of India Stack

S/N	Components	Meaning
1.	Aadhaar	This is the India's biometric-based identification system which can be used to provide unique identity number for each citizen.
2.	eKYC	This is known as electronic Know Your Customer. India's Aadhaar-based digital authentication system that enables quick and easy verification of the identity of the users.
3.	DigiLocker	This is a cloud-based platform that enables individuals to store and access digital copies of important documents.
4.	Unified Payment Interface	This is used as an interface facilitates interbank, peer-to-peer and person-to-merchant transactions
5.	Bharat Bill Payment System	This captures an integrated payment system that enables customers to make bill payments through a network of agents where uninterrupted access to services can be provided.
6.	National Automated Clearing House	This is a web-based solution used for interbank, high-volume electronic transactions.

Source: Monye (2024)

#### Encourage the education of a tech-savvy population.

Nigeria's shift to a cashless society can ultimately only succeed if its populace is tech-savvy and fully comprehends and, more importantly, embraces digital alternatives. To improve access to and adoption of digitally led solutions—not just for financial products, but for all goods and services provided in the digital economy—Nigerian stakeholders must invest in human capital. Monye (2024) argued that a STEM-focused curriculum has to be given top priority by the government as

part of a multiyear plan to develop a populace as tech-savvy as that of Sweden. Nigeria appears to be moving in the right path with the introduction of 3 Million Technical Talent which was championed by the Ministry of Information and Digital Economy.

According to the Minister in Charge (Dr Bosun Tijani), the goal of this programme is to develop a competitive pool of highly qualified technical personnel on a local and international level. The initiative aligns with the Tinubu administration's goal of creating 2 million digital employment by 2025 (NITDA, 2024).

#### **Takeaways from the Nigerian Situation**

First, the CBN has to promptly and adequately notify the public about the next stages in the policy endeavour to reform the naira. Even with the best of intentions, some of its previous tactics inadvertently left out people without bank accounts. For example, the website where old notes could be exchanged for new ones unintentionally left out rural individuals who had limited access to the internet, technological know-how, mobile banking, or legitimate identity.

Second, The CBN should focus on the rural poor with restricted access to banking facilities. A programme that will favour the rural poor should be pursued. This should be a continuous activity. Nigeria should take a clue from the United Kingdom where there is no time limit given to exchange of old notes for the new ones.

Third, to help with the problems of cost, time, and distance that come with visiting physical banks, the CBN should establish physical financial access points (FAPs) close to customers. This is especially important in rural areas where proper address systems may be absent and obtaining identification may be challenging. The percentages of rural and urban participation in Nigeria are 34% and 66%, respectively. Regrettably, EFINA (2020) survey emphasized that 84 percent of rural residents depend on financial service agents, while just 38 percent have access to FAPs or other financial service providers. The government needs to move quickly to expand its network of agents to rural regions in order to facilitate a cashless transition and guarantee a currency exchange that is affordable for everybody.

According to EFINA (2020) survey, persons with FAPs in rural settings had a 21-percentage point higher likelihood of being banked than those without FAPs. These representatives ought to attend to the requirements of customers within a mile of their location and encourage public trust in the banking system by offering a range of services, including bill and  
airtime payment.

Lastly, Augustine (2023) and Odhiambo (2022) are of the view that in order to reach financially underserved people, the government and the CBN should implement methods that focus on the most disadvantaged. Research indicates that the shift to a cashless society may worsen financial marginalisation, especially for women and people with less education.

#### **Conclusion**

The critical question that underpinned this paper was that, was the goal of Nigeria's contentious naira redesign programme achieved? This paper was able to demonstrated based on the assessment of the currency redesign policy, it was an underperformed result and a setback for the Nigerian Economy.

**About the switch to the new currency notes:** It is reasonable to say that the naira redesign policy has not yet achieved one of its most significant goals, which is to achieve a shift to new notes, given the current prominence and use of old naira notes in the Nigerian economy, the scarcity of new notes, and the CBN's directive of November 14, 2023, stating that the old notes will remain legal tender "ad infinitum." (CBN 2023)

Furthermore, regarding stopping illegal activities like vote-buying during the presidential election, it is said that the Economic and Financial Crimes Commission intercepted millions of naira intended for this purpose, suggesting that the CBN only partially—if at all—achieved its goal. In addition to the above, considering macroeconomic stability and favourable economic results for Nigerians and their enterprises: The financial losses described above suggest that, thus far, the execution of the policy has caused more hardship than stability for Nigerians and their enterprises.

There is still potential for a more comprehensive and effective naira redesign policy in spite of the obstacles encountered. The CBN might take note of the inadequacies in the policy's execution thus far and carefully analyse what is required to enhance the circumstances for a smooth transition. The potential and the realistic routes forward are illustrated by insights and concepts from the Nigerian context and other nations that have enacted currency redesign laws, especially those aiming to create cashless society.

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