



Currency redesign and cash crunch: Implications on demand for consumer goods in Nigeria

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Abstract

The primary goal of redesigning the naira is to enhance banknote security, preventing counterfeiting, protecting the nation's common legacy, managing the amount of money in circulation, and decreasing the total cost of currency management. Although the government of Nigeria meant well by introducing this policy but the attendant effect of its introduction has negatively affected sales and demand for consumers goods. This study examined the effect of currency redesign and naira crunch on demand for consumers' goods in Nigeria. The study adopted survey research design while the population of the study consists of sellers and buyers of consumers' goods at 'Oja Oba', in Ado-Ekiti, Ekiti State Nigeria. Since there is no sampling frame for the study, the researchers used convenience sampling to select 100 sellers and 200 customers making a total of 300 respondents. Questionnaire was the instrument for data collection. Data collected was collated and analysed using binary logic regression. The finding revealed that currency redesign and cash crunch has significant negative effect on sales and purchases of consumers' goods in Ado-Ekiti within the period under focus. This study recommends that relevant government Agencies should create sufficient awareness to encourage petty traders and sellers of consumers' goods to open bank account and make it functional. More so, Government at all levels should carry members of the public along when formulating policies that affect them before implementation.

Keywords: Currency redesign, cash crunch, consumers, consumers' goods, demand

Introduction

The use of currency as legal tender in Nigeria dated back to 1880 when the first major currency issue in Nigeria was undertaken sequel to the colonial ordinance. The Colonial ordinance witnessed the introduction of Shillings and Pence as a legal tender currency in British West Africa. This empowers both buyers and sellers dealing on consumers' good to accept and use for transactions. The units of coins managed by the bank of England were one Shilling per Pence, ½ Penny and 1/10 Penny were distributed by a private bank, the Bank of British West Africa till 1912.

From 1912 – 1959, the West African Currency Board (WACB) issued the first set of banknotes and coins in Nigeria, Ghana, Sierra-Leon and the Gambia. The highest banknote, while the WACB issued banknotes, coins were withdrawn. It was not until 1st July, 1962 that the currency was changed to reflect the country republican status. The banknotes which bore the inscription 'Federation of Nigeria' and now had 'Federal Republic of Nigeria' inscribed at the top. The notes were changed again following the misuse of the currency banknotes during the circular.

Consequent upon the decision of the FG to change from metric to decimal, the name of the Nigerian currency was changed in January, 1973. The major unit of currency which used to be one Pound (1 Pound) ceased to exist and the one naira which was equivalent to ten Shillings became the major unit, while the minor unit was called the Kobo, hundreds of which made one naira. On 11th February, 1977, a new banknote with the value of twenty naira note (N 20) was issued.

It was the highest denomination introduced at the time as a result of the growth of the economy, the preference for cash transactions and the need for convenience.

In 1991, ₦50 was created and ₦100 was introduced in 1999. ₦200 and ₦500 were created in years 2000 and 2001 respectively. In the year 2005, ₦1,000 was introduced under the administration of Charles Chukwuma Soludo as Governor of Central Bank of Nigeria. The ₦20 was redesigned on February 28, 2007 as Polymer Substrate and there was also the redesigning of the ₦50, ₦10, ₦5. The success of the ₦20 note which was made from Polymer led to the redesigning of the ₦50, ₦10, ₦5 notes which meant that every banknote denomination was printed in the Polymer Substrate. On 29th September, 2010, the Central Bank of Nigeria (CBN) in honor of Nigeria's 50th anniversary issued a new ₦50 Commemorative banknote which was still made out of Polymer Substrate and eventually issued a ₦100 Commemorative banknote on December 19, 2014. Redesigning of naira and introduction of new naira notes have often been done without noticeable effect on sales and purchases on consumers' goods.

Not long ago, the current governor of Central Bank of Nigeria Godwin Ifeanyi Emefiele announced the redesigning of Naira which was carried out from November 23rd, 2022. The ₦200, ₦500 and

₦1000 have been redesigned and launched and the sole reason for this exercise according to the

Governor of the CBN is to control the supply of money and aid security agencies in tackling illicit financial flows. Unfortunately, the untold hardship that confronts consumers and sellers has been monumental. Currency redesigning have been employed by various countries to maintain their monetary sovereignty and also to boost the confidence citizens have for their national currency so as to prevent dollarization or an increase in the demand for another country's currency which could lead to depreciation of such country's currency as a result of low demand for it. It is in

the light of the above that the objective of this paper is to examine the effect of naira redesign and cash crunch on sales of consumers' products in Ado-Ekiti, Ekiti State, Nigeria.

Literature review

Currency Redesign

Currency redesign is not a new phenomenon as many nations of the world embark on it from time to time. Nigeria has witnessed various stages in naira redesign (CBN, 2021). On 1st July, 1959 the Central Bank of Nigeria (CBN) issued Nigerian currency banknotes, while the WACB-issued banknotes and coins were withdrawn. It was not until 1st July, 1962 that the currency was changed to reflect the country's republican status. The banknotes which bore the inscription, 'FEDERATION OF NIGERIA', now had, 'FEDERAL REPUBLIC OF NIGERIA', inscribed at the top. The notes were again changed in 1968 following the misuse of the currency banknotes during the civil war.

On 2nd July, 1979, new currency banknotes of three denominations, namely 1, 5 and 10 were introduced. These notes were of the same size i.e. 151 X 78 mm as the 20 note issued on

11th February, 1977. In order to facilitate identification, distinctive colours were used for the various denominations. The notes bore the portraits of three eminent Nigerians, who were declared national heroes on 1st October, 1978. The engravings at the back of the notes reflected various cultural aspects of the country (The Guardian, 2022).

In April 1984, the colours of all the banknotes in circulation were changed with the exception of the 50 Kobo banknote to arrest the currency trafficking prevalent at the time. In 1991, the 50K and 1 were both coined. In response to the expansion in economic activities and to facilitate an efficient payments system, the 100, 200, 500 and 1000 banknotes were introduced in December 1999, November 2000, April 2001 and October 2005 respectively (CBN, 2015).

On 28th February, 2007, as part of the economic reforms, 20 was issued for the first time in polymer substrate, while the 50, 10 and 5 banknotes; as well as 1 and 50K coins were reissued in new designs, and the 2 coin was introduced. On 30th September, 2009 the redesigned 50, 10 and 5 banknotes were converted to polymer substrate following the successful performance of the 20 (polymer) banknotes. Thus, all lower denomination banknotes were now printed in the polymer substrate.

Finally, the CBN, as part of its contribution towards the celebration of the nation's 50th anniversary of Nigeria's Independence and 100 years of its existence as a nation, issued the 50 Commemorative polymer banknote on 29th September, 2010; and the N100 Commemorative banknote on 19th December, 2014 respectively.

The Central Bank of Nigeria Governor, Godwin Emefiele observed that over three trillion-naira notes are supposedly in circulation but merely a trillion have been accounted for by the banks.

So, the presumption is that the remaining unaccounted couple of trillions are stockpiled somewhere.

'In line with the provisions of section 2(b), section 18(a) and section 19(a) and (b) of the 1999 Nigerian constitution, the management of the CBN has sought and obtained approval of President of the Nigeria, President Muhammadu Buhari (PMB) to redesign, produce, release and circulate new

series of bank notes of N200, N500 and N1000 at all levels". He added that, "in line with the approval, they have finalised arrangements for the new currency to begin circulation on December 15, 2022 after been launched by PMB. The new and existing currencies shall remain legal tender and circulate together until January 31, 2023 when the existing currencies shall cease to be legal tender (Tribune, 2022)'.

Separately from the politicians who hoarded the larger nominations, the redesigning of N200, N500, and N1000 will help to checkmate some of Nigeria's security terrorizations especially laundering, kidnapping and terrorism. According to sources, the purpose of the policy is to mop up the huge amount of cash that is outside of the banking system, currently estimated to be 2.73 trillion or about 85% of the total cash in circulation. This move therefore rids the economy of a lot of 'black money', and will help to improve the health of the system, strengthen security and enable regulators to monitor the flow of funds in the country (CBN, 2022).

Additionally, the monetary policy and currency design will help deepen financial inclusion by getting most people into the banking system. These sources believe this is a sine qua non to improving credit in the system and expanding productive activities, as well as usher in an improved cashless policy, and tighten the money supply which may combat inflation. While this may not be apparent to many Nigerians, only 4 out of the 54 African countries print their currencies in their countries, and Nigeria is one. Hence, a majority of African countries print their currencies abroad and import them the way we import other goods (Vanguard, 2022) [10].

Acknowledging that international best practice requires central banks and national authorities to issue new or redesigned currency notes every 5 to 8 years, the President of Nigeria noted that it is now almost 20 years since the last major redesign of the country's local currency was done.

This implies that the Naira is long overdue to wear a new look (Premium Times, 2022). This implies that a cycle of banknote redesign is generally aimed at achieving specific objectives, including but not limited to: improving security of banknotes, mitigating counterfeiting, preserving the collective national heritage, controlling currency in circulation, and reducing the overall cost of currency management.

Cash crunch

The cash crunch bothers on the unavailability of cash for daily business transactions. The recent one experienced in Nigeria can be linked directly to the policy effort of the Central Bank of Nigeria (CBN). In October 2022, the CBN announced plans to change the currency, replacing the soon-to-be-decommissioned N200, N500, and N1000 notes with new versions. Reasons given for the change ranged from fighting counterfeiting, kidnapping, corruption, money laundering and other forms of illicit financial flows.

It can be safely assumed that the point of cash is for it to be in circulation and not sitting in bank vaults and that reducing money supply in general would be part of its regular monetary policy operations. Regardless, a currency change was not expected to lead to a significant cash crisis. However, as has become clear, the actual policy being implemented was not simply a change of the currency but a sort of "demonetisation" process. The expectation of the

CBN was that cash being deposited would not be withdrawn one-for-one, but that customers would adopt other non-cash systems. This cash crisis has however exposed some of the weaknesses in the policy approach and it nearly crumble the entire economy as vast majority of buyers and sellers of convenience goods do not have functional bank accounts.

Demand for Consumer Goods

Consumer Demand

Demand is the quantity of consumers who are willing and are able to buy products at various prices during a given period of time (Hershey & Blanchard, 2017). A fundamental characteristic of demand is the inverse relationship between price and quantity; that is when price increases, the quantity demanded decreases and as price decreases the quantity increases. This relationship is commonly referred to as the law of demand (Rogers & Ruchlin, 1971). Under normal circumstances, the higher the price charged the lower will be the quantity demanded. Conversely, the lower the price the higher the quantity demanded. This behaviour illustrates the law of demand which states that other things being equal, the higher the price, the lower the quantity demanded and vice versa. Consumer preferences are taste or liking that consumer's show for particular commodities at any one given time (Samuelson & Nordhaus, 2009) ^[9]. Cash crunch, occasioned by naira redesign has caused artificial scarcity of the naira and many sellers have capitalized on the policy to hike the prices of consumers'.

The ability of a consumer to buy a commodity depends on consumer's level of disposable income. Normally there is a positive relationship between the quantity demanded by a consumer and the consumer's income (Begg & Ward, 2009). In tandem with the aforementioned, the period of naira redesign and cash crunch witnessed a situation where those who have money in their bank account could not access it to buy their daily needs.

Demand also depends on consumer expectations about future changes in the price. The commodity where consumers expect prices to increase in the near future. They will prefer buying the commodity now when the prices are relatively lower demand for the commodity would thus increase. For example consumers generally expect prices of certain commodities to be increased in the annual budget. Such consumers would normally rush to buy such commodities before the budget day to avoid buying at a higher price. In this case, consumers had no premonition of the impact the monetary policy would have on them; hence, the idea of stocking their homes with needed goods did not occur to them.

Market demand is the sum of the individual demand for a product from each consumer in the market. If more people enter the market and they have the ability to pay for items on sale, then demand at each price level will rise. Demand in economics must be effective which means that only when a consumer's desire to buy a product is backed up by an ability to pay for it does demand actually have an effect on the market. Consumers must have sufficient purchasing power to have any effect on the allocation of scarce resources.

Implications on Demand for Consumer Goods

Redesigning the naira might have some economic benefits but the challenges it posed especially to consumers of basic goods are immeasurable. Some of these challenges includes:

1. Dwindling Sales

Sales of goods during cash crunch witnessed one of the lowest in the history of Nigeria because buyers have no access to money to acquire goods that can give them basis satisfaction. Sales being a function of profit invariably affected business profit as many sellers could not break even due to lack of money in circulation.

2. Rising Prices.

As a result of hoarding of money by politicians, they might try converting the naira notes to property since they cannot risk getting caught by the authorities depositing the notes at the bank.

They would rather purchase luxury goods like cars, gold, make FOREX transactions that could inflate the economy. The redesigning of naira itself is not a remedy to rising inflation rate in

Nigeria because, the Central Bank of Nigeria backing alone has no way of appreciating the value of naira in real sense.

3. Financial inclusion of Rural Dwellers

At first, financial inclusion of rural dwellers who do not have banks located in their area would find it difficult to go to banks to dump the old notes in order to acquire the new notes. As a result of the non-existence of banks in these rural places, the people would have to go to urban areas where banks are located and this would lead to long queues at the banks, or delay before getting the new notes. Although, financial analysts are optimistic about this as it would lead to unbanked people entering into the banking sector by opening bank accounts with the banks. That is, it would introduce banking activities to the rural dwellers.

4. Absence of Banks in Rural Areas

The people who live at rural places, where there are no banks established may find it difficult to make deposits at the bank. In most cases, they might have to travel out of those rural places to urban areas where banks are located which will lead to overcrowding at those banks making it more difficult and strenuous for the bankers and even the people. Owing to the short time given to make deposits in the bank, those without accounts might become victims of losing their monies. In this case, it would advisable for the banks to allow for over-the-counter exchange of old notes for new ones.

6. Fall in level of consumption

The fall in the amount of money in circulation as a result of redesigning the currency following the current economic condition in Nigeria would have a negative impact on the economy as the level of consumption would fall leading to a production decline and eventually, unemployment would rise since a larger percent of the Nigerian population are self-employed and require money (cash-based economy) to run their day-to-day businesses.

Methodolgy

In this study, descriptive survey method was used because it is efficient in collecting large amounts of information within a short time. The study was carried out in Ado-Ekiti, Ekiti State, Nigeria while the target population comprised of market women in 'Oja Oba' and customers of consumers' goods in the market. Since the population of market women in 'Oja Oba' and their customers cannot be ascertained with

exactitude, the researchers adopted convenience sampling technique to select 100 market women and 200 customers. In all, a sample size of 300 respondents were selected for the study. The study used convenience sampling procedure because the researchers have no sampling frame of the respondents that constitute the study population. Hence, respondents who were available at the time of the study, willing to take part in the study and who are conveniently located were selected for the study. The data collected from primary source through questionnaire was analysed using binary logistic regression.

Results and discussion

Table 1: Parameter Estimate of the effect of Naira Redesign and Cash crunch on Demand for consumers’ Goods in Nigeria.

Consumers’ Demand	Estimate	Std. Error	Wald	Sig.	Exp(B)
Cash Crunch	.208	.159	1.709	.191	1.231
Constant	-.716	.406	3.114	.078	.489

Source: Author’s Computation (2022)

The effect of naira redesign and cash crunch on demand for consumers’ goods in Nigeria was estimated using binary logistic regression. Table 1, reports the parameter estimate of the effect of naira redesign and cash crunch on demand for consumers’ goods in Nigeria. The Parameter Estimates table reports the coefficients, Wald test and their p-values (Sig.). The redesign of the naira and cash crunch report statistical significant negative relationship with the demand for consumers’ goods in Ado-Ekiti, Ekiti State, Nigeria.

Table 2: Omnibus Tests of Model Coefficients of the effect of Naira Redesign and Cash crunch on Demand for consumers’ Goods in Ado-Ekiti, Ekiti State, Nigeria

Omnibus Tests of Model Coefficients				
		Chi-square	Df	Sig.
Step 1	Step	14.026	4	.007
	Block	14.026	4	.007
	Model	14.026	4	.007

Table 2 report the Omnibus Tests of Model Coefficients; the chi-square of the model was 14,026 with p-value less than 0.05. This result shows that the independent variable explained some considerable proportion of the dependent variance. It is revealed the robustness of the model compares to the baseline model.

Table 3: Model fitting summary of the effect of Naira Redesign and Cash crunch on Demand for consumers’ Goods in Ado-Ekiti, Ekiti State, Nigeria

Model Summary			
Step	2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	650.166 ^a	.023	.035

The Table 3 report the model summary, Cox & Snell R Square shows that model explain about 2.3% of the model variation was explained by the independent variables. The statistics of Nagelkerke R Square report that about 3.5% of the sources of variation was accounted for by the independent variables. This shows that cash crunch occasioned by naira redesign has significant effect on demand for consumers’ goods in Ado-Ekiti, Ekiti State, Nigeria.

Conclusion

This study examined the effect of currency redesign and cash crunch on demand for consumers’ goods in Ado-Ekiti, Nigeria. Extant literatures revealed that, the redesigning of the Naira is for economic reasons which is not limited to reducing inflation, combating counterfeiting, checking financial insecurity and reducing the money in circulation. From the literatures reviewed, the redesigning of the Naira is for economic reasons which is not limited to reducing inflation, combating counterfeiting, checking financial insecurity and reducing the money in circulation. The redesign of naira notes in Nigeria is meant to enhance security of banknotes, mitigating counterfeiting, preserving the collective national heritage, controlling currency in circulation, and reducing the overall cost of currency management. The currency redesign assists a country in the fight against corruption as such exercise would rein in the higher denomination used for corruption, and hence, the movement of such funds from the banking system could be tracked easily. Notwithstanding, the redesign of the bank with its attendant cash crunch has inflicted some injuries on both sellers and consumers of convenience goods in Ado-Ekiti, Nigeria. Cash was not available for daily buying and selling of consumers’ goods and this resulted into dwindling sales, low profitability, financial exclusion of rural dwellers, and fall in level of consumption, among others. It was concluded that naira redesign meant well for the country but it was ill-timed and not well implemented.

Recommendations

Based on the findings and the conclusions of this study, the following recommendations are proffered:

1. Relevant government Agencies should create sufficient awareness to encourage petty traders and sellers of consumers’ goods to open bank account and make it functional. Many Nigerians do not have an account and going cashless will automatically get more people into the banking system and reduce the effect of cash crunch significantly.
2. The banks should also encourage their customers to massively embark on e-payments; training programs should be given to customers on the various benefits accrued to online banking.
3. Government at all level should carry members of the public along on any policy that involve them before implementation.

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