AFTERMATH OF THE NAIRA REDESIGN ON SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA.

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Abstract

This paper examines the aftermath of the Naira redesign on small and medium enterprises (SMEs) in Nigeria. As a developing country, cash is the main mode of payment thereby making the economy cash based. The idea to redesign the Naira was hatched in the year 2022 by the Central Bank of Nigeria (CBN) with the approval of the then President. The policy was birthed to enable the CBN to control the Naira in circulation, manage inflation, combat counterfeiting, and bring to a halt the stockpiling of the Naira by corrupt persons amongst others. The policy was a good one with the intended capacity to address the issues it was meant to address. But evidence abounds that, its poorly execution amongst other factors is not in alignment with Nigeria's business operational realities, and consequently put a clog on the ease of doing business in Nigeria, low manufacturing capacity utilization, increased unemployment, increased inflation, increased debt and charging of high premium by banks and POS operators. It was therefore recommended that government and CBN should come up with policies and reforms that should ensure cash availability at various cash dispensing outlets to make trading activities easier, and equally lessen physical and economic hardship in carrying out their day-to-day economic activities.

Keywords: *Naira Redesign, Small and Medium Enterprises, Nigeria*

Introduction

In the last week of October 2022, precisely on the 26th, the former Governor of the Central Bank of Nigeria (CBN), Mr. Godwin Emefiele made a public proclamation that the bank would be recalling the old design of the following Naira denominations: N200, N500 and N1000 notes starting from 15th December of that year and that after 31st January 2023 the old denominations of the currency will cease to be legal tender. According to him, it is the world's best practice for apex banks to produce, redesign and circulate new currency every five to eight years.

It is on record that the last time the CBN had the Naira redesigned was in 2014 when only 100-Naira notes were redesigned to commemorate Nigeria's centenary. In the words of Mr. Emefiele, the immediate past CBN Governor, the reasons for the Naira redesign policy were to enable the CBN to control the Naira in circulation, manage inflation, combat counterfeiting, and give a perpetual burial to the ransom payment. Apart from the politicians who stockpiled the bigger nominations of the Naira, the redesigning of N200, N500, and N1000 will equally help to address some of Nigeria's security threats, especially laundering, kidnapping, and terrorism.

Furthermore, the policy would aid in mopping up the huge amount of cash that is outside of the banking system, which was estimated to be around 2.73 trillion Naira, about 85% of the total cash in circulation (Pillah,2023). This move would therefore help free the economy of lots of boodle and equally improve the financial health of the system, strengthen security, and enable regulators to monitor the flow of funds in the country (CBN, 2022). In addition, the policy of currency design would help deepen financial inclusion by getting most people into the banking system. This is an indispensable element in improving credit in the system and expanding productive activities, as well as ushering in an improved cashless policy, and tightening the money supply which may combat inflation (CBN, 2022.) So, this policy is a well-thought policy, if when properly executed, would help to achieve currency management, and price stability, reduce stockpiling of cash at home, and strengthen the growth of investment.

Based on the above, and by the provisions of section 2(b), section 18(a), and section 19(a) and (b) of the CBN Act 2007, the apex bank sought and got the approval of the then Nigeria's President, Mohammadu Buhari to redesign, produce, release, and circulate new series of the Naira notes at all levels. The approval was granted by the President, and the new currency started circulating within the country on December 15, 2022, after being launched by President Buhari. According to CBN, the redesigned and old denomination notes shall remain legal tender and circulate concurrently till January 31st, 2022, when the redesigned old currencies shall cease to be legal tender. That was the initial deadline given by the CBN to end the reign of these Naira notes.

However, the replacement process of the old currency was marred with administrative glitches to uncooperative ways through which bank customers conducted themselves and coupled with the CBN directive to banks not to pay the redesigned notes through the counter; that the new Naira notes would be paid only through the Automated teller machines (ATMs) at the tune of #20,000 per day. The senior staff of the apex bank was asked to go to remote areas to gauge the level of awareness and compliance. The feedback they got was not palatable, and the initial deadline was around the corner. Then, it became obvious that there was a problem on the ground because the demand for the new currency outweighed its availability, so, some people saw it as an opportunity and started taking advantage, exchanging old notes for new ones for a huge premium and this generated a lot of heat and anger among the citizens.

On January 30, 2023, a day before the initial deadline, the Governor of the Central Bank of Nigeria announced that on the order of the President, the deadline would be shifted by ten days. But the situation became even worse and unbearable to the extent that some youths, small and medium enterprises owners, petty traders, and depositors became violent which led to the vandalization of many banks, especially

those in the urban areas because people barely see cash to meet up with their daily spending and this led to economic activities in the country to be grounded (Sahara reporters, 2023).

Anoke and Okpanaki (2022) noted that small and medium enterprises (SMEs) owners were the worst hit because most of them deal in raw cash in carrying out their economic transactions. After all, electronic cash transfers and point of sale (POS) transactions are not always without hitches. By the end of February 2023, the CBN maintained that the old Naira notes were no longer legal tenders. Though the decision was approved by the then President, Muhammadu Buhari, most state governors objected. The governors of Kaduna, Kogi, Zamfara, and Ogun filed a lawsuit against the federal government and the CBN. The case successfully challenged the implementation of the currency redesign policy. The Naira redesign policy uncovered the nation's economic weakness. The CBN reluctantly complied with the Supreme Court judgment. They reintroduced the old ₦200, ₦500, and ₦1000 notes into circulation. But the damage to the economy has already been done. Nigeria's nominal GDP loss for the first quarter was estimated at ₦10 trillion due to problems caused by the Naira redesign policy. Some informal businesses lost money because they had to pay more for physical cash (Mahammed, 2023).

Cash crunch and socio-economic dislocations created by the currency redesign were what necessitated this paper because SMEs operators were unable to carry out their business transactions smoothly (Anoke, Nzewi, Agagbo, & Onu, 2021). Bottlenecks associated with electronic cash transfers have remained unsolved. People are still finding it difficult to make payments for goods and services through whatever means are available, and this is inimical to the growth of SMEs in Nigeria. There is no doubt that this could have a severe effect on the country's economic stability and SMEs' contribution to the nation's employment generation. If care is not taken, this might throw the nation's economy into an economic miasma. Therefore, it is against this background that, the researchers consider the study: Aftermath of the Naira redesign on small and medium enterprises in Nigeria. Specifically, this study seeks to determine the effect of limited availability of cash on the economic activities of Small and Medium Enterprises in Southeast, Nigeria.

Review of Related Literature and Theoretical Issues

The Take-Home on the Naira Redesign Policy

The Naira redesign policy was a brainchild of the former Nigeria president, Muhammadu Buhari, and ousted CBN governor, Mr. Godwin Emefiele. Three denominations of the Naira notes (#200, #500, and #1000) were affected by the policy, which most of the citizens when the redesigned notes were made public saw as just an ordinary "cosmetic colouration" of the old notes. According to the CBN, the new Naira banknotes are protected by several security features to aid easy identification. The distinguishing features which can be identified by touch and visibility are the raised print, the security thread, and the watermark. Other areas

such as the portrait, lettering, and the denominational numerals on the obverse and reverse of the notes are embossed. The raised prints provide tactility, while the security thread, which ordinarily looks broken but is not, when held up against the light, has "CBN" in small lettering printed on both sides of the notes. The Naira notes are also protected against photocopying. There are also features, which are visible under ultraviolet light; for example, the serial number on each banknote is black but turns green under ultraviolet light.

One of the reasons for the Naira redesign policy was to make monetary policy more efficient than before. The redesigning and withdrawal were aimed at encouraging a cashless economy, reducing corruption, and thus sanitizing the polity of stockpiled old Naira notes that were calculated to be outside the banking system. The paucity of clean Naira notes in circulation, the persistent rise in counterfeiting the bigger denominations of the Naira, ransom, and money laundering amongst other things may have necessitated the Naira redesign policy.

However, the reasons given by the CBN concerning what prompted the Naira redesign policy that was highlighted above include minimizing the influence of money on the country's electoral process by discouraging vote-buying and inducement of electoral officers. This was contrary to the viral propaganda that the policy was targeted at a presidential candidate of a particular party because the redesigning of the Naira happened at a time (which could have happened coincidentally) Nigerians were preparing for their general elections.

Series of the Naira Re-design and Monetary Policy in Nigeria

On January 1st,1973 the Naira which is the basic monetary unit of Nigeria was introduced to replace Nigeria's pound. This was after the federal government of Nigeria decided to change from a metric to a decimal currency system, and the name of the Nigerian currency was changed to "Naira" and "Kobo". The major unit of currency which used to be one Pound went into extinction, and the one Naira which was equal to ten Shillings became the major unit, while the minor unit was called the Kobo. The word "Naira" was fabricated from the word Nigeria by Chief Obafemi Awolowo, the First Premier of Western Nigeria who later became the federal finance minister. The introduction of the Naira and abandonment of the Pound made Nigeria, the last British colony to abandon the Pound currency system in favour of the decimal currency system (Pillah, 2023).

It is on record that the Nigerian currency has undergone a series of metamorphosis during pre and post-colonial era. The first major currency in Nigeria was because of the aftermath of the colonial ordinance of 1880 which ushed in the Shillings and Pence as the legal tender currency in British West Africa. For a period of 47 years (1912 -1959), the West African Currency Board (WACB) was the body saddled with the responsibility of issuing banknotes and coins in British West Africa colonies. The highest banknote denomination then was one pound, while the one shilling coin

was the highest coin denomination.

On 1st July 1959, the Central Bank of Nigeria (CBN) came into full operation, and they issued Nigeria's currency banknotes, this led to the withdrawal of WACB banknotes and coins. So, by July 1962, the currency was redesigned to have the inscription, "FEDERATION OF NIGERIA" now (FEDERAL REPUBLIC OF NIGERIA') on it. By 1968, due to the outbreak of the Nigeria-Biafra civil war, coupled with misuse of the currency banknotes during the civil war, the then Nigerian government led by General Yakubu Gowon decided to change from the metric to decimal, and the name of the Nigerian currency was changed in January 1973 to what we have today as "Naira" (Olujobi, 2022). In so doing, the main unit of currency which was one pound went into extinction and the one Naira which was equivalent to ten shillings became the main unit, while the other unit was called the kobo.

By 11th February 1977, the highest denomination of new banknote, with the value of twenty Naira (₦20) was issued. This denomination was introduced because of the growth of the economy, convenience, and forechoice for cash transactions. This denomination (20 Naira) was the first currency in Nigeria to have the head of a prominent Nigerian citizen (the late Head of State, General Murtala Ramat Muhammed) inscribed on it.

On 2nd July 1979, the government introduced another new currency banknotes of three denominations, namely ₦1, ₦5, and ₦10. These notes were of the same size as the ₦20 notes. For unambiguity, 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 inscription at the back of the notes reflected various distinct cultural features of the country.

In April 1984, all the banknote denominations in the country were further redesigned apart from the 50 Kobo banknote. This is to checkmate the currency trafficking that was common at the time. In 1991, the 50K and ₦1 were changed to coins. The quest for efficient payments system due to expansion in economic activities led to the introduction of ₦100 notes on December 1st, 1999; ₦200 notes in the year 2000; ₦500 notes in April 2001, and ₦1000 notes in October 2005.

As part of economic reforms, ₦20 was issued for the first time in polymer substrate on 28th February 2007. Thereafter, the redesigned ₦50, ₦10, and ₦5 banknotes were converted to polymer substrate on 30th September 2009 following the public acceptability of the ₦20 (polymer) banknotes. Therefore, making all lower denomination banknotes appear in the polymer substrate. On 29th September 2010 and 19th December 2014 respectively, the CBN redesigned and issued the ₦50 and the N100 Commemorative polymer banknote respectively as part of its contribution to the celebration of Nigeria's 50th Independence anniversary and 100 years of is existence as

a nation. So, with the presumption that trillions of Naira were stockpiled somewhere by the politicians, and the need to address some of Nigeria's security threats, especially laundering, kidnapping, and terrorism amongst other things, and more importantly to mop up the huge amount of cash that is outside of the banking system that was estimated to be around 2.73 trillion or about 85% of the total cash in circulation, and therefore rid the economy of a lot of 'black money', which 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) gave birth to the latest redesign of these three (N200, N500 and N100) denominations of the Naira banknotes, birthed on 15th December 2022.

The Consequences of the Naira Redesign Policy on Nigeria's Economy/ Businesses

The first quarter of 2023 was a noxious period for most Nigerians and their businesses. This experience was caused by cash circulation shortages due to the Naira redesign policy. The policy adversely impacted several businesses and the economy at large. Economic activities for small and medium enterprises were hugely affected. The policy unveils the vulnerability state of Nigeria's economy and the need to revive the cashless policy for small businesses to address the cash paucity.

One of the numerous ways of assessing the effect of a policy on economic activities is through Purchasing Managers Index (PMI) readings. This reading provides a monthly direction of economic activities unlike GDP which is calculated on a quarterly and yearly basis. Any reading below 50% indicates a fall in economic activities over that period, while PMI readings above 50% imply that economic activities have increased. So, the PMI may be used as an alternative to predict the direction of economic activities. The Stanbic IBTC Bank PMI data show that SMEs and other economic activities in the country were in near comatose due to the Naira redesign policy, falling to 42.3 points in March 2023. This is an unprecedented decline since the inception of PMI in the last decade, except during the COVID-19 pandemic in 2020 (Oyadeyi, 2023). In February 2023, the index fell to 44.7 points, which shows a nosedive-in corporate and business activities. Analysts have noted that the CBN Naira redesign policy was the main reason for the sharp drop in both months, resulting in a cash constraint that badly affected numerous businesses. Those living in villages without access to banks and their ATM relied on point of sale (POS) agents, who saw the situation as an opportunity to charge high premiums on their customers. Nigeria's nominal GDP loss for the first quarter of 2023 was around ₦10 trillion due to problems caused by the Naira redesign policy (Mohammed, 2023). Most local businesses lost a lot of money because they had to pay more for physical cash.

The policy has brought about inflation amongst others within the economy because of charges associated with electronic transfers- such as POS charges, thereby positioning Nigeria's currency as worthless and without real economic value, thus promoting movement in the supply and demand for dollars by making people believe that the dollar is stronger (Olujobi, 2022). Also, due to the limited availability of cash in circulation, caused by the daily withdrawal limit of forty thousand Naira (#40,000) through the ATM by most commercial banks in Nigeria, most traders are charging higher prices, which can consequently cause inflation. The cash crunch has

no doubt brought about reduced commercial activities in the informal economy.

Conceptualizing Small and Medium Enterprises (SMEs)

There is no known consensus on the definition of what constitutes SMEs in precise terms all over the globe. The concept, SMEs covers a wide range of definitions which varies from country to country and between the sources reporting SME statistics (Adamu and Ibrahim, 2011). Some of the yardsticks for measuring what constitutes SMEs are the numerical strength of employees, capital, and sales turnover.

The Federal Ministry of Industries, in their definition, sees a medium-scale enterprise as any enterprise with operating assets of less than two hundred million Naira (#200,000,000), and with less than three hundred employees. While a small-scale enterprise is one whose total assets are less than fifty million Naira (#50,000,000), and whose staff strength is not up to a hundred employees. They did not consider annual turnover in their definition of an SME.

The National Economic Reconstruction Fund (NERFUND) in their definition tagged SME as any enterprise whose total assets are less than ten million Naira (#10,000,000). Annual turnover or the number of employees was not deemed necessary in their definition.

The National Council of Industry, 2003 classified enterprises in Nigeria based on three criteria: Size, Number of Employees, Total Cost Including Working Capital but Excluding Land amongst other things. In their definition, Micro enterprises are those businesses whose employees are less than ten (10), and their total cost including working capital but excluding land is less than one million Naira (#1,000,000). Small enterprises are those whose number of employees ranges enterprises are those whose employees are above one hundred (100) in number, and their total cost including working capital but excluding land is above Two hundred million Naira (#200,000,000).

The Central Bank of Nigeria in its monetary policies circular No. 22 of 1988 defined SMEs as enterprises that have an annual turnover not exceeding Five Hundred Thousand Naira (#500,000) (excluding land and working capital) with no lower or upper limit of staff.

In the United Kingdom, the 1975 Companies Act, defined a small enterprise as a business whose turnover is less than £1.4 million and with several employees less than fifty. Then, those with turnover between £1.4 and £ 5.7 million, with employees' numerical strength between fifty to two hundred and fifty (50-250) were regarded as medium enterprises. While those enterprises whose turnover is more than £5.7 million and whose staff strength is above two hundred and fifty (250) were tagged large enterprises.

Nigeria is usually known for employing qualitative indices in defining SMEs, which

seems unsatisfactory in all ramifications (Etuk, Etuk, and Baghebo, 2014). This is the fact that such indices are tentative because of the Dollar-Naira volatility, which may likely result in a continuous rise in the general price level of goods and services. So, using qualitative indices in defining what constitutes SMEs can sometimes not be generally acceptable (Anoke, 2019).

SMEs' Economic Contributions in Nigeria.

SMEs are non-subsidiary, autonomous businesses, with a low capital base, and hire a fistful number of employees. The range of SMEs employees varies from one country to another. Small and Medium Scale Enterprises (SMEs) form the bulk of the businesses in Nigeria. Their pervasiveness in Nigeria could be attributed to less capital involvement and flexibility in filling the need in niche markets. Their influence on the economic growth of every nation cannot be understated as they drive the economic and industrial transformation of virtually every nation. They make vital contributions in improving the economic and social sectors of a country through stimulating large-scale employment, investment, development of indigenous skills and technology, promotion of entrepreneurship and innovativeness, enhancing exports, and building an industrial base at different scales (Adamu and Ibrahim, 2011). The SMEs sector is the catalyst for economic development, job creation, and industrialization amongst others. Micro, Small, and Medium Enterprises (MSMEs) represent about 90% of businesses, create more than 50% of employment globally, and equally contribute up to 40% of national income (GDP) in emerging economies (World Bank).

According to the National Bureau of Statistics, in the last five years, small and medium-scale enterprises (SMEs) in Nigeria have contributed about 48% to the nation's GDP, and equally, account for about 50% of jobs creation and nearly 90% of activities in the manufacturing sector, in terms of number of enterprises. SMEs have in a month Sundays accepted believed to be a propeller of economic growth and development. The impact of this sector in Nigeria's economy is very crucial in alleviating the masses from poverty. The reason is that this crucial sector of the economy (being treated with kid gloves by the government) gives equal opportunities to virtually every class of people by stimulating the circulation of cash through economic means. Despite the enormous contribution of SMEs to the Nigerian economy, they still have some challenges confronting them. These challenges range from lack of access to finance amongst others to once cause by the Naira redesign policy.

Theoretical framework

The foundation of this research was laid on the scarcity principle. The link between scarcity and economics was first proposed by Lionel Robbins in his 1932 paper: "Essay on the Nature and Significance of Economic Science." His postulations were critical in the development of this concept within the framework of economics. He defined economics using scarcity: - "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." The law of scarcity simply states that, if what we desire happens to be limited in supply, the perception of its value increases significantly. The scarcity principle is an economic

theory in which a limited supply of a good, braced with a high demand for that good, results in a mismatch between the desired supply and demand equilibrium. So, the Naira redesign policy created an artificial scarcity of the concerned notes and hoarding of cash by banks, through placing a limit on the daily withdrawals. This resulted in many SME owners having very low patronage due to the paucity of cash for business transactions, closure of some businesses due to financial fraud associated with electronic transfers amongst others was common. So, the limited supply of the redesigned notes by the central bank of Nigeria, coupled with a high demand for it resulted in a mismatch between the desired supply and demand equilibrium. This marked the link between this study and the theory.

Conclusion and Policy Implications

The Naira redesign policy is a good policy that can promote free trade when the concerned stakeholders put up complementary policies that are in alignment with Nigeria's current realities. But the policy ended up ushering in unprecedented hardship for the citizenry.

However, to ameliorate the pains of the Naira redesign policy, the CBN must address the issue of daily withdrawal limits and reduce licensing fees for point of sales operators (POS) amongst other things. This will enable businesspeople and citizens to have access to their cash, pending when the economy normalizes. The CBN needs to complement the Naira redesign policy with other monetary policies such as cutting bank interest rates to encourage borrowing and increase investment to stimulate economic growth.

The apex bank should ensure cash availability at various ATM and POS outlets to make trading activities easier. This will reduce Nigerians' physical and economic hardship in carrying out their day-to-day activities. With this regular cash availability strategy for the informal economy, and complementary policies as well as a well-implemented economic strategy, trading activities will increase, which can catalyze economic growth, and open more job opportunities.

Implementation of the African Continental Free Trade Area (AFCFTA) strategy by the government will help enhance trading activities, and this requires collaboration between the CBN, the federal ministries of finance, and industry, trade, and investment. This synergy is necessary to develop policies and programs that will complement local trade and banking policies.

Government must come up with policies and reforms that will be geared towards reducing corruption, especially concerning preventing political officeholders from stockpiling the Naira and foreign currencies in their homes. This will go a long way in reducing the incidence of bad Naira notes and help bring stockpiled Naira notes into the banking system. This will help in reducing inflation, and equally kick the economy to a stellar performance.

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