

The Impact of Cashless and Naira Redesign Policies on Economic Development in Federal Capital Territory, Abuja

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Abstract

The risk involved in carrying large amounts of physical cash, precious time waste in the bank during financial transaction and lack of proper records about flow of money in circulation were few of the identified challenges of the over-reliance on cash-based economy. Also, the starching of naira notes out of circulation for various nefarious reasons and lack of CBN ability to redesign the naira most especially the higher denomination, which was part of CBN mandate to redesign, create, and circulate new local legal money every five to eight years necessitated the naira redesign policy in Nigeria. The twin policy no doubt resulted into untold hardship for Nigerians as many small-scale businesses folded up. It is against this backdrop that the study examined the impact of cashless and naira redesign policy on economic development in Nigeria. The study adopted survey research design and data were sourced through primary and secondary sources. Population of the study consisted of FCT residents with bank accounts while sample were selected using Research Advisory Table 2006. The findings of the study showed that the naira redesigned, and cashless policy was lofty policy which could propel economic development but was hurriedly implemented. The study also found that instead of the policy solving the existing fiscal and money problem, the twin policy ended up creating others. The work recommended among others that public policy of such magnitude needs to be a well thought out policy with consultation and interface with major stakeholders.

Keywords: Cashless, Naira Redesign, Policy, Economic Development, FCT-ABUJA.

Introduction

The welfare and security of every citizen, no matter where they live, is the basic responsibility of the government. As a condition for economic progress, several countries throughout the world establish and put into practice good monetary policies in order to attain this high goal. Nigeria adopted a cashless economy policy in 2014, joining other developed nations in Europe and North America in this effort to transform the economy and minimize cash handling by residents. In other words, going cashless will necessitate numerous cashless banking channels, claims Odumeru (2013). Mobile banking, internet banking, electronic card implantation, point-of-sale terminals, telephone banking, and automated teller machines are among the widely used channels for cashless policies worldwide. The implementation of a cashless policy in Nigeria will lower borrowing costs, promote the use of electronic payments, and encourage people and businesses to shift cash to

bank deposits. It also reduces the illegality connected with carrying large amounts of physical cash around while stimulating and developing the payment system.

To broaden the scope of banking and make financial services accessible to banking adults at a reasonable price, the cashless policy was adopted. Many Nigerian individuals do not use bank services, which has major economic and developmental repercussions, according to CBN (2011). The cashless policy's overarching objective is to lower the adult exclusion rate from 46.3% in 2012 to 20% in 2020. As defined by CBN (2012), financial inclusion is a development that occurs when individuals have simple access to a wide range of formal financial services that cater to their requirements and are offered at a reasonable price.

While the implementation of the cashless policy is still proceeding slowly, the Governor of the Central Bank of Nigeria said on October 26, 2022, that the bank would stop printing the

old-style N200, N500, and N1000 notes by December 15, 2022. He stated that this process will be completed on January 31, 2023, when the existing currency will no longer be accepted as legal money.

According to Central Bank of Nigeria figures, *“the amount of money in circulation increased significantly during 2015, from N1.46 trillion in December to N3.23 trillion in September 2016. We must not allow this concerning tendency to continue”*. The CBN has seen a marked increase in counterfeiting in recent years, particularly in the higher denominations of N500 and N1,000 banknotes (Emefiele, 2022). The naira has not undergone a redesign in the past 20 years, despite the fact that it is considered best practice for central banks to redesign, create, and circulate new local legal money every five to eight years. Based on these trends, issues, and facts, and in accordance with sections 2(b), 18(a), and 19, subsections (a) and (b) of the CBN Act 2007, the management of the CBN requested and received President Muhammadu Buhari's approval to redesign, print, and distribute a new series of N200, N500, and N1,000 banknotes. In accordance with this approval, we have concluded the arrangements for the new currency to go into circulation on December 15, 2022, according to Emefiele. The new and old currencies will continue to be accepted as legal money and be used interchangeably (Fasua, 2023).

In Nigeria, the dual policies of cashless transactions and currency redesign have been put into place, but they have had unexpected effects. The introduction of the cashless policy by the Central Bank of Federal Nigeria was intended to help monetary policy as a technique of economic management to bring about sustainable economic growth and development, while the Central Bank of Nigeria that the sudden introduction of the naira redesign policy was intended to reduce counterfeiting and dissuade people from hoarding the out-of-circulation currency. Both of these initiatives were intended to boost Nigeria's economic growth, but as evidenced by events over the past six months, their adoption has not had the intended economic benefits. Suffice to state that the following questions will be unraveled by the study: What are the reasons behind the

implementation of the naira redesign and cashless policy in Nigeria? How practicable is the implementation of the naira redesign and cashless policy considering the time frame in Nigeria? What are the implications of the policy? What are the challenges associated with the implementation of the naira redesign and cashless policy in Nigeria?

Conceptual Clarifications

Cashless policy is electronic dependent transaction rather than physical cash transactions, according to Omotunde et al. (2013). Additionally, Ejiro (2012), cited in Omotunde et al. (2013), posits that the Central Bank of Nigeria (CBN's) initiative to implement a cashless economy is a move to improve financial inclusion in Nigeria.

Contrary to what the name might imply, a cashless economy refers to one where the amount of cash-based transactions is maintained to a bare minimum rather than one where there are no cash transactions at all. It is an economic system where the majority of transactions are not made in exchange for actual money. The exchange of products and services for other commodities and services is not part of the economic system (Babalola, 2015).

Since money will still be used to exchange goods and services for some time to come, a cashless economy does not mean that cash will completely disappear. By offering substitute payment methods, it is a financial environment that decreases the usage of actual currency (Alilonu, 2012).

According to Obi (2015), a cashless society is one in which no one uses cash and instead only uses credit cards, charge cards, checks, and direct bank transfers to make purchases. In other terms, it may be said that the financial system now extensively uses computer technology. He claims that over 97% of transactions in the western world today take place without the actual exchange of money, which has significantly reduced costs, corruption, and money laundering.

The objective of Nigeria's cashless economy is to reduce the number of cash transactions as much as feasible. The CBN had imposed daily cumulative limitations of N150,000 for individuals and N1,000,000 for corporate entities for withdrawals and deposits (since

revised to N500,000 and N3,000,000 respectively). Per additional N1000, penalty costs of N100 and N200 must be paid (currently decreased to 3% and 5%, respectively) (Ezumba, 2011). It should be mentioned that FCT has recently seen a rise in certain types of cashless transactions. Automated Teller Machines (ATM), Point of Sales terminals, mobile voice, web, inter-bank branch, and kiosks are the current top seven electronic payment channels in Nigeria.

Naira Redesign

Currency redesign is the coloration of currency or change of currency face to enforce a major change on what is existing before the change. It can be regarded as a redesign of currency money different from what has been existing in a particular country (Olowu, 2022).

Currency redesign policies often refer to demonetization policies are designed by countries to strengthen the performance of key macroeconomic parameters and equally combat social improprieties. Major among these, is to reduce the amount of cash in underground or illicit economy, truncate the activities of racketeers, and obliterate rent-seeking businesses in the black market (Fasua, 2023).

To Omimisi, (2023) while exploring the benefit of currency and naira redesign, he observed that, the naira will strengthen financial institutions even more, lessen corruption, and improve banks' performance due to a sharp increase in the use of electronic banking channels, more transactions taking place through bank accounts, and more agents being able to access the government's tax collection system. *More agents in the tax net will result in an increase in revenue generation for the Federal Government of Nigeria.*

Also, Fasua (2023) while thinking in same direction concluded that the redesign of currency has beneficial and detrimental economic implications because currency redesigns increase a currency's security by helping nations keep counterfeiting to a minimum and stay one step ahead of threats.

By acting as a medium of exchange, a unit of account, or a store of value, currency enables private and public sector agents from many nations to engage in cross-border economic and financial activity. The achievement of internal

and external balances of payments has remained the goal of monetary policy over time. However, over time, focus on methods/tools to accomplish those goals has evolved. Prior to and following 1986, there have been two significant stages in the pursuit of monetary policy. Direct monetary controls were emphasized during the first phase, whereas market techniques are used during the second (Pillah, 2023).

Economic Development

Real per capita income increases through time as a result of economic progress, which also involves changes to the institutions governing politics, society, and the economy as well as the way income is distributed (Obadan, 1997). With this understanding, it is abundantly obvious that economic development is a complex idea that encompasses sociopolitical advancement and institutional progress in addition to economic growth.

Belshaw and Livingstone (2002) developed economic development as a notion that includes advancements in the provision of a livelihood on a sustainable basis, access to education, and basic healthcare for the majority of the people, supporting this viewpoint. Economic growth is clearly human centered with Belshaw & Livingstone, and it aims to raise the standard of living for the populace.

Todaro and Smith (2003) explicitly help to resolve the contradiction when they noted that a common alternative for measuring economic development has been using the rate of growth of income per capita or per-capita GNP, which expresses the ability of a country to expand its output at a rate faster than the growth rate. Nowadays, the bulk of the population's quality of life is used to determine economic development. Todaro and Smith (2003) claim that the experience of the 1950s and 1960s, when many developing countries failed to meet their economic growth targets and the majority of their citizens' quality of life remained largely unchanged, indicated that there was a serious problem with this limited definition of development.

To put it another way, economic development refers to the process by which a country raises the economic, political, and social conditions of its people to the point where

the majority of them are living above the poverty line. The transition from a reliant economy to a more industrial one is slow.

Theoretical Framework

Decision-Making Theory

The study adopted decision making theory as its theoretical underpinning. Herbert Simon was the first to bring an analysis based on decision-making process into the focus of political analysis and was later developed by Richard Snyder and his colleagues after the Second World War II.

According to Snyder, Decision Making Theory made a distinction between the static analysis so far adopted in the study of politics by the structural functionalists and the systems theorist and claimed that the decision-making analysis based as it was on process analysis, was capable of dealing with dynamic situations. A static analysis could yield information on the nature of change between two points in time and on the conditions under which the change took place but not on reason for change or how the change was actually unfolded (Varma, 2001).

According to Simon (1979), decision-making is the most significant activity of administration. He argued that decision-making should be studied carefully since the deciding comes before the doing. Simon criticized the traditionalists (scholars in the classical school of thought and said that their principle is proverbs. He also criticized the idea of laying emphasis on formal organization structure of authority and allocation of functions. He prescribed an empirical approach in administration to replace the so-called arm-chair speculation..

The models of decision-making attempt to simplify the real-world situation of decision making through relating how individuals and groups take decisions, what guides or informs such decision making, what information the decision maker looks for and what influence his decision (Ikelegbe, 1996).

Applying it to this study one will agree that the decision to go cashless and redesign naira was taken by the leadership of the executives. The Central Bank of Nigeria Governor decided upon meeting with the president of the country that there is need to replace the cash-based

economy based on the multidimensional benefits inherent in the policy. Also, because of the arrays of reasons that were given such as over 3.7 trillion out of bank and stashed in individual hands, the threat of high domination counterfeiting, replacement of mutilated currency that are not healthy for human handling etc. culminated in the firm decision to redesign naira. In other words, the statement was a decision-making in action.

Research Methods

Research Design

A survey research design is used in the study. The research design was chosen because the study involves gathering original data to describe a population that is too big to examine in person. It also enables the gathering and evaluating of data from a small number of subjects or subjects that are thought to be representative of the complete group in order to study a group or a set of objects.

Population

The study's population was the population of bank users or customers in the Federal Capital Territory. At 3,840,000, population in Federal Capital Territory, the Abuja's expected population has grown by 5.15% since 2022. Determining population of the study, over 1 million of the more than 3.8 million people in Abuja that use and possess at least one bank account will make up the study's population. According to Nigeria Inter-Bank Settlement System (NIBSS) the Nigeria's active bank accounts increased to 133.5 million in December 2021 as additional 18.7 million accounts became active. Based on this strength this increase, Federal Capital Territory Abuja Bank customers cannot be less than 1 million customers.

Sample Size

Since everybody's opinion cannot be sampled, it becomes absolutely necessary that sample must be drawn from the targeted study's population. According to Yusuf (2003:133) there is no hard and fast rule binding the selection of sample size but the principle guiding it is that the smaller the population, the bigger the sample ratio has to be for accurate sample. In other words, the

Research Advisor (2006) Sample Table was used to draw the sample size for this study.
 Population size= 1,000,000
 Degree of accuracy/margin of error=0.05
 Sample size of=663
 At confidence level of=99.00%

informed. In other words, the need for non-probability sampling of the quota type is justified on the grounds that certain important demographic groups should be included in accordance with the necessary number of such groups (Obasi, 2008).

Based on this result, 663 sample size is adopted for this study. In other words, 663 questionnaires were distributed to public servants in various MDAs like CBN, ministry of finance etc. in Abuja Federal Capital Territory. The study's best method is quota sampling, a non-probability sampling strategy. It entails choosing the elements that are most readily available and that meet certain criteria in order to acquire the desired number of elements. A purposeful decision must be made to include only those with the necessary information if a researcher is interested in a particular topic about which only a small number of people are

Methods of Data Collection

Both primary and secondary data collection techniques were used in the investigation. In order to elicit responses from the respondents, who are solely civil workers, public servants, financial specialists, and academics, a structured questionnaire was utilized as the main technique of data collecting.

Evaluation of Research Questions

This section evaluates the research questions earlier raised in the introduction of the study to validate or otherwise the set assumptions.

Table 1.1 Research Question 1: What are the reasons behind the implementation of the naira redesign and cashless policy in Nigeria?

Variable	Frequency	Percentage (%)
Yes	173	29
No	417	69
Undecided	10	2
Total	600	100

Source: Field Survey, July 2023

The table above shows that 173 respondents which represent 29% of the population are conscious of the reasons why the policy is being implemented while 417 respondents which represent 69% are not really sure of the reasons behind such implementation and 10 respondents which represent 2% are undecided as to the reasons behind the policy. The implication of this is that majority of Nigerian are not aware of the real motive of the policy.

The Nigerian populace were not fully educated before the implementation of the policy but then Central Bank Governor attributed reasons such as the worsening shortage of clean and fit banknotes, the increasing ease and risk of counterfeiting evidenced by several security reports and recent developments in photographic technology and advancements in printing devices have made counterfeiting relatively easier, as part of the

reasons for the move. On the sidelines were other reasons – a need for the Central Bank to have a better handle on money in circulation, reduce inflation by reducing money hanging around everywhere where the banking sector cannot account for them, reduce speculation against the Naira, and also target criminals whose stock in trade is raw cash by promoting a less cash-heavy economy (Fasua, 2023). The naira redesign and cashless policy was a good policy, but the enabling environment was not created as well as the timing of the implementation was improper as it had adverse effect on the economy rather than positive impact. Both the naira coloration and cashless policy have not achieved the purpose. Rather than ameliorating the poverty and reducing the high disparity between the rich and the poor, the policies had put many Nigerians out of work and limit their economic activities. Although, the

naira redesign and cashless policy have significantly reduced the heavy reliance on cash-based economy and Nigerians have started to adjust to the new realities of cashless economy. The naira redesign and cashless policy

are indeed lofty policies capable of contributing meaningfully to economic development in FCT if the policy is well thought out to add values to economic activities with enabling environment and strategically mapped out implementation.

Table 1.2 Research Question 2: How practicable is the implementation of the naira redesign and cashless policy in FCT considering the time frame?

Variable	Frequency	Percentage (%)
Yes	201	33
No	370	62
Undecided	29	5

Source: Field Survey, July 2023

The table above shows that 201 respondents which represent 33% believed that the implementation of the policy is not practicable considering the time frame while 370 respondents which represents 63% believed that the policy is not practicable based on the time frame while 29 respondents which represents 5% are undecided whether the policy is practicable conserving the time frame or not. Implication of this is that the time frame for the implementation did not make it practicable.

The naira redesign and cashless policies were hurriedly implemented as such many small-scale businesses folded up while other FCT suffered untold hardship accessing their hard-earned money, other citizens gone through series of difficulty as a result of the restriction on cash withdraw and those who had never

patronized the bank became stranded by the twin policy with limited time. The policy did not discourage starching of naira notes as the Nigerian elites still have access to both the old and the new currency. The Nigerian elites are aware of the ability of the cashless policy to track and detect money laundering, terrorism sponsorship and votes buying etc. as such they still keep the naira notes. The claim that the policy was politically motivated could not be ascertain as public policy is formulated for citizens and not for selected Nigerian elites with their selfish interests. The implementation of naira redesign and cashless policy impact have been felt in a negative way going by experience of Nigerians who could not have access to their hard-earned money as at when due.

Table 1.3 Research Question 3: What are the implications of the implementation of the naira redesign and cashless policy in FCT?

Variable	Frequency	Percentage (%)
Yes	358	60
No	235	39
Undecided	7	1
Total	600	100

Source: Field Survey, July 2023

The table above shows that 358 respondents that represent 60% were convinced that the policy has implications for economic development in FCT and Nigeria at large 235 respondents which represent 39% are not convinced of such implication. 7 respondents which represents 1% are undecided on the implication of the policy. In other words, there is general agreement that

the policy has lots of implications both positives and negatives.

The naira redesign and cashless policy has not positively impacted on the fiscal and monetary policy in FCT there were many lacunas in the aforementioned policy. The cashless policy did have a marginal positive implication as the banking sector most

especially experience influx of new customers who were hitherto never bank customers and it also created a big consciousness among Nigerians on the need to migrate to cashless based economy to forestall ugly experience of the past. In 2022 for instance, the volume of transactions performed electronically in Nigeria with commensurate increase in FCT surged to the highest in five years from the total volume of 613.1% to 5.2 billion in 2022 from 729.2% million in 2018 (Adetunji, 2023). In the case of naira redesign policy, it created job loss, added to the level of unemployment, loss of lives as citizens with ill health could not access their money as they would have wanted for medications and other medical needs, exploitation of Nigerians from the few available POS vendors, exposed bank officials to psychological trauma resulting from the threat to life they get, etc. are the negatives implications of the naira redesign policy. Majority of Nigerians agitated for the discontinuation of the policy until commensurate measures are put in place.

Discussion and Findings

Finding of the study revealed that both the naira coloration and cashless are indeed lofty policies capable of contributing meaningfully to economic development in FCT only if the policy is well thought out to add values with enabling environment rather than targeting the implementation on certain few elites in Nigeria. At least, it has succeeded in reducing the heavy reliance on cash-based economy and Nigerians have started to adjust to the new realities of cashless economy but with painful experience.

The study established that naira redesign and cashless policies were hurriedly implemented as many small-scale businesses folded up while other FCT suffered untold hardship accessing their hard-earned money, other Nigerians who have never patronized the bank became stranded by the twin policy with limited time. The impact of implementation was felt in a negative way going by experience of Nigerians who could not have access to their hard-earned money as at when due.

The study found that while trying to solve a problem, the naira redesign and cashless policy ended up creating other problems of loss of jobs, loss of lives, further unemployment, as a result

of the wrongtiming which connoted suspicious political moves by power elites who wanted to use the public policy as a tool to advance their interests rather than the interest of the nation.

Conclusion and Recommendations

The study examined the naira redesign and cashless policy in Nigeria. According to the study, the policy has not fully addressed the motive behind its formulation as a result of unfavorable enabling environment but succeeded in creating consciousness among Nigerians on the need to discontinue relying on cash-based economy. Also, the naira redesign and cashless policy suffered from rush implementation that subjected millions of Nigerians to untold hardship from accessing their hard-earned naira. As a results of rush in the implementation of the policy, many Nigerians were stranded, businesses were lost, and lives were loss.

The naira redesign and cashless policy created lots of problem while trying to solve others and later became a political tool in the hands of Nigerian political class who politicized the implementation time.

Based on the findings of the study, the following recommendations are suggested:

- i. Public policy of this nature needs to be well thought out with consultation and interface with major stakeholders in fiscal and monetary areas. In other words, this policy should be reviewed, revisited, and reformulated to allow ample time for effective implementation. The call by President Tinubu to halt the implementation of the currency change was quite commendable as it will allow much time for broad review.
- ii. While implementing public policy, there is need for cost benefits analysis as well as rational decision making. Government should as a matter of urgency carry out a pilot study to plan for unintended consequences and to know who and which business/organization would be affected by such policy. A thorough analysis in form of pilot study would help to prevent damages of great consequences.
- iii. Public policy of such importance and relevance should be isolated from the

politics and power play. Public policy should be based on majority interest and not elitist interest. There is need to draw a line between politics and policy in order to move the country forward.

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