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## **Effect of Naira Redesign on Small-Scale Industries Growth in Nigeria**

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### **Abstract**

The study examined the relationship between naira redesign, and its effect on small-scale enterprises growth in Isoko North and Ethiope East, Local government areas of Delta State, Nigeria. The study was designed as a cross-sectional survey with an infinite population, and a sample size of 340 drawn from both small-scale businesses and informal traders randomly. The instrument for data collection was questionnaire, which were administered to the respondents and total of 338 were retrieved and used for analysis. The ANOVA statistical tool running on SPSS 24 were adopted in testing the hypotheses. The result from the analysis

revealed that scarcity of new currency caused by the redesign of naira has moderate positive relationship on small-scale performance and scarcity of new naira has a high positive relationship on informal traders. Hence, it was concluded that redesign of naira, gave rise to scarcity of naira, which lead to informal traders buying naira from Point of Sales (POS) machines operators, and these led to folding up of many small-scale and informal traders' enterprises. The study recommended among others that government in taking sensitive decisions such as naira redesign should involve relevant stakeholders.

**Keywords:** Naira Redesign, Small-Scale Enterprises, Economy Growth, Gross Domestic Product

### **Introduction**

Small business is a vital aspect of any economy and plays a key role in every society whether developed or developing. In recent times small business contributes a lot to the economic environment in which it operates, for example, as employer of labour, a consumer of local raw materials, as an inventor and custodian of indigenous technology, a developer and innovator of entrepreneurial skills (Oboreh and Aruorien, 2021; Oboreh and Nnebe, 2019; Okuma, 2017) [17, 16, 19]. To solve the critical problem of unemployment in Nigeria, government needs to stimulate or encourage rapid growth of small-scale enterprise. In a depressed economy like Nigeria, effective and efficient operation of small-scale business as well as creation of conducive operating atmosphere for this set of business is the only means through which economic growth of any nation could be achieved (Osareme and Obi, 2022) [20].

The naira, which is the purchasing power, and the country currency is expected to attract other countries to import her product so as to earn foreign exchange that helps in restoring her persistent upsurge. The former Governor of Central bank of Nigeria (CBN) Godwin Emefiele has in October 2022 announced that N200, N500 and N1,000 notes would be redesign. He further stated that after January 31, 2023, these notes mentioned would cease to be legal tender and Nigerian should deposit the old notes to their nearest bank (CBN, Newsletter, 2022). On December 15, 2022, the President of Nigeria, Muhammadu Buhari launched new notes of N200, N500 and N1,000 ([www://cbn.gov.ng.currency](http://www://cbn.gov.ng.currency)). The new naira notes were in circulation with the old naira notes of the specified denomination, until January 31, 2023, and later moved to February 10, 2023. However, the new notes which were in circulation were few and could not meet the demand of Nigeria people. President Muhammadu Buhari approved the continued use of old N200 notes, to coexist with the new N200 notes and will remain valid for another 60 days, which was May 2023. As the frustration caused by the scarcity of the new and old naira notes worsened, trade and business transactions in Nigeria were mostly affected, small-scale enterprise began folding up. The government of Nigeria realising that the naira redesign project was a failure, occasion by some State Governors court action, the federal government approved the coexisting of the old and new naira notes with the extension to December 2023. The objective of this research, therefore, is to assess the extent to which naira redesign scarcity affects the performance of small-scale enterprises and to investigate the effect of naira redesign on informal sector's growth. As a developing nation, there is the need to give value consideration to her

currency as this will cause businesses both internal and external flourish, which in turn boosts the gross domestic product (GDP) of the country. The study is of much importance to the government policy makers and corporate affairs in Nigeria. This will enable government to be active in setting policies, assess the preparedness of small-scale enterprise and other businesses response to new ideas especially when it affects monetary exchange, before executing such policies.

## Literature

### Concept of Naira

The federal republic of Nigeria did not carry out transactions with her own currency unit until after the establishment of the Central Bank of Nigeria in the year 1958 (Umole, 2005)<sup>[24]</sup>. The Central Bank of Nigeria was given the sole responsibility by the act of 1958 to issue the Nigeria currency notes and coins (CBN Act of 1998)<sup>[5]</sup>. The Nigeria currency unit was defined as the Nigerian pound which was equal to twenty shillings and each shilling was equal to twenty pennies. In the same manner, the Nigerian pounds purity was preserved at 100% against the British pound's sterling. This to say one British pound was equal to one Nigerian pound sterling (Umole, 2005)<sup>[24]</sup>. In the history of Nigeria, it is worthy of mention that the first Nigeria currency notes were circulated in July 1959 and by the end of the year about 49 million naira, Nigerian currency notes were issued ([www.cbn.gov.ng/currency/history...](http://www.cbn.gov.ng/currency/history...), retrieved 2023, February). Worth mentioning was the constraint of underdeveloped infrastructure in its circulation.

Historically the word naira derived its gross roots meaning from the first two and the last three letters in Nigeria but because "NIRIA" sounded like the Italian "LIRA", General Yakubu Gowon opted for an interpolation of the letters coming out with today's "NAIRA". The decree that established naira also stated that for every contract, sales, payments, bills, note, instrument and security for money and every transaction, dealings matter and things what so ever relating to money, involving payment of or the liability to pay any money in relation to Nigeria pounds shall in Nigeria be demanded to be made, executed, entered into, done and had in, and in relation to naira on the basis of one Nigeria pounds equal to two naira (CBN: 1998)<sup>[5]</sup>.

In December 2022 Central Bank of Nigeria made a major change to its currency system by introducing new banknotes with values of N200, N500, and N1000. The withdrawal cash limit was reversed by Central Bank allowing individuals to withdraw up to ₦500,000 and corporate entities to withdraw up to ₦5 million per week, with the intention of giving rise to digital transactions and reducing the risk of robbery (Emefiele, 2023). The CBN policy affected most businesses and informal sectors.

### Small scale Enterprise

In Nigeria, small scale businesses have not been constant over the time and has continued to be revised from time to time as the valuation influenced by the movement in exchange rate and level of inflation, (Oboreh and Nnebe 2019; Landstrom, 2005)<sup>[16, 12]</sup>. Osoba (1987)<sup>[21]</sup> stated that small scale enterprises is a term recently used by scholars to describe the phenomena of the creation of small-scale

industries and other income generating projects in a small fashion.

Ezema (2014)<sup>[9]</sup>; Ojo (1996), defined a small-scale business as one whose total asset in capital, equipment and working capitals is less than fifty thousand naira and employing fewer than 50 persons; the amount of total assets in capital would possibly have witnessed an upward review. They further stated that Central Bank of Nigeria guidelines before 1992 defined small-scale business as an establishment whose turnover does not exceed N500,000 (five hundred thousand naira).

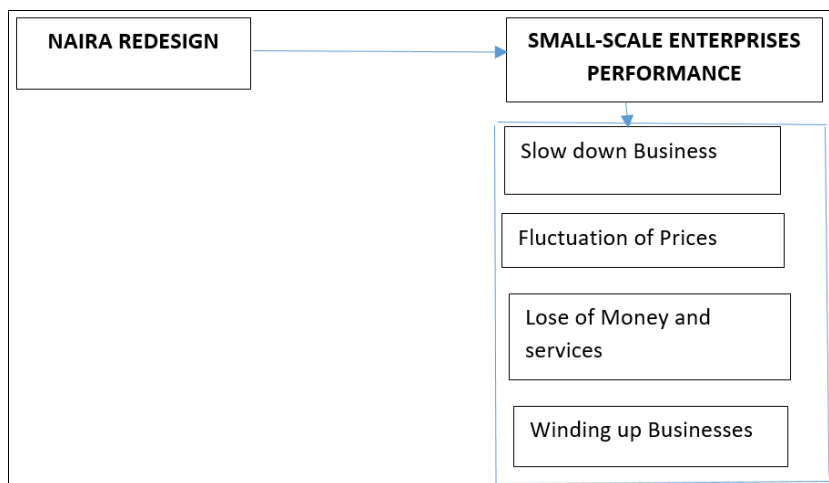
According to Addney, Awuah and Afriyie (2016)<sup>[2]</sup>; Desai, (1989), remarked that, in modern times small firms are often defined in terms of capital employed instead of labour. This assertion may not be unconnected with the introduction of flexible mass production through fully automated plant where labour is drastically reduced. Small businesses do not conform to any neat parameters because much of their activities depend on the industry in which they operate also the personalities and aspirations of those in charge of this business (David and Nicholas, 2016).

### Informal Sector

Nigeria is the third largest in Africa that owes informal sector that accounts for about 70 percent of urban employment (Akeem, 2012; Awopegba, 2004)<sup>[3, 4]</sup>. Several empirical studies carried out in Nigeria have shown that the informal sector has contributed significantly to employment and income generation. It is a source of livelihood to the poor, unskilled and socially marginalized and it is an important means of survival for most people in the country where proper social safety nets and unemployment insurance are absent. Meredith and Neck (2018)<sup>[13]</sup> stated that informal traders lack ability or inclination to expand the enterprise beyond what they feel able to control personally and do not have long-term orientation regarding their firms, so, do not make adequate plans for continuity of the business.

Khotkina (2007) studied on urban informal sector absorption in Russian, found that informal economy is much larger than the formal and that female employment growth rate was 3.51% while that of the male is 1.58%; 57 percent of the working population earn their living from the informal sector while 33 percent are in the formal sector. Etim & Daramola (2022) carried out a research on informal sector and its effects of economic growth in South Africa and Nigeria using a comparative systematic review to investigate the factors that act as drivers, the result revealed that unemployment, income disparity among citizens, excessive tax burdens, excessive bureaucratic hurdles from government, inflationary tendencies all act as drivers to the informal sector. In the same vein Indonesia informal sector is inseparable from its population as it has been the source of livelihood for many people. The determinant of the size of the informal economy are quality of governance, quality of institutional settings and unemployment rates (Zeller and Sharma, 2015; Abor and Biekpe, 2006; Ojo, 1999 and Osoba, 1987)<sup>[25, 1, 18, 21]</sup>.

**The relationship under examination is shown in the conceptual framework in figure 1.**



Source: Author’s conceptualization, 2023

Fig 1: Conceptual framework for Naira redesign and performance of small-scale enterprises

**Theoretical Framework**

**Bourdieu Pierre of Social Capital**

This theory was conceptualized in 1989s by Pierre who was a sociologist. The theory emphasizes on social stratification and cultural reproduction, the value of social connections and the trust, norms, and reciprocity which exist within them. He suggested that these social resources can be used in achieving goals and improving well-being of enterprises and that resources, benefits, and advantages that enterprises and groups can access through their social networks and relationships can assist in sustaining the businesses or groups. The need for enterprises to access information and resources, social connections can be valuable (Peretomode, 2014) [22]. Oboreh (2019) [16] quoted Taylor’s (1998) that individuals do not possess a perfect knowledge of the world because there is too much information out there to handle. As a result, they have to select information, interpret them based on their previous experiences and so see and know the world differently. Thus, the social environment is of primary importance to foster future of small-scale enterprise. This implies that social relationships and networks helps in shaping small-scale enterprise, which in turns improves economic development of the country.

**Methodology**

The study adopted cross sectional survey design in assessing the relationship between naira redesign and effects on the growth of small-scale enterprises in Delta State, Nigeria. Sullivan (2001) noted that the cross-sectional survey can be used as an analogous to take quick look of some situation. The approach focuses on subjects or elements within non-contrived settings and investigates social phenomena at a particular point in time. The population was infinite which comprises Small-Scale businesses and informal traders in Isoko north and Ethiope East Local Government Area, in Delta State of Nigeria. Simple random sampling technique was used to select 140 small scale businesses and 200 informal traders which amounted to 340 respondents. The instrument for data collection was a researcher developed questionnaire titled **the effect of naira design on small-scale enterprise growth in Nigeria**. A total of 14 questionnaire items organized under 4 clusters and rating scale of strongly agree SA(4points); Agree A (3points); Disagree D (2points); and strongly agree SD (1point). The

administering of questionnaires was tasking as many of the informal traders do not have formal education. This caused the administer to carefully read the questionnaire to them and seek their responses. At the end 338 copies were retrieved.

**Results**

**Research Question 1: What are the effects of naira scarcity on small-scale enterprise performance in Delta State, Nigeria?**

Table 1: Response on effect of naira scarcity on small-scale businesses

S. No	Items	X	SD	Decision
1	Business slow down because of the Zscarcity of naira.	3.24	0.30	High
2	Business was not affected by the redesign of naira.	2.62	0.27	moderate
3	The redesign of naira caused price fluctuation which made sales low.	3.00	0.28	moderate
4	Central Bank of Nigeria fluctuating policies on cash withdrawal have caused many businesses to almost wind up.	3.33	0.30	High
5	I have lost many of my customers	3.16	0.30	High
6	Goods that have short expiring date have caused me to lose money.	3.01	0.28	moderate
7	Lack of cash to replace goods.	3.00	0.28	moderate

Source: Field work, 2024

The result as revealed in Table 1 above indicated that items, 1, 3,4,5,6 and 7 were rated high and only item 2 rated moderate. The mean scores and standard deviation ranges from 3.00, 0.28; and 0.27 respectively. Therefore, effects of naira redesign scarcity on small-scale enterprise slowed down businesses, prices of goods were fluctuating and caused low sales of goods, policies on withdrawal by government caused many business to wind-up, businesses lost many of their customers, goods which have short expiring date were destroyed because they were expired, and businesses were unable to replace goods because there were no cash and transfer limit policy could not help instead. To give statistical significance to the descriptive statistics in Table 1 above, the following hypothesis was raised and Analysis of Variance (ANOVA), a parametric test statistical tool was used to test the hypothesis.

**Hypothesis One:** There is no significant relationship between scarcity of new naira and performance of small-scale enterprise in Delta State, Nigeria.

Questions 1, 2 & 5 in Table 1, were used to test this research hypothesis.

**Table 2:** ANOVA

	Sum of squares	df	Mean Square	F	Sig.
Between Groups	1983.000	4	495.000	8.872	.234 <sup>b</sup>
Within Groups	.000	0	.000		
Total	1983.000	4			

SPSS Output 2024

From the table above, the calculated F-value of 8.872 is greater than F-critical table value (3.174) at 95% level of confidence. Hence, the alternate hypothesis is accepted while the null hypothesis which revealed that scarcity of new naira have significant effect on small-scale enterprises performance in Delta State.

The second objective of the study was to find out if naira redesign has effect on informal traders' growth, in pursuance of this objective, the following research question was raised?

**Research Question 2: What effect has naira redesign on informal traders' growth?**

**Table 3:** Responses on the extent to which naira redesign effect on informal traders

S. No	Items	X	SD	Decision
1	Naira redesign force businesses to patronize point of sale (POS) machine to give services	3.360	0.35	High
2	Customers could not buy goods because of the high charges from POS vendors	3.520	0.34	High
3	Refusal of banks to give cash to traders has caused harm to informal traders	3.240	0.36	High
4	Cannot buy goods from local producers because of no naira cash.	3.600	0.30	High
5	Local producers require cash transaction to sell produce	3.000	0.30	High
6	Scarcity of naira has led increase in the cost of transportation.	3.000	0.31	High
7	Informal traders have folded up because of naira scarcity.	3.040	0.35	High

Source: Field work, 2024

On table two above, it could be seen that items 1, 2, 3, 4, 5, 6, and 7 are all high rated by self-employed businesses. Their scores range from 3.00 to 3.60 and all items mean score were high. The implication is that naira redesign has serious effect on the informal businesses which therefore made some of enterprises to fold up, consumers inability to buy goods, use of POS machines where naira were purchased.

To give statistical significance to descriptive statistics in Table 3, the second hypothesis was raised and Analysis of Variance (ANOVA) a parametric test statistical tool was used to test the hypothesis.

**Hypothesis Two:** There is no significant relationship between naira redesign and growth of informal trade in Delta State.

From Table 3, items on questions 4-6 were used to test this research hypothesis.

**Table 4:** ANOVA

	Sum of squares	df	Mean Square	F	Sig.
Between Groups	6175.229	12	514.859	6.009	.307 <sup>b</sup>
Within Groups	83.500	1	83.500		
Total	6258.729	11			

SPSS Output 2024

Table 4 revealed that, the F-value (6.009) is greater than the critical table value (3.174) indicating that the decision of researcher to accept the alternative hypothesis and reject the null hypothesis is valid. Therefore, it could be understood that naira redesign which brought the scarcity, have effect on the growth of informal trade in Delta State.

**Discussion of Findings**

The result of the analysis revealed the relationship between scarcity of new naira options and small performance is significant at a 95% interval. The results of the analysis implied that on the whole, scarcity of new naira options could be considered as relative explanatory variable with regards to outcomes such as slow down of business, winding up of businesses and fluctuation of prices which affects the small-scale performance. This finding agreed with the view of Iwedi, Wachuku and Court (2023) [10] found that naira redesign brought rising prices on goods and services which was one of the reasons of inflation and unfavorable economy for small-scale businesses in Nigeria.

The second finding from the research revealed that naira redesign on informal sectors, such as the barbing shops, cobblers, butchers, groceries like fruits sellers, forced businesses to utilize point of sale machine (POS) and banks could not meet the cash demand of customers, which forced business operators to buy naira from POS merchandizer. This view tallies with Obilor (2023); Aina (2022) [7] that posited that naira redesign failed to curb hoarding of naira which is a threat to the economy with its attendant negative. The implication is high on small-scale enterprise and informal traders that contributes to over 50% of gross domestic product (Nwachukwu, 2017) [19].

**Conclusion and Recommendation**

Small-scale enterprises although is the employment engine of most economy of a nation, managing and sustaining it can be a difficult task and can easily go wrong with extremely serious consequences for both government and enterprises. The study basically aimed at investigating the effect of naira redesign on performance of small-scale enterprises in Nigeria, more emphasis was on informal traders. The scarcity of naira caused by redesign of naira, which made government withdraw the old naira notes, leaving enterprises to no other choice than buying naira from point of sales (POS) operators with high charges. The naira money was used in buying naira in Nigeria, which seriously brought a halt in most businesses.

The study recommended that redesign of naira as a measure to curb excess liquidity in the hands of the public should be discouraged. However, when it is necessary, there should be long notice, and slow withdrawal of the notes to enable businesses adjust to another means of commerce. There should be special and qualified economists to handle the economic issues, to check the socio-economic factors. Government in making currency policies or decision should

involve wider stakeholders, who could make a favorable contribution to the issues.

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