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Appraisal of the Central Bank of Nigeria's 2012 Currency Restructuring Proposal

[1]Muftau Adesina Abayomi,
[1]Department of Economics, School of Management Technology
Federal University of Technology, Akure, Nigeria

[2] Abolaji Dauda Dada
[2]Department of Entrepreneurship
School of Management Technology
Federal University of Technology, Akure, Nigeria
*Email of Corresponding Author: drsinaabayomi@gmail.com; maabayomi@futa.edu.ng
Telephone: +2347086791662

Abstract

This paper examines the 2012 proposed currency restructuring in Nigeria, under which a new higher bill of N5,000 was to be introduced alongside the coining of the existing N20, N10 and N5 notes. The paper identifies the implications of the currency regime to include; increased portability, annual saving of about N7 billion from the cost of production, distribution and disposal of banknotes, enhanced quality and integrity of the banknotes, incorporation of a more effective feature for the visually challenged, and elimination of the payment of royalties on erstwhile patented security features. However, the implementation of the policy might exacerbate money laundering and corruption, increase in general public apathy for coin utilization, and inflationary pressures due to ill-informed expectations and cost-push factors, making locally produced tradable goods less competitive, enhanced smuggling, and increased unemployment and crime rates. The paper identifies the challenges which militated against the policy to include; high illiteracy level, poor public enlightenment, and poor project management. It also reveals that relative currency stability is the major driver of dollarization and mere introduction of a higher denomination of a volatile currency would not stop the practice. The paper, therefore, recommends that the Central Bank of Nigeria (CBN) should put currency restructuring at bay until the Cash-less policy project permeates the entire economy. A root-cause analysis of the public apathy in the utilization of coin, massive enlightenment and re-orientation of the public (including labour unions) on the non-correlation of higher currency denomination with inflation or devaluation should be carried out by the CBN. Finally, the apex bank should also ensure sound project management ideals are followed while embarking on new projects.
Keywords: *Currency Restructuring, Implications, Challenges*

1.0 Introduction

The Nigerian financial system had recently witnessed incessant currency restructurings, with the Central Bank of Nigeria (CBN) always adducing the changes to some objectives, which have apparently not been achieved. Consequently, these have led to further restructurings without any tangible benefits! On August 23, 2012, the CBN Governor, Mallam Sanusi Lamido Sanusi, addressed a press conference in Abuja where he disclosed the Apex Bank's proposed currency restructuring exercise, code-named "PROJECT CURE" (Sanusi, 2012).

According to the CBN Governor, the last comprehensive review of the currency was carried out in 2005. It resulted in the introduction of the N20 polymer banknote followed by the varnishing of the ₦5, ₦10 and ₦50 banknotes in 2007. These lower denomination notes were eventually converted into polymer banknotes in 2009 (Sanusi, 2012).

As first step towards this routine exercise, the CBN carried out a review of the existing currency series in 2010. The exercise threw up several revelations and challenges such as the following (Sanusi, 2012):

i. Public apathy towards the usage of the 50K, N1 and N2 coins, introduced in February, 2007.
ii. The varnished lower denomination banknotes failed to adequately meet expected longevity.

iii. Significant difficulties associated with the processing and destruction (briquetting) of the polymer banknotes. It is important to add that this situation has largely constrained the realization of the benefits expected from polymer banknotes over paper notes.
iv. The tactile feature for the visually impaired on the polymer notes has not been as effective as desired.

In the light of the observed challenges, the CBN conducted several stakeholder fora in 2011 on currency restructuring to gauge public and independent perspectives on the existing banknotes and coin series. According to Sanusi (2012), the issues and the subsequent findings and decisions were summarized as follows:

i. Due to inflationary pressures, the CBN should coin lower denominations of currency up to N100. The relevant denominations in this category are N5, N10, N20, N50 and N100;
ii. Need to encourage the usage of coins; and enhancement of the quality of banknotes.
iii. The CBN should introduce higher denomination banknotes to discourage dollarization, reduce the volume of banknotes as well as the overall cost of currency management.

According to Sanusi (2012), the impending review exercise was aimed at achieving the following objectives:

i. Upgrading the design of the entire existing range of currency denominations in order to enhance the quality and integrity of the banknotes;
ii. Incorporating a more effective feature for the visually challenged;
iii. Introducing new security features on the redesigned banknote. The intention here is to enable Nigeria take ownership and control of the new features on the series and eliminate payment of royalties on patented security features;
iv. Achieving an optimal currency structure that will ensure cost effectiveness and balanced mix and utilization of all the currency denominations;
v. Introducing new series of coins that would be generally acceptable for purposes of transaction; and
vi. Reducing the cost of production, distribution and disposal of banknotes by introducing a higher bill that would reduce the volume and cost of notes in circulation. The savings would be channeled to provide incentives for the usage and acceptance of coins.

Prior to this proposed regime, the CBN had lamented the high direct cost of cash management to the banking industry which was put at N114.5 billion in 2011, and same has been projected to be as high as N192 billion in 2012! This spiraling cash management cost, most of which is passed on to the customer in the form of bank charges and lending rates, is as a result of the cash dominant economy (CBN, 2011a). For example, the value of Currency-in-Circulation (CIC) as at December, 2009 amounted to N1.184 trillion representing an increase of 20.36% over the level at the end of 2008. As at 31st December, 2010, the total CIC value stood at N1.378 trillion, showing an increase of 16% (CBN, 2011b). It was with a view to resolving the above issues that the CBN launched the cash-less policy in 2012, the pilot of which took effect from 31st March, 2012 in Lagos. The policy was subsequently extended to six other states (Abia, Anambra, Kano, Ogun, Rivers, and the Federal Capital Territory, Abuja) in 2013, and rolled out nationwide since July 2014.

This paper has five sections, including this introduction. Section two deals with the review of literature, while section three discusses the benefits and challenges of the currency restructuring. In section four, the implications of the policy are reviewed while section five contains the conclusion and recommendations.

2.0 Review of Literature

2.1 Economic History of Money in Nigeria

Trade by barter was the system during the stone age. R .C. Template described barter as "the exchange of one article for another" while "currency" "implies exchange through a medium" (kirk-Greene, 1960; Chuckwu, 2010). In other words, a system where goods and services are exchanged directly for one another is called a barter economy (Ajayi and Ojo, 2006). The challenge of "double coincidence of wants" made the barter system a cumbersome one. Paul Einzig has defined "currency as money actually in circulation or capable of being put in circulation"(kirk-Greene 1960 cited in Chuckwu, 2010).

The pre-colonial Nigerian economy witnessed the use of what some analysts have described as trade currencies. Others have preferred to call them local currencies (Jones 1977; Central Banking, 1979). The currencies that was used during the pre-colonial and colonial periods in Nigeria included copper wires, brass rods, manillas, and cowry shells, among others (Chuckwu, 2010).

Many reasons have been adduced for the introduction of British currency in west Africa in the 19th century, among which are political and economic factors. On the political front, it has been argued that the British currency was introduced to provide a stable, portable means of payment to a retinue of staff and British political agents, such as troops and police, engaged in the process of colonial conquest and administration of West Africa in the closing years of the 19th century. The British currency was also introduced to meet transactional requirements which resulted from an expansion in the economic activities between Nigeria and Great Britain in the second half of the 19th century and the early part of the 20th century (McPhee, 1970; Orji, 1987).

The expansion in economic activities during the colonial time triggered the call for higher denominations (Kirk-Greene, 1960). This culminated in the phase out of currency notes of lower denominations while those considered helpful to trade and alloy coins were retained.

Consequently, the West African Currency Board (WACB) was established in November 1912to take over the responsibility of currency issue which had hitherto been played by the Bank of England. In an attempt to carry out is statutory functions, in 1919 the Board issued, for the first time, the £5 note. But this significantly high denomination could not survive the economic slump of the late 1920s and early 1930s (Kirk-Greene, 1960). However, following the increased political and economic activities (both at the local and international levels) in the 1940s and 1950s, the demand for a new currency note of relatively higher denomination got on the increase. This development resulted in the re-introduction of the £5 in the 1950s (Kirk-Greene, 1960).

Between 1946 and 1956, the Board further issued notes of various denominations to the British West African colonies, including Nigeria. The notes were 10-shilling and 20-shilling denominations. The currency was said to be interchangeable with the British sterling at par, subject to remittance changes (Loynes 1962; Chukwu 2000/2001).

A general review of the currency reforms in Nigeria since the establishment of the WACB in 1912 shows that by 1925, more than £7,000,000 worth of currency circulated in the country (Nigerian Handbook, 1926). By 1939, the number reduced to £6million. In 1953, the figures rose to £20million (Kirk-Greene, 1960. Indeed, between 1914 and 1951, the total currency in circulation Nigeria was said to have increased by 650 percent (Report on Nigeria, 1951). A report by the Colonial Office in London, for this period, considered this development an astonishing increase. This increase in currency circulation was traceable to the production of staple crops such as cocoa, groundnut and palm products; higer wages, improved standard of living and increased cost of consumer goods in the country (Report on Nigeria, 1951).

The West African Currency Board was responsible for issuing currency notes in Nigeria from 1912 to 1959. Prior to the establishment of the West African Currency Board, Nigeria had used various forms of money including cowries and manilas as already discussed above (CBN, 2012).

On 1st July, 1959 the Central Bank of Nigeria issued the Nigerian Currency notes and coins and the West African Currency Board notes and coins were withdrawn. It was not until 1st July, 1962 that legal tender status was changed to reflect the country's new status. The notes were again changed in 1958 as a war strategy following the misuse of country's currency notes (CBN, 2012).

On the 31st March, 1971, the then Head of State announced that Nigeria would change to decimal currency as from 1st January, 1973. The major currency unit would be called Naira which would be equivalent to ten shillings: the minor unit would be called kobo; 100 of which would make one Naira. The decision to change to decimal currency followed the recommendations of the Decimal Currency Committee set up in 1962 which submitted its report in 1964 CBN, 2012).

The change that took place in January, 1973 was a major one and this involved both currency notes and coins. The major unit of currency which used to be £1 ceased to exist and the one Naira which was equivalent to 10 shillings became the major unit:

On 11th February, 1977 a new banknote denomination of the value of 20 Naira was issued. This was special in respects:

i. The N20 (Twenty Naira) banknote was the highest denomination to be introduced then, and its issue become necessary as a result of the growth of incomes in the country; the preference for cash transactions and the need for convenience.

ii. The N20 (twenty Naira)banknote became the first currency note in Nigeria bearing the portrait of a Nigerian citizen, in this case, the late head of state, General Murtala Ramat Muhammed (1938-1976) who was the torch bearer of the Nigerian Revolution was introduced in July, 1975.

In 1991, both the 50k and N1 notes were coined. In response to expansion in economic activities and to facilitate an efficient payments system, the N100, N200, N500, N1000 were introduced in December 1999, November 2000, April 2001 and October, 2005 respectively. The introduction of N1000 note on Wednesday, October 12, 2005, was greeted with mixed feelings. One reason for such was that the loss of a packet of the N1000 currency denomination would mean a lot of the sum of N100,000 to the individual concerned and the economy. Herein lays the crux of the matter: that while a currency of high denomination may, to an extent, be relevant to the economy, it does, no doubt, carry its own burden. The burden includes that of a possible loss, forgery and inflation. The last mentioned point may, however, be halted, if the country's productive base is capable of sustaining high currency notes. In spite of the risk of a possible loss of high denominational currency, its introduction may make the Nigerian populace return to the pre-banking era of the nineteenth century. This is because with the convenience associated with the handling of high currency denominations, so many Nigerians may resort to keeping large sums of money at home (Jide ofor, 2011).

On February 28th 2007, as part of the economic reforms, N50, N20, N10, and N5 banknotes as well as N1 and N50k coins were reissued with new designs, while a new N2 coin was introduced. However, it is noteworthy that these coins were not utilised at all by the public.

2.2 The Structure of Currencies of Selected Countries

This subsection briefly reviews the structure of currencies of some selected countries:

United States of America (US)

The United States is undeniably the most influential country and it has always been ranked number one in terms of GDP. Its currency, the US Dollar is most widely used currency in the world. It is used as an unofficial currency in many countries including Vietnam and Nicaragua where routine transactions are conducted in a combination of United States dollars and the local currencies. The United States dollar is based on the decimal system where 100 cents equates to $1. Currency is available in multiple denominations in both paper and metal coins (World Currencies, 2012).

In spite of its ranking, the frequently used and circulated banknotes are; $1, $5, $10, $20, $50, $100. Also the frequently used and circulated coins are the 1c, 5c, 10c, 25c (World currencies, 2012). It is pertinent to state that in united states where in 1946 high denominations of $500, $1,000, $5,000, $10,000 were introduced but due to the introduction of electronic banking and less use of physical cash, these higher denominations were withdrawn from circulation in 1969 (Galadu, 2012).

China

China, one of the fastest growing economies, is the second largest economy in the world. With the rapid growth of infrastructure, production capacity and the sheer size of the workforce, china's currency is growing in importance on the international scene. The people's republic of china used the Renminbi, commonly known as

RMB, for its currency. Renminbi currency is available in paper and coins in multiple denominations. The frequently used and circulated banknotes are 1 yuan, 2 yuan, 5 yuan, 10 yuan, 20 yuan, 50 yuan and 100 yuan while the widely circulated coins are 1 yuan, 5 jiao (0.5 yuan), 1 jiao (0.1 yuan), 5 fen (0.05 yuan), 2 fen (0.02 yuan), 1 fen (0.01 yuan). The largest denomination of the renminbi is the 100 yuan note while the smallest is 1 fen coin or note (World currencies, 2012).

United Kingdom

According to a survey conducted by the Bank for the International settlements, the fourth most commonly exchanged currency is the British pound. Officially known as the pound sterling, the currency of the United Kingdom is based on the decimal system with 100 pence equaling one pound. The pound is available in multiple denominations for both bank notes and coins. The frequently used and widely circulated banknotes are £5, £10, £20, and the £50 while the frequently used coins are the 1p, 2p, 5p, 10p, 20p, 50p, £1, and £2 (World Currencies, 2012).

European Union

Sixteen countries in the European Union now used the Euro as their common currency. Introduced in 1999 as part of the ongoing European Union consolidation efforts, the Euro has become the second, most commonly exchanged currency in the world. The Euro is the official currency for Austria, Cyprus, Belgium, Germany, France, Finland, Italy, Greece, Ireland, Malta, Luxembourg, the Netherlands, Spain, Slovenia, Portugal and Slovakia. The Euro is unofficially used in other European countries. Offered in multiple denominations, paper Euros are standardized, with coins featuring nationalistic symbols. The banknotes are denominated in €5, €10, €20, €50, €100, €200, and €500 while the frequently used and widely circulated coins are 1c, 2c, 5c, 10c, 20c, 50c, €1, and €2 (World Currencies, 2012).

South Africa

The official currency of South Africa is the Rand (R). The currency is based on the decimal system with 100 equaling one Rand. The Rand is available in multiple denominations for both bank notes and coins. The frequently used and widely circulated banknotes are R 10, R 20, R 50, R 100, R 200 while the coins are 5c, 10c, 20c, and the 50c (World Currencies, 2012).

3.0 The Benefits and Challenges of Currency Restructuring in Nigeria

This section is subdivided into two subsections as follows:

3.1 Benefits of the Currency Restructuring in Nigeria

The major benefits of the currency restructuring, which involves the introduction of the N5,000 note and the conversion of N5, N10 and N20 bank notes into coins are as follows:

First, it would facilitate easier carriage and movement of huge sums of money, because of its enhanced portability, without drawing the attention of criminally minded persons. However, the carriage of huge sum is at variance with the cash-less policy recently launched by the CBN.

Second, According to the CBN, Nigeria would save about N7 billion annually from the cost of production, distribution and disposal of banknotes since a higher bill would reduce the volume and cost of notes in circulation.

Third, the whole exercise includes upgrading the design of the entire existing range of currency denominations in order to enhance the quality and integrity of the banknotes.

Fourth, incorporating a more effective feature for the visually challenged prevents this category of people from being further disenfranchised.

Finally, elimination of the payment of royalties on patented security features because this exercise includes the introduction of new security features on the re-designed banknotes. This is intended to enable Nigeria take ownership and control of the new features on the series.

3.2 Challenges Militating against Currency Restructuring in Nigeria

The challenges facing the proposed currency regime, under which the current N5, N10 and N20 notes will be turned into coins alongside the introduction of the new higher bill (N5,000) are as follows:

First, Inability of the CBN to learn from previous projects. The management of the CBN was aware that Nigerians generally had apathy for the utilization of coins. Dr. Shamsudeen Usman, a former Deputy Governor of the CBN, corroborated this when he said: "...during my time in the CBN, we introduced the one naira and two naira coins. Unfortunately, they were not utilized at all" (Usman, 2012).

Another challenge was the poorly informed masses many of whom were illiterates. *Ceteris paribus,* there is no causality between higher currency denominations and inflation because the latter should actually be a monetary phenomenon. However, in view of the people's expectations (especially the market men and women) of devaluation as an aftermath of such reforms and their phobia for the utilization of coins, they tend to round up the costs of goods and services to the nearest bank note (N50 in this case)!

Thirdly, the peculiar psychology of the average Nigerian Worker was also another challenge. They believed that "they would work so hard to earn so little" notes with the introduction of N5,000. For instance, a worker whose Net Pay was N20,000 per month already used to receiving 40 pieces of N500 notes or 20 pieces of N1000 notes, would now receive four (4) pieces of N5,000 notes if introduced!

Fourthly, poor project management on the part of the Apex Bank was an important issue. Project communications was haphazardly handled. Albeit, the CBN claimed that they conducted stakeholder fora in 2011, the public perception indicated that they were not effective, partly because adequate stakeholder communication channels were not fully identified. As a result of the above, they could not obtain a truly representative feedback from the public

4.0 Implications of the Currency Restructuring for the Nigerian Economy

Money laundering and corruption are known to be two of the major factors retarding the growth and development of Nigeria. Many transactions, which ordinarily could be carried out seamlessly, are facilitated by offering bribes. Therefore, introducing the N5000 notes may exacerbate corruption as it will prop up the penchant of Nigerians to carry huge volumes of cash unnoticed. For instance, two hundred pieces (i.e. two packets) of N5000 notes translate to N1million, which a person could conveniently carry inside his or her purse without drawing the attention of the law enforcement agencies. This could hinder the cash-less policy implementation, as well as impede the fight against money laundering and corruption.

In view of the high illiteracy level who is also poorly informed, the public tend to believe that the turning of N5, N10 and N20 notes into coins amounts to devaluation of the currency. Consequently, in addition to other factors, they tend to avoid the use of coins by rounding up the costs of goods and services to the nearest bank note (N50 in this case)! This action could lead to a reduction in the purchasing power of Nigerians.

Beyond doubt, the introduction of higher currency denominations in Nigeria over the years has been correlated with, but not necessarily caused by, the depreciation of the Naira against the major international currencies such as the Dollars, Pound Sterling, among others.

Inflation should ordinarily be a monetary phenomenon. However, the psychology of the average Nigerian is slightly different. Psychologically, to the unenlightened average Nigerian worker for instance, it means "he or she would work so hard to earn so little" with the introduction of N5000 note. For instance, a worker whose Net pay is N20,000 per month already used to receiving 40 pieces of N500 notes or 20 pieces of N1000 notes, would now receive only four (4) pieces of N5000 notes! These thoughts may fuel crisis of expectations for a wage increase that would spread across all sectors of the economy thereby stoking high cost of production especially in the private sector. This would further lead to a waning confidence in the Naira as a store of value. The increased cost of production makes manufactured and other tradable goods less competitive in the international market thereby adversely affecting net exports.

The introduction of N5000 denomination may lure people to keep larger sums of money in personal safes at home. This would increase the proportion of money outside the banking system as well as the un-banked public thereby weakening the potency of monetary policy. Low savings might also reduce induced investment, and by so doing, increase unemployment rate. Increased unemployment tends to increase the rate of armed robberies, frauds and other social vices.

The introduction of the N5,000 note would enhance the portability of the Naira, which would facilitate easy, albeit illicit, exportation of the Naira for smuggling of banned goods into the country. The introduction of N5000 note would also encourage the printing of fake N5000 banknotes thereby increasing the volume of counterfeit notes in circulation.

Rather than reduce/eliminate dollarization, this proposed currency regime, under which the extant N5, N10 and N20 notes would be turned into coins alongside the introduction of the new higher bill (N5,000) would exacerbate it. This is because what encourages dollarization is the relative stability of the Dollar against other major currencies, and the above analysis has shown that the value of the Naira would be further destabilized by the proposed project.

Paradoxically, the "Project Cure" was not treated as a project because, contrary to tenets of effective project management, there were poor stakeholder management and ineffective project communication while the project risk management was haphazardly carried out. All these have led to misunderstanding/misrepresentation among the public.

From the foregoing analysis, it is crystal clear that the demerits of the proposed policy far outweighed the perceived benefits.

5.0 Conclusion and Recommendations

The proposed currency regime, under which the current N5, N10, and N20 notes was to be turned into coins alongside the introduction of a new higher bill (N5,000) has been critically examined. The identified positive implications of the proposed currency regime include: facilitation of easier carriage and movement of huge sums of money; annual saving of about N7 billion from the cost of production, distribution and disposal of banknotes; enhanced quality and integrity of banknotes, incorporating a more effective feature for the visually challenged; and elimination of the payment of royalties on patented security features.

The negative implications of the proposed currency regime include the following: stoking of money laundering and corruption; waste of national resources in view of public apathy in the use of coins; high illiteracy level and public perception of coining as devaluation of the currency; illicit exportation of the Naira for smuggling of banned goods into the country, among others.

Therefore, it would be incorrect to compare Nigeria with the developed countries of the world such as Singapore, Germany and Japan whose highest denominations are 10,000 SGD, €500 and Yen 10,000 respectively with correspondingly low inflation rates because of the above-stated factors.

From the above analysis, it is crystal clear that the demerits of the new policy far outweigh the perceived merits. In view of the above exposition, it is therefore recommended as follows:

i. The CBN should not introduce any currency restructuring with a view to allowing the cash-less policy implementation to permeate the entire economy.

ii. The CBN should carry out a root-cause analysis on the public apathy on the utilization of coins. This would provide roadmap for the Apex Bank to follow in future.

iii. The Apex Bank should ensure an aggressive and systematic mass public enlightenment and re-orientation with respect to the introduction of higher currency denomination versus inflation and devaluation.

iv. Going forward, the CBN should ensure sound project management ideals are followed while embarking on new projects.

v. Finally, the CBN should concentrate on stabilizing the value of the Naira and ensuring a sound inflation and interest rate management rather than pursue an agenda that has huge social costs.

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