
Cashless Policy and Nigerian Economy: Evaluation of Lagos State Experience

Obafemi, Tunde Olutokunboh (Ph.D)

Department of Accountancy,
Federal Polytechnic, Offa.
obafemitunde01@gmail.com

Araoye, Felix Egun (Ph.D, FCA, ACIT)

Internal Audit Department
Ladoke Akintola University of Technology,
Ogbomoso
araoyefelix@yahoo.co.uk (Corresponding Author)

Abstract

This study examines the effects of cashless policy on Nigeria economy and evaluates the acceptability and practicability of the cashless policy in Nigeria using Lagos as the case study with the aim of assessing its feasibility in Nigeria. The descriptive survey method with the use of questionnaire as an instrument of data collection to appraise the degree of peoples' acceptance of the cashless policy in Nigeria was employed by the study. The data collected were analyzed using simple percentage procedure and chi-square for testing hypotheses. The findings reveals that there is necessity for the introduction of cashless policy and further conclude that cashless policy has effect on Nigeria economy. Based on the findings, it was recommended among other things that availability of sufficient and well functioning infrastructural facilities (like electricity) and proper orientation of non literate Nigerian will be required for success of the policy.

Key Words: Cashless, Policy, Economy, Lagos, Nigeria.

1.0 Introduction

There is no gainsaying the fact that one of the current innovations in recent evolution of technology for financial transactions in Nigeria is the adoption of cashless policy into the economy. Over the years in the history of business transactions, various forms of payment have been in existence after the jettisoning of barter system. Some of these forms of money include commodity money, gold standard, fiat or legal tender money substitute, near money assets and paper monies.

Today however, the paper money is being replaced with the introduction of electronic money which is the offshoot of the advancement in technology. To this end, the Governor of the Central Bank of Nigeria (which shall thereafter be referred to as the CBN) Sanusi Lamido announced the take-off of cashless policy in April 2011. As a starting point, some aspect of the policy which started to apply from January 2012 in Lagos state Nigeria (tagged Cash-less Lagos) include that only CIT licensed companies shall be allowed to provide cash pick-up services; 3rd party cheques above N150,000 shall not be eligible for encashment over the counter; the cash policy to all account; charges shall apply for all transactions in Lagos and on Lagos State based accounts.

The central Bank of Nigeria (CBN) in recent times of financial policy of daily cumulative limit of ₦150,000 and ₦1,000,000 on free cash withdrawals and lodgment by individual and corporate customer respectively in Lagos State with effect from March 30, 2012. The aim is

to reduce the money holding high cash usage among others include: robberies and cash related crime, revenue leakage arising from too much of cash, handling, inefficient treasury management due to the nature of cash processing, high subsidy, high informal sector. Some researcher like Akhaume and Ohiokha, (2012) opined that cashless economy does both refer to an outright absence of cash transactions in the economic. This study will focus on the acceptability and practicability of cashless policy into Nigerian economy by using an empirical to evaluate the study. Such policy will enhance our economy to grow just like those developed nations that the objective of cashless system has been fully achieved.

1.1 Objective of the study

The study seeks to achieve the following objectives:

- i. To investigate whether government implementation of cashless policy has any effect on Nigeria economy
- ii. To access the level of citizens acceptability whether proper implementation of cashless policy developed Nigeria economy

1.2 Hypothesis

The following hypotheses were tested:

Hypothesis 1

H₀: There is no necessity for the Government to introduce the cashless policy in Nigeria.

H₁: There is necessity for the Government to introduce the cashless policy in Nigeria.

Hypothesis 2

H₀: Cashless policy has no influence on Nigeria economy

H₁: Cashless policy has effect on Nigeria economy.

This study has its focal analysis on the acceptability and practicability of cashless policy in Nigeria using Lagos as the case study.

2.0 Literature Review

2.0.1 Conceptual Review

Several scholars have attempted to analyze cash policy as a concept in economic system. The term cashless policy does not mean nonexistence of cash transaction in economic activities. However, it only refers to a situation where the amount of cash based transactions is kept to the barest minimum. Cashless policy can therefore be described as that banking system which aims at reducing and not eliminating the amount of physical cash (note and coins) that is in circulation in an economy (Taiwo, Ayo, Afieroho & Agwu, 2016). Put differently, it is a combination of two payment models; e-banking and cash based system in an economy where e-banking is substantially applied. In most developing countries, it represents a middle phase in the development of payment system.

Furthermore, it can equally be described as an economic transaction in which goods and services are bought and paid for through electronic media. Woodfold (2003) describe cashless economy as “one in which there are assumed to be no transaction friction that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when earn rate of return”.

Under a cashless economy, the amount of cash in your purse may practically be irrelevant. As noted by Roth (2010), you can pay for your purchase by any one of the arrays of credit card or bank transfer. Some aspects of the functioning of the cashless economy are enhanced by e-

finance, e-money, e-brokering and e-exchanges. All these refer to how transactions and payments are effected in a cashless economy (Moses-Ashike, 2011).

In Nigeria under the cashless economic system, the goal is to discourage cash transactions as much as possible. To this end, the CBN set a daily cumulative withdrawal and deposit limit of ₦150,000 for private individuals and ₦1,000,000 for corporate entities (now reviewed to ₦500,000 and ₦3million respectively) which does not mean that individuals and corporate bodies cannot hold cash in excess of ₦500,000 and ₦3million respectively at any point in time but rather that their cumulative cash transactions with the bank must not exceed these limit for a period of one day.

The system does not only aimed at encouraging electronic means of making payments but also at discouraging cash holding. What is anticipated by this policy is that instead of making large withdrawal to effect payment for goods and services, such monies payments are made through “credit cards as a means of effecting payment”. In this system users are issued with electronic cards which can be slotted into special electronic machines in order to effect payments.

At the centre of such payment system are the point of sale (POS) terminals (Azeez, 2011). These are to be deployed across commercial point in the country. The P.O.S terminals thus deployed will serve like the Automated Teller machine (ATM) which is currently more popular in the county. In such a case and upon completing a transaction at P.O.S terminals into which the electronic card has been slotted, the cash equivalent of the amount is transferred from the payer’s (buyer) account into the account of the payee (seller) automatically (Olaegbe, 2011).

It has to be noted that the operation of the cashless policy system is not entirely cost free. One associated cost in the use of the POS is a fee of 1.25 percent of the cost of every purchase of transaction that is carried out. This is in addition to the 5% for every ₦1000 commission on turnover which our deposit money Banks are allowed to charge by CBN each time money is withdrawn from our account (Omose, 2011).

2.0.2 Theoretical Review

The theoretical framework for this study and as stated in the work of Ajayi (2014) is as follows:

2.0.2.1 Technology Acceptance Theory

This theory was developed to give a very good knowledge of the usage and embracing of information technology. It was developed by Fred Davis in 1985 in his doctoral thesis at the MIT Sloan School of Management and used in modeling technology acceptance and adoption in Information systems research. It is information systems theory that made the users accept the use of technology for enhanced economic development.

2.0.2.2 Diffusion of Innovation Theory

The theory was established by Gabriel and Rogers and made popular in 1962 through a book published ‘diffusion of innovations’. The theory seeks to clarify how, why, and at what rate new ideas and technology spread through cultures. According to this theory, diffusion is the method of communicating innovation by certain channels over a period of time among members of a social system.

2.0.3 Empirical Review

Literature on e-money and cashless banking is quite scanty in less developed and developing countries such as Nigeria and this may not be unconnected with the heavy presence of the informal sector in developing economies and the poor banking culture of the people. Adu

(2016) examined the impact of cashless policy on the Nigerian economy with particular reference to how it was kick-started in Lagos. The study found a positive and negative effects of cashless policy, benefits to the economy and stakeholders, suggestions were made to the Nigerian government on how to curb some of the negative effects and to improve on the implementation of the policy

Echekoba and Ezu (2012) study on electronic retail payment system acceptability affirm that 68.2% of the respondent complained about long queues in the bank, 28.9% complained of bad attitude of teller officers (cashiers), while 2.89% complained of long distance of bank locations to their home or work places. This result therefore revealed inefficiency in the operation of the cashless policy with its overall impact on the economy development. Adewoye (2013) also investigated the impact of mobile banking on service delivery of Commercial Banks through the use of questionnaire. The study revealed that the introduction of e-banking services has improved banking efficiency in rendering services to customer. Olajide (2012) investigate effect of cashless banking on the economy and found that there is positive relationship between cashless banking and long run economy development.

The CBN has in recent times engaged in series of reformations aimed at both making the Nigerian financial system formidable and enhancing the overall economic performance of the county so as to place it on the right path in turn with global trends. For instance, there was the recapitalization of banks (to the tune of a minimum of ₦25billion) agenda and there was also the aborted move at redenomination of the Naira and recently the CBN came out with the Islamic banking (non-interest Banking) and the cashless economy e-payment system (Ajayi, 2005 & Babalola, 2008).

So much may have been said about the anticipated gains from the adoption of e-payment and cashless policy, that is, the effectiveness and practicability of the cashless policy, in concrete terms however, most people have not been convinced that the programme is for the good of all.

While we may point to such economies as the Japanese, U.K. Germany or the U.S, the fact remains that these are economies with functional institutional basis which cannot be said about Nigeria with much conviction. Apart from the institutions, one other fear that is being expressed is the appalling state of infrastructural decay in Nigeria. Have we assessed the impact of infrastructure on the practicability of cashless policy or do we assume that the needed infrastructural facilities for the cashless economy to perform will simply come with the policy itself naturally? Another issue that may hinder the effectiveness of this policy is the illiteracy level of Nigerian traders who are expected to play a major role in the ultimate success of the programme.

Discussions on Nigeria's quest for migrating from cash to cashless economy have been on the front burner in recent time. Analyses have posited that to meet the target of becoming one of the leading world economies by the year 2020, efforts must be made to embrace electronic payment system in its entirety. It was with this consciousness that the CBN came up with a reform policy to check the increasing dominance of cash in the banking sector in order to enhance e-payment system in the economic landscape.

According to Ezumba (2011), the major loophole that may hinder the effectiveness and practicability of the policy is that there is no limit to the number of bank account that can be operated in one or more banks as well as lack of central database to monitor daily cumulative lodgments into and withdrawals from more than one bank account by an individual or corporate entity. He also posited that people may decide to open more bank account to circumvent the limit to cash which they can withdraw at once so as to make up for their daily cash needs. He then concluded that this may negate the effectiveness and practicability of the policy.

The study of Ifeakandu (2011), reveal that the trend of investigation which posed a great risk to the effectiveness and practicability of the cashless policy is the number of unbanked Nigerians that is expected to be less than those that have mobile phones. Also, some proponents believe that there is a need for the apex bank to be proactive in addressing the security and technological challenges associated with e-transactions and ensure effectiveness of the sensitization campaign exercise.

However, the work of Omose (2010), believe that the policy has not been effective and practicable, thus, challenged the CBN to ensure the effective enforcement of law against the issuance of “dud cheques”. It recommended that defaulters could be prosecuted speedily in a court of law against the current situation where the matter is treated with amateur gloves.

It is important that certain infrastructure be put in place for a successful implementation of the cashless policy in Nigeria. The study of Nwankwo and Eze (2013) carried out a study to determine the extent to which electronic payment affect the cashless economy in Nigeria revealed that electronic payment has a great impact on cashless economy. The study equally recommended improvement in infrastructural development so as to enhance the e-payment system, including power and security among others. The cultural acceptance required a total orientation and campaign to persuade and convince Nigerians especially the illiterates and semi-literates on what they stand to gain when they embrace cashless policy. According to the study of Akhalume and Ohiokha (2012) about 70-75% of Nigerians do not have bank account which will be counter- productive to the success of the policy.

3.0 Methodology

As pointed earlier, this study is designed to examine the acceptability and practicability of cash-less policy in Nigeria. Therefore, descriptive survey research method was employed with the use of structured questionnaire as an instrument. The relevant population for the study is the residents of Lagos State in Nigeria which consist of over ten (10) million people according to the National population Census Report (NPC 2006). In order to arrive at a reliable result, the sample size for this study is two hundred (200) respondents.

Furthermore, the sampling procedure adopted for this study was convenience and purposive sampling techniques. This is because of the nature of respondents as both literates and illiterates in Nigerians were included in the sample, since they are the ones that will participate in the usage of the cards and machines involve in the operations of the policy. Those considered to posses the required attributes or information to represent the population of the study was also picked. Hence, the sample for this study was restricted to only five local Governments. They are: Alimosho local Government, Obalende/ikoyi Local Government, Eti Osa Local Government, Mushin Local Government and Ikorodu Local Government with forty (40) samples selected from each local government.

Of the 200 questionnaire distributed, 185 copies were retrieved in usable form. This represents a response rate of 93% return and very satisfactory as this constitutes a very large percentage rate of return.

3.1 Method Data Analysis

The techniques or method of data analysis used for the data collected for this study were simple percentage and chi square test. The table was drawn with short explanatory notes beneath the tables and chi square was used to test the hypotheses put forward in section one from the responses obtained from the questionnaire. The chi square is stated as:

$$\chi^2 = \sum \frac{(o-e)^2}{e}$$

With (c 1)(1-a) d.f and a=0.05

Where:

Σ = Summation sign,

χ^2 = Chi square calculated,

O = Observed Value,

e = Expected Value.

The decision rule is:

Reject H_0 if χ^2 calc is greater than or equal to χ^2 crit;

Accept H_0 if otherwise.

4.0 Presentations and Discussion of Survey Results

This section provides a brief analysis of the relevant responses to questions as contained in the questionnaire and in line with the hypotheses earlier stated in this study.

Table 1: Respondents Gender Distribution (N=185)

Gender	Frequency	Percentage %
Male	115	62
Female	70	38
Total	185	100

Source: Author's Field survey, (2019)

Table 2: Respondent's Marital Status

Marital Status	Frequency	Percentage
Married	82	44
Unmarried	103	56
Total	185	100

Source: Author's Field survey, (2019)

Table 3: There is a need for the introduction of cashless policy in Nigeria.

Responses	Frequency	Percentage %
Yes	125	67.6
No	60	32.4
Total	185	100

Source: Author's Field survey, (2019)

The table above indicates that 67.6% (125) respondents see the necessity for Nigeria government through CBN for the introduction of cashless policy while 32.4% (60) respondents said there is no any necessity for the introduction of the policy.

Table 4: Cashless policy will produce positive effects on Nigeria Economy.

Responses	Frequency	Percentage %
Yes	132	71
No	53	29
Total	185	100

Source: Author's Field survey, (2019)

The above table indicates that 71% (132) of the respondents believe that cashless policy have positive effect on Nigeria economy while 29% (53) respondents perceived the effect of policy

on economy of Nigeria as negative. This shows that most of the respondents believe that the policy will be a great advantage to the economy whether ignorantly or otherwise.

4.0.2 Testing of Hypotheses

4.0.2.1 Hypotheses 1

H₀: There is no necessity for the Government to introduce the cashless policy in Nigeria.

H₁: There is the necessity for the Government to introduce the cashless policy in Nigeria.

Table 5: Chi-Square Table

Variables	Observer (0)	Expected (e)	0-e	(0-e) ²	X ² = ∑ $\frac{(0-e)^2}{e}$
Yes	125	92.5	32.5	1056.25	11.4189
No	60	92.5	-32.5	1056.25	11.4189
Total	185	185	00	-	22.8378

Source: Author's Computation, (2019)

$\chi^2_t = (c-1)(1-a)$, where a is degree of freedom at 5%. $\chi^2_t = (2-1)(1-0.05) = 0.95$

$\chi^2 = 1, 0.95$

$\chi^2 = 3.841$ and $\chi^2_c = 22.84$

Hence, $\chi^2_c > \chi^2_t$

The decision rule here is χ^2 calculated is greater than χ^2 tabulated or critical value, we reject the Null hypotheses (H₀) and accept Alternate hypotheses (H₁) and vice versa. Therefore, since the χ^2 calculated (22.84) is greater than χ^2 tabulated we reject H₀ and accept H₁ and conclude that there is the necessity for the introduction of cashless policy in Nigeria.

4.0.2.2 Hypotheses 2

H₀: Cashless policy has no impact on Nigeria economy.

H₁: Cashless policy has impact on Nigeria economy.

Table 6: Chi-Square Table

Variables	Observer (0)	Expected (e)	0-e	(0-e) ²	X ² = ∑ $\frac{(0-e)^2}{e}$
Positive	132	92.5	39.5	1560.25	16.8676
Negative	53	92.5	-39.5	1560.25	16.8676
Total	185	185	00	-	33.7351

Source: Author's Computation

$\chi^2_t = (c-1)(1-a)$, where a is degree of freedom at 5%. $\chi^2_t = (2-1)(1-0.05) = 0.95$ $\chi^2_t = 1, 0.95$

$\chi^2_t = 3.841$ and $\chi^2_c = 33.74$

Hence, $\chi^2_c > \chi^2_t$

Following the same conventional decision rule for hypotheses 1 above, we reject H_0 while H_1 is accepted and conclude that cashless policy has significant effect on Nigeria economy.

5.0 Conclusion and Policy Recommendations

This study examines the effectiveness and practicability of the new cashless policy in Nigeria with a view to ascertaining the policy implication as well as to evaluate the preparedness and acceptability of the policy by the people of Nigeria especially in Lagos. It investigates the effect of cashless policy on economic development with the use of primary data. The study reveals that there is necessity for the introduction of cashless policy and that cashless policy has effect on Nigeria economy. The finding was supported by the theory of technology acceptance and empirical study of Olajide (2012). The study therefore recommended the establishment of adequate and well functioning infrastructural facilities for smooth operation of cashless transaction with prior appropriate enlightenment of the citizen.

References

- Adewoye J. O. (2013). Impact of Mobile Banking on Service Delivery in the Nigerian Commercial Banks. *Int. Rev. Manage. Bus. Res.* 2(2):333-344.
- Adu, C. A. (2016): Cashless Policy and Its Effects on the Nigerian Economy. *European Journal of Business, Economics and Accountancy* 4 (2): 81-82.
- Ajayi, L. B. (2014). Effect of Cashless Monetary Policy on Nigerian Banking Industry: Issues, Prospects and Challenges. *International Journal of Business and Finance Management Research*. Vol. 2, Pp. 29-41
- Ajayi, M. (2005): Banking Sector Reforms and Banking Consolidation: Conceptual Framework, *Bullion* Vol. 29, No 2. Retrieved in October, 2019 from www.iiste.org
- Akhalumeh, P.B. & Ohiokha, F. (2012): 'Nigeria's Cashless Economy: The Imperatives', *International Journal of management and Business Studies*, Vol 2 (2) April June, Retrieved October, 2019 from www.ijmbs.com.
- Azeez, K. (2011): Fresh Hurdles for CBN Cashless Economy Plan, October retrieved, October, 2019 from www.nationalmirroronline.net
- Babalola, R. (2008): 'E-payment: Towards a Cashless Economy'. A Keynote Address of the Finance Minister of State at Cardexpo Africa Conference. Retrieved September, 2019 from www.nigeriavillagesquare.com
- Echekoba, F. N., & Ezu, G. K. (2012): Electronic Retail Payment Systems: User Acceptability & Payment Problems in Nigeria. *Arabian Journal of Business & Management Review*. vol.5, 60 – 63
- Ezumba, S. (2011): 'The Transition to a Cashless Nigeria', Reinventing Rebuilding, Retrieved December, 2019 from www.ijmbs.com
- Ifeakandu, A. (2011): "Analysis List Pitfalls of Cashless Economy, Retrieved on October, 2019 from: www.blverprinting.com
- Moses-shike, H. (2011): "Cashless Economic Can Reduce Risk of Carrying Huge Cash" retrieved December, 2019 from: www.businessdayonline.com.../122217
- Nwankwo, O. and Eze, O.R. (2013): Electronic Payment in Cashless Economy of Nigeria: Problems and Prospect. *Journal of Management Research*, Vol. 5(1), 138-151.
- Olaegbe, R. (2011): Road to Cashless Lagos" retrieved on December 2019 from: www.theonline.net/16388.
- Olajide V. C. (2012): Cashless Banking in Nigeria and its Implications, 1-8. Retrieved online in June, 2019 and available online at: <http://mpr.ub.uni-muenchen.de/38096/>.
- Omose, K. (2011): 'Deconstructing CBN Cashless policy" Retrieved November 2019 from: www.mobilemoneyafrica.com

- Roth, B.L. (2010): ‘The Future of Money: The Cashless Economy-part 1’ available and retrieved in January 2020 from: <https://www.x.com/.../future-money-cashless-Economy-part-i>
- Taiwo, J.N., Kehinde, A.O., Afieroho, E.O. and Agwu, M.E. (2016): Appraisal of Cashless Policy on the Nigerian Financial System. *West African Journal of Industrial and Academic Research*. 10(1), 96-108
- Woodford, M. (2003): *Interest and price Foundation of a Theory of Monetary Policy*” Princeton: University Press