Cashless Policy and Sustainability of Nigerian Economy (2000-2017)

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ABSTRACT

This study evaluates the impacts of CBN cashless policy on the sustainability of Nigerian economy towards fraud control. Three research hypotheses were formulated in line with the objectives of the study. Relevant literatures from different scholars and authors were reviewed in this course. The secondary data was employed as the main instrument for data collection which covers a period of eighteen years. The data gathered was subjected to Test-Re-Test Validity and Reliability Test. The results obtained were presented with the use of tables and analyzed with Statistical Package for Social Scientists (SPSS) using Analysis of Variance Method twice to ascertain the validity and reliability of the facts gathered. Multiple linear regression Model was used to establish the nature of the relationship existing between the variables. F-Test was used to test necessary hypothesis. The results indicated that majority agree that the policy will help fight against corruption, money laundering and reduce the risks of carrying cash in mobility. Major problems envisaged to hamper the implementation of the cashless policy are cyber fraud and gross illiteracy among many Nigerian populace. Based on the findings, the Researcher made some recommendations such as: the government should adopt a different strategy to educate the non-illiterate Nigerians about the cashless economy, more awareness should be done to the leaned public and a framework should be worked out to provide cyber security in Nigeria.

Keywords: Cashless Economy, Financial stability, Policy, Economic development and Nigerian economy.

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1. INTRODUCTION

A cashless society is a society where no one uses cash, all purchases being made by credit cards, or direct transfer from one account to another. Or it is a policy that minimizes the use of cash by providing alternative channels for executing financial transactions. It can also be the ability to store money in an electronic Card which is fast becoming standard practice throughout the world. The electronic purse is then used to purchase products within the business premises. Cashless economy is an economy where transactions can be done without necessarily carrying physical cash as a means of exchange of transaction but rather with the use of credit or debit card payment for goods and services. According to Ejiro, (2012), the cashless economy policy initiative of the Central Bank of Nigeria (CBN) is a move to improve the financial terrain but in the long run sustainability of the policy will be a function of endorsement and compliance by end-users. The concept of monetary policy as a technique of economic management to bring about sustainable economic growth and development through cashless policy and banking introduced by the Central bank of Nigeria (CBN) is not fully operational.

This is due to high rate of illiteracy amongst the Nigerian citizenry, inadequate sensitization/education on the benefits of the cashless policy, and in-adequate logistics (such as the provision of internet connections in commercial areas, computers and Point of Sale (POS) machines). This Research work is a critical evaluation of the Central Bank of Nigeria cashless policy impact on the growth and development of the Nigerian economy. There is always a great challenge in attempting to analyze the true impact of the cashless policy on the growth and development of the Nigeria economy as only few monetary and macroeconomic indicators can be traced with relation to the subject matter. Apart from the physical challenges, economic data and indicators are not fully available and reliable. The main objective of the study is (i) To evaluate the impact of cashless policy of the Central bank of Nigeria on the growth and development of the Nigerian economy (ii)To examine the impact of the cashless policy on gross domestic growth of Nigeria.(iii)To examine the effects of inflation on cashless policy in Nigeria .Research Questions are,(i)To what extent does cashless policy has an impact on economic growth in Nigeria?(ii)To what extent does cashless policy has impact on the growth domestic product in Nigeria? (iii)To what extent does inflation affect the cashless policy in Nigeria?

Research Hypotheses

(H_{01}) There is no significant relationship between cashless policy and economic growth
(H_{02}) There is no significant relationship between cashless policy and Nigerian growth domestic product.
(H_{03}) There is no significant relationship between cashless policy and inflation in Nigeria.

2. LITERATURE REVIEW

A cashless society is a society where no one uses cash, all purchases being made by credit cards, or direct transfer from one account to another. Or it is a policy that minimizes the use of cash by providing alternative channels for executing financial transactions. It can also be the ability to store money in an electronic Card which is fast becoming standard practice throughout the world. The electronic purse is then used to purchase products within the business premises. Cashless economy is an economy where transactions can be done without necessarily carrying physical cash as a means of exchange of transaction but rather with the use of credit or debit card payment for goods and services. According to Ejiro, (2012), the cashless economy policy initiative of the Central Bank of Nigeria (CBN) is a move to improve the financial terrain but in the long run sustainability of the policy will be a function of endorsement and compliance by end-users.Furthermore, 3rd party cheques above ₦150,000 shall not be eligible for encashment over the counter with effect from January 1st, 2012. Value for such cheques shall be received through the clearing house. All Nigerian banks were expected to cease cash in transit lodgment services rendered to merchant-customers from January 1, 2012.

This cashless policy is a program of actions adopted by the government. The introduction of the implementation of cashless policy began in Lagos State, South West, Nigeria. According to Central Bank of Nigeria (CBN, 2011) Lagos state accounted for 85% of POS and 66% of cheques transaction in Nigeria. Cashless economy aims at reducing the amount of physical cash circulating in the Nigerian economy and thereby encouraging more electronic–based transactions. According to Central Bank of Nigeria (CBN, 2011) the policy is expected to reduce cost incurred in maintaining cash-based economy by 90% upon its full implementation in Nigeria. This study aims to look at the impact of cashless economy in Nigeria. The introduction of electronic banking, online transactions and mobile banking in Nigeria has paved way for a new era of development where the use and demand for physical cash is gradually declining. These recent evolution of technology in the Nigerian financial institutions posses interesting questions for Economists, Financial institutions, Business Analysts and the Government regarding the current economic status, logistics, and availability of instruments to guarantee economic growth and stability, efficiency and effectiveness of the cashless policy.

In view of being one of the best and biggest economies in 2020, the CBN has started implementing the cashless policy/banking in some major states/cities in Nigeria such as Lagos, Kano, Port-Harcourt and Onitsha. The CBN and Pro-cashless policy activists have asserted reduction in crime rates, minimized risks associated with carrying huge sums of money, reduction in political corruption, reduction in banking cost, improvement on monetary policy in management of inflation and the overall growth and development of the economy of Nigeria as advantages associated with the implementation of the cashless policy. Alilonu, (2012) reported that Cashless economy does not mean a total elimination of cash as money will continue to be a means of exchange for goods and services in the foreseeable future. It is a financial environment that minimizes the use of physical cash by providing alternative channels for making payments. The cashless economy policy of the CBN is designed to provide mobile payment services, breakdown the traditional barriers hindering financial inclusion of millions of Nigerians and bring low cost, secure and convenient financial services to urban, semi-urban and rural areas across the country. This has however become a burden to some elites, the poor, the uneducated and traders (Eromosele & Obinna, 2012).

Valentine Obi, Managing Director/CEO e-Tranzact International Plc, a leading provider of mobile transaction services defines cashless society as one where no one uses cash, all purchases being made by credit cards, charge cards, cheques and direct transfers from one account to another. In other words, it refers to the widespread application of computer technology in the financial system. According to him, in the western world today, almost 97% of transactions are done without physical cash being exchanged and this has greatly reduced cost, corruption and money-laundering. In Nigeria today, it is the opposite – with majority of transactions done with cash. In a cashless economy, how much cash that is available in individual's or banks vault is practically irrelevant. You can pay for your purchases by means of credit cards or bank transfer (Woodford, 2003).

Some aspects of the functioning of the cashless economy are enhanced by e-finance, e-money, e-brokering and e-exchange. These all refer to how transactions and payments are affected in a cashless (Ashike, 2011). In Nigeria, under the cashless economy concept, the goal is to discourage cash transactions as much as possible. The CBN had set daily cumulative withdrawal and deposit limits of ₦150,000 for individuals and ₦1,000,000 for corporate entities (now reviewed to ₦500,000 and ₦3million respectively). Penalty fees of ₦100 and ₦200 respectively (now reduced to 3% and 5% respectively) are to be charged per extra ₦1000 (Ezumba, 2011). It should be noted that as at now there are already some forms of cashless transactions that are taking place in Nigeria. It is noted that today there are up to seven different electronic payment channels in Nigeria: Automated Teller Machines (ATM), Point-of-Sales (POS) terminals, mobile voice, web, inter-bank branch and kiosks. E-payment initiatives in Nigeria have been undertaken by indigenous firms and have been stimulated by improvement in technology and infrastructure (Babalola, 2008).

2.1 Conceptual Framework

While cash still remains the preferred means of payment and exchange to a large majority of Nigerian populace, other alternative modes are offered (De'kock,2011). To dissuade the reliance on cash payments, daily cash limits on deposits and withdrawals are enforced and any amount above the stipulated threshold is penalized by application of handling charges by banks.

1. **Cheques**: there is an expected surge in the use of cheques. However, encashment of third-party cheques across the counter is prohibited and all cheques drawn in favor of any beneficiary other than the account owner must be presented through CBN clearing house. Sequence to that, the value on cheques must not exceed N10million.
2. **Bank drafts and other bank instruments:** bank drafts will become the toast of many merchants for big ticket transactions not more than N10million (Aginam, 2013). This is because bank draft unlike personal cheques in normal Nigerian transaction situation, cannot bounce except if they are fraudulent. However, they cannot be paid across the counter and will still be subject to the three days clearing rule of CBN for cheques.

3. **ATM**: Automated Teller Machines will be used much frequently for making variety of online payments such as utility bills, T.V subscriptions, GSM recharges, etc. Customers are advised to keep their ATM cards (Debit and Credit) safe and never to divulge their PINs.
4. **NIBSS Funds Transfers** ; The Nigerian Interbank Settlement Scheme is an online platform where banks exchange value thereby enabling the performance of interbank transfers such as NEFT and NIBSS instant transferring funds between banks for single or multiple beneficiaries for individual amounts not exceeding N10million (Oyetade & Ofoelue,2012). NEFT transfers, once effected works with the next available clearing session of CBN and is received in the beneficiary's account the same day or next working day, but NIBSS instant payments are immediate.
5. **RTGS**: Real Time Gross Settlements is used to transfer sums above N10million in favor of a single beneficiary. It is used for big ticket transactions which must have been effected before noon for most banks if the funds are to reach the recipient bank the same day.
6. **E- transfers** ; refers to electronic transfers which can be effected via the internet on PCs, laptops and other devices. Bank customers who have subscribed to internet banking can do basic banking transactions via the web(Eboh,2011).
7. **POS Terminal**: Point of Sales (POS) terminals are deployed to merchant locations where users swipe their electronic cards through them in order to make payment for purchases or services instead of using raw cash. As the POS terminals are online real-time, the customers bank account is debited immediately for value of purchases made or services enjoyed. (Alilonu, 2012).

2.2 Theoretical Framework

2.2.1 The New Cash Policy and Law Response To Cash-Less Economy

The retail cash policy which commenced from June 2, 2012 stipulates that over the counter cash transactions above ₦150,000 and ₦1,000,000 for individual and corporate respectively will attract a charge. Notwithstanding, the policy recognizes that merchants have to continue to receive payments therefore, it allows merchants and traders alike to choose either cash option for receiving payments or adopt cheaper and convenient alternative electronic payment channels to facilitate business transaction. The implementation of the policy commenced at first in Lagos, and gradually inter-phased to cover Pot Harcourt, Kano, Aba and F.C.T. A careful review of the policy reveals the following salient considerations that went into the formulation of the policy as well as actions being taken to ensure seamless implementation:

(i) The central Bank of Nigeria, while acting within the limits of its statutory responsibilities in respect of the development of the payments system, did not place a limit on cash transactions in the banks rather the CBN is formally encouraging banks to shift cost burden of heavy cash management to customers conducting high volumes of cash transactions in the banking halls. Individuals and corporate organizations who desire such cash usage should be willing to pay for the cash services being offered by the banks. Since the majority of Nigerians (90%) do not carry out cash transactions of up to ₦150,000 a day on their respective accounts, the threshold for charging was set taking into consolidation the need to protect the low income earners and savers.

(ii) It is should be clarified that the policy does not prohibit the withdrawal of more than ₦150,000. Those who still wish to conduct heavy cash transactions with their banks are free to do so within the provisions of the directive.

(iii) The banks are poised and committed to an aggressive root-out of ATM, Point-of-Sale (POS) and ensure these are readily available to the high cash driven individuals and businesses.

(iv) Currently, there are funds transfer products of banks that ensure same day value to customers anywhere in the country through the electronic funds transfer system.

(v) To address the communication infrastructure issue which had hitherto affected the level of availability of POS and ATMs to users in the country, the CBN and the bankers Committee have commenced concrete actions to ensure that priority is given to payments related data traffic by telecommunication networks. Agreement has been reached to provide dedicated channels for transaction over the Point of Sale (POS).

(vi) Power is another key infrastructure which impacts the availability of POS and ATMs. The CBN has therefore agreed on minimum POS standards which specify adequate battery life span to support uninterrupted availability of power supply.

While the distinguishing element in e-transactions is the electronic element, virtually all of Nigeria's extant laws and regulations do not provide for the element in commercial transactions till date, there is no law that explicitly and exclusively deals with payment systems in Nigeria. This contrasts sharply with Kenya and South Africa, to name a few.

3. MATERIAL AND METHODS

This research study used mainly secondary data derived from the publication of Central Bank of Nigeria – specifically the CBN statistical bulletin, and some other sources, like Books, data presentation, academic papers and relevant text books. The data is for eighteen years covering 2000 to 2017 because data obtained therewith represents a rich and reliable source for the main objective of this research. Various statistical techniques are adopted to test the properties of the variables and the stability of the model structure and functional form.

3.1 Population of the Study

The study is based on "Critical Evaluation of Central Bank of Nigeria Cashless Policy: Growth and Development in Nigerian Economy. Hence, the research study make a critical appraisal into the different forms of CBN Cashless policy and how it affects the nation's economy. Secondary data sources (e.g. library, Statistical reports, Desk Research, Academic Journals and textbooks) were employed in this Research Course.

4. PRESENTATION OF RESULTS

Correlations

		GDP	INFL	PBT	PAT
Pearson Correlation	GDP	1.000	.177	-.257	.268
	INFL	.177	1.000	-.156	.029
	PBT	-.257	-.156	1.000	-.115
	PAT	.268	.029	-.115	1.000
Sig. (1-tailed)	GDP	.	.228	.137	.127
	INFL	.228	.	.256	.452
	PBT	.137	.256	.	.314
	PAT	.127	.452	.314	.
N	GDP	20	20	20	20
	INFL	20	20	20	20
	PBT	20	20	20	20
	PAT	20	20	20	20

NOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	186898280564675.940	3	62299426854891.984	.883	.471[b]
	Residual	1128767125501380.500	16	70547945343836.280		
	Total	1315665406066056.500	19			

a. Dependent Variable: GDP
b. Predictors: (Constant), PAT, INFL, PBT

The table above shows the model summary, it reveals that the multiple correlation between the gross domestic product (GDP) (dependent variables) and the monetary policy (explanatory variable) have weak positive correlation i.e. R. = 0.377. Also the coefficient of multiple determinations (R^2) is 0.142 indicates that about 14.2% of the variations in gross domestic product are explained by the join effect of independent variable (Profit before tax, profit after tax, and inflation rate) in Nigeria while the Adjusted R-square values is negative value which indicate that the variable use in measure the cashless policy of Nigeria economy growth were ineffective. The Durbin Watson statistic measures the serial correlation of the variables. The result of the Durbin Watson test shows 0.294. Since the value is approximately 0, it is accepted that there is autocorrelation among the successive values of the variables in the model.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.377[a]	.142	-.019	8399282.43029	.294

a. Predictors: (Constant), PAT, INFL, PBT

b. Dependent Variable: GDP

However, the table above also revealed the level of correlation among the variable consider, it shown that there is a very weak correlation between the gross domestic products.

The Anova table above show the econometric model of the effect of bank credit in Nigeria against the monetary policy i.e. GDP = 141179.864 + 46516.579INF - 1250.719PBT+ 9376.580PAT. From the P-Value of the model it reveal that among the employed variable, the inflation rate, profit before tax and profit after tax were found to accept the null hypothesis at 0.05% level of significance. And the econometric model employed tell us that any unit increase in inflation rate will bring about that value decrease in gross domestic product of Nigeria economy.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	141179.864	8203612.524		.017	.986
	INFL	46516.579	79108.464	.138	.588	.565
	PBT	-1250.719	1419.430	-.208	-.881	.391
	PAT	9376.580	9112.760	.240	1.029	.319

a. Dependent Variable: GDP

The coefficients table above represents the analysis of variance (ANOVA) for the model which shows the variability between the variables. This table reports an ANOVA which assess the overall significance of our model. It reports the sum of square regression with a value 186898280564675.940 with a degree of freedom equal 3 and mean square regression value 2299426854891.984 with F-statistic 0.883.

The significance in the model is specified below. Also the sum of square error is 1128767125501380.500 with degree of freedom equal 16 and mean square error with values 70547945343836.280. Since the significant value of our model is 0.471 which is greater than the critical value of 0.05, we therefore, conclude that there is no significant relationship base on the variable employed to measure the evaluation of central bank of Nigeria (CBN) cashless policy with growth and development in Nigeria economic within the period under review.

4.1 Interpretation of Results

The correlation table shows the model summary, it reveals that the multiple correlation between the gross domestic product (GDP) (dependent variables) and the monetary policy (explanatory variable) have weak positive correlation i.e. R. = 0.377. Also the coefficient of multiple determinations (R^2) is 0.142 indicates that about 14.2% of the variations in gross domestic product are explained by the join effect of independent variable (Profit before tax, profit after tax, and inflation rate) in Nigeria while the Adjusted R-square values is negative value which indicate that the variable use in measure the cashless policy of Nigeria economy growth were ineffective.

The Durbin Watson statistic measures the serial correlation of the variables. The result of the Durbin Watson test shows 0.294. Since the value is approximately 0, it is accepted that there is autocorrelation among the successive values of the variables in the model. However, the model summary table revealed the level of correlation among the variable consider, it shown that there is a very weak correlation between the gross domestic products. The Anova table above show the econometric model of the effect of bank credit in Nigeria against the monetary policy i.e. GDP = 141179.864 + 46516.579INF - 1250.719PBT+ 9376.580PAT.

From the P-Value of the model it reveal that among the employed variable, the inflation rate, profit before tax and profit after tax were found to accept the null hypothesis at 0.05% level of significance. And the econometric model employed tell us that any unit increase in inflation rate will bring about that value decrease in gross domestic product of Nigeria economy. The coefficients table represents the analysis of variance (ANOVA) for the model which shows the variability between the variables.

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Since the significant value of our model is 0.471 which is greater than the critical value of 0.05, we therefore, conclude that there is no significant relationship base on the variable employed to measure the evaluation of central bank of Nigeria (CBN) cashless policy with growth and development in Nigeria economic within the period under review. All the null hypotheses to be rejected and the alternative hypotheses to be accepted that:

(i) There is significant relationship between cashless policy and Nigerian economic growth.
(ii) There is significant relationship between cashless policy and growth domestic product in Nigeria.
(iii) There is significant relationship between inflation and the cashless policy in Nigeria.

5. CONCLUSION

However, despite the convenience derived in adopting a cashless system, there are still some limitations hindering the effectiveness of the policy which are mostly used due to the fact that the policy can only be implanted with the aid of technological systems. Some of these limitations are inadequate power supply, technological differences, cyber-crime, and high level of illiteracy amongst others.

i. The adoption of the cashless economy policy can enhance the growth of financial stability in the country.
ii. It appears that much has already been done in making the people aware of the cashless economy and that a sizeable proportion of the people are actually awaiting the introduction of the cashless economy.
iv. Cashless economy initiative will be of significant benefits to Nigerians; hence the cashless system will be helpful in the fight against corruption and money laundering. One most significant contribution of the cashless economy is that it is expected to reduce the risk associated with carrying cash. Since most transactions will now be settled electronically, people will have less need to move around with cash and therefore, loss of cash, theft and armed robbery will drastically reduce.
v. It was also discovered that majority of Nigerians agreed that the adoption of the cashless economy policy will enhance the growth of financial stability in the country, thereby bringing about business, price and economic stabilization. It will also be effective in solving the problems faced in the Nigerian financial sector.

6. RECOMMENDATIONS

For the cashless banking policy to have sustained socially desirable effects on the Nigerian economy, it is recommended that the following should be done.

a. There is the need to intensify the public enlightenment program about the cashless system so that everybody will be acquainted with the system before its introduction since it will affect everybody. Since there is high rate of illiteracy, and all people must be brought into the system, the government should design special enlightenment programs for non-literates, using probably signs and symbols to educate this segment on how to operate the cashless system. However, regular awareness campaign to educate the public on the cashless banking channels.
b. Nigerian government should make concerted efforts to design an internet security framework to check online fraud so that the public can be assured and protected against cyber-attack and fraud.
c. Adequate and well-functioning infrastructural facilities must be in place. More specifically, issue of electricity should be tackled by the government to facilitate the usage of electronic money.
d. Consistent and effective appraisal of cashless banking operations. Basically, such appraisals should be quantitative and qualitative in nature.

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