

## **THE IMPACT OF CASHLESS POLICY ON NIGERIAN ECONOMY: A STUDY OF SOKOTO METROPOLIS**

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### **ABSTRACT**

*The cashless economic policy was introduced in Nigeria by the Central Bank of Nigeria (CBN) in order to sanitize the Nigerian economy and to bring it in line with the global economic development trend by 2020. This will facilitate modernization and formalization of the economy that could attract investment from outside and improve the effectiveness and the efficiency of the monetary policy. It is in the light of this that this study examines the cash policy on the Nigerian economy and attempts to determine the extent to which it is achieving its purpose by critically analyzing the provisions of the policy, the strategies of its implementation, the role played by the commercial banks, the Central Bank of Nigeria and the governments in facilitating the achievement of the purpose of the policy. The study specifically attempts to assess the impacts of the policy and the measures adopted in Sokoto metropolis in the implementation of the provision of the policy because the challenges of the policy could be more apparent in Sokoto due to its peculiar political position in Nigeria. The study adopted personal visits to the sites involved, conducting oral interviews with the staff of the banks, the general public and the other stakeholders, and observing the general reactions and responses of the parties concerned. It is based on this that the data collected was analyzed to show the extent of the achievement of the various measures adopted. The study establishes that the banking facilities were not only in short supply but also inadequate and even where available were grossly underutilized. It is based on these findings that recommendations were offered on how to improve the banking services to enhance the achievement of the overall purpose of the cashless policy in Nigeria generally and Sokoto Metropolis in particular.*

**KEY WORDS:** Cashless policy, impacts Nigeria, Sokoto Metropolis

### **INTRODUCTION**

The cashless economic policy is one of the measures adopted by the Central Bank of Nigeria (CBN) to sanitize the Nigerian economy and to bring it in line with the global economic development taking place all over the world. It was hoped that this is a stage towards formalization to the economy, in order to facilitate and attract investment from outsiders. It will also sanitize the banking system by reducing the risks and hazards of cash handling. It was for this purpose that the Central Bank of Nigeria proposed the cashless policy and streamlined its strategy for its implementation.

The Central Bank of Nigeria (CBN) cashless policy stipulates a daily cumulative limit of N150, 000.00 and N1, 000,000.00 free cash withdrawal and lodgement by individual and corporate customers respectively in Lagos State with effect from March 30, 2012. Individuals

and corporate clients who make transactions above the limit will be charged a service fee for the amount above the cumulative limits. Furthermore, 3<sup>rd</sup> party cheques above N150, 000.00 shall not be eligible for encashment over the counter with effect from January 1, 2012- the value of such cheques shall be received through the clearing house. Banks will cease cash-in- transit lodgment services rendered to merchant customers with effect from January 1, 2012 (Standard Chartered, 2014).

The cashless policy was meant to reduce the usage of cash and to increase the use of an alternative to cash due to the negative consequences of cash usage. The implementation of the policy was to start in Lagos on January 1, 2012, as a pilot and the nationwide implementation will commence on June 1, 2012. This schedule was however altered and changed to April 1, 2012, and was extended to 5 States and the Federal Capital Territory (FCT) on January 1, 2013. Gradually, the policy was extended to all the states of the Federation with some adjustment to the withdrawal and lodgment limits from N150, 000.00 and N1, 000,000.00 to individuals and corporate customers to N500,000 and N3 million respectively. Any withdrawal above N500, 000.00 and N3 million attracts 3% charges, and lodgment draws 2%. This was a way of discouraging unnecessary withdrawals or lodgments. The Central Bank Nigeria (CBN) granted exceptions to government ministries and parastatals on account of revenue collection, and diplomatic missions, multilateral, and donor agencies. The micro finance Banks and mortgage Banks were also exempted from the penalties

### **THE PURPOSE OF CASHLESS POLICY**

The following are the objectives or benefits to be derived from the implementation of cashless policy as outlined by the Central Bank of Nigeria (CBN)(Standard Chartered 2014).

- To enable the achievement of the Nations vision 2020 objective
- To reduce high cost associated with cash handling (Printing, Storage, Processing, distribution, etc.)
- To reduce the risk of robbery and associated crimes.
- To increase convenience/access to payment system (more payment options)
- To enable transparency in the payment system and allow for more effective monitoring policy.
- To facilitate the achievement of the purposes mentioned above the Central Bank of Nigeria (CBN) introduced the under listed channels (E-Payment) to be used instead of cash as much as possible (CBN Reports 2014):
- Point of sale Terminals (POS)
- Mobile Banking System (using cell phones)
- Internet Banking
- Multi-functional Automated Teller Machines (ATM)
- Electronic Fund Transfer
- Direct Debit cards for regular bill payment.



The above channels are used and referred to as the electronic payment system (E-Payment). They are efficient, safe, quick and very convenient

## **USES AND BENEFITS OF E-PAYMENT CHANNELS**

### 1) Point Of Sale (Pos) Terminals

Point of sale (pos) terminals are facilities provided at various points of sales which allow their custodians/merchants to;

- i. To accept debit cards (ATM CARDS) to deduct payments for goods and services for the credit of the merchant account.
- ii. To take commission from the sale of 3<sup>rd</sup> party products and services such as recharge cards, bills, payments, scratch cards, lottery tickets, etc.
- iii. They are anti-robbery and theft proof.
- iv. Reduces cost of cash management; counting, storage and hazards, the risk of moving cash and looking for a change.
- v. It handles complex banking transaction like cheque verification, credit, cash deposit, and withdrawal.

### 2) Mobile Banking /Payment

This facilitates banking transaction from the convenience of your mobile phone. It is easy to use and does not require any rigorous training; anybody that can use a cell phone can use it. It is simple, accessible, convenient, secure and reliable.

- i. It is used for balance inquiry; displays latest transactions and balances.
- ii. Funds transfer between accounts in the same bank and with accounts in other banks.
- iii. Bill payments and taxes – utilities, light and water rates, customs duties, **FIRS, STARTIMES, DSTV, etc.**
- iv. Account Statement.
- vi. Other banking services.
- vii. No cash leakages and wastages.
- viii. It is easy and can easily be activated on any cell-phone.
- x. It saves time and costs, no need to go to the bank, it can be done anywhere.

### 3) Internet Banking

Most banks would require the customers using the internet banking to have a token device. This is to ensure maximum security for the web application. The internet banking application is used for some banking operations:-

- i. Balance inquiry
- ii. Funds transfer both inter accounts and inter banks accounts
- iii. International payments
- iv. Other complex banking transactions.



4) Automated Teller Machine ((ATM)

This is a computer controlled device that dispenses cash and provides other services to customers who identify themselves with a personal identification number (PIN) using their respective Debit cards. One good thing about this machine is that it accepts customers from different banks and can be used for (Yaye, 2015):

- i. Balance enquiry
- ii. Cash deposits
- iii. Cash withdrawal
- iv. Funds Transfer, inter and intra accounts and banks
- v. Payment of bills
- vi. Air –Time top –up for all the Networks

They are located outside banking halls and in public places. This means a customer can transact business without seeing the bank officials or having to visit the banking halls.

5) Electronic Funds Transfer

This uses NIBBS instant payment systems to transfer funds immediately between two accounts in the same bank or different banks. It facilitates payments between different banks and different accounts especially Payment of salary. The payment of wages to the customers of an organization in different banks is now possible without having to take the pay schedule to the various banks. Big Organizations are now using this facility to effect payments to various accounts in various banks which was not possible before.

6) The Card System

This is a unique electronic payment which involves the use of the smart card. The smart cards are devices with embedded integrated circuits being used for the settlement of financial obligation (Olanipeku, 2013). It is used on a credit card, debit card, ATM card, etc. The powers of the cards lie in its sophistication for multiple applications securely. The cards can be used locally, nationally and internationally and even for transaction in foreign currencies.

**IMPLEMENTATION STRATEGIES AND MEASURES ADOPTED**

In the implementation process of the cashless policy both the apex bank and the government have been committed to the achievement of the nation vision of 2020 by liaising with all the stakeholders in the provision of the necessary equipment and infrastructure, enacting appropriate legislation as regards to the policy and guidelines, monitoring for compliance and regularly reviewing the system to resolve the constraints, bottlenecks and handicaps that could derail the cashless policy in Nigeria. It was in this respect that the apex bank and the government introduced measures that could optimally enable the system to succeed.

- 1) To establish the identity of the various stakeholders and players in the economic activities the apex bank and government embarked on:-
  - i. National identity card project for all citizens.



- ii. Made it compulsory for all the financial institutions to embark on “know your customer (KYC) projects.
  - iii. Made it mandatory for the customers of all the banks to have a Bank Verification Number (BVN) to be able to trace and track down all transactions and the individuals and groups involved.
  - iv. Link phone numbers with account numbers to facilitate communication and dissemination of information with the various customers.
- 2) The introduction of the e-payment channels provided for the:
- i. Customers increased convenience and more service options, reduced risk of handling cash, and cheaper access to banking services.
  - ii. Corporation facilitated faster access to capital reduced revenue leakages and cash transaction costs
  - iii. Governments it facilitated proper tax collection and checked evasions greater financial inclusion and increase economic development.
- 3) To check mate financial crimes and corruptions especially ghost workers, the various government decided to return:
- i) All salary payments to the bank through the bank accounts.
  - ii) Payment of taxes, bills and fines
  - iii) Sales of application forms
  - iv) Payment of registration and tuition fees
- The above measures have increased transparency and brought the hidden transaction to the banking sector.
- 4) The banks on their part made it mandatory for the customers to have:
- i. ATM cards
  - ii. All payments to customers below N100, 000.00 should be through ATM.

### **GENERAL IMPACTS OF THE MEASURES**

These measures have helped in decongesting banking halls especially during the peak periods of salary payments and in checking and reducing double spending and provided basis for effective and efficient planning especially in the formal sectors of the economy, but the traditional barriers hindering the formal inclusion of millions of Nigerians and bring a low-cost, secure and convenient financial services to urban, semi-urban and rural areas across the country is far from being achieved. The problems of inadequate infrastructure, high rate of illiteracy, the behavioral constraints attitude of the banks, low level of prevention of internet, lack of political and economic stability have in no small measure limited the impacts of the cashless policy. This becomes more apparent when a special reference is made to the incidence of the policy in Sokoto state.



**THE IMPACT OF THE CASHLESS POLICY IN SOKOTO STATE**

Sokoto metropolis is the capital of Sokoto State one of the 36 states in Nigeria. It is regarded as the seat of the Caliphate that was the capital of the famous Sokoto Jihad movement, and the nucleus of the Nigerian Nation as most of the territory in Northern Nigeria, Niger, Cameroon and the Chad Republic were under the control of Sokoto Caliphate.

A part of religious leadership is provided, it is also looked upon by the majority of the Muslims in Nigeria and neighboring countries for guidance in the worldly affairs. The implementation strategies adopted could, therefore, have more impact if they are accepted in Sokoto. This makes the study an interesting study.

The implementation, measures, and strategies adopted in Sokoto were not quite different from those taken in the other states of the Federation, except that the pilot implementation started in Lagos and spread to cover the rest of the states over time. The experience, problems encountered and had the same impact except that:-

Table 1: The bank branches and the E. Payment channels available in Sokoto as at 2016 are as follow:

S/NOS	BANKS	NO OF BRANCHES	ATM	POS
1	FIRST BANK	4	20	15
2	UNITY BANK	2	5	2
3	ZENITH BANK	6	17	14
4	GT BANK	5	15	12
5	FIDELITY BANK	1	4	3
6	SKY BANK	2	5	3
7	ECO BANK	6	10	16
8	UBA	5	21	18
9	UNION BANK	3	8	5
10	ACCESS BANK	3	9	9
11	FCMB	1	6	3
12	KEYSTONE	2	7	3
13	IBTC	1	2	2
14	STERLING BANK	1	4	3
15	HERITAGE BANK	1	4	2
16	JAIZ BANK	1	7	2
17	DIAMOND BANK	1	4	2
18	MORTGAGE BANK	1	-	-
19	AGRIC BANK	1	-	-
20	MICROFINANCE	3	-	-
	<b>TOTAL</b>	51	148	114

SOURCE: Data collected for the Research, 2017

From the above analysis it could be seen that the total number of banks in Sokoto metropolis as collected for the study from banks stood at 20 with about 51 branches (Google search, 2016) confirmed 107 banks throughout the state) and about 148 ATMs (Google Search



2016) confirmed 77 ATMs and with less than half of that number of POS. In a simple analysis it could be seen that Sokoto with a projected population of about 4 million (Google search, 2016) provide services for:-

1. Banks: -each branch can cover 78,432 persons
2. ATM: each ATM can cover 27,300 persons
3. POS: each can cover 54,054 persons

It is established from the above analysis that:

- i. The banking services provided in the state are grossly inadequate and are not being utilized
- ii. Most of the facilities are limited to the bank premises of the respective banks; only very few were provided in public places.
- iii. The POS terminals were grossly inadequate and even where they are provided they are not utilized due to:
  - a. Lack of trained personnel to operate them.
  - b. Most of the people do not have the ATM cards
  - c. Frequent power interrupt ions
  - d. Network fluctuations
  - e. Lack of incentives for the customers/merchants
  - f. the majority are more comfortable with cash sales
  - g. Only very few merchants could afford the devices; A POS cost N45,000.00
  - h. The banks had very few to the customers to provide and or restricted to very few people that have the devices and can operate them.

## **RESEARCH FINDINGS**

From the analysis of the data and information gathered from the various sources, the study established the following:

1. The banking services and channel of E- payments covered only the formal sector of the economy which is less than  $\frac{1}{4}$  of the total economic activities.
2. Due to inadequate facilitates, attitude of the authority concerned and the other constraints, even part of the formal sectors of the economy covered are reluctant to apply the E-payment facilitates especially in the aspect of revenue collection, payment of taxes, bills, fines, etc. because of the incentives the parties concerned derived from the cash transactions.
3. The non-inclusion of the small scale businesses and other commercial activities in cashless policy is a severe setback because the sector constitutes more than half of the entire economic activities that formed the bedrock of a meaningful economic development and growth of any nation.
4. The behavioral constraints and religious faith and traditions of the people are also a setback on the cashless policy. Traditionally, people count their wealth with the physical assets possession or amount of cash holding. To change this attitude is an enormous task.



5. The traditional Settings and of the open markets and method of transacting business constitutes a threat to the policy especially in a situation where despite the structured risk involved in the cash transactions, people still are more contented with it. For example, the payment of agency fees, commissions, and other charges are deducted directly from the proceeds of sales and purchases; the beneficiaries will be very reluctant to change from this arrangement unless a better or similar arrangement is put in place for them.
6. The dominance of ATM over other channels of E-payment suggests its simplicity and acceptance and appropriateness to the need or the level of education of the people. All studies carried out, CBN Reports (2011),. Olanpeku (2013, Omotunde (2013), etc. indicated that ATM transaction constituted more than 95% of the total economic transaction of the nation, NTA, Net work news on 23/8/2014 confirmed the ATM transaction for June 2014 was up to N1.7trillion. There is the need for co opting other channels for the overall success of the policy.
7. The study confirmed that all the ATMs are located in their respective bank premises, and only very few were located in public places. This could be for convenience and security reasons. There is, therefore, the need for adequate security arrangement in the location of ATM and a strong legislation for severe active measures to safe guard the ATM operations.
8. The fear of transaction risk due to frauds and other malpractices have reduced but still much more have to be done to maintain the tempo and instill confidence in the customers and assurance of protection from such risks.

## **RECOMMENDATIONS**

The study having examined the need and the purpose of the cashless policy, the provisions and the efforts taken in the implementation of the policy by the parties concerned and the response or reaction of the people to the impact of the strategies adopted, is putting forward the following recommendation for the improvement of the effectiveness and efficiency of the policy

1. The government, Apex bank and all the banks should be committed to the achievement of the nation's vision of 2020 more than their survival interest as units in the system; the success of the system will justify their very existence.
2. All the concerned parties should embark on the awareness campaign, education and enlightenment programmes and training to break the barriers of not inclusion of unbanked and under banked sectors of the economy. This will minimize the risk, and the tendency to be contemplated with the existing structure provided there are a realizable incentive and alternatives.
3. The authorities concerned should ensure the provision of the facilities and equipment for the E- payment transactions, even it means subsidizing or distributing them for free. It is better and a sure way of making the policy to succeed.





4. The Government should provide whatever it takes for the achievement of the purpose of the policy regarding security, infrastructure, stable power supply and Network and affordable internet facilities and training.

The 2014 World Bank reports commended the Nigerian efforts for being a head of South Africa in the implementation of the cashless policy (CBN Reports 2016).

5. Special concession and incentives should be given to people with accounts. This will encourage both sellers and buyers to maintain accounts with banks
6. The attitude of the bank's staff should change towards their customers. In fact, it is the non-challant attitude of some bank staff that is sending away people from the banks.
7. The POS terminals should be distributed for free to agencies, shop owners individuals and groups that will be receiving payment on behalf of the no account customers
8. POS should be designed to give instant values to the operators instead of the T+1 arrangement

## **CONCLUSION**

In conclusion, the study has noticed the tremendous progress made towards the achievement of the nation's vision of 2020, but still, a more integrated approach that will involve and carry all the players along is necessary. The changes coming up because of the policy implementation is affecting the very existence of the traditional and cultural setup. The implementation should, therefore, be handled with care and tactfully. The policy has already made a tremendous impact on the formal economy what remains is the inclusion or integration with the informal sector in its way of formalizing the Nigeria economy along the same line with other developed economies of the world. This is realizable and very realistic.

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