**EXAMINING THE EFFECTIVENESS AND CHALLENGES OF CBN CASHLESS POLICY ON RURAL BUSINESS DEVELOPMENT**

**Abstract**

This study is on the effectiveness and challenges of CBN cashless policy on rural business development. The total population for the study is 200 staff of CBN in Enugu State. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resource managers, accountants, customer care officers and junior staff was used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

 **CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

The financial system of any economy is responsible for mobilizing savings for productive investments and ensuring efficient resource allocation. Banks have traditionally played an active role in this regard. A large volume of literatures such as those of Ajayi (2006), Adegbaju and Olokoyo (2008), and Babalola (2008) have documented the contribution of banks to socioeconomic development of nations. In recognition of this, various financial policy reforms targeting the banking sector have been pursued in Nigeria. The recent of such policies within the last decade are: the recapitalization of banks initiated by the Central Bank of Nigeria (CBN) in July, 2004 and concluded in December 31, 2005, formalization of adoption of electronic banking, and transition from cash based to cash-less financial arrangement. One of the prerequisite for the development of national economy according to Ajayi and Ojo (2006) is to encourage a payment system that is secure, convenient, and affordable. In this regard, developed countries of the world, to a large extent, are moving away from paper payment instruments toward electronic ones, especially payment cards (Humphrey, D. B. 2004). In these countries, for instance, it is possible to pay for a vending machine snack by simply dialing a number on one‘s phone bill. In recent times, the mobile phone is increasingly used to purchase digital contents (e.g. ringtones, music or games, tickets, parking fees and transport fees) just by flashing the mobile phone in front of the scanner at either manned‘ or unmanned point of sales (POS). In Nigeria, as it is in many developing countries, cash is the main mode of payment and a large percentage of the populations are unbanked (Ajayi and Ojo (2006). This makes the country to be heavily cash-based economy. Argument in favour of cash-based transactions abounds in the literature. A study conducted in UK in march 2010 (the future of cash in UK) argued that cash differs from other payment instruments in the following regards; it circulates, it is always valuable, it provides full and final settlement of a transaction, it allows for anonymity, once issued, the circulation of cash is uncontrolled, it is regarded as public good by its users. However, the cost of cash to Nigeria financial system is high and increasing; the cost was very close to fifty billion naira in 2008 (CBN, 2012). Recently, it has been revealed by the CBN that the direct cost of cash is estimated to reach a staggering sum of one hundred and ninety two billion naira in 2012. Other challenges resulting from 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 nature of cash processing, high subsidy, high informal sector etc. Against these backdrops, the CBN introduced the cashless policy in April 2011 with the objective of promoting the use of electronic payment channels instead of cash. Presently, the CBN is conducting a pilot scheme of the cashless policy in Lagos, which commenced in January 1st 2012. So far, implementation of the policy in Lagos has not gained expected traction. Hence a rollout across the country has been substituted with phased implementation in Port Harcourt, Kano, Aba and the Federal capital territory (CBN 2012). This study therefore aims at two major objectives, first to look into the prospects of cashless policy in Nigeria and second its challenges. The study proceeds as follows. Section 2 offers an overview of cashless policy and some stylized facts on non-cash payment in Nigeria. In sections 3, a brief review of literature is undertaken. The study expatiated on the effectiveness and challenges of the CBN cashless policy on rural business development using Zenith bank as a point of reference.

**1.2 STATEMENT OF THE PROBLEM**

Cashless economy is an economy where transaction 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. One of the prerequisite for the development of national economy according to Ajayi and Ojo (2011) is to encourage a payment system that is secure, convenient, and affordable. In this regard, developed countries of the world, to a large extent, are moving away from paper payment instruments toward electronic ones, especially payment cards (Humphrey, 2013). In these countries, for instance, it is possible to pay for a vending machine snack by simply dialing a number on one’s phone bill. In Nigeria, as it is in many developing countries, cash is the main mode of payment and a large percentage of the populations are unbanked.

**1.3 OBJECTIVE OF THE STUDY**

The objectives of the study are;

1. To examine the features of cashless policy of CBN

2. To determine the effectiveness of cashless policy of CBN

3. To find out the challenges of cashless policy of CBN to rural business development.

4. To proffer a better way of implementing the cashless policy

**1.4 RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** there are no challenges of cashless policy of CBN to rural business development.

**H1:** there are challenges of cashless policy of CBN to rural business development.

**H02:** there is no effectiveness of cashless policy of CBN

**H2:** there is effectiveness of cashless policy of CBN

**1.5 SIGNIFICANCE OF THE STUDY**

This study, which is primarily aimed at explaining the effectiveness and challenges of CBN cashless policy on rural business development, will provide an insight into the problems associated with cashless policy on rural business development. This report would be of great benefit for CBN, to expose them to the effectiveness and challenges of CBN cashless policy on rural business development. The findings will be useful for researchers to further generate knowledge in the field.

**1.6 SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers the effectiveness and challenges of CBN cashless policy on rural business development. The researcher encounters some constrain which limited the scope of the study;

 **a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities

**1.7 DEFINITION OF TERMS**

**EFFECTIVENESS:** Effectiveness is the capability of producing a desired result or the ability to produce desired output. When something is deemed effective, it means it has an intended or expected outcome, or produces a deep, vivid impression.

**CHALLENGES:** a call to someone to participate in a competitive situation or fight to decide who is superior in terms of ability or strength.

**CASHLESS POLICY**: Cashless policy is a policy established in the year 2012 by the Central Bank of Nigeria to curb excesses in the handling of cash in Nigeria. The policy was enforced not to eliminate the use of cash but to reduce the volume of cash in circulation.

**RURAL DEVELOPMENT:** Rural development is the process of improving the quality of life and economic well-being of people living in rural areas, often relatively isolated and sparsely populated areas

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

 **2.1 INTRODUCTION**

Cash-less banking is that banking system which aims at reducing, but not eliminating, the volume of physical cash circulating in the economy whilst encouraging more electronic based transactions. In other words, it is a combination of e-banking and cash-based system. It is essentially a mobile payment system which allows users to make payment through GSM phones with or without internet facilities (Odior and Banuso, 2012; Akhalumeh and Ohiokha, 2012). In 2011, it was estimated that 99% of over 215 million customer transactions in Nigeria banks were through ATM and over-the-counter, and this was valued at about N2.1 trillion. It is estimated that an average Nigerian transacts about N65 in cash out of N100 income earned (Princewell and Anuforo, 2013) The operation of the cash based system has been at a significant cost to the Nigerian economy. The estimate shows that cash distribution cost accounts for 60% overheads in the banking industry while cash management operations require up to 80% of the industry’s infrastructure base and staff strength (CBN, 2012). Furthermore, the direct cost of transporting, processing and storing (vault) huge volume of cash borne by the financial system was valued at N114.5 billion in 2009 and it was estimated to rise to N192 billion by the end of 2012. Again, heavy cash users (i.e. those with transaction value above N150, 000) account for only 10% of transaction volume but 71% of the transaction value. It appears therefore, that implicit cash holding costs for the minority class of cash users are being subsidized by the majority (Nweke, 2012). In response to this trend, the Central Bank of Nigeria by its legal mandate initiated the policy shift from cash-based system to cash-less one. In 2005, the CBN initiated the National Payment Systems (NPS) specifically to achieve the objectives of promoting efficiency and effectiveness of payment system, promoting safe and sound banking practices and protection against systemic risks. It also set the objective of migrating to cash-less mode of payment, such as electronic debit/credit instruments, credit/debit cards, ATM – sharing Electronic Fund Transfer at Point of Sales and Real Time Gross Settlement System (RTGS). Other objectives of NPS include; to ensure payment system audit transparency and full transaction reporting and to achieve acceptance and confidence through information dissemination, customer convenience and total quality delivery (Princewell and Anuforo, 2013). Eventually, the NPS initiative metamorphosed into the cash-less policy in April 20, 2011. According to CBN, the cash-less policy aims at reducing the amount of physical cash in circulation and to encourage more electronic based transactions. The policy came into effect in January 1, 2012 with partial implementation in Lagos State and later moved into full execution in that State in April 1, 2012. Thereafter, the policy was extended to five states (Kano, Ogun, Rivers, Anambra, and Abia) and Abuja on October 1, 2013 and to the entire country in July 1, 2014. The cardinal objectives of the policy are: (i) to drive development and modernization of Nigeria payment system in line with vision 2020 goal of Nigeria becoming one of the top twenty economies of the world by year 2020, (ii) to reduce the cost of banking services (including the cost of credit) and drive financial inclusion by providing more efficient transaction options and greater reach, (iii) to limit high cash usage outside the formal sector and thereby improve the effectiveness of monetary policy in managing inflation and encouraging economic growth, and (iv) to curb some of the negative consequences associated with high physical cash usage, including high cost of cash: robberies, corruption and leakages through money laundering, fraud and cash-related crimes (Central Bank of Nigeria, 2011; Odior and Banuso, 2012; Shonubi, 2012). However, the following are vital issues of the cash-less policy. First, there is a threshold of daily cumulative cash of N500, 000 and N3 million on cash withdrawals and lodgments by individual and corporate bodies respectively free of processing fees. At the conception of the policy in 2011, these were pegged at N150, 000 and N1 million but were later reviewed. This limit applies to all account so far as it involves cash, irrespective of the channel used. Second, there are processing fees for withdrawals above the limit, and it is 3% for individual and 5% for corporate bodies. Lodgment above the limit attracts 2% and 3% processing fee for individual and corporate bodies respectively. These processing fees are subject to review every six months. Thirdly, these fees do not apply to accounts operated by Ministries, Departments and Agencies of the Federal and State Governments, solely meant for the purpose of revenue collections. Exemptions are also extended to Embassies, Diplomatic Missions and Multi-lateral and Aiddonor Agencies, as well as Micro Finance Banks and Primary Mortgage Institutions (CBN, 2012) Reducing the huge population of Nigerians who do not have access to financial services is one of the major targets of the CBN. A survey on enhancing financial innovation and access in 2010, revealed a marginal increase of those served by formal financial market from 35% in 2005 to 36.3% in 2010; five years after the launch of Micro finance policy which was thought could massively mobilize rural Nigerians into formal financial services (Onyinye, 2012). The survey attributed the reasons why most Nigerians do not have or maintain a bank account to unsteady income, unemployment and distance to bank branches. Accordingly, the CBN targeted to increase the number of Nigerians in the formal sector from its figure of 36.3% in 2010 to above 70% by 2020 (The Nigerian Voice, 2013; The Nation, 2013). In pursuant of the foregoing, the CBN has undertaken a number of strategic initiatives, including a commitment at the 2011 Alliance for Financial Inclusion Global Forum held in Mexico to reduce Nigeria’s financial exclusion from 46.3% to 20% by 2020. One way to realizing this is to facilitate access to the otherwise disadvantaged groups like the farmers, aged citizens, self-employed, jobless school leavers and SMEs considered by banks a costly, risky and unviable bankable population (Onyinye, 2012). Also, the introduction of mobile money services by the CBN is seen as a veritable tool to create payment access to those unbanked Nigerians in the rural areas, and also help drive financial inclusion in the country. Financial analysts are of the view that the high level of mobile telecommunications usage in the country is expected to translate into increase in bankable Nigerians if perfectly harnessed (Amaka, 2012)

**2.2 CASHLESS POLICY**

The cashless policy which took effect from April 1, 2012 in Lagos as a pilot project pegs daily cash transactions over the counter for individuals and corporate bodies at one hundred and fifty thousand naira (N150,000) and one million naira (N1,000,000) respectively. However, these amounts were later reviewed upward to five hundred thousand naira (N500, 000) and three million (N3, 000,000) for individuals and corporate organizations respectively. Any over the counter (OTC) cash transactions above the aforementioned amount for individuals and corporate organizations attract a charge. The essence of the policy is to shift the economy from a cash-based economy to a cashless one. Thus it is geared towards engendering an efficient payment system anchored on electronic based transactions. Electronic based transaction seeks to drive the development and modernization of Nigeria’s payment system in line with her vision 20:20 20 goal of being among the top 20 economies of the world by the year 2020 (Central Bank of Nigeria, 2011). It is a truism that an efficient and modern payment system is a key enabler and a sine qua non for driving growth and development. The policy also aims at improving the effectiveness of monetary policy in managing inflation in the economy. The cashless policy applies to all accounts, including collection accounts and the cash limits apply to an account irrespective of channel (i.e. whether it is over the counter, ATM, third party cheques cashed over the counter etc). As far as cash is involved, any withdrawal or deposit that exceeds the limits attracts a service charge (Central Bank of Nigeria, 2011). The charge is borne by the account holder and is about N100 per every 1000 in bank charges (This day Live 2012, April 25). The limit however does not prevent customers from withdrawing or depositing beyond the pegged limits but such customers should be prepared to pay the aforementioned penal fee. The implementation of the policy which is currently undergoing a test run in Lagos is expected to be extended to other states of the federation from January 1, 2013. However, contrary to the initial plan to introduce the policy to all states of the federation by January 1, 2013, the apex bank has now decided to pursue the implementation process in stages, beginning from five additional states and the Federal Capital Territory. These states are Kano, Ogun, Anambra, Rivers, a state in the North Eastern zone of the country and the Federal Capital Territory (FCT), Oketola (2012, July 30). Desirous of making the policy succeed, the apex bank has introduced a number of financial services which among others include mobile money payment system, point of sale terminals, Alerts and Automated Teller Machines (ATM). Essentially, Mobile Payment System introduced at the dawn of January 1, 2012 allows users to make payments with their GSM phones. It is a saving device and transfer system that turns GSM phone into a saving account platform, allowing owners to save money in it and also make transfers. The Point of Sale (POS) terminals are installed by businesses and connected to the Nigeria Inter Bank Settlement System for purposes of making payments during business transactions. As mentioned earlier, one of the cardinal objectives of the cashless policy is to actualize the Nigeria’s Vision 20: 20 20. What then is vision 20: 20 20? Vision 20:20 20 is an economic transformation blue print which articulates “the long term intent to launch Nigeria onto a path of sustained social and economic progress and accelerate the emergence of a truly prosperous and United Nigeria”. In other words, the blueprint expresses Nigeria’s intent to improve the living standards of her citizens, taking cognizance of the enormous human and material resources in Nigeria and drive the economy to be among the top 20 economies in the World with a minimum GDP of $900 billion and a per capita income of no less than $4000 per annum (Nigeria vision 20:20 20, 2009). The economic blueprint intent is aptly captured in the vision statement: “By 2020 Nigeria will have a strong diversified, sustainable and competitive economy that effectively harnesses the talents and energies of its people and responsibly exploits its natural endowments to guarantee a high standard of living and quality of life to its citizens” (Nigeria vision 20: 20 20, 2009). To achieve the provisions of Nigeria Vision 20: 20 20, efficient and modern payment system is critical, which the cashless policy seeks to address

**2.3 IMPLICATIONS OF CASH BASED ECONOMY**

Nigeria is a heavily cash oriented economy with retail and commercial payments primarily made in cash. Indeed, cash is a strong motivator in Nigeria’s highly informal economy. According to the Central Bank of Nigeria (2012), cash related transactions represented over 99% of customer activity in Nigerian banks as at December 2011. Cheques and POS have about 29,159,960 and 1,059,069 volume of transaction representing 14 per cent and 1 per cent respectively which is an insignificant or negligible transaction volume, while the WEB channel accounts for zero per cent of transaction volume. Cash based economy is not without cost to the banking system, government and individuals. High cash usage, results in high cost of processing, borne by every entity across the value chain (i.e. from the CBN, to banks, to the operating entities and individuals as well). For example, the cost of printing new bank notes as a result of frequent handling of cash is said to cost the Central Bank of Nigeria (CBN) a colossal amount annually Generally, cost of cash to Nigeria’s financial system is high and increasing. It is estimated to reach N192 billion in 2012 (Central Bank of Nigeria, 2011). The grand total of cost of cash to both the Central Bank of Nigeria (CBN) and other banks in 2009 reach a terrifying amount of N114.5billion. It is also worthy of note that cash is an integral element that fuels several vices in Nigeria with negative consequences to individuals, corporate organizations and the government. These vices among others include corruption, revenue leakage out of government and corporate organizations’ coffers, election rigging, armed robberies and other cash related crimes. In the light of the foregoing, the introduction of the cashless policy by the Central Bank of Nigeria (CBN) is applauded as a policy package with bountiful benefits as it seeks to encourage cashless payments, thereby arresting some of these cash related vices.

**2.4 BENEFITS OF THE CASH-LESS POLICY**

Undoubtedly, an efficient payment system (that which depends less on cash) is a sinequa-non for national development and a significant national infrastructure for growth. All things being equal, it has been shown that 10% increase in the efficiency of the national payment system can cause the Gross Domestic Product to increase by 1% (Odior and Banuso, 2012). With the advent of cash-less policy in Nigeria, what are the likely benefits? Opinions on this differ. On one side, we have those who are apprehensive about the policy. The assertion by Tunde (2012) sums up this: “Transaction charges are seen to make significant contribution to the profits of the banks. The cash-less Nigeria programme has even brightened the horizon for the banks to make even higher income from transaction fees. Isn’t this likely to result in “armchair banking” whereby banks will do little to mobilize deposits and build credit asset while also scaling back retail distribution outlet as has been reported? Are we likely to see some of the multiple fees consolidated to some point?” On the other hand there are those who are optimistic about the policy. For instance, Obina (2012) believes that if the reported two-third of the total cash in the economy which are outside the banking system is brought in (as it will be in cash-less economy), the banks will have enough resources to do their businesses. Still expressing optimism, this study agrees with the submissions of Laoye (2011), Akhalumeh and Ohiokha (2012), and Okey (2012) that if the cashless policy is successfully implemented, the following benefits will be attained.

1. A shift towards cash-less policy will reduce the high operational cost incurred in a cash based economy. Such costs emanate from cash management and movement, currency sorting and printing.
2. Cash-less policy will help minimize the risks associated with the use of physical cash that do arise from burglaries and thefts as well as financial losses in fire outbreaks.
3. Cash-less economy will make every segment of the banking population to pay for its usage of cash. The situation in the cash based system where the majority small cash users pay for the minority high cash users will stop. There will be no more subsidies on cash transaction costs. To recapitulate, a survey conducted by the CBN in 2009 revealed that 90% of bank customers’ daily withdrawals are amounts below N150, 000, whereas, only 10% of the bank customers who withdraw over N150, 000 are responsible for the rise in cost of cash management incurred by all the customers. Implicitly, the entire banking population supports financially the costs that the minority (10%) incurs. A cashless economy will reduce this subsidy and makes the minority of the bank population account for the cost of cash movement they incur rather than the entire banking population.
4. Cash-less economy will arrest a situation where a lot of cash are outside the formal banking system. By encouraging formal financial arrangement, it will facilitate the effectiveness of monetary policy in checking inflation and pushing economic growth.
5. Furthermore, cash-less economy is capable of reducing corrupt practices like money laundering which is common-place in cash based economy. To the extent that cash is not easily pulled out of the system, it will discourage launders.
6. The cash-less economy will bring about increased convenience, more service option, reduced risk of cash related crimes, cheaper access to banking services, and credit to customers.
7. Corporate organizations will benefit by way of faster access to capital, reduce revenue leakages and reduce cash handling cost.
8. On the part of the government, it will bring about increased tax collection, greater financial inclusion, reduced revenue leakages and increase economic development.
9. Other stakeholders: The cash-less system brings along with it different banking instruments such as POS systems, mobile payments, direct debits, internet banking, electronic fund transfer etc. Implicitly, companies that are connected with the production of these products will benefit. Such companies include: Nigeria Inter-Bank Settlement System Plc (a shared infrastructure company of the bankers committee with a mandate to continuously enhance the Nigeria payments system owned by all licensed deposit money banks in Nigeria and the CBN), POS manufacturers, telecom providers, and switch operators.

**2.5 CHALLENGES OF THE CASH-LESS ECONOMY**

Notwithstanding the fact that the cash-less policy comes with enormous benefits, there are also some envisaged challenges that could confront the policy. These challenges identified by this study, and elsewhere by Okechukwu (2011), Ejiofor and Rasaki (2012) include, but not limited to:

1. The policy is challenged by financial infrastructure deficit. The cash-less payment channels that are currently available are not adequate to cope with the demand of the policy if it is to be implemented religiously. This means that the policy will require further investment of funds by operators and regulators.
2. Given that the system is driven largely by ICT, the policy is exposed to dangers of fraudulent practices as any security lapses can be exploited by the astute fraudster to perpetuate fraud. Internet related crimes like hacking is likely to threaten the cash-less policy in Nigeria
3. Electricity is a critical infrastructure for an efficient e-payment system. Sadly, Nigeria cannot boast of steady power supply across its urban and rural areas. This will without doubt affect the success of cash-less policy if not addressed.
4. The high charges and fees on some of the electronic channels are capable of generating resistance by the banking public. For example, the recent re-introduction of charges for ATM withdrawals didn’t go down well with the users.
5. To operate successfully in cash-less economy, some level of literacy is required in view of the technology involved. Therefore, Nigeria with high rate of illiteracy will certainly have some challenges. Illiterate population would prefer to keep their money in cash

**2.6 OVERVIEW OF SMALL SCALE BUSINESSES**

There is no universal definition of small scale businesses as the changes in price level and advancement in technology affects its actual definition. In Nigeria, the definition of small scale enterprises has been based on different criteria such as investment in machinery and equipment, working capital, capital cost, turnover, and values of installed fixed cost (Osotimehin, 2012). The National Council on industry (1991) defined micro enterprises as an industry whose total project cost excluding cost of land but including working capital is not more than five hundred thousand naira (N500, 000) while small scale enterprises are those industries whose total project cost excluding cost of land and including working capital does not exceed five million naira (N5, 000, 000). In spite of its definition, micro and small scale businesses are generally referred to as the engine of growth in many economies and a major factor in promoting private sector development. Micro and small scale enterprises not only contribute significantly to improved living standards, they also bring about substantial local capital formation and achieve high levels of productivity and capability. Often times, they are the only source of employment in poor regions and rural areas, thereby playing an important role in poverty reduction in most developing countries. Most large enterprises have their bearing in micro and small scale enterprises. Despite their importance, micro and small scale businesses easily collapse or fail. Udechukwu (2003) highlighted some problems that militate against the effective operation of the micro and small scale businesses. These include: poor policy implementation, lack of continuity, poor capital outlay, poor management expertise, inadequate information base, lack of raw materials, poor accounting system, unstable policy environment, lack of market knowledge, lack of purpose and lack of financial planning, lack of patronage for locally produced goods by those in authority. Lack of planning, inimical government rules and regulations, poor marketing strategy, lack of technical know-how, and higher interest rates are other problems associated with micro and small scale enterprises that contribute to their failure (Ekpenyong & Nyong, 1992). For developing countries like Nigeria to advance economically, emphasis should be made to develop the private sector. This can be achieved by developing and supporting the micro and small scale businesses. Hence there is need to understand the implications of government policies, such as the cashless economy policy on them. It is equally good to know how best to implement such policies to their advantage in other to ensure their survival and growth.

**2.7 COST OF CASHLESS POLICY ON SMALL SCALE BUSINESSES**

Cash as a legal tender can be used by everyone; this is not the case for electronic money. The electronic money scheme is often linked to bank accounts and low income consumers such as small scale business owners may not have such account. A good percentage of this group of people is unbaked. They may also not be literate enough to master the technology. It becomes important to know how payment for transactions with these people can be made. Ogu (2011) pointed out that the high level of illiteracy among Nigerians makes the use of cheques and electronic payments unsuitable in some cases. The problem with this situation of illiteracy is that majority of the Micro and Small Scale business operators belong to this group and they will have to depend on the literate few among the populace. They will have to pay the price for their inadequacy and this will make them vulnerable. Another major challenge of the cashless policy to Micro and Small Scale businesses is the charge attached to the cashless system. These charges do not go with cash transactions. A price tag 1.25% of the cost of every transaction done through the point of sale terminal will be charged by the operators of the terminas (Omose, 2011). For instance a micro or small scale business owner who makes a million naira daily on sales will have to remit 1.25% of the amount, which is N12, 500, if point of sale (POS) is used for all the transactions. This is in addition to the bank’s charge for commission on turnover (COT) of 0.5%, which is N5000. These charges lead to an increase in the overhead cost of running the business. Irrespective of the risk and losses encountered by the business, the charges must be paid. This can lead to the failure of the business if care is not taken. One of the characteristic importances of Micro and Small scale businesses to the economy is their high employment rate. This can be hampered with the growing use of high technology. When they utilize POS terminals and mobile banking facilities, there will be little or no need for cashiers and accountants. Again there will be need to reduce the overhead cost of running the business which is accruing due to the charges attached to the cashless economy system by downsizing. This will lead to loss of job and increase the unemployment status of the economy. Another important issue that affects the Micro and Small Scale businesses is security of funds. A situation where there is a communication breach a transaction and the business owner does not receive an alert to confirm payment of goods; the buyer may be compelled to make multiple payments for the same transaction. More so, due to the high rate of cyber crime in the society business owners are at risk of being defrauded. When government officials and proponents talk of the gains of a cashless economy, they do so as if it is a heaven-packaged programme, tailor-made to solve the many problems of Nigeria, with no adverse consequences. Good as it may be made to look; the system will come at some costs. As noted above, the use of POS terminals in the cashless system will attract special charges that do not go with cash transaction. This may be considered over burdensome on the banking public given that this will not obviate nor lessen the normal commission on turnover charged by banks on withdrawals. Another area of problem is seen in it is record keeping. Some questions have been asked: if the cards are capable of keeping records of a customers’ banking and buying patterns, could a situation arise where every transaction a person makes is recoded? Will the individual not be powerless in a dispute with a financial institution over money that exists only as a computer record? (Fisher, 1996). Will the convenience and versatility of cash be lost as all transactions come to rely on terminals and passwords? The big issue is privacy. Fears have also been expressed by some that a cashless system might lead to loss of jobs as the banks will not have need for most of the tellers under a cashless system. Since most transfers and settlements will be done electronically, there is fear that banks will lay off some of the staffs who are normally involved in telling jobs. Beautiful as the policy has been made to sound, the challenges are many; the insufficiency of the POS machines; non-functioning internet connectivity; problem of power and the possibility of cloning and hacking into the system by fraudulent persons. There equally is the possibility of some individuals and corporate entities, in an effort to escape the punitive charges, to take some steps in order to circumvent or weaken the effect of the policy on their operations. There is also the fear in some quarters that some customers can decide to boycott the banks entirely and join up with millions of Nigerians who operate in the informal sector of the economy and have nothing to do with bank transactions, and there is a strong possibility that informal institutions will spring up in the informal economy to fill the gap of handling cash on behalf of desperate Nigerians.

**2.8 THE EVOLUTION OF CASH-LESS BANKING IN NIGERIA**

Umoren (2006) reported that, e-banking started in the 1980s but was truncated by the then military Junta. Though banks and other businesses showed enthusiasm by introducing credit card, debit card, charge card, etc, into the payment platform, e-banking ebbed owing to political and economic crisis of the period. However, e banking rejuvenated in the late 1990s though tentatively. Efforts to institutionalize e-banking during this era was largely challenged by:

• Lack of necessary support infrastructure, notably electricity and telecommunication

• The yet to be fully settled distress in the banking system

 • Widespread functional illiteracy

 • Inadequate institutional capacities among regulatory authorities and private financial intermediaries, as the CBN severally acknowledged.

 • Finance industry manpower inadequacies

 • Cultural practices which mandate physical cash exchange

 • Public distrust of the banking system

 • Unclear legal recognition of e-transaction and overall e-commerce.

 With these challenges couple with the military insensitivity to critical aspects of Nigeria development agenda, ebanking did not receive the needed support required to ensure global conformity. The CBN did not relent notwithstanding these drawbacks. Babalola (2008), Adeyemi (2006) and Adegbaju & Olokoyo (2008) posited that, the CBN’s effort aimed at making Nigerian financial system formidable and enhancing the overall economic performance of Nigeria in line with global trend, evoked public concern. Some of its reformation was greeted with mixed feelings. There was the capitalization (to the tune of minimum N25billion) agenda. There was also the aborted move at redenomination of the naira. Recently the CBN came with two purportedly laudable agenda the Islamic banking (non-interest banking) and the cash-less economy (e-payment system). Some of the initial policies came with tremendous success despite the initial skepticisms of Nigerians. For instance, when the CBN in July 2004, set December 31, 2005 deadline for N25billion minimum capitalization, it was greeted with considerable cry and criticism, when the programme was completed the banking landscape was transformed out of a system dominated mainly by “fringe banks” to one made up of largely “Mega banks”. The product of the exercise was to ensure a diversified, strong and reliable banking industry where there is safety of depositors’ money, and reposition the banks to play active development roles in the Nigeria economy. (Akhalumeh, & Ohiokha, 2012). This remark sums up the assessment of analysis about the outcome of the reform agenda. However, some of the policy agenda did not enjoy as much acceptance as did the recapitalization agenda; for instance, the redenomination proposal was snub and judged to be counter-productive. In the same vein, the noninterest, Islamic banking concept has been greeted with a lot of skepticism, and the initiators are accused of masking under some hidden agenda. The same may be said of the proposal on the introduction of “cash-less economy”. The formal introduction of cash-less policy was via CBN circular Ref. no COD/DIR/GEN/CIT/05/031 dated 20th April, 2011. (CBN, 2011). The reaction of one Gibson sums up the skepticism in certain quarters about the “cash-less economy”, he remarks that, “I am foreseeing the ANTI-CHRIST stepping in and the fulfillment of Biblical prophecy that a time for cash-less society will come and nobody will buy or sell except you have a number, be wise (Akhahumeh & Ohiokha, 2012). This may mean that, not enough had been done to address the genuine concerns of the citizenry about the cash-less economy. So much may have been said about the anticipated gains attendant to the adoption of e-payment and cash-less economy (or cash-less banking), but in concrete terms people have not been convince that the agenda is for the good of all. While we may point to such economies as the Japanese or U.S, we must be ready to accept the fact that these are economies with functional institutional basis which cannot also be said about Nigeria with much conviction. Apart from the institutions, one fear that has been expressed is the state of Nigeria infrastructural decay.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to attitude of mothers towards immunization

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information the effectiveness and challenges of CBN cashless policy on rural business development. 200 staff of CBN in Enugu State was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | HRMs | 37 | 27.8 | 27.8 | 27.8 |
| Accountants  | 50 | 37.6 | 37.6 | 65.4 |
| Customer care officers  | 23 | 17.3 | 17.3 | 82.7 |
| Junior staff  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

 T e above tables shown that 37 respondents which represents27.8% of the respondents are human resource managers 50 respondents which represents 37.6 % are accountants 23 respondents which represents 17.3% of the respondents are customer care officers, while 23 respondents which represent 17.3% of the respondents are junior staff

**TEST OF HYPOTHESES**

There are no challenges of cashless policy of CBN to rural business development

**Table III**

|  |
| --- |
| **there are no challenges of cashless policy of CBN to rural business development**  |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | there are no challenges of cashless policy of CBN to rural business development  |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis there are no challenges of cashless policy of CBN to rural business development as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that there are challenges of cashless policy of CBN to rural business development

**TEST OF HYPOTHESIS TWO**

There is no effectiveness of cashless policy of CBN

Table V

|  |
| --- |
| **there is no effectiveness of cashless policy of CBN**  |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | there is no effectiveness of cashless policy of CBN  |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. |  .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

There researcher therefore rejects the null hypothesis there is no effectiveness of cashless policy of CBN as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state there is effectiveness of cashless policy of CBN

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain the effectiveness and challenges of CBN cashless policy on rural business development

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of CBN cashless policy on rural development

**5.2 Summary**

This study was on the effectiveness and challenges of CBN cashless policy on rural business development. Four objectives were raised which included: To examine the features of cashless policy of CBN, to determine the effectiveness of cashless policy of CBN, to find out the challenges of cashless policy of CBN to rural business development, to proffer a better way of implementing the cashless policy. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of CBN in Enugu State. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resource managers, accountants, customer care officers and junior staff was used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

**5.3 Conclusion**

The introduction of electronic banking in Nigeria has impacted positively on the development of payment system in particular and the banking system in general. Electronic banking is the platform on which cash-less policy sails. This study has shown that cash-less policy will impact positively on the fortunes of banks even though some of the charges are not wholly their revenue. It was also discovered that some charges like COT, over-the- counter charges etc. which are associated with a cash-based economy will be a thing of the past. The unbanked will become banked, thereby increasing the customer base of banks. With reduction in the volume of cash in circulation, this will avail banks more deposits to do their businesses which will impact positively on their profits. Also, the cost of banks’ operations will considerably reduce

**5.4 Recommendation**

The cash-less policy should however not been seen as having no consequences. For instance, the use of POS in cash-less setting will attract special charges that do not go with cash transactions as shown in the data analysis section. To mitigate the challenges of the cash-less policy it is recommended that power and electricity infrastructures should be put in place to provide support for electronic banking equipment. Situations where banks have to provide own power supply practically every working day (like the banks in Abraka environs) will increase overhead costs and diminish the gains accruable to them. Legal and regulatory framework that will check electronic fraud should be put in place by the government. The mandate of anti-graft agencies like the Economic and Financial Crimes Commission (EFCC) should be expanded to cover fraudulent practices that are associated with operations of cash-less economy. In addition, the policy should have local content by ensuring that it is in tune with fundamental economic policy of Nigeria founded on socio-cultural ideals of Nigerians. A situation where foreign banking culture is imported and imposed should not be associated with the cash-less policy. Finally, the CBN should embark on public enlightenment to educate the populace on the nitty-gritty of the cash-less system. This will raise the level of awareness and reduce possible resistance by the banking public

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