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Effect of Cashless Economy on Micro and Small Scale Businesses in Nigeria

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Abstract
The purpose of this paper is to examine the impact of cashless policy on micro and small scale businesses in Nigeria. The objective of the study is to determine the possible implication of a cashless economy on micro and small scale businesses in Nigeria. It will also proffer solution to the impending challenges that micro and small scale businesses will face in a cashless society. Finally it will re-echo the role of policy makers on the survival of micro and small scale businesses.
The researcher therefore, reviewed existing literature on the concept of cashless society and its effect on micro and small scale businesses. Recommendations on how to effectively implement the cashless policy in other to encourage micro and small scale business owners to be part of it were highlighted. It was concluded that if necessary measures are not put in place and the necessary stakeholders to the policy carried along with considerations on how the policy may affect them, the cashless policy will adversely affect micro and small scale businesses and may engineer their failure.

Key Words: Cashless economy, micro and small scale businesses, electronic payment

1. Introduction

Monetary system as we know it today started with the barter system or simply- trade by barter, which led to the creation of markets. It was basically characterized by the exchange of commodities for commodities with relatively same value. Since this value cannot be quantified, it made it easy for the system to fizzle out. However, other monetary forms like the gold standard, commodity money, fractionally reserve backed money and legal tender which were the product of the trial and error process of finding an adequate monetary form that will encapsulate most of the benefits on exchange (Boughton and Wicker, 1975).
With the advent of Information Technology and the internet, the monetary system is taking a new swing into using electronic money as a legal tender for exchange. Several literatures have pointed out the emergence of a cashless economy where the present legal tender (which is paper money and coins) is replaced with electronic money. This initiative has become a global trend. Bonugli (2006) noted that bank notes and coins are gradually phasing out as mode of payment for transactions as more systems present themselves to be viable and better alternatives across the world.
Nigeria is not left out of this trend as the cashless policy is the latest innovation of the Central Bank of Nigeria, among its numerous efforts to reform the Nigerian financial system. There was the recapitalization agenda, then the redenomination of the Naira, the non-interest (Islamic) banking and most recently the cashless economy. While some of these policies made sense to the citizens, others were treated with discord. Though as always with any change attempt, resistance is inevitable. Amidst the skepticism of Nigerians, the recapitalization agenda which kicked off in 2005 has been successful. The redenomination of the Naira and the Islamic banking were flogged with critics. For instance, the redenomination of the Naira was judged to be counter-productive while the initiators of the non-interest banking concept are accused of masking under some hidden agenda (Akhalumeh and Ohiokha, 2012).
The cashless policy has not escaped such critics, hence the need to address the concerns of the citizenry if the policy must survive. The anticipated benefits of the adoption of the cashless economy have been greatly stressed but people have not been convinced that the policy is for the good of all.
As a country with an estimated population of over 150 million and, which curiously, has less than 22 million bank accounts, BusinessDay investigations revealed that about 74 percent of the adult Nigerian population have never been banked, while 85 percent of adult females are completely unbanked and are therefore, excluded from access to credit facilities. On the other hand, 61 percent of the unbanked would like to have a bank account, according to the Central Bank of Nigeria (CBN). In fact report shows that the unbanked money in the informal sector is estimated at a staggering N1.2 trillion (Omachonu, 2012). How the cashless policy will affect the unbanked populace is worthy of concern.
Akhalumeh (2012) identified cyber fraud and illiteracy as major problems that will hamper the implementation of the cashless policy. Other quarters have identified infrastructure and the functional status of the Nigerian financial institution as hindering factors. As laudable as the policy may seem amidst all the challenges, there is need to reflect on its effect on the economy as it relates to the poor masses and the unbanked populace. Little

consideration has been made as regards the impact of the cashless economy on micro and small scale businesses which is the occupation of majority of the unbanked citizens.

Focus should be shifted from what affects the implementation of the cashless economy to what its implementation may affect either positively or negatively. In view of this, this study aims to examine the cashless economy policy as it affects micro and small scale businesses. Its main objective, therefore, is to determine the possible implication of a cashless economy on micro and small scale businesses in Nigeria. It will also proffer solution to the impending challenges that micro and small scale businesses will face in a cashless society. Finally it will re-echo the role of policy makers on the survival of micro and small scale businesses.

To achieve this, the study will use both descriptive and analytical approach. The descriptive part will introduce the cashless economy policy and the micro and small scale business concept. It will take a look at the pros and cons of the cashless policy as identified in various literatures. The importance of the micro and small scale businesses as well as its limiting factors will also be brought to light. The analytical part will focus on the cost of a cashless society on the micro and small scale enterprise and how such challenges could be managed if the policy must be effective.

2.Cashless Society As A Concept

Recently in Nigeria, the Central Bank of Nigeria (CBN) introduced a policy requiring that all cash withdrawals and deposits be set at a daily limit of a maximum of one hundred and fifty thousand naira (N150,000) while pegging that of corporate entities at one million naira (N1,000,000) with penalty fees of one hundred naira (100) per extra one thousand (N1000) and two hundred naira (N200) per one thousand (N1000) on individual and corporate defaulters respectively (Reivent, 2011). This policy could be because of a lot of issues affecting the Nigerian financial system; from trying to check money laundry and illicit activity, inflation, cost of maintaining an economy predominately cash based, or just good old change which is one factor that's always constant in life. This policy, has led to what is termed “cashless economy”.

A cashless economy, according to Adewale (2012), simply illustrates a gradual or a radical movement of the entire payment system of an economy from the use of physical cash to a systemic adoption of other non physical cash mode of payments in settlements of all types of transactions, including all commercial, homes, personal, local and international trade both in public and private life within the economy. Cashless economy simply implies that all means of payments are carried out without the use of physical cash. Payments will range from online transactions, mobile banking, debit and credit cards, cheques, and wire transfer etc. In other words, financial transactions can be carried out anywhere via the internet with the use of computers and mobile devices. It is the latest electronic banking innovation and a revolution changing the lives of millions across the globe. Hence, a cashless economy is a situation where there is little or very low cash flow in a given society, thus every other purchases and transactions will be made via electronic channels.

Akhalume (2012) pointed out that cashless economy does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions are kept to the barest minimum.

2.1 Nigeria's Economy As It Relates To Forms Of Payments

The Nigerian economy is too heavily cash-oriented in transactions of goods and services. This is not in line with the global trend, considering Nigeria’s ambition to be amongst the top 20 economies of the world by the year 2020. Furthermore, it is estimated that about 65% of the cash in circulation in the Nigerian economy is outside of the banking system, thus severely limiting the impact of the CBN’s efforts at price and economic stabilization. Also, the huge volumes of cash transactions impose tremendous costs to the banking sector and, consequently, the customer, in terms of cash management, frequent printing of currency notes, currency sorting and cash movements. As the volume of cash in circulation (CIC) grows, so does the cost of cash management to the financial system which is estimated to reach N192billion in 2012, (Okogbue 2011). There is also the risks involved in keeping or moving large amounts of cash, namely the high incidences of robberies and burglaries and the public’s propensity to abuse and mishandle currency notes.

In summary, therefore, Nigeria compared to the rest of the world is still in the Dark Age as it relates to payments. Hence, it is commendable for the apex bank to initiate a policy that will help manage the aforementioned.

2.2 Advantages Of Cashless Economy As A Policy

For the banking industry, electronic payments promise to be very cost efficient in comparison to prevailing paper-based payments systems. A switch from paper to electronic media is likely to cut deep inroads into bank costs, particularly labor costs, of routine processing of currency and paper-based payment instruments. Retailers would benefit from a switch to electronic payments by not having to carry or handle large physical sums of currency, which would also reduce their costs and susceptibility to theft.

More so, for the government, it helps in the area of taxation, budgeting, planning, accountability and improved government services. All payments are made easier with mobile payment system. For instance, members of the society can pay their utility bills through their mobile phone. Electronic payments are likely to prove attractive to consumers as well. In particular, there is the potential pecuniary advantage of earning interest on unspent electronic purchasing power. In the case of smart cards with embedded value, the logistics of the issuer paying interest on the unspent balances are simple. As Lawrence H. White [1995] has pointed out, this could be achieved by programming the card's microchip to augment the unspent card balance automatically over time. Where electronic payments are effected on-line to an interest-bearing bank account, the payment of interest would be obviously very straightforward.

Finally, according to Okogbue (2011) it is a well known fact that the criminal underworld usually requires huge volumes of cash to carry out their despicable operations in order to avoid being traced or tracked. Therefore, placing a limit on the amount of cash flowing in the system, will curtail such activities as armed robbery, kidnapping, drug and gun running and money laundering. In an environment of extensive and predominant use of cheques and e-payments, criminal transactions can be easily traceable and tracked.

2.3 Challenges To The Policy Implementation

Factors likely to affect this policy implementation as sited by reinvent (2011) include but not limited to the following:

i. **Power:** the state of power in Nigeria today cannot accommodate smooth operations of financial activities. There is need to develop a reliable and sustainable power supply.
ii. **Infrastructure:** The financial infrastructure in Nigeria is not adequate to carry the load of a cashless society. ATM's, Point of Sales system, mobile banking and other mediums have to dramatically expand to touch at least 40% of the whole economy before any meaningful effect can be achieved.
iii. **Availability of real data**: Proper and accurate identification of account holders must be maintained and shared when necessary by all financial institutions; also CBN must collaborate with all other government and private agency responsible for collection of identification of individuals in Nigeria for reconciliation of any identification.
iv. **Investments:** CBN must be ready to invest heavily to make these transitions possible; Technology is not cheap and ever changing at a very fast pace. Investments in billions of dollars made in infrastructure, training, marketing, security, maintaining IT networks and so on will be on a yearly basis for the years to come.
v. **Security**: As it relates to laws that are need to enforce new methods of transactions and a changing culture, the CBN must partner and work with the National Assembly to ensure proper legislation is being formulated. Enforcements of new legislation would be carried by the CBN and all other executive arms that are empowered such as the EFCC.
vi. **Risk:** Another major concern would be the risk involved, because if the process is rushed and the economy losses confidence in the system due to high level of fraudulent activities, it will be devastating to the Nigeria economy

3. Overview Of The Micro And Small Scale Businesses

There is no universal definition of micro and small scale enterprises as the changes in price level and advancement in technology affects its actual definition. The functional and easy to measure factors that can be used as definition criteria for micro and small scale enterprises are turnover, gross output, and employment (Safiriyu and Njogo, 2012). Carpenter (2003) identified other criteria such as financial strength, relative size, sales value, initial capital outlay, and types of industry. Hence, micro and small scale enterprises can assume a lot of meaning in different countries and at different times.

In Nigeria, the definition of micro and 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). National Council on Industry (1996) after a review defined micro enterprises as an industry whose total cost including working capital but excluding cost of land is not more than one million naira (N1,000,000) with a labor size of not more than ten workers while small scale enterprise is an industry whose total cost including working capital but excluding cost of land is over one million naira (N1,000,000) but not more than forty million naira with a labor size of between eleven and thirty-five workers. As at 2001, this value was reviewed to one million five hundred thousand naira (N1,500,000) with a labor size of ten workers for micro enterprises and between one million five hundred thousand naira (N1,500,000) and fifty million naira (N50,000,000) with a workforce of eleven to hundred workers for small scale enterprises (Udechukwu, 2003). Since the Nigerian definition is based on capital, there is need to review it from time to time due to consistent devaluation of the national currency and high inflation rate in the economy.
A more conventional definition is that proposed by the Enterprise promotion decree of 1989 as amended in 1994, cited in Osotimehin (2012) which defines small scale business as any enterprise set up to make the owner self employed and self reliant. These include; food vendors, low scale farmers, fishermen, organized mechanics, supermarkets, allied artisans etc. By this definition, emphasis is not laid on the amount of capital or number of employees but on creating employment for the owner. Hence there is no need to review the definition over time.
Udechukwu (2003) and Olorunshola (2003) identified some characteristic features of the Micro and Small scale businesses. These include, limited access to long-term financial capital, simple management structure resulting from the fusion of ownership and management by one person or very few individuals in partnership. They tend to strongly revolve around the owner-managers, rather than as a separate corporate entity. There is often greater subjectivity in decision making, and prevalence of largely informal employer - employee relationships, with a centralized management pattern. As a result of their greater use of local resources, they are widely dispersed throughout the country. They are also closely attached to the products that launched them; many are labor-intensive although recently, some of them are increasingly employing reasonably high technology.

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. Their importance according to Adebiyi (2013) is viewed from the perspective of employment generation, contributions to export earnings and gross domestic product (GDP). 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. Adebiyi (2013) further noted that micro and small scale enterprises creates competitive market pressure, while they also play important role as sub-contractors in the down-sizing, privatization and restructuring of large enterprises.
Despite their importance, micro and small scale businesses easily collapse or fail. Different literatures have discussed the major reasons for their failure. 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).
In view of their importance to the economy, there is need to place them on the table of consideration while making policies that will affect the economy of any society. For developing countries like Nigeria to advance economically, emphasis should be made to develop the private sector. This can only 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.

3.1 Cost Of Cashless Society On Micro And 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 Micro and Small scale business owners may not have such account. A good percentage of this Group of people is unbanked. 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 high level of illiteracy in the country, low level of banking population and porous banking system have been identified by Dada (2011) as factors that would work against the cashless society scheme. 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 of 1.25% of the cost of every transaction done through the point of sale terminal will be charged by the operators of the terminals (Omose, 2011). Akhalumeh (2012) noted that apart from being an additional charge on the bank customers, the charges are higher than the normal bank commission on turnover which is N5 per N1000. This represents 0.5% of the amount of such transactions. 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 N12500, 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 over head 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 during 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.

3.2 The Way Forward

Having identified some of the effects of the cashless policy on Micro and Small scale businesses, it is imperative to highlight ways to implement the policy without hampering their existence. In other to successfully implement the policy among the Micro and Small scale business owners, the following should be considered.

- Education: there is need to educate the populace up to the grass root level on the importance of the policy. They should be acquainted on the technical knowhow of the system and how to utilize it.
- Availability: the equipment required for the implementation of the process such as the Point Of Sale should be made available and at affordable prices.
- Awareness: trends and changes in technology should be communicated to the users when necessary. This will enable them to make good use of the system.
- Security: the safety and security of funds should be guaranteed. There should be a legal framework in place o handle cases of fraud and other misunderstanding arising from wrong payment or multiple payments for the same transaction.
- Infrastructure: the necessary infrastructure for the implementation of the cashless system must be put in place. Power, internet, and mobile system should be made available at all times so as not to frustrate business transactions.

4.CONCLUSION

Though this policy may seem so good, there are still a few down sides to a cashless economy. Money by its nature is abstract. The less cash that flows through the people's hands, the more intangible it becomes and the more the sense of its real value is lost. Banked assets are now an electronic apparition, and the fear of not having cash on hand is a downturn.

Nevertheless, proper foundations have to be established as the CBN courageously transform the modes of operation of the Nigeria economy. Stakeholders should be carried along with proper consideration on how the policy may affect them. Micro and small scale business owners should not be left out. They should be encouraged by making the necessary infrastructures available and affordable. They should be fully empowered and educated to adopt the technology associated with the policy and work with it effectively. Otherwise, the policy may end up being another factor that leads to micro and small business failure. In every human endeavor, attitudinal change often comes with some challenges, but that does not mean change is impossible, especially if it is for the good of all.

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