



# The Evolution of Cashless Economy in Nigeria: Policies, Impacts, and Future Directions

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## ABSTRACT

Nigeria's cashless economy has evolved through progressive policies, regulatory reforms, and technological advancements. The cashless policy introduced in 2012 aimed to reduce cash dependency and encourage digital transactions. The eNaira in 2021 facilitated this transition, providing a secure digital currency platform. Post-demonetization, SMEs embraced digital payment solutions, leveraging mobile banking apps, QR code payments, and e-commerce integrations. However, rural SMEs faced challenges due to infrastructure limitations and digital literacy gaps. Regulatory frameworks focused on enhancing payment system efficiency, consumer protection, and cybersecurity. Technological advancements in payment gateways, mobile money systems, and cybersecurity played a crucial role in driving adoption. Economic impacts on SMEs highlighted efficiency gains, market expansion, and job creation. Social and cultural factors influenced adoption rates. Nigeria's cashless economy prospects depend on expanding digital infrastructure, promoting consumer education, and enhancing regulatory frameworks. This article explores the Evolution of Cashless Economy in Nigeria: Policies, Impacts, and Future Directions. The review concludes that Nigeria stands at a pivotal juncture in its pursuit of a cashless economy, with the potential to unlock economic opportunities and improve financial inclusion through strategic investments and policy innovations. Addressing remaining challenges will be essential to sustain momentum towards a robust and inclusive cashless future.

**Keywords:** Evolution, Cashless Economy, Nigeria, Cybersecurity, Impacts, Smartphones.

## INTRODUCTION

Demonetization in Nigeria is a policy that invalidates the legal tender status of certain currency denominations to curb corruption, reduce counterfeit currency circulation, and promote a shift towards a cashless economy. The Central Bank of Nigeria (CBN) introduced the cashless policy in 2012, initially piloted in Lagos and later extended nationwide. The introduction of the eNaira in 2021 was part of the broader effort to modernize the financial system and drive financial inclusion. Government objectives include curbing corruption and counterfeit currency, promoting financial inclusion, enhancing monetary policy effectiveness, and boosting economic transparency. Key policies and measures implemented include cash handling charges, incentives for electronic payments, infrastructure development, financial literacy campaigns, and the introduction of the eNaira as a digital currency [1]. The CBN implemented charges on cash transactions above certain limits to discourage excessive use of cash, and incentives for electronic payment methods like point-of-sale (POS) terminals, mobile banking apps, and online banking platforms. Infrastructure development included the expansion of POS terminals across the country, increasing the number of ATMs and improving the quality of banking services. Financial literacy campaigns included public awareness programs and training for small and medium enterprises to transition to digital payment systems. The eNaira launch marked a significant step towards a cashless economy, providing a secure and accessible means of conducting financial transactions. Regulatory reforms included strengthening financial regulations, collaborating with fintech companies, and monitoring and enforcement through compliance checks and penalties for non-compliance.

### Overview of the Cashless Economy Concept

A cashless economy is an economic system where transactions are conducted electronically, eliminating the need for physical cash. It consists of digital transactions, a robust electronic payment infrastructure, financial inclusion, a regulatory framework, and interoperability. Benefits include reduced costs, increased efficiency, enhanced security, traceability, increased access, empowerment, economic growth, convenience, and innovative services. Challenges include the digital divide, limited access to technology, low digital literacy, security and privacy concerns, infrastructure development, cultural resistance, behavioral change, regulatory and policy challenges,

economic disparities, and equity issues. Benefits include reduced handling costs, increased efficiency, reduced theft and fraud, increased access to financial services, empowerment, economic growth, and improved tax compliance [2]. Challenges also include the digital divide, low digital literacy, security and privacy concerns, infrastructure development, cultural resistance, regulatory and policy challenges, economic disparities, and equity issues.

### **Immediate Effects of Demonetization on Small and Medium Enterprises (SMEs)**

Demonetization has immediate effects on Small and Medium Enterprises (SMEs), including cash flow disruptions, revenue losses, increased operational costs, and disruption in daily operations. Cash flow disruptions occur when SMEs rely heavily on cash transactions, leading to invalid cash and delayed payments. This results in reduced sales, inventory stockpiling, and potential wastage. Increased operational costs include higher transaction fees and costs of transition, as well as additional expenses for setting up digital payment systems, training staff, and regulatory compliance [3]. Payment processing challenges arise as SMEs must rapidly transition to digital payment methods, causing customer adaptation and disruptions in the supply chain. Supply chain disruptions can result from delayed payments to suppliers, inventory management, and employee payments. Delays in salary payments can affect employee morale and productivity, further impacting the business. Case studies of affected businesses include a local grocery store experiencing a 50% drop in sales within the first week of demonetization, a small restaurant experiencing a significant drop in daily revenue, a manufacturing manufacturer facing delayed payments, and a small agriculture farmer facing difficulties in selling produce and buying necessary supplies. Some farmers formed cooperatives to pool resources and negotiate digital payment options, but many struggled with the technology and continued to face financial hardship. Overall, the immediate effects of demonetization on SMEs are significant and require careful planning and adaptation.

### **Adoption of Digital Payment Methods by SMEs**

Digital payment methods have become increasingly popular among SMEs due to the growth in mobile money services, QR code payments, and contactless payments. Online banking services have also been adopted by SMEs, with banks like GTBank, Zenith Bank, and Access Bank offering robust platforms. Mobile banking apps have also been developed to facilitate financial transactions on the go. SMEs have also integrated with e-commerce platforms, such as Jumia and Konga, to reach a broader customer base and accept digital payments securely. However, barriers to adoption include lack of digital literacy, infrastructure challenges, and security concerns [4]. To address these, financial institutions and fintech companies have organized training programs, government initiatives, improved telecommunications infrastructure, and increased availability of POS terminals. Security measures have been implemented, and consumer protection laws have been strengthened to encourage more SMEs to adopt digital payments. Subsidized solutions and government incentives have been introduced to offset initial costs. Resistance to change has been overcome through awareness campaigns and peer influence. Fintech companies play a crucial role in facilitating the transition by providing innovative solutions, such as payment gateways and mobile wallets, technical support, and financial inclusion. They often target underserved markets, collaborate with microfinance institutions, enable interoperability, and offer API services for businesses to integrate digital payment solutions with their existing systems. Fintech companies also promote cashless policies through partnerships with governments and traditional banks, advocating for regulatory changes that support a cashless economy. Overall, the adoption of digital payment methods by SMEs is a significant step towards a more efficient and secure financial system.

### **Changes in Consumer Behavior Post-Demonetization**

Post-Demonetization, consumers experienced significant changes in their purchasing patterns, leading to a decrease in cash transactions and a preference for digital payments. This led to an increase in e-commerce activity, subscription services, and a preference for organized retail stores that accepted digital payments [5]. The rise of contactless shopping options and the adoption of mobile wallets and NFC-enabled payments also increased. Internet banking also gained traction, with more consumers using apps and websites for banking services. Digital savings and investments were explored, and point-of-sale (POS) systems became more prevalent. Contactless card payments became a norm, with many consumers preferring tap-and-go options for convenience. Cash-dependent sectors faced challenges in adapting to digital payments, with informal sector businesses struggling to adapt due to a lack of infrastructure and digital literacy. Farmers and agricultural traders faced difficulties in receiving payments for produce, leading to disruptions in the agricultural supply chain. Digital marketplaces and payment systems started to gain traction, but the transition was slow and uneven. Micro and small enterprises faced cash flow issues, and some managed to transition to digital payments with support from fintech companies and government initiatives. Public transport services saw a decline in usage as consumers preferred ride-sharing services like Uber and Bolt. Daily wage workers faced payment delays and difficulties in receiving wages due to the lack of bank accounts and digital payment methods. Government interventions aimed at opening bank accounts and facilitating digital payments for wage disbursements helped mitigate these issues.

### **Financial Inclusion and Access to Banking Services**

Post-demonetization efforts have led to increased bank account ownership and the growth of agent banking, mobile money services, and digital financial services. These services cater to unbanked and underbanked populations, offering convenient, low-cost financial products. However, challenges faced by these populations include lack of digital literacy, infrastructure barriers, trust and security concerns, and high transaction fees. The Nigerian government has implemented a National Financial Inclusion Strategy, providing grants and subsidies to SMEs for adopting digital payment systems and opening bank accounts [6]. The banking sector has developed tailored products and services for SMEs, such as low-cost accounts, microloans, and advisory services. Fintech innovations, such as alternative lending platforms and integrated financial services, have also been introduced to help SMEs manage their finances more effectively. Public-private partnerships between the government, banks, and fintech companies have been established to create ecosystems that support financial inclusion. Shared infrastructure development and financial literacy programs have also been implemented to reduce costs and improve access to financial services for SMEs. Overall, these initiatives aim to promote financial inclusion and access to banking services for SMEs in Nigeria.

#### **Regulatory and Policy Framework Supporting the Cashless Economy**

The Nigerian government has implemented several regulatory and policy frameworks to promote the cashless economy. The National Financial Inclusion Strategy (NFIS) aims to reduce the financial exclusion rate to 20% by 2020, focusing on digital payments, financial services, and electronic banking. The Cashless Policy aims to reduce physical cash circulation and encourages digital payment methods. The Payment System Vision 2020 outlines a roadmap for developing a robust and inclusive payment system, including Real-Time Gross Settlement (RTGS) systems, automated clearing houses, and mobile money services [7]. The CBN has licensed Payment Service Banks to enhance financial inclusion by providing banking and financial services to underserved populations, particularly in rural areas. Tax incentives and support for SMEs include tax relief, microfinance support, and credit facilities. The government and private sector partners provide training and capacity-building programs, while infrastructure development includes POS terminal deployment and broadband expansion. The Central Bank of Nigeria (CBN) plays a crucial role in regulating digital payment systems, promoting financial inclusion, and implementing digital currencies like the eNaira. The CBN also establishes a comprehensive regulatory framework to manage risks associated with digital payments and consumer protection mechanisms.

#### **Technological Infrastructure and Security Concerns**

The development of technological infrastructure and security concerns have significantly impacted the adoption of digital payment methods by SMEs. Payment gateways like Paystack, Flutterwave, and Interswitch have enabled seamless online transactions, while mobile payment systems like Paga, MTN Mobile Money, and Opay have made it easier for consumers and businesses to conduct transactions via mobile devices. Point-of-Sale (POS) terminals have facilitated card payments and contactless payments, while e-commerce infrastructure offers integrated payment gateways for SMEs. Cybersecurity challenges include increased cyber-attacks, data breaches, and fraud [8]. To mitigate these risks, measures such as encryption, multi-factor authentication, regular security audits, anti-fraud systems, and consumer education are implemented. Initial hesitance among SMEs to adopt digital transactions often stems from fears of cybersecurity threats and lack of awareness. Building confidence in digital transactions can be achieved through success stories, support from fintech companies, government and regulatory support, technological advancements, user-friendly interfaces, and financial inclusion initiatives. Government and private sector initiatives to improve financial literacy and provide information on the benefits and security of digital payments also boost confidence among SMEs.

#### **Economic Impact on SMEs**

Digital payments have a significant economic impact on SMEs, offering increased efficiency, access to finance, cost savings, and market expansion. However, there are drawbacks, such as initial investment in technology, infrastructure, and training, and cybersecurity risks. SMEs lacking reliable internet connectivity or digital literacy may struggle to adopt and benefit from digital payment technologies, widening the digital divide. Pre-Demonetization, SMEs relied heavily on cash transactions due to cultural norms, lack of digital infrastructure, and low levels of financial inclusion. Post-Demonetization, SMEs accelerated the adoption of digital payment methods, formalizing operations, and increasing transparency [9]. However, regional disparities exist, with urban SMEs adapting more quickly to digital payments due to better infrastructure and higher digital literacy rates. Rural SMEs face greater challenges due to limited internet connectivity, inadequate banking infrastructure, and lower levels of digital literacy. The effectiveness of government policies and initiatives promoting digital payments varied across regions, influencing adoption rates and economic impact. Local governments and community-driven efforts played a role in bridging regional disparities by promoting digital literacy and expanding banking access.

#### **Social and Cultural Factors Influencing the Transition**

Digital payments have been influenced by various social and cultural factors. Trust and security concerns initially led to skepticism, but over time, trust has increased due to advancements in cybersecurity measures, consumer protection laws, and successful adoption stories. Convenience and accessibility also contributed to the acceptance

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of digital payments, with urban populations adopting them more readily than rural areas. Demonetization acted as a catalyst for change, forcing individuals and businesses to explore digital payment options. Government incentives and mandates further promoted acceptance. Educational and awareness campaigns are essential for promoting digital payments. Government agencies, NGOs, and financial institutions conduct financial literacy programs, workshops, and training sessions to enhance digital literacy skills. Media campaigns and advertisements promote digital payments, highlighting their advantages like convenience, security, and financial inclusion. Success stories of businesses that have benefited from digital payments help build confidence and encourage others to adopt similar practices [10]. Cultural resistance and adaptation strategies include cash-driven culture, which has deeply ingrained preferences for cash transactions due to cultural norms and personal habits. The generational divide, where younger generations are more accustomed to technology and digital interactions, tends to adapt more easily to digital payments. Adoption strategies include tailored solutions developed by fintech companies and banks, local partnerships with local businesses, community leaders, and influencers, and incentives and rewards such as cashback rewards, discounts, and loyalty points. Highlighting how digital payments contribute to community development and economic growth encourages social acceptance and adoption.

### **Comparative Analysis with Other Countries**

India's demonetization in 2016 aimed to curb black money, corruption, and counterfeit currency, leading to liquidity shortages and disruptions in cash-dependent sectors like agriculture and retail. However, it also accelerated digital payment adoption, promoting financial inclusion and formalization of the economy. Sweden has been moving towards a cashless society for several years, driven by high levels of digital infrastructure, widespread use of mobile payments, and declining cash usage [4]. This experience underscores the importance of robust digital infrastructure, public trust in digital payment systems, and policies that support the transition to a cashless economy without excluding vulnerable groups. China's rapid adoption of digital payments through platforms like Alipay and WeChat Pay has transformed daily transactions, with mobile payments being widely used for groceries and transportation. Nigeria can learn from these cases by investing in digital infrastructure, adopting a phased approach, implementing inclusive policies, and promoting consumer education. Global trends in cashless economies include mobile wallet dominance, contactless payments, regulatory support, and financial inclusion. In Nigeria, Nigeria can prioritize investments in internet connectivity and mobile networks, implement policies that gradually reduce cash dependency while expanding digital financial services, address inequality, and invest in consumer education programs to build trust and familiarity with digital payment systems. The COVID-19 pandemic has accelerated the adoption of contactless payments worldwide, driven by hygiene concerns and convenience.

### **Impact on Employment and Labor Market in SMEs**

Digitalization has significantly impacted the employment and labor market in small and medium-sized enterprises (SMEs). It has led to automation and efficiency in repetitive tasks, a shift in job roles, remote work opportunities, and gig economy participation. Remote work can improve work-life balance and job satisfaction, while gig economy participation allows SMEs to hire freelancers and contract workers for specific projects or tasks on-demand. Digital literacy is essential for SMEs to effectively use digital payment systems, online collaboration tools, and business software. Training programs may be necessary to enhance employees' digital skills. Technical skills, such as IT proficiency, are becoming more prevalent in SMEs as they adopt digital solutions. Continuous learning and upskilling are essential for employees to remain competitive in the evolving job market. Digitalization has also created new job opportunities in tech and digital sectors, such as software development, digital marketing, e-commerce management, and IT support services [6]. This has contributed to job creation and economic growth. Additionally, digital tools and automation have led to productivity gains, potentially leading to increased profitability and economic growth. Lastly, digitalization can promote gender inclusivity by bridging geographical barriers and providing access to economic opportunities for individuals in rural and underserved areas.

### **Customer Relationship Management in a Cashless Economy**

In a cashless economy, maintaining customer trust and loyalty requires clear communication, robust transaction security, reliable customer support, personalized assistance, loyalty programs, and exclusive offers. Transparency in transactions, 24/7 support, and user-friendly interfaces are key to building trust. Data analytics for personalized service delivery and predictive analytics can also enhance engagement and satisfaction. Omnichannel integration across multiple digital channels ensures consistency in interactions and service delivery. Feedback mechanisms and continuous improvement are essential for SMEs. Surveys, reviews, and response management provide insights into customer satisfaction levels and areas for improvement. Iterative enhancements, such as agile development and continuous training, allow SMEs to quickly iterate and improve digital tools and services based on customer feedback and market trends. Regular market research helps SMEs stay informed about evolving customer preferences and competitive trends, while adapting strategies and service offerings to align with emerging trends



in digital payments. Overall, these strategies help SMEs maintain customer trust and loyalty in a cashless economy [1].

### Future Prospects and Recommendations

Nigeria's cashless economy is expected to continue growing due to increased smartphone penetration, improved internet connectivity, and government policies promoting digital payments. The country is also expanding its digital infrastructure into rural areas to facilitate broader adoption of digital payment solutions among SMEs and consumers. Emerging technologies such as blockchain, AI, and IoT will shape the future of digital payments. The preference for contactless payments, accelerated by health and hygiene considerations post-pandemic, will further drive innovation in payment technologies. Financial inclusion is also being promoted to reduce disparities between urban and rural areas, ensuring all segments can benefit from the cashless economy. Policy recommendations for sustainability include strengthening cybersecurity regulations, promoting interoperability among payment platforms and financial institutions, increasing public awareness campaigns to increase digital literacy among SMEs and consumers, and implementing training programs for SMEs on financial management, digital tools, and cybersecurity best practices. Investment in digital infrastructure, particularly broadband infrastructure and mobile network expansion, is also recommended to improve connectivity, especially in underserved regions [9]. Additionally, the deployment of more POS terminals, mobile money agents, and digital payment gateways is encouraged to enhance accessibility and convenience for SMEs and consumers. Strategic advice for SMEs moving forward includes adopting digital tools, leveraging customer data analytics, prioritizing transparency, security, reliability, and responsive customer service, and collaborating with fintech companies, banks, and technology providers to advance digital payment capabilities.

### CONCLUSION

In conclusion, Nigeria's journey towards a cashless economy has been marked by significant progress, challenges, and opportunities. The policy initiatives, starting from the introduction of the cashless policy in 2012 to the launch of the eNaira in 2021, reflect a concerted effort by the government and financial institutions to modernize the financial system and promote digital payments. The adoption of digital payment methods, though initially challenging for SMEs due to infrastructure limitations and digital literacy gaps, has steadily increased. Government interventions, such as financial inclusion strategies and regulatory reforms, have played a pivotal role in expanding access to banking services and fostering a conducive environment for digital transactions. However, challenges remain, including cybersecurity risks, regulatory complexities, and the need for continuous investment in technological infrastructure. Addressing these challenges will be crucial to sustaining the momentum towards a fully cashless economy. Looking ahead, Nigeria has promising prospects driven by increasing smartphone penetration, improved internet connectivity, and ongoing efforts to bridge the digital divide. Emerging technologies like blockchain and AI are expected to further transform the landscape of digital payments, enhancing security, efficiency, and consumer confidence. To capitalize on these opportunities, stakeholders should prioritize cybersecurity measures, promote digital literacy, and foster collaboration between government, fintech firms, and traditional financial institutions. Investing in digital infrastructure, expanding financial services to underserved areas, and nurturing a supportive regulatory environment will be essential for Nigeria to achieve its vision of a robust and inclusive cashless economy. Ultimately, Nigeria stands at a critical juncture where strategic investments and collaborative efforts can propel its transition towards a cashless economy, unlocking new economic opportunities and improving financial inclusion for all its citizens.

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**CITE AS: Kenyangi Ochen F. (2024). The Evolution of Cashless Economy in Nigeria: Policies, Impacts, and Future Directions RESEARCH INVENTION JOURNAL OF LAW, COMMUNICATION AND LANGUAGES 3(3):97-102.**