*Full Length Research*

# Cashless Policy and Profitability in Nigeria and Some Challenges in its Adoption by Micro, Small, and Medium Scale Enterprises

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## Abstract

The purpose of the study was to determine the relationship between cashless policy and profitability in Nigeria and some challenges in its adoption by some micro-, small- and medium-scale enterprises in Nigeria. The study adopted a descriptive correlational research design method. The target population consists of MSME owners and managers across various sectors, including, but not limited to, agriculture, trade/commerce, manufacturing, services, and other specific sectors in the selected geopolitical zones of Nigeria, where cashless transactions are commonly used.  A stratified random sampling technique was used to ensure diverse representation across business sectors and locations. The sample size was determined using Yamane's formula (n=N/(N+1(e A total sample size of 600 MSMEs was selected from major commercial cities in the selected LGA of the geopolitical zones in Nigeria. A structured questionnaire was administered to MSME owners/managers to collect data on perceptions of the cashless policy on their profitability.  Data collected were analysed using percentages, mean, and standard deviation to summarise responses, while regression analysis was used to assess the relationship between cashless policy adoption and financial performance.  Results summarise responses, Results revealed that MSMEs in Nigeria have adopted the cashless policy, Internet banking and mobile banking as the most used mobile There is a high positive relationship between cashless policy and the profitability of MSMEs in Nigeria, and cyber fraud, high costs, There, the high cost of electronic devices and high electronic charges are some of the challenges facing the adoption of cashless policy in Nigeria. Based on the findings, the following recommendations were made: government agencies and financial institutions should invest in more reliable digital infrastructure to lessen network failures, which will in turn promote smoother operation of digital payment systems, and the Nigerian Communications Commission (NCC) should consider reviewing electronic payment fees and charges to make cashless systems more affordable for micro businesses.

Keywords: Cashless Policy, Small and Medium Enterprises, Internet Banking

## INTRODUCTION

Micro, small, and medium-scale enterprises (MSMEs) have existed throughout history (Tambunan, 2008). It is often regarded as family businesses comprising artisans, traders (buying and selling), and producers in a small capacity. Their role in an economy is very important because they are key players, providing goods and services to the communities. The Industrial Revolution made a significant shift in MSMEs' evolution with the emergence of small factories, workshops, and craft industries; however, technological advancements

such as mechanisation and mass production influenced the growth and diversification of small businesses. Moreover, since the late 20th century, globalisation, digitalisation, and technological advancement have transformed MSMEs, allowing them to gain access to global markets and digital platforms and create new business models. With these developments in view, MSMEs have become a hub for entrepreneurship and innovation, reflecting resilience, adaptability, and contribution to economic growth. In both developed and developing economies, MSMEs have made immense contributions to economic growth and development (Evbuomwan, Ikpefan, & Okoye, 2015).

In Nigeria, micro, small, and medium-scale enterprises (MSMEs) play a crucial role by creating jobs, generating income, and boosting the economy. These enterprises operate across various sectors, such as agriculture, manufacturing, services, retail, etc. The importance of MSMEs cannot be overemphasised; they contribute significantly to Nigeria's Gross Domestic Product (GDP) and provide livelihood opportunities for many of the populace. They are vital for poverty reduction, wealth creation, and promoting entrepreneurship. With this, the government brings up policies that will boost the performance of these enterprises.

MSMEs are economic units whose number of employees or turnover falls below certain limits (Evbuomwan, Ikpefan, & Okoye, 2017). Consequently, there may be variation in the classification because what is considered a small-scale enterprise in a developed country may be classified as a large-scale enterprise in a developing country. This study adopted the definition of MSMEs in the National Policy produced by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2017.

The evolution of cashless policy dates back to the mid-20th century, when the digital revolution and technological advancement were born and are consistently improving. This trend started with the introduction of credit and debit cards to online banking and e-commerce, contactless payments, mobile wallets, digital payment apps, cryptocurrencies, and blockchain technology. The cashless policy has also been driven by technological innovation, changes in consumer preference, cross-border transactions, government initiatives, financial inclusion, and external factors such as the COVID-19 pandemic. Cashless policy is becoming prevalent and is expected to continue in years to come.

In Nigeria, it was introduced first in 2012 by the Central Bank of Nigeria (CBN) in collaboration with the Bankers Committee to reduce the dominance of cash in the economy, provide mobile payment services, improve efficiency in payments, and promote financial inclusion. The introduction of a cashless policy in Nigeria is a part of CBN's monetary policy.

Monetary policy has been a tool for economic management to bring about sustainable economic growth and development (Elechi & Rufus, 2016). According to the Central Bank of Nigeria (2011), it is estimated that about 65% of the cash in circulation in the Nigerian economy is outside of the banking system, severely limiting the impact of the CBN's efforts to maintain economic stability. Okogbue (2011) states that "as the volume of cash in circulation grows, so does the cost of cash management to the financial system".

A cashless policy is a strategy that discourages the use of substantial physical cash for transactions but then encourages the use of bank transfers, Automated Teller Machines (ATMs), credit/debit cards, point of sale (POS) machines, mobile banking, and other financial instruments for transferring cash in transactions. This policy innovation is borne out of many issues affecting the Nigerian financial system, from trying to checkmate money laundering, illicit activity, and inflation to the cost of maintaining a predominately cash-based economy. This policy has led to what is termed a "cashless economy".

According to Adewale (2012), a cashless economy illustrates a gradual or 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 modes of payments in settlement of all types of transactions, including commercial, personal, local and international trade in public and private life within the economy.

A cashless economy is a system that aims to reduce, but not eliminate, the volume of physical cash circulating in the economy while encouraging more electronics (Osazevbaru Yomere, 2015). It is the combination of both electronic and cash-based systems of transaction.

Cashless Nigeria is a policy established in 2012 by the Central Bank of Nigeria to curb excesses in handling cash, promote digital payments, enhance financial inclusion, and improve economic stability. According to Ebeiyamba (2014), the Central Bank of Nigeria introduced a policy requiring that all cash withdrawals and deposits be set at a daily limit. According to the CBN (2011), the policy's main objectives are to make monetary policy decisions more effective, deepen financial inclusion, curb terror financing & banditry, and discourage money laundering in Nigeria. It is also not enforced to eliminate the use of cash but to reduce the volume of cash in circulation.

## Objective of the study

The objective of this study is to investigate cashless policy in Nigeria: a study of micro-, small-, and medium-scale enterprises. The specific objectives are to:

1.    Determine the cashless policy method commonly used by MSMEs in Nigeria,

2. Ascertain the relationship between cashless policy and the profitability of MSMEs in Nigeria?

3. Find out which challenges affect the adoption of the cashless policy by MSMEs in Nigeria.

Research questions

The following research questions will guide the study:

1. What method of cashless policy electronic device do MSMEs in Nigeria use?

2. What is the relationship between cashless policy and the profitability of MSMEs in Nigeria?

3. What challenges affect the adoption of cashless policy by MSMEs in Nigeria?

**Hypotheses**

$H0_1$: There is no relationship between cashless policy and profitability of micro-, small-, and medium-scale enterprises in Nigeria.

**METHODOLOGY**

The study adopted a descriptive correlational research design method. The correlational research design was used to examine the relationship between the cashless policy and MSME profitability. The target population consists of MSME owners and managers across various sectors, including, but not limited to, agriculture, trade/commerce, manufacturing, services, and other specific sectors in the selected geopolitical zones of Nigeria, where cashless transactions are commonly used. A stratified random sampling technique was used to ensure diverse representation across business sectors and locations. The sample size was determined using Yamane's formula ($n=N/(N+1(e^2))$), where n is the sample size, N is the population size, and e is the margin of error (1 - Confidence level), ensuring a balance between statistical validity and feasibility. A total sample size of 600 MSMEs was selected from major commercial cities in the selected LGA of the geopolitical zones in Nigeria. A structured questionnaire was administered to MSME owners/managers to collect data on perceptions of the cashless policy on their profitability. The questionnaire was structured into five sections: Demographic Information – gender, age bracket, business type, years in operation, and adoption of cashless transactions. Cashless Policy Adoption – the method of transaction: POS, mobile banking, online payments, etc. Impact on Financial Performance – revenue growth, customer base, transaction costs, and efficiency. Effect on Profitability – profit margin, cash flow and Challenges and Perceptions – security concerns, transaction failures, and cost implications. Data collected were analysed using descriptive statistics (percentages, mean, and standard deviation) to summarise responses. Inferential statistics using regression analysis to assess the relationship between cashless policy adoption and financial performance.

**RESULTS**

Table 1: Demographic Characteristics of Respondents

| | Male | Female | 18 – 25 | 26 - 35 | 36 – 45 | 46 – 55 | Above 55 | No Education | Primary | Secondary | Tertiary | vocational |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| KAD | 81 | 69 | 55 | 10 | 35 | 38 | 12 | 10 | 6 | 50 | 86 | 20 |
| ANA | 55 | 95 | 88 | 10 | 35 | 12 | 5 | 5 | 7 | 50 | 92 | 30 |
| LAG | 98 | 202 | 223 | 28 | 50 | 22 | 7 | 9 | 5 | 2 | 224 | 4 |
| | 234 (39%) | 366 (61%) | 336 (56%) | 48 (8% ) | 120 (20%) | 72 (12%) | 24 (4%) | 24 (4%) | 18 (3%) | 102 (17%) | 402 (67%) | 54 (9%) |

Source: Field Survey, 2025

| | Micro | Small | Medium | Agriculture | Trade/Commerce | Manufacturing | Service | Others | Less than a year | 1-5 years | 6-10 years | Above 10 years |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| KAD | 181 | 15 | 4 | 12 | 40 | 38 | 70 | 10 | 60 | 70 | 25 | 30 |
| ANA | 75 | 15 | 0 | 10 | 50 | 12 | 82 | 5 | 70 | 76 | 10 | 30 |
| LAG | 242 | 60 | 8 | 8 | 90 | 4 | 148 | 21 | 50 | 112 | 25 | 42 |
| | 498 (83%) | 90 (15%) | 12 (2%) | 30 (5%) | 180 (30%) | 54 (9%) | 300 (50%) | 36 (6%) | 180 (30%) | 258 (43%) | 60 (10%) | 102 (17%) |

**Source:** Field Survey, 2025

The analysis of the demographic features of the respondents, presented in Table 1, reveals that there are 366 female respondents (61%) and 234 male respondents (39%), indicating that the sample consists of a greater number of females than males. The table also shows that respondents within the age bracket of 18 to 25 years are 336 (56%), which constitutes the majority of respondents.

For the business type, 498 (83%) of the respondents operate micro enterprises, 90 (15%) operate small enterprises, and 12 (2%) operate medium enterprises, according to the classification of SMEDAN.

300 (50%) of respondents are in the service sector, and 180 (30%) of respondents are in trade/commerce, which constitutes the majority of the respondents. Concerning the tenure of the respondents, 180 (30%) of them have been in business for less than one year, 258 (43%) between a year and five years, 60 (10%) between six and ten years, and 102 (17%) have been in business for more than ten years, thus indicating that the majority of the respondents have sufficient experience in their various sectors. And the results imply that the respondents are in a good position to effectively give their opinion concerning the issues relating to the effect of cashless policy on the profitability of their businesses.

Below are the charts showing the results of the demographics.

MSME Category



Business Sector
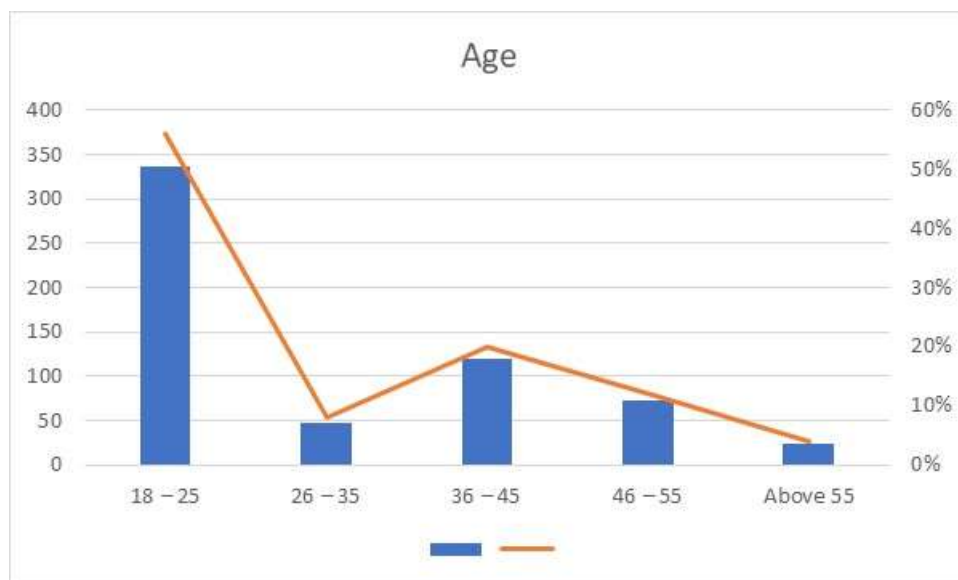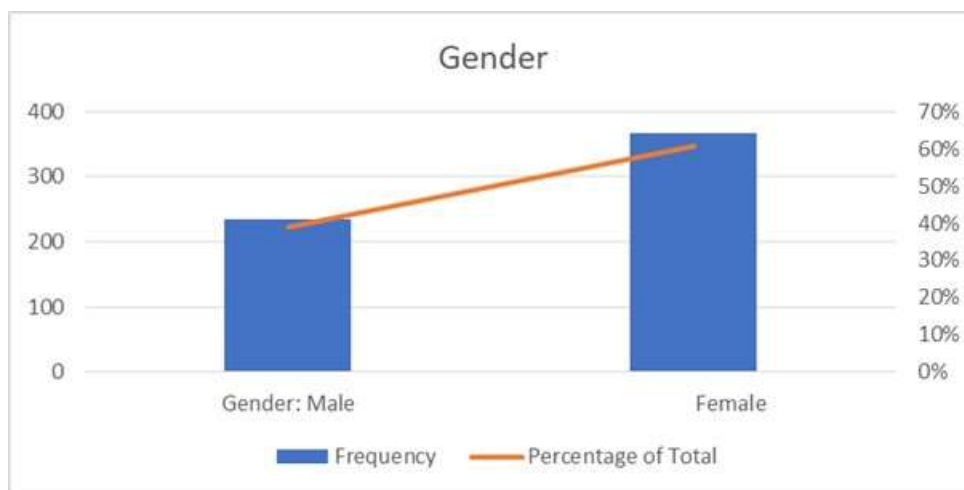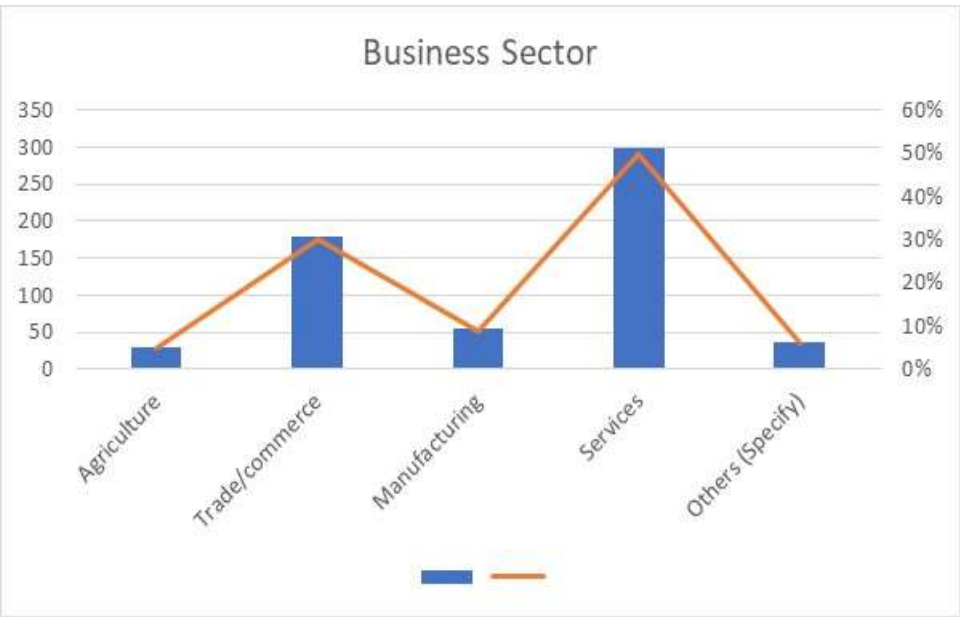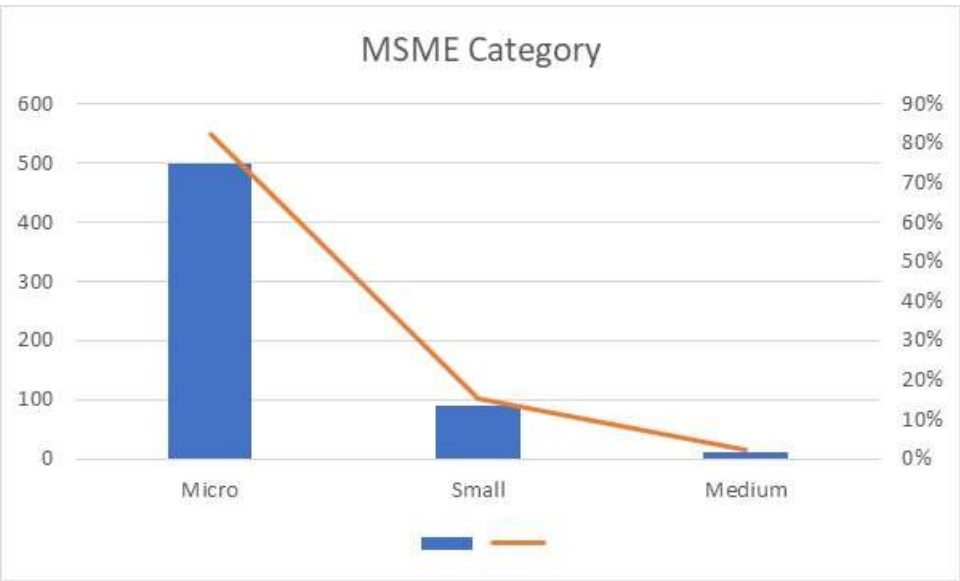
**Research question 1:** What method of cashless policy electronic device do MSMEs in Nigeria use?

**Table 2:** Response to the method of cashless policy electronic device used in Nigeria

| Questions | Frequency | Percentage |
|---|---|---|
| POS (Point of Sale) | 285 | 47.5% |
| ATM (Automated Teller Machine) | 78 | 13% |
| Mobile Banking/USSD Codes | 315 | 52.5% |
| Internet Banking/Bank Transfers | 378 | 63% |

**Source:** Field Survey, 2025

Table 2 shows that generally, 47.5% of the respondent uses POS, 13% of the respondent uses ATM, 52.5% of the respondent uses Mobile Banking, and 63% of the respondent uses Internet Banking. These suggests that MSMEs in Nigeria have adopted the cashless policy and the result indicates that Internet banking and Mobile banking as the most used.

**Research question 2:** What is the relationship between cashless policy and the profitability of MSMEs in Nigeria?

**Table 3:** Response to the relationship between cashless policy and the profitability of MSMEs

| Question | Highly Positive | Mode Positive | No Relationship | Mean | SD | Remark |
|---|---|---|---|---|---|---|
| How would you rate the relationship between cashless policy and your business profitability? | 336 (56%) | 240 (40%) | 24 (4%) | 3.52 | 0.575 | High |
| What is the relationship between increase in your cashflow and fast payment process due to the use of cashless policy? | 498 (83%) | 84 (14%) | 18 (3%) | 3.80 | 0.469 | Very High |
| **Total Average** | | | | **3.66** | **0.522** | |

**Source:** Field Survey, 2025

The analysis of the data in Table 3 shows that there is a high positive relationship between the cashless policy and .
the profitability of MSMEs in Nigeria, with an average mean of 3.66 and a standard deviation of 0.522

**Research Question 3:** What challenges affect the adoption of the cashless policy by MSMEs in Nigeria, and how do these challenges influence MSMEs' profitability?

**Table 3:** Challenges Affecting the Adoption of Cashless Policy by MSMEs in Nigeria

| Challenges | Frequency (%) | Very High | Moderately High |
|---|---|---|---|
| Illiteracy | 498 (83%) | 354 | 144 |
| Cyber fraud / Security issues | 216 (36%) | 156 | 60 |
| High cost of electronic devices | 180 (30%) | 100 | 80 |
| Electronic payment charges / Fees | 384 (64%) | 204 | 180 |

Table 3 reveals that **cyber fraud**, **high cost of electronic devices**, and **high electronic transaction charges** are major challenges facing the adoption of the cashless policy among MSMEs in Nigeria.

**Hypothesis**

**Ho$_1$:** There is no significant relationship between the cashless policy and the profitability of micro, small, and medium-scale enterprises in Nigeria.

**Table 4:** Relationship between Cashless Policy and MSMEs' Profitability

| Variable | Frequency | Mean | Standard Deviation | Degrees of Freedom | P-Value | Decision |
|---|---|---|---|---|---|---|
| Customer Base | 336 | 3.52 | 0.575 | 500 | < 0.0001 | Significant |
| Internet Banking | 378 | 2.75 | 1.203 | — | — | — |

Table 4 shows that the **p-value (<0.0001)** is less than **0.05**, therefore the **null hypothesis is rejected**. This indicates that the **cashless policy has a significant positive relationship with the profitability of MSMEs in Nigeria**.

## DISCUSSION OF FINDINGS

From the analysis of the data, there are factors that stood out in replicating that the cashless policy has a positive impact on the profitability of MSMEs in Nigeria. Customer Base Expansion: 89% of respondents agreed to an increase in their customer base due to the convenience of using digital payment to make purchases. Monitoring and Record Keeping: 87% of respondents attest to improvement in their financial monitoring and reducing loopholes. This implies that a cashless policy provides better transaction logs, easier reconciliations, and more accurate reporting. In essence, the data strongly suggests that the cashless policy has positively impacted MSMEs in several profitability-related areas, such as operational efficiency, revenue growth, and cost reduction. These findings corroborate the study of Ezeanolue (2022), who investigated the effect of a cashless economy on the performance of small and medium enterprises in Anambra State. The outcome of the study showed that channels of cashless economy, such as internet banking, POS, and ATM, were found to have a significant effect on the performance of small and medium enterprises. The study showed that there is widespread adoption of cashless tools among MSMEs in Nigeria; these tools include, but are not limited to, POS, ATMs, internet banking, and mobile banking services. The adoption of these tools reduced the risk associated with physical cash transactions, facilitated faster transactions, and improved convenience in business transactions. It marks a shift from traditional cash-based transactions to technology-driven financial operations (Central Bank of Nigeria, 2024). Drawing inferences from empirical studies, there has been a significant adoption rate in the Nigerian MSMEs. Empirically, the study validates and ascertains that the utilisation of cashless policy in business contributes to wider and more meaningful growth and sustainability. It suggests that it can serve as a catalyst for improving business performance and operations among MSMEs in Nigeria.

## Conclusion

The findings led to the conclusion that cashless policy in Nigeria has a substantial and positive impact on the profitability of MSMEs, and this helps to enhance their operational efficiency. The study also shows that the policy has helped to reduce the risk that is associated with cash handling and improve business flexibility and transparency. MSMEs that have adopted a cashless policy are better equipped to meet customers' expectations, improve service delivery, promote accountability, and achieve sustainable business growth. The study also recognised the challenges that are associated with cashless policy. These challenges ought to be addressed collectively by government agencies, financial institutions, network service providers, and MSME stakeholders to strengthen digital infrastructure and enhance financial inclusion across all regions in Nigeria.

## Recommendations

Based on the findings of the study, the following recommendations are made:

1. Government agencies and financial institutions should invest in more reliable digital infrastructure to lessen network failures, which will in turn promote smoother operation of digital payment systems and improve transaction processes.

2. Regulatory bodies such as the Central Bank of Nigeria (CBN) and Nigerian Communications Commission (NCC) should consider reviewing electronic payment fees and charges to make cashless systems more affordable for micro businesses and also enforce comprehensive cybersecurity frameworks to protect MSMEs from cyber risks.

3. Government agencies and financial institutions should organise workshops and digital literacy programmes to help MSMEs maximise the benefits of cashless tools and platforms for capacity building.

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