



The Federal Government Cashless Policy: Triumphs and Encounters

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Abstract

This study examines the successes and challenges of the federal government's cashless policy. Debate continues over the propriety of the policy. While some argue strongly that it promotes economic growth by enabling monetary authorities to control excess liquidity and curb inflation, others contend that it has worsened poverty levels, as small businesses face reduced patronage due to cash shortages. The study investigates both the positive and negative impacts of the policy. Findings reveal that the cashless policy poses significant challenges to the survival of small businesses, which rely heavily on cash for daily transactions. Additionally, it has contributed to a decline in government revenue due to reduced cash-based tax payments. Consequently, the study recommends a phased or incremental implementation of the policy to avoid a major policy shock.

Keywords: Cashless policy, policy triumph, policy setbacks.

I. Introduction

The Central Bank of Nigeria's (CBN) cashless policy is not a recent development. It began in 2012, when the CBN issued directives to commercial banks to reduce cash withdrawals and conduct transactions through electronic means. Several initiatives were introduced to promote digital payments and reduce the country's reliance on cash. These directives required financial institutions to increase their investment in digital payment infrastructure, encourage the adoption of digital payments among customers, and collaborate with the CBN to develop a robust regulatory framework.

Although the policy was introduced in 2012, it was not fully implemented until September 2022, when the CBN rolled out a new policy on cash transactions. This policy imposes fees on daily cash withdrawals exceeding ₦500,000 for

individuals and ₦3,000,000 for corporate entities. According to the apex bank, the aim is to reduce the volume of physical cash in circulation and promote electronic transactions for payments, transfers, and other financial activities, without eliminating cash (Giwa, 2022).

The CBN also justified the policy because a cash-based economy imposes high costs on the banking system. For example, the estimated cost of cash handling at the end of 2012 was ₦192 billion. The higher the velocity of cash usage, the greater the processing costs across the value chain, including the cost of printing new notes to replace those worn out from frequent handling (Yomere & Osahon, 2015). At its 2011 Monetary Policy Committee meeting, the CBN noted that due to the high cost of printing new currency, there was no alternative but to move toward a cashless system. It reported that the direct cost of cash to the Nigerian financial system in 2009 stood at ₦114.5 billion, based on actual data from the CBN and 17 banks in the financial services industry. This amount excluded costs related to bank cash infrastructure and employee expenses for cash logistics. The breakdown was: cash-in-transit costs ₦27.3 billion (24%), cash processing costs ₦89.1 billion (67%), and vault management costs ₦18.1 billion (9%). This provided the foundation for migrating toward a cashless economy (Yomere & Osahon, 2015).

According to financial experts, the initiative has modernized the financial sector, increased transparency, and enhanced efficiency in the economy. It has also expanded financial access points such as automated teller machines (ATMs), point-of-sale (PoS) terminals, mobile cash (mCash) facilities, and a wide range of e-payment platforms, resulting in a significant rise in the adoption of electronic channels (Giwa, 2022).

However, despite its merits, experts note that the policy has imposed high costs on the economy. These include the closure of small businesses, network congestion, reduced business



activities, and revenue shortfalls for federating units' challenges which could result in decreased funding for infrastructure projects as well as delayed wage payments to workers and pensioners.

In view of the foregoing, this study seeks to:

1. Identify the arguments in favor of the cashless policy.
2. Examine the social implications of the policy.
3. Propose quick solutions to the challenges facing its implementation.

II. Conceptual Review

Cashless policy

As Chizoba and Anthony (2016) observe, scholarly literature on cashless policies remains relatively limited. However, the subject has garnered growing attention in recent years, particularly among central banks and academic researchers. Conceptually, the cashless policy is understood as a framework designed to reduce, though not eliminate, the volume of physical cash circulating within the economy, while simultaneously promoting electronic-based financial transactions. It embodies a hybrid system that integrates electronic banking with residual elements of cash-based operations.

Odiar and Banuso (2012), as well as Akhalumeh and Ohiokha (2012, cited in Osahon & Yomere, 2015), conceptualize the cashless system as a mobile payment infrastructure that enables users to execute financial transactions via GSM mobile phones, irrespective of internet connectivity. Similarly, Chizoba and Anthony (2016) define it as an economic model in which transactions are conducted without necessarily involving physical cash, instead utilizing credit and debit cards or other electronic payment channels. In this regard, Ajayi (2022) contends that the policy discourages the use of substantial amounts of physical currency and instead advocates for alternative modes of financial transfer, including bank transfers, ATM cards, point-of-sale (POS) terminals, and other digital instruments.

Although some scholars argue that a cashless economy does not entail the complete eradication of physical currency, it is widely regarded as an economic arrangement characterized by a significantly diminished reliance on cash in favor of digital transaction mechanisms (Satu & Luka, 2014). In sum, the cashless economy represents a policy orientation toward minimizing the circulation of tangible currency and fostering the widespread adoption of electronic payment systems.

III. Literature Review

Triumphs

Historical accounts dating back centuries have shown that cash has traditionally played a central role in everyday commerce, enabling ordinary people to exchange their labour and services for money without the burdensome complexities of barter. However, recent developments indicate that cash alternatives are gradually taking root and expanding in use. The introduction and widespread adoption of electronic transfer systems have led to predictions of an impending cashless society (Humphrey et al., 1996; Humphrey & Berger, 1990; Olney, 1999, as cited in Chizoba & Anthony, 2016).

Experts have highlighted that the decline of cash and the emergence of a cashless society offer numerous societal benefits. The cashless policy has enhanced convenience by providing a wider range of service options, reducing the risk of cash-related crimes, and lowering the cost of accessing banking services outside traditional branches. It has also improved access to credit and facilitated quicker access to capital. For corporations, the policy has reduced revenue leakages and cash handling costs (Aiswarya, 2023).

Furthermore, the policy has contributed to increased tax revenue, greater financial inclusion, and broader economic development. A notable advantage of the cashless system is its dual capacity to guarantee anonymity for legitimate users while also enabling traceability of illegally acquired or laundered funds. It strengthens bank deposit levels, thereby increasing the funds available to commercial banks for lending and investment (Adnan, 2021).

In addition, the cashless system enables the detection of double spending by exposing the identity of the offender, offering a secure means of preventing the unauthorized redistribution of digital content and intellectual property. It also helps displace shadow economies by integrating hidden transactions into the formal banking system, thereby increasing transparency, trust, and participation in the financial sector. The policy promotes financial inclusion by making it easier and more affordable for the unbanked and underbanked populations to access financial services (Sangeeta, 2023).

Moreover, it contributes to the reduction of money laundering and can provide critical evidence against bribery, particularly involving civil servants and political actors (Chizoba & Anthony, 2016).



Challenges

The transition to a cashless society, as seen in countries like India, presents a number of significant challenges. Scholars and experts have identified the lack of adequate infrastructure and financial inclusion as major obstacles. In other words, the absence of a robust and well-established system remains a critical concern. Specific issues include inefficient banking operations, poor internet connectivity, and limited availability of digital payment platforms (Aiswarya, 2023; Hensell, 2023).

A key concern raised by experts is the issue of financial inclusion. For a cashless system to be effective, every individual must have access to banking services. This includes owning a functional bank account, possessing a debit or credit card for purchases, and having access to online banking. However, access alone is not sufficient. Users must also possess the necessary knowledge and skills to understand how digital money functions and how to carry out electronic transactions (Obiegbo, 2023; Dinescu, Olomolehin, Samvelian, 2024).

Furthermore, cybersecurity threats such as fraud and identity theft, often perpetrated by online hackers, have been flagged as serious risks. Another barrier is the entrenched reliance on cash in everyday life. Many individuals are unfamiliar with digital payment methods and may resist changing long-established habits (Sangeeta, 2023; Aiswarya, 2023; Dinescu, Olomolehin, Samvelian, 2024).

A particularly important issue is the disparity between urban and rural areas. In cities, internet connectivity tends to be reliable, and the adoption of digital payment methods is more widespread. In contrast, rural areas often face poor network coverage, which hampers the use of smartphones for financial transactions. While smartphone penetration is increasing, experts argue that it will take time for rural populations to become fully integrated into the digital payment ecosystem (Adnan, 2021).

Finally, a lack of public awareness and education about cashless payment systems has been identified as a critical challenge. Many people are not sufficiently informed or educated on how to use digital financial tools effectively (Satu & Luka, 2014).

Empirical Literature Review

Miesiega and Obodo (2013) highlighted several benefits of a cashless system in their study "An Empirical Analysis of the Benefit of Cashless Economy on Nigerian Economic Development," including faster transactions, increased sales,

simplified cash collection, and a straightforward solution.

In the study, conducted by Deora (2018), the study explores the impact of a cashless economy on banking and finance, highlighting their significance in any economy. The study suggests that a cashless system can promote financial inclusion, reduce poverty, and lower the costs of handling cash. It also facilitates the tracing of criminal activities like robbery and money laundering. However, Dora notes potential downsides, including the risks of cybercrime, identity theft, and rising consumer debt. The research aims to explain these impacts and how banking and financial conditions may vary across countries moving towards a cashless economy.

In a study conducted by Upong et al. (2024) titled "The Impact of the Cashless Policy on the Growth of Small and Medium-Scale Businesses in Uyo Metropolis Between 2022 and 2023," the researchers used the diffusion of innovation theory as the theoretical framework. Their findings revealed a significant relationship between the cashless policy and the employment opportunities created by point of sale (POS) systems in Uyo Metropolis. Additionally, they found a noteworthy correlation between the cashless policy and the financial security of small and medium enterprises (SMEs) in the region. The authors recommended several measures for improvement. Among these, they stressed the need for the federal government to enhance the network infrastructure to facilitate smoother transactions and reduce associated risks. This improvement would potentially encourage more individuals to engage in POS businesses. Furthermore, they suggested that the government implement strategies to bolster technology, aimed at curbing cybercrime, which would enhance financial security for SMEs. Lastly, addressing power supply issues was highlighted as a critical step to ensure uninterrupted cashless transactions.

According to Ekpeyoung (2023) in his study titled "The Analysis of cashless economy, demand for money and price determination: A possibility for implementation in Nigeria," the research investigates the practicality of enacting a cashless policy in Nigeria and its effects on money demand and price determination. It draws insights from renowned economists like Keynes, Friedman, and Woodford, focusing on the intricate dynamics of monetary policy, the function of money in trade and financial markets, and the factors that affect price levels. The study looks into how money demand relates to the adoption of a cashless policy, highlighting the effects of real balances and



transaction velocity, alongside the impacts of monetary policy on trading activities and asset prices. Findings suggest that as Nigeria transitions towards a cashless economy, various factors become significant, particularly transaction velocity. This measure of cash efficiency increases as cash use declines, indicating a more efficient economy. Moreover, the research challenges the conventional view regarding price determination in a cashless environment. It points out that even when real balances near zero, asset prices still respond to monetary policy, suggesting that prices do not necessarily align with nonmonetary equilibrium levels when real balances diminish. The study proposes that the monetary authority should meticulously manage the money supply for individual investors to maintain and stabilize price levels in a cashless setup. This is crucial for achieving desired price stability, even as the economy shifts away from cash. However, the study also recognizes its limitations and emphasizes the need for further research on the implications and challenges of a cashless policy in Nigeria. Important areas for exploration include financial inclusion, technological infrastructure, and public acceptance, which are vital for assessing the feasibility and potential effects of a cashless economy on various societal segments. In summary, this study provides essential insights into the potential for a cashless policy, its impact on money demand and price determination, and its broader implications for economic stability and efficiency in Nigeria.

Iwańczuk-Kaliska (2024) conducted a study titled "The Cashless Economy from the Perspective of SMEs: Review of Research and Recommended Directions for Future Studies." This research utilized a 15-year time series analysis, combining the findings from various studies related to different countries to provide a comprehensive overview. The findings of the study indicate several areas for future research. It suggests that future investigations should focus on identifying the opportunities and threats that an entirely cashless economy presents for enterprises of various scales and sectors. Additionally, research should examine the barriers and drivers that influence the adoption of a cashless economy from a business perspective. Furthermore, it emphasizes the need to define the potential strengths and weaknesses of fully cashless enterprises in the contemporary economy. These insights aim to guide future studies and enhance

understanding of the cashless economy's impact on small and medium-sized enterprises (SMEs).

Uzowulu, Anyanwu, and Amakor (2024) conducted a study examining the impact of the cashless policy on economic growth in Nigeria. Using an ex-post facto research design, they analyzed time series data related to ATM transactions, POS transactions, mobile banking transactions, web pay transactions, and nominal GDP, sourced from the CBN Statistical Bulletin (2021). The data analysis employed multiple linear regression and the Granger Causality Test. The study's findings revealed several insights: ATM transactions were found to have a positive relationship with economic growth; however, their impact was not statistically significant. In contrast, POS transactions exhibited a negative relationship with economic growth and had a significant impact. Web pay transactions were also negatively associated with economic growth but did not significantly affect it. Similarly, mobile pay transactions were negatively associated with economic growth, showing no significant impact. In light of these findings, the scholars recommended that the government invest in adequate infrastructure to ensure that ATMs operate effectively and are strategically located to facilitate economic activities. Additionally, they emphasized the need for monetary authorities to ensure that POS agents are well distributed in key areas to support financial activities that can contribute to Nigeria's economic growth.

IV. Research Methodology

The primary method of data collection for this study involved both primary and secondary sources, specifically questionnaires. The qualitative method was employed to gather documentary evidence from official records, books, journals, magazines, online sources, newspapers, and other relevant written materials. Respondents were surveyed using a structured questionnaire, commonly referred to as a fixed-response questionnaire. This method facilitated easier data processing and enabled the calculation of the instrument's validity and reliability indices. The primary data collection tool was the questionnaire. Responses were obtained from 100 residents of Kuduru Community in Bwari Area Council, FCT, to assess the triumphs and challenges of the Federal Government's cashless policy. The respondents were primarily small shop owners, including:

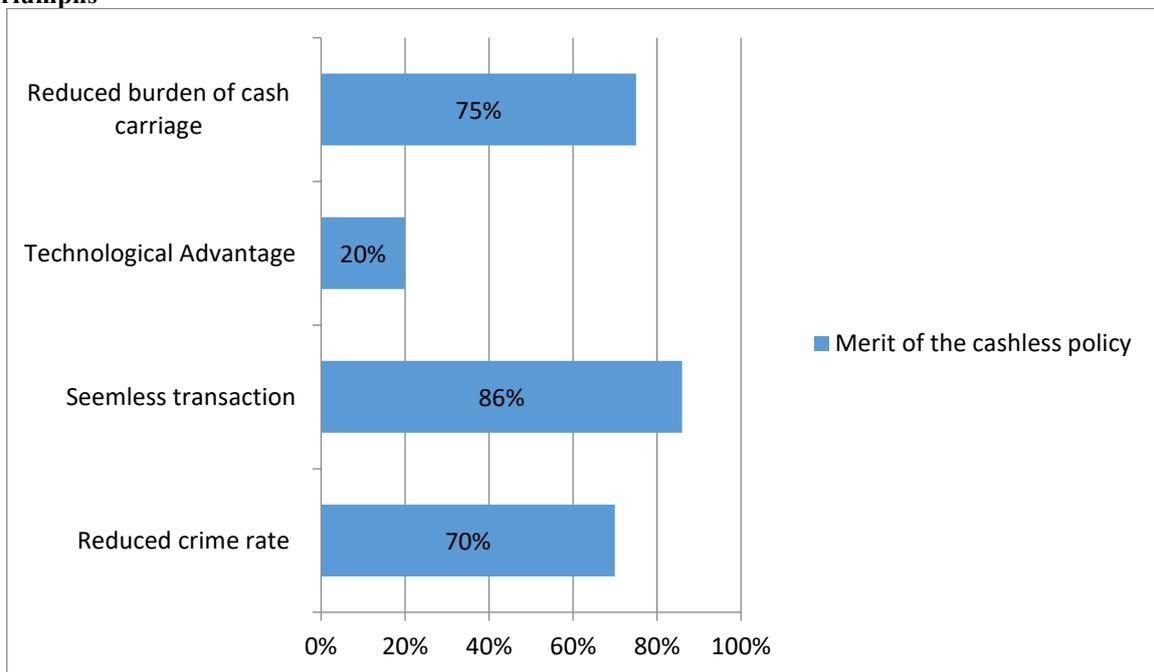


Business Category	Number of Respondents
Provision Shops	20
Patent Medicine Stores	20
Cosmetic Shops	20
Barber Shops	10
Tailoring Shops	10
Agro-feed sellers	10
Business Centres	10
Total	100

The constructs used in this study were based on arguments that favor the usage of, and explore the social implications of, the cashless policy. Data were analyzed descriptively using simple percentages and represented in graphs to illustrate the respondents' reactions to the research statements.

V. DATA PRESENTATION AND ANALYSIS

Triumphs



Source: field work (2024)

The study revealed that 70% of the respondents believed the cashless policy would reduce the rate of crime, as it minimizes the risk of cash-related offences. Additionally, 86% believed it would encourage seamless transactions, as there would be no need for close physical interaction

before concluding a transaction, due to increased convenience and the availability of more service options.

Furthermore, 20% of the respondents believed the cashless policy would improve technological advancement through the proper use

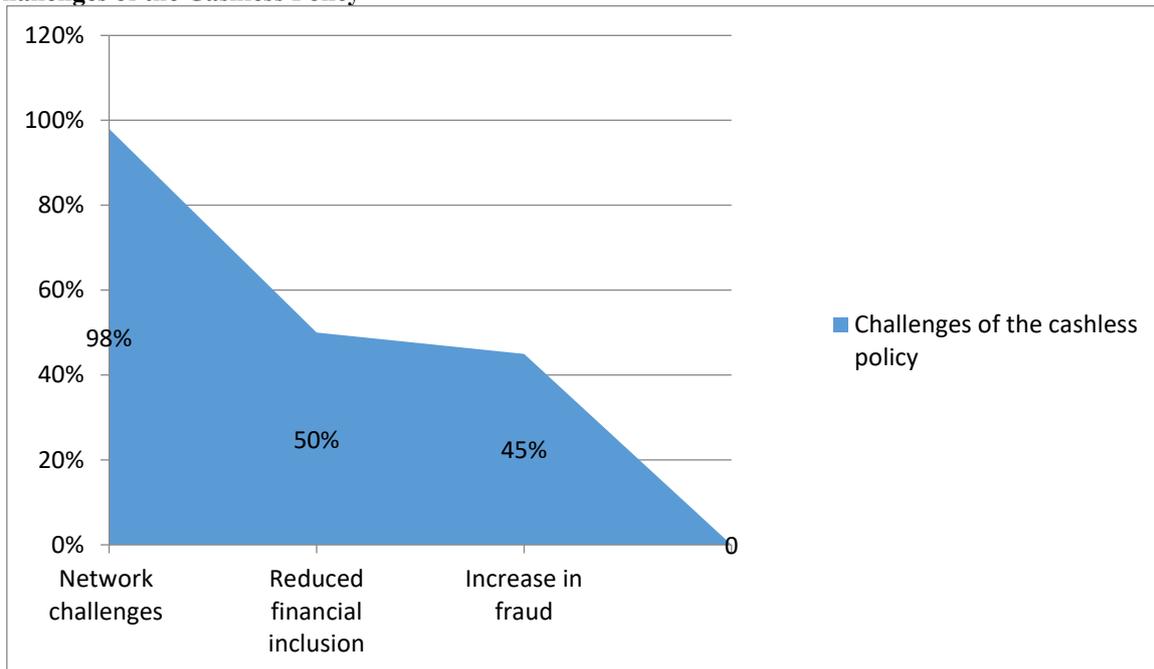


of ICT, thereby promoting greater financial inclusion. About 75% agreed that the policy would greatly reduce the burden of carrying cash before concluding a transaction, as it guarantees the anonymity of legitimate users while also providing traceability for illegally issued or laundered money.

Overall, the findings indicate that the majority of respondents believed the policy

encourages seamless transactions and enhances user convenience. These results align with the empirical study conducted by Salako, Bakare, Sogbesan, and Adebayo (2022), who concluded that respondents have increasingly adopted the use of smartphones for electronic transactions as a substitute for cash, thereby reducing the burden of cash carriage.

Challenges of the Cashless Policy



Source: Field work 2024

Chronicling the challenges of the cashless policy, 98% of respondents believed it suffers from a high rate of network issues. They explained that while internet connectivity is generally fast in cities, enabling people to use digital payment methods, many rural areas experience poor internet service.

Half of the respondents (50%) also felt that the cashless policy reduces financial inclusion, arguing that for such a system to be effective, everyone must have access to banking services. This would require every individual to have a bank account, a payment card, and access to online banking.

Additionally, 45% identified an increase in fraud, noting that criminal-minded individuals might exploit the system to defraud unsuspecting users. Concerns about online hackers, identity theft, and data breaches were also raised. Respondents further noted that shifting from cash to digital payments requires a change in habits, and many people are unfamiliar with electronic payment methods.

In conclusion, the majority of respondents believed the cashless policy faces serious network challenges due to Nigeria's poor internet infrastructure. This finding aligns with the study by Salako, Bakare, Sogbesan, and Adebayo (2022), which reported that community members generally view the policy negatively. According to that study, this perception may partly stem from the immediate adverse effects on daily life, as respondents reported significant difficulties and hardship following its implementation.

VI. Summary of findings

- 1 The majority of respondents believed the policy encourages seamless transactions and enhances user convenience.
- 2 The majority of respondents believed the cashless policy faces serious network challenges due to Nigeria's poor internet infrastructure.



VII. Conclusions

Despite some strong reservations against the cashless policy, it still carries significant merit, as highlighted in the objectives outlined by the Central Bank of Nigeria (CBN). According to the CBN, the policy seeks to reduce the reliance on physical cash and promote the use of electronic systems for conducting business transactions. The primary aim is to make electronic transactions seamless while minimizing the risks associated with cash-based dealings. These risks include theft, kidnapping, corruption, inflation, and currency speculation. Based on these benefits, the study concludes that implementing the cashless policy should be carried out in phases. Each phase should be guided by clearly defined and well-assessed timelines, which will determine when it is appropriate to transition to the next stage. This phased approach is essential, as many small businesses still depend heavily on cash for their daily operations. Therefore, a full-scale or rigid implementation of the policy, such as was previously attempted, could lead to unintended consequences, including the closure of small businesses, network congestion, reduced economic activity, and a decline in government revenue due to decreased tax payments to federating units.

VIII. Recommendation

However, this study recommends the incremental implementation of the cashless policy in clearly defined stages. This approach will allow for the development and deployment of critical infrastructure before full implementation, thereby helping to prevent policy shock.

Furthermore, the government should undertake an aggressive sensitization campaign, particularly targeting people in rural areas. This campaign should aim to educate the public on the benefits of the cashless policy, especially in areas such as crime reduction, curbing corruption, and preventing currency trafficking.

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