MONETARY POLICY REFORMS IN NIGERIA: BENEFITS, COSTS AND CONSTRAINTS OF THE CASHLESS MONETARY POLICY

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Abstract

Over the course of history, there have been many different forms of payment systems. Originally, barter was quite common. Eventually, various forms of money were introduced. In the mid-twentieth century, charge cards debuted. Ever since then, pundits have been predicting the demise of paper instruments and the emergence of a "cashless society". Today, we still pay with cash and cheques, but several other payment instruments, such as credit and debit cards, are widely used. The use of cash is declining, but at a slow pace. Innovations in information technologies have improved the prospects for the advent of a cashless society. Although it remains unclear whether the new information technologies will drive out cash completely from the payments system in the foreseeable future, the prospects for such an outcome cannot be excluded. Nigeria, as a developing economy has made a declaration to joint other countries of the world in pursuing the cashless monetary policy. In this paper, we examine theoretically, the benefits, costs and constraints of implementing the cashless monetary policy in Nigeria. The paper submits that even though the benefits of this policy are enormous to the economy, the government needs to put so many things in right shape before embarking on such a policy. These include raising the people's confidence in the banking sector in Nigeria, improving on the power supply and financial infrastructural facilities and massive investment in mass literacy in the country. The CBN should also not take it as one-day job to implement the policy but rather should it be a gradual move from the cash to the cashless system. This is to give the system more opportunity to overcome the serious constraints imposed on the success of the policy.

Key Words: Monetary policy, cashless policy, Benefits, Costs, Constraints.

Introduction

There is a global consensus that developing countries must undertake reforms in the light of the globalization process to reduce poverty. Countries that have faithfully implemented such reforms in the last few decades have recorded rapid economic growth and poverty reduction. In many countries where they have been consistently implemented, reforms that create efficient markets and eliminate unnecessary regulations have been shown to work (Abubakar, 2005). The world has in the last three decades witnessed a process of rapid transition, the impact of which has not been the same on all countries. For those counties that drive their own processes, internal adjustments have come naturally. Their economies have inbuilt mechanisms to adjust to external developments (Kwanashie, 2005). A prominent feature of the last three decades has been the increasing globalization of the world economy, particularly of production and finance, which is defining the new epoch of global capitalism.

The reforms, particularly in the weak developing countries, must therefore be seen within the context that they are inevitably conditioned by the logic and dynamics of globalization, but must also reflect internal conditions that have consistently undermined reforms in these countries. Nigeria has in the last three decades experienced persistent crises of development including economic and financial crises of varying degrees and at various times constituted serious constraints to the economic development of the country. The need to deliberately develop strategies to tackle these problems has informed the country of the need for the various reforms embarked upon in Nigeria. One of the recently introduced economic reforms in Nigeria is the cashless monetary policy. The nation's quest of migrating from cash to cashless economy

has been the front burner. Nigeria strongly believe that to meet the target of becoming one of the leading world economies by the year 2020, efforts must be made to embrace electronic payment system in its entirety. It was in this consciousness that the Central Bank of Nigeria (CBN) the apex regulatory body of the banking sector, came up with a reform policy to check the increasing dominance of cash in the banking sector in order to enhance e-payment system in the economic landscape.

Thus the trend of e-payment that began in the United States of America over some decades ago has become a serious and challenging issue that developing countries are struggling to adopt in their quest for efficient payment system. For many years, developed countries like Canada, United Kingdom, Sweden, and France among others, have ran their economies through electronic payment without hitches. Interestingly, a lot of other African countries have keyed into the system, embracing electronic system of payments while dealing with less cash. Countries like Kenya, South Africa, Tanzania, and Ghana among others have become reference points in the continent in terms of electronic payment system. These countries that have adopted the electronic system of payment in their economies have shown to the countries of the world beyond reasonable doubt that this mode of payment enhances economic growth (Nnanna and Ajayi, 2005b). It is the advantages therein the system that have made Nigeria to also adopt the same system at the beginning of the year 2012. This system was coded as 'cashless' policy, little did the CBN realizes the confusion such name would create. This has become a serious issue that the CBN has to battle in explaining the meaning to Nigerians. This confusion is not only in the name or what the policy is called, but also in the understanding and comprehension of the content of the policy. According to the CBN in the Nation News paper (2012), the cashless monetary policy was introduced to:

- Derive development and modernization of nation's payment system in line with Nigeria's Vision 20:20:20 goal of being amongst the 20 top economies by the year 2020.
- To reduce the cost of banking services (including cost of credit) and drive financial inclusion by providing more efficient transaction options in the economy.
- To improve the effectiveness of monetary policy in managing inflation and driving economic growth.
- Also, the cashless policy aims to curb some of the inconveniences associated with the high usage of physical cash in the economy.

The objective of this paper therefore, is to theoretically evaluate the expected benefits, costs and constraints of the policy in the Nigerian economy. To achieve this purpose, the paper has been organized into six sections with the introduction as section one. Section two discusses theoretical and conceptual issues in cashless monetary policy and electronic payment system. Section three discusses the expected benefit of the cashless monetary policy in Nigeria. While section four discusses the costs of implementing the policy, section five evaluates the major constraints facing the implementation of the cashless monetary policy in Nigeria. Section six provides the policy options and the concluding remark of the paper.

Theoretical and Conceptual issues

The major attempt to provide theoretical framework on cashless economy was done by Wicksell (1898) and Woodford (2003). Woodford's neo-Wicksellian theory of monetary policy is based on the assumption that Central Banks can control short-term market rates of interest and, hence, affect inflation without taking any recourse to monetary aggregates. In order to show this, Woodford presents a model of a "purely cashless economy. In that model, markets are perfectly competitive, prices adjust continuously to clear markets, and there exist markets in which state-contingent securities of any kind may be traded. Therefore, according to Woodford (2005), trade or exchange in an economy can take place electronically. Electronic cash is a system which allows individuals to purchase goods and services in today's society without the exchange of anything tangible, but the term money still exist, but are more in an electronic form than previously. Electronic cash term becomes more acceptable as the world make a shift towards a

cashless society. A cashless economy is an economy where all transactions, including small-value ones, will be handled via electronic funds transfer, and there will be no need to carry any cash. Cashless, meaning that instead of transacting purchases with actual paper currency and metal coins, we would all use some form of electronic transaction, even for minor purchases (the Nation, 2012). The cashless economy is characterized as one is that there are no notes and coins in circulation issued by a central bank (Woodford, 2005). In a cashless economy, the payment options enable a decline in cash payments, both in terms of the reasons for wanting such systems, and the technology required for them to work. Examples of electronic payment methods are credit and debit cards. Credit cards are typically a plastic card with data stored on a magnetic stripe and, increasingly, a microchip

A cashless economy is simply at its prime when all means of payments are carried out without the use of physical cash. Payments will range from a list of options such as cheques, wire transfers, debit and credit cards, online transactions and mobile banking. The payment system in any country is an important national infrastructure, just like infrastructures like electricity, transportation and telecommunications (Amedu, 2005). It is in recognition of the complexity of the global economy today that countries of the world put the necessary infrastructures in place so that their economies would move forward. That account for reasons why these countries embark on deliberate projects to improve the payment system of their economies. One of such projects includes cashless policy.

The payment system plays a very crucial role in any economy, being the channel through which financial resources flow from one segment of the economy to the other. It therefore represents the major foundation of the modern market economy. Essentially, there are three pivotal roles for the payments system namely: the monetary policy role, the financial stability role and the overall economic role. Given the important role that well functioning payment system has on monetary policy, financial stability and overall economic activity, the CBN has put in place a set of a national payment system policy objective as a broad guideline and framework for all payment of the system initiatives. In setting out the objectives of the National Payment System (NPS), the goal is to ensure that the system is available without interruption, meet as far as possible all users, needs and corporate minimum risk at reasonable cost.

A stable financial system is a prerequisite for growth and development. Some of the major criteria for stable financial system are the existence of efficient financial markets and financial instruments as well as efficient payments and settlement system. A well-functioning payments system is of primary importance, especially in the implementation of monetary policy, particularly in liquidity management (Nnanna and Ajayi, 2005). Similarly, Amedu (2005) also posits that the payments system, of which electronic payment is one, is an important anchor for economic and social development in any economy. An efficient payment system enhances the operation of a market economy and assist in the maintenance of monetary and financial stability by providing ease of trade, convenience and general economic well-being through the transmission of money between parties. A payment system is a mechanism that facilitates intermediation through the transfer and the processing of the value of money from the payer (buyer) to the payee (seller) in the process of exchanging goods and services. The system invariably includes not only the instruments, such as cheques, money orders, wire transfers, electronic transfery and other payment instruments, but also organizations, operating procedures and information and communications arrangements that are used in initiating and transmitting payment instruction from one party to another in settling obligations (Amedu, 2005). The payment system enables the financial sector to serve the needs of the real sector, and therefore its development and sophistication is a necessary precondition for business development both domestically and internationally. Payment instruments are of the forms, such as cash, cheques traveller's cheques, money orders, debit and credit cards, wire transfers, automated clearing house transfers, point-of-sales (POS) and automated teller machines (ATMs).

Nnanna and Ajayi (2005a) posited that, conceptually, the term payments system refers to the institutions, instruments, operating procedures, information and communication systems employed to initiate and

transmit information from payer to payee, involving the transfer of money and other near money claims. Thus, a payment system is essential for the transfer of financial assets including securities and foreign currency between banks, enterprises, households, and governments. The mechanism is based on a platform of uniform set of rules and procedures and comprises three elements. The first is the technical infrastructure, that is, the communication systems and hardware and software components required by the system operator and participants to exchange data and settle transactions. The second is a system of accounts where the financial assets to be transferred are held and to which they can be transferred. In practice, these are account-based claims on the central bank or another financial intermediary who acts as a settlement agent. The third element comprises the rules used to exchange information and transfer funds from one account to another. Clear rules enable users to assess the risks involved in the system. Detailed information on the procedures used to settle payments also enhances the standardization of the system (Nnanna and Ajayi, 2005b). The design of these systems critically affects the efficiency with which monetary policy is conducted, the soundness of financial institutions, and the functioning of the economy as a whole.

The payment system must be guided by a set of well-defined rules. It could be automated or otherwise. But it must be risk-free, efficient, and effective, for it to enhance monetary policy implementation and commerce. Nnanna and Ajayi (2005b) posited that efficient payments system provides the basis for the central bank's liquidity forecasting and management process, the features of which affect the demand and supply of bank reserves, credit delivery and support for economic growth. It requires a clear and conscious strategy on the approach and the ability to measure and control excess liquidity. Specifically, an efficient payment system minimizes float, liquidity risks, as well as settlement, systemic, credit and operational risks which are inherent in financial transactions. If the payment system is underdeveloped, and inefficient, the banking system will hold large amounts of excess reserves which often lead to high volatile and unstable reserve floats. An efficient payment system however, promotes timely clearing and settlement, as well as payment finalities at least cost to customers (Nnanna and Ajayi, 2005b). It is amenable to various types of inter and intra financial transactions and is available to all segments of the economy. The impact of such a system is to facilitate high inflow of liquidity into the banking system, enhance effective management of liquidity as well as improve the ability to implement monetary policy.

The link between the payments system and the liquidity management is reflected in the interface between liquidity and payment channels. Principally, a liquidity management system provides a source of detailed and relevant information (data) that enhances the understanding of the adequacy or otherwise of money supply in the system. This new policy on cash-based transactions (withdrawals and deposits) in banks, aims at reducing (not eliminating) the amount of physical cash (coins and notes) circulating in the economy and encouraging more electronic-based transactions (payments for goods and services and transfers etc). The reason behind this policy is because of a lot of issues affecting the financial system raging from trying to check money laundering, illicit activities and inflation to cost of maintaining an economy predominantly cash-based (The Nationa, 2012).

The Expected Benefits of the Cashless Monetary Policy In Nigeria

The literature is full of the supposed benefits of a cashless economic policy. Several benefits as well as costs have been documented so far (see for example, Boeschoten and Hebbink, 1996; Costa and Grauwe, 2004; Swartz, Hahn and Layne-Farrar, 2004, and Eagle, 2005). Some of these benefits to Nigeria include:

- *Reduction in the endemic money laundering*:

Money laundering has become an endemic economic crime that has eaten deep into the fabric of the Nigerian society particularly with greater magnitude since the 1999 democratic dispensation (Goshit, 2008). Money laundering could be viewed as a process whereby property, proceed, revenue or wealth obtained through criminal activities by criminals or criminal organizations, disguising their origins, and

the person involved is creating the illusion that the wealth has been obtained by legal and lawful means (Goshit, 2008). Usually this stolen money is kept in foreign currencies in foreign bank accounts. It is always looted through physical transportation of cash to the foreign countries by those involved. They always have the fear that by doing so through the banks, with the anti- laundering laws in place, they will be caught. Therefore, the cashless monetary policy is hoped to reduce the incidence of money laundry in Nigeria because less of cash will be carried outside the banking system for transaction. Besides, the cashless policy will not only reduce the incidence of money laundry in the system, but will also provide evidence against bribe givers and takers in the system because the transaction will be dictated by the banks.

- *Check on terrorists financing*:

Closely related to money laundry is the issue of financing terrorist activities. This act is said to be financed by carrying huge amounts of money by people who do not want their identity to be disclosed. Because of this, they hardly transaction these kind of business using the banking sector for fear of arrest by the authorities. Therefore, it is also believed that the introduction of the cashless monetary policy in Nigeria would be able to stem these activities to the barest minimum in the economy because less of cash will be expected outside the formal banking system.

- *Effectiveness of the monetary policy*:

Monetary policy actions are said to be transmitted more effectively and efficiently to the real sectors of the economy through a vibrant and efficient banking sector. The cashless monetary policy aims at placing more emphasize on transacting business through the financial and the banking sectors of the economy. Therefore, if the huge quantum of money outside the banking sector is channeled to the banking sector, the monetary authorities would have more control over the total money in circulation in the economy thereby enhancing the effective control of money supply in the system. This by implication means that monetary policy would be more effective in influencing the real sector of the economy (Goshit, 2008). This will improve the effectiveness of monetary policy in managing inflation and driving economic growth. In addition, the cashless policy aims also at curbing some of the negative consequences associated with the high usage of physical cash in the economy for example, arm robbery, fire incidence. etc.

- *Reduction in the cost of Funds:*

The cost of fund (interest rate) is also said to be very high in Nigeria because the amount in circulation is not captured in a synthesized manner. Part of the reason the CBN is introducing the policy is to reduce the cost of funds by making sure that a significant amount of capital in the economy is captured in the formal system. By implication, with sufficient funds in the formal system, the banks will be able to lend cash to individuals, corporate bodies as well as small and medium enterprises at a competitive rate. This will also enhance faster access to capital, reduce revenue leakages, and reduce cost of cash handling by corporations.

- *Creation of more employment opportunities in the economy:*

The policy is aimed at driving development and modernization of our payment system in line with Nigeria's vision 20:20:20 goal of being the top 20 economies by the year 2020. An efficient and modern payment system is positively correlated with economic development and is a key enabler for economic growth (CBN, 2008). This policy is expected to increase tax collections by government, greater financial inclusion and increased economic development. By implication, when the policy enhances economic growth in the country, it invariably means improvement in productivity which in turn signifies more employment opportunities in the system in the long-run.

- *Reduction in the cost of replacing damaged currencies:*

According to National Bureau of Statistics-NBS (2006), over 70 per cent of the money in circulation is outside the banking system. This has a lot of implications for the Nigerian economy, one of which is the cost of replacing damaged or bad notes and coins, because physical currency is being utilized and has its own lifespan so it gets destroyed early, and this means the CBN will have to spend a lot of money replacing the bad notes and coins with new ones. This policy is expected to reduce the cost of printing new notes and coins to replace the damaged and bad ones which is normally heavily borne by the CBN. Since less cash is expected to be handled by people for transaction, the case of damaged notes and coins will drastically reduce in the system thereby reducing the cost of replacing bad notes in the economy.

- *Reduction in the rate of corruption*:

The fraudulent act by bank officials in tempering with the customers' accounts will be reduced because the electronic notification of all transactions on customers' accounts would also be made possible. The policy will also reduce the cases of armed robbery and other cash related crimes because carrying of physical cash for business transactions or keeping cash in the house will be minimized when the policy becomes effective. It will also minimize associated risk of carrying huge cash for business and enhances economic growth. Ultimately this policy will lead to increased convenience, more service options, and reduced risk of cash-related crimes, cheaper access to banking services and access to credit by customers.

- *The policy will enable the CBN to admit more capital into the formal financial system.*

There is over 70 per cent of cash in circulation outside the formal banking system (CBN, 2006). It is envisaged that apart from the fact that the policy will enhance the effectiveness of the monetary policy in the economy, it would also enhance the Central Bank's ability to gain effective control over the huge quantity of money that was hitherto outside the banking sector. The liquidity by money stock has grown exponentially since 1958, when the Central Bank of Nigeria was established. The growth rates are 20.1 per cent and 21.1 per cent for money supply narrowly defined (M_1) and money supply broadly defined (M_2), respectively (Taiwo, 1990). Table1 below shows the amount of money in circulation and the quantity outside the banking system control from 2001-2005.

Table1: Monetary Indicators (N'Million)

DESCRIPTION	2001	2002	2003	2004	2005
Money Supply	816,707.6	946,253.4	1,225,559.3	1,330,657.80	1,537,004.8
Currency in Circulation outside Banks	338,671.2	386.942.3	412,155.2	458,586.50	563,232.0
Demand Deposits	478,036.5	559.311.1	813,404.1	872,071.30	973,772.8
Quasi- Money	499.161.5	653,241.2	759,632.5	932,930.10	1,089,450.3
Credit to Domestic Economy (Net)	848.992.9	1,397,422.7	1,854,141.7	2,020,173.30	2,313,387.8
Number of Monetary Credit Institutions	747	747	774	753	757
Number of Banks	90	90	89	89	25
Number of Insurance Institutions	118	118	118	118	103

Source: National Bureau of Statistics (2006).Pp.28

The table above shows that a very large quantity of currency in circulation is outside the formal banking sector. The implication of the huge cash outside the formal banking sector is that it will hardly be accessible for lending. Therefore, the cost of funds becomes higher because the amount in circulation is not captured in a synthesized manner, which makes access to funds to be low. Therefore the cashless monetary policy is expected to reduce the cost of funds by making sure that a significant amount of the capital in the economy is captured in the formal system and when the law of supply and demand comes into play, there will be enough cash to lend to individuals, corporate bodies and small and medium enterprises (SMEs). This means that there will be more money in the financial system and this money will

be visible to lenders and it will affect access to finance and price, lending rate would drop, access to funds would improve and this will increase the capacity to do business in the country.

Costs

As great as the benefits of a cashless policy are, its costs could be devastating. That is, although the cashless monetary policy is expected to yield enormous benefits to the economy, it is not without costs. Unless these risks are properly understood and managed, they may lead to financial and banking sector instability and subsequently serious crises in the economy as a whole. They include:

- *Loss of Seiniorage revenue by the Central Bank of Nigeria*:

From the outset it should be stressed that in a cashless society, the Central Bank will lose the largest part of its seiniorage revenue because it has lost its monopoly position in the creation of cash, including settlement balances -that is, bank deposits held with the central bank to be used for the settlement of payments (Costa and Grauwe, 2001). The effect of this loss on the Central bank of Nigeria's balance sheet is likely to be large, depending on the capacity of e-money to substitute for traditional money. According to Boeschoten and Hebbink (1996), seigniorage revenues largely exceed central bank operating expenses, being an important source of profit for central banks. By implication, if this policy becomes effective, the CBN might have to forgo a major source of her revenue.

- *Limited choice of available instruments for transaction*:

First, a payer tends to choose a payment system that maximizes his or her net benefits from a particular transaction. His or her choice is constrained by the available instruments, such as a previous decision to apply for a credit card, and by payees' decisions about what instruments to accept. Payees make choices by comparing the net benefits of accepting a particular instrument with those of not accepting it. Interestingly, much of the economic literature on payment systems focuses solely on payees' costs, even though this focus can be misleading for ranking the relative merits of payment systems from both an individual and a social perspective (Swartz, Hahn and Layne-Farrar, 2004).

- *Acceptability of a particular instrument by a particular payee*:

A payer's decision to carry a payment instrument will be affected by how many payees accept it, and a payee's decision to accept it will be affected by how many payers carry and use it. It then means that there should be a payee that is willing and ready to accept a particular instrument at a particular time and also there should be available payers that carries and use the instrument at that particular time.

- *Retrenchment:*

This will lead to mass retrenchment in the banking industry because not more people will be needed for bank work as before. This policy will give more room for the employment of machines rather than people. Hence unemployment will abound in the system. However, this kind of unemployment is envisaged in the short run because it is expected that when this system develops, it will lead to increase in employment level in the long run in the system.

- *Increased costs of maintaining the facilities or machines for transactions*:

One of the implications of this policy on the banking industry is the fact that the banks have to extend their services to villages in Nigeria for easy access by all Nigerians. This may mean increasing the number of machines for use in these villages. These machines need to be regularly maintained to be effective and efficient. All these therefore add to the cost of maintaining the existing facilities for transactions.

- *Risk:*

Information technology (IT) risk, as the technological infrastructure and software required to go cashless are open attacks by cyber criminals. In other words, going cashless comes with an array of IT related risks

even with the more sophisticated security in place. These criminal acts associated with the IT is not only limited to Cyber criminals but some bank officials are also involved.

The Constraints of the Cashless Monetary Policy in Nigeria

The implementation of this policy in Nigeria is not without constraints. A few of these constraints are identified and discussed below.

- *Low level of computer literacy*:

Computer literacy is still very low in Nigeria. Over 80 per cent of Nigerians do not have computer nor have access to its usage. Since this policy involves computer literacy, it would face a lot of challenges in terms of implementation since most Nigerians have little or no computer education. Some businessmen prefer to keep their money in their on vault while there are banks located close to them. Also computer usage, skills and knowledge of Nigeria even among the educated poor is still very low.

- *High level of illiteracy*:

Infrastructure is very important which might hamper the efficiency of the policy if the needed understanding and knowledge to operate it are grossly lacking. This includes the use of the ATM cards. Experience has shown that most illiterate Nigerians find it so difficult to use the ATM cards for transactions. This policy will natural take some times to gain general acceptance because of the level of literacy in Nigeria. Besides, Nigerians love cash and they would always want to show they have it. To the average Nigerian, good living is a matter of cash. The Nigerian politicians love to deal with cash and transact businesses in "Ghana-Must-Go bags" loaded with cash. An average Nigerian wants to prove that he has "arrived" at social functions through spraying of naira notes and even other currencies at parties. To the trader, everything in life has to do with cash and the Churches and other religious groups delight in cash donations, love offerings and "seed – sowings" done in crisp naira notes and other currencies.
All these factors will collectively constraint the smooth and successful implementation of the cashless monetary policy in Nigeria.

- *Infrastructural deficit*:

The issue of power supply is a very serious challenge in the economic growth and development of Nigeria generally. The insufficient and inadequate supply of power has increased the cost of production and business in the country. This implies that the implementation of the cashless policy which is anchored principally on the efficiency of the banking sector will face serious challenge in this direction. More so, that this policy entails that most financial activities and transactions will be e-payment based. Power failures to a very large extent have been responsible for Nigeria's dwindling productivity. Every business has had to generate its own energy for production. This has always resulted to high increase in production costs. The Automated Teller Machines (ATMs), the Point of sale (PoS) machines, computers and mobile phones all require electricity as a source of energy. How would the Nigerian bank customers transfer fund; make payments or conduct other electronic transactions when these technological devices cannot work all the time because of lack of constant electricity supply? Furthermore, the ATMs and POS are yet to attain the desired efficiency necessary to drive a cashless economy. The needed technology to maintain a working network and constant connectivity have not been adequately addressed. Shortages of electricity to power POS terminals (points-of- sale), and internet, resulting in inability to access banking services or transaction business of which will not be the case if you carry cash.

- *Under developed –poverty- stricken rural society*:

The mobile money platform is a technology driven payment system which implies that for every Nigerian to comfortably transact any business, he or she must own a GSM phone. Mobile money payment system allows users to make payments with their GSM phones. It is a savings and transfer system that turns GSM phones into a savings account platform, allowing the owner save money in it and from which withdrawals and transfers could be made. Under this payment system, customers could do normal basic financial transactions on daily basis by making payments for goods and services or engaging in person-to-person

transfer directly on their GSM phones. Through the system, users can also pay utility bills, school fees, hotel bookings, and house rents, among other transactions, using mobile phone device. However, the most pertinent question is; how many Nigerians have Access to GSM phones and are literate enough to make payments through it? Again how many villages in Nigeria have access to any network at all? These are questions that reveal the reality on ground in the Nigerian society. This will be a very serious constraint to the cashless policy implementation in Nigeria.

- *Very Low presence of banks in the rural sector in Nigeria.*

The cashless monetary policy is expected to thrive well with a vibrant and efficient banking system in any economy. This important requirement for the efficient implementation of the cashless policy in Nigeria is grossly inadequate. Arising from the banking sector crises in the system during the past two decades, many rural banks have collapsed. And the result of the recent bank consolidation in the country is the presence of few banks in the urban centers without branches in the rural areas. The absence of the presence of banks in the rural areas will be a very serious constraint in the implementation of the policy. By implication, the majority of the Nigerian populace that live in the rural areas and are actively involved in agricultural production will be at disadvantage in trying to sell their products. Worse still is the fact that the rural dwellers hardly have an account with the banks. They prefer to keep their wealth in the form of cash, goats, sheep, cows, etc. By this attitude, their belief is that "their wealth is in their hands". Even those that prefer to hold their wealth in the form of cash most times prefer to keep the cash in their houses.

- *Low level of Law enforcement*:

The very low level at which laws are enforced in the country is also a course to worry for the successful implementation of the policy. Most at times, laws are set for public office holder and the private workers to obey and enforce but most at times the laws are disobeyed even more at the side of the officers and government officials. For instance, even with the stringent laws in respect of money laundering and other financial offences, there is still very high rate of crime in this direction. It has become difficult for the EFCC to arrest and prosecute high government officials and law enforcement officers. In fact with the laws in place, we even have more cases of financial misappropriation among the governors, federal and state law makers, ministers and the law enforcement agents in Nigeria. In most cases, people get away despite how grave their offences against the state. Worse still, the law enforcements agents in most cases get involved in these crimes. Unless this attitude is changed, top government officials will not stop money laundering and the implementation of the policy will be hampered.

- *Lack of trust and the Bounced –cheque Syndrome*:

Trust is lacking in Nigeria's business environment. As a result, business operators believe in "cash and carry". Bounced cheque issue is a very common thing in Nigeria. People place less trust on the use of cheque too. Experiences in Nigeria have shown that people capitalize on the use of fake or bounced cheques to cheat in the system thereby making the acceptability of cheques questionable in the system. This makes cash to be preferred for payments to other means in the Nigerian society.

Conclusion and Policy Recommendations

Every country started as a cash economy, but through deliberate initiatives and several ways of doing commerce, some countries have moved to a predominantly cashless society. Implementing the cashless policy in Nigeria will no doubt pose initial challenges as mentioned earlier; these challenges are insurmountable besides being insignificant when compared to the benefits such as reduction in operating cost of banking services, minimization of corruption, money laundering and armed robbery. Therefore, the government should provide robust infrastructure to handle the complex processes associated with the policy proposal, and provide adequate education and awareness to the people. This will go a long way in addressing the expected challenges to be witnessed during the transition to cashless economy.

Finally, for this policy to gain acceptability in Nigeria as it has in other developing and developed countries there is the need to necessarily and properly establish the basic foundations by the CBN for the policy to thrive on. This transition from the cash to the cashless society in Nigeria should not be a one-day issue but it should be a gradual process as the financial infrastructures develops and the peoples' perception about the policy changed for better.

If the country is to make appreciable progress in its efforts to transition from cash to cashless economy, there is the need to improve and raise the level of confidence of Nigerians in the banking sector. The lost confidence in the Nigerian banking industry is a monster that has hampered the development of the Nigerian payment system among other factors. The paper therefore recommend thus:

- *Improvement on Power supply and massive infrastructural transformation*:

Power must be improved dramatically to accommodate smooth operations of financial activities as most of the transaction will be e-payment based. The financial infrastructure in Nigeria is not adequate to carry the load of a cashless society, ATM's, Point of Sale system, mobile banking and other mediums have to be dramatically expanded to touch at least 40% of the whole economy before any meaningful effect can be achieved.

The Central Bank of Nigeria must be ready to invest heavily on financial infrastructure to make this transition possible. Technology worldwide is not cheap and ever changing at a very fast pace. Therefore, investment in billions of Dollars made in infrastructure, training, marketing, security, maintaining its networks etc should be on a yearly basis for the years to come and should be a collaboration of efforts by all stakeholders.

- *Security:*

As it relates to laws that are needed to enforce new method 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 out by the CBN and all other executive arms that are empowered with such responsibility. The Economic and Financial Crime Commission (EFCC) must be given the free hands to arrest and prosecute any Nigerian or person that commit any economic and financial crime in the country without exception. They must be committed to training of personnel and the judiciary must be prudent and up to the task. This should be handled with all sense of seriousness and responsibility, because if the process is rush and the people loses confidence in the system due to high level of fraudulent activities, it will be devastating to the Nigerian economy

- *Education of the public*:

This remains an important issue for the policy to succeed. Embarking vigorous on public enlightenment campaign has to be carried out to sensitize the populace on the workability and benefits of the cashless policy, and to build confidence in the people that their financial transactions are safe. Since the cashless monetary policy project will effect major changes in the way money is spent in Nigeria (the change is accentuated by the level of illiteracy), it will naturally take some time to gain general acceptance. Indeed, a change of this magnitude should be preceded by a more aggressive public enlightenment campaign. For now, there is a strong indication that information has not really tickled down to the grass root. The CBN and other stakeholders should invest in creatively bridging this information gap.

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