

# CASHLESS POLICY AND SME PERFORMANCE IN NIGERIA: THE GAINS, CHALLENGES AND CONSEQUENCES FOR SMES IN LAGOS STATE

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## ABSTRACT

This study examined the impact of the cashless policy on the performance of Small and Medium Enterprises (SMEs) in Ojo District, Lagos State, Nigeria. Specifically, it investigated the effects of cashless payment systems on SMEs' financial performance, operational efficiency, perceived benefits, challenges, and unintended consequences. The study adopted a descriptive survey research design, and primary data were collected from 50 SME owners and managers through structured questionnaires. Data were analyzed using descriptive statistics, including frequency counts, percentages, and mean scores. The findings revealed that the cashless policy has positively influenced SMEs by improving transaction speed, enhancing financial transparency, reducing excessive dependence on physical cash, and expanding customer reach through digital payment options. However, the study also found that poor network connectivity, high transaction charges, limited digital literacy, cybersecurity risks, and failed transactions continue to limit the effectiveness of cashless payment systems among SMEs. In addition, unintended consequences such as delayed payment confirmation, customer dissatisfaction, and occasional loss of sales were identified. The study concluded that the cashless policy has the potential to support SME growth and improve business operations in Ojo District. However, its full benefits can only be realized when infrastructural, technological, and systemic challenges are addressed. The study recommended improved digital payment infrastructure, reduced transaction charges, stronger cybersecurity measures, increased financial literacy, and better support from banks and payment service providers.

**Keywords:** cashless policy, SMEs, financial performance, operational efficiency, Lagos State, Nigeria.

## Introduction

Micro, Small and Medium Enterprises (MSMEs) form the backbone of the Nigerian economy. According to the Minister of Industry, Trade and Investment, MSMEs account for over 96% of all businesses in Nigeria, contribute nearly 50% of the nation's Gross Domestic Product (GDP), and employ more than 84% of the national workforce (Oduwole, 2025). With over 39 million MSMEs operating across the country, these enterprises are critical drivers of poverty reduction, income generation, and economic diversification. However, as noted by Aikor, Ejem, and Nwoko (2025), the sector remains heavily reliant on cash transactions, has limited access to formal credit, and exhibits low digital adoption, all of which constrain productivity and scalability.

In an effort to address the inefficiencies of a cash-dominated economy, the Central Bank of Nigeria (CBN) introduced the cashless policy in 2012, initially as a pilot programme in Lagos State before rolling it out nationwide by July 2014 (Central Bank of Nigeria, 2024). The policy aimed to reduce physical cash in circulation, encourage electronic transactions, modernise the payment system, reduce banking costs, drive financial inclusion, and curb cash-related crimes such as robbery and money laundering. By imposing cash handling charges on withdrawals above specified limits (N500,000 for individuals and N3,000,000 for corporate bodies) and promoting digital alternatives such as mobile banking, POS terminals, and online transfers, the CBN sought to transform Nigeria into a cash-lite economy. The policy was further intensified in 2023 through naira redesign and strict cash withdrawal limits, creating severe cash shortages for several months. According to a report by Moniepoint, this crisis inadvertently doubled digital transactions in the informal economy (Nzekwe, 2024). However, it also exposed the severe vulnerabilities of SMEs that depend heavily on physical cash for daily operations.

The cashless policy has produced measurable gains for Nigerian SMEs. Digital payment solutions such as POS systems, mobile money wallets (e.g., OPay and PalmPay) have improved transaction efficiency, strengthened financial resilience, enhanced record-keeping, and facilitated access to formal credit (Aikor et al., 2025). In Lagos State, cashless transactions have become deeply embedded in daily commerce. Moreover, the policy catalysed the growth of Nigeria's fintech ecosystem, producing five of Africa's nine tech unicorns and enabling startups to fill gaps created by the policy (Inuwa Abdullahi, 2025). Despite these gains, significant challenges persist. Adeyi Ngbede, Itodo, and James (2025) found that the cash withdrawal policy significantly impacted SME operations in the FCT, with increased operational costs as the most significant effect (mean = 3.68), customer transactions showing substantial reduction (mean = 3.55), and transaction efficiency notably affected (mean = 3.42). Similarly, research on SMEs in Yenagoa revealed statistically significant negative effects on sales revenue (mean = 3.28), profitability (mean = 3.53), and cash flow (mean = 3.42) (as cited in Shettima, 2025). Across the informal sector, rising costs meant that although 65% of businesses recorded revenue growth, only 47% experienced higher profits, and 38% earned less than N10,000 daily (Shettima, 2025). Infrastructural deficits remain formidable barriers. Reliable power supply and affordable, widespread internet connectivity are non-negotiable foundations for digital payments, yet broadband penetration remains below target. While Nigeria's internet penetration rose from 28.75% in 2018 to about 48.81% as of May 2025, over 71% of the population still faces major infrastructure and regulatory barriers to digital financial access (Oladosu, 2025). Additional constraints include low digital literacy, high transaction fees, cyber security concerns, weak trust in digital systems, and the exclusion of non-digitally-savvy populations.

Lagos State holds special significance in the implementation and assessment of Nigeria's cashless policy. As the commercial nerve centre of the country and the original pilot location for the policy, Lagos has one of the highest concentrations of SMEs, banks, digital

payment users, and fintech activities in Nigeria. The Central Bank of Nigeria introduced key aspects of the policy in the state from January 1, 2012, under the “Cash-less Lagos” programme (Central Bank of Nigeria, 2024). Since then, Lagos has remained central to Nigeria’s digital finance transformation, with its growing technology and fintech ecosystem contributing significantly to innovations in payments, mobile banking, agency banking, and financial inclusion.

However, despite Lagos’s position as a leading centre of digital finance, the benefits of the cashless revolution have not been evenly distributed across all communities and business categories. Some SME operators still experience poor internet connectivity, unreliable electricity supply, low digital literacy, failed transactions, delayed payment confirmations, and high transaction costs (Oladosu, 2025). These challenges suggest that while the cashless policy has promoted efficiency, convenience, and modernisation, it has also created additional burdens for some resource-constrained SMEs.

The relationship between the cashless policy and SME performance in Nigeria therefore remains complex, ambiguous, and context-dependent. Some studies report that cashless payment systems enhance supply chain efficiency, improve digital adoption, and support business modernization (Aikor et al., 2025). In contrast, other studies indicate that SMEs have experienced operational disruptions, increased transaction costs, reduced customer transactions, cash flow difficulties, and profitability challenges as a result of the policy (Adeyi Ngbede et al., 2025; Shettima, 2025). These contradictory findings show the need for a more balanced and context-specific examination of how the cashless policy affects SME performance in Lagos State.

Furthermore, existing studies often examine isolated aspects of the policy, such as digital adoption rates, transaction convenience, or operational challenges, without providing a unified analysis of the gains, challenges, and consequences for SMEs. This creates a knowledge gap for policymakers, financial institutions, fintech providers, and SME owners who require reliable evidence to guide digital transition, policy reform, and business support strategies. This gap is particularly important given that many informal businesses remain financially vulnerable, with limited savings and weak capacity to withstand income shocks (Shettima, 2025). Therefore, this study sought to critically assess the gains, challenges, and consequences of the cashless policy on SME performance in Lagos State. The aim was to provide practical recommendations for improving digital financial inclusion, strengthening SME sustainability, and promoting a more inclusive cashless economy in Nigeria. The following research questions guided the study:

- i. What is the effect of the cashless policy on the financial performance of SMEs in Lagos State?
- ii. How has the adoption of cashless payment systems influenced the operational efficiency of SMEs in Lagos State?
- iii. What benefits have SMEs in Lagos State derived from the implementation of the cashless policy?
- iv. What challenges do SMEs face in adopting and using cashless payment systems in Lagos State?
- v. What are the unintended consequences (fallout) of the cashless policy on SMEs in Lagos State?

## **Literature Review**

### **Cashless Policy**

A cashless policy generally refers to an economic framework where transactions for goods and services predominantly occur through electronic media, minimizing reliance on physical currency (Arinze-Emefo & Ibrahim, 2023). This encompasses a broad spectrum of digital payment instruments, including credit cards, debit cards, mobile payment applications,

and online banking systems (Zulfaturrohmah et al., 2023). Such policies aim to modernize financial architectures, reduce fraud and currency-related criminality, and enhance economic transparency through traceable transactions (L. et al., 2023; Ng et al., 2021). While the concept of a "cashless society" does not necessarily imply a complete absence of physical cash, it emphasizes a significant reduction in its usage, with financial transactions primarily occurring as digital information or electrical representations of cash (Deep, 2022; Moon et al., 2022). This shift towards digital transactions is facilitated by advanced payment systems that enable remote financial interactions without direct physical engagement with traditional banking infrastructure (Rudych et al., 2025; YILMAZ & Öngel, 2021). This transition is underpinned by various technological, economic, social, and regulatory factors, all contributing to the increasing prevalence of electronic payment systems and the subsequent discussions surrounding the complete elimination of cash from the economic landscape (Bubanja, 2024). This development is driven by the potential for reduced cash handling costs, increased transaction transparency, and improved operational efficiencies for governments and businesses alike (Akgiray et al., 2024). Moreover, this phenomenon is increasingly recognized as an inevitable trend in global economic and commercial development, with economies actively transitioning to electronic payments often experiencing greater success and streamlined payment processes (Tran & Wang, 2023). This transformation is largely attributed to the computerization of retail banking, which facilitates the transfer of digital information between transacting parties via electronic money, thereby minimizing the circulation of physical banknotes and coins (Bublyk et al., 2023). This global trend towards cashless economies is driven by advancements in technology and evolving consumer preferences, with digital payment technologies offering enhanced convenience, security, and efficiency in financial transactions (Zhang, 2023). This momentum is further propelled by factors such as the proliferation of smartphones, the rise of e-commerce, and the widespread availability of diverse digital payment platforms (Ibrahim et al., 2024). This paradigm shift is also influenced by governmental initiatives and regulatory frameworks that encourage the adoption of digital payment solutions to foster financial inclusion and mitigate illicit financial activities (L. et al., 2023). These advancements, coupled with an increasing trust in digital payment systems, underscore a fundamental shift in how financial transactions are conducted, moving away from traditional physical currency (Nurdin et al., 2025).

### **SMEs Performance**

The performance of Small and Medium-sized Enterprises is a multifaceted construct, significantly influenced by a confluence of internal and external factors that necessitate rigorous examination (Saleh & Manjunath, 2023). This comprehensive analysis is critical given the vital role SMEs play in economic development and societal well-being (Ramirez & Lim, 2021). Their significant contributions to job creation, innovation, and regional development underscore the importance of understanding the determinants of their success and longevity (ZAITSEV, 2023). Specifically, understanding the intricate relationships between internal organizational factors and external market dynamics is crucial for enhancing SME efficacy and mitigating adversarial impacts (Rampyapedi & Adetunji, 2024). This involves dissecting how strategic orientation, resource allocation, and adaptive capacities enable SMEs to navigate competitive landscapes and resource limitations (Yahaya & Nadarajah, 2023). This paper aims to provide a comprehensive overview of the performance dynamics of SMEs, with an emphasis on enhancing their resilience in competitive environments (Jufri et al., 2024). While some SMEs achieve remarkable success, others struggle amidst market volatility, intense competition, and resource constraints, highlighting the need to identify key drivers and bottlenecks influencing their growth (Prihandono et al., 2024). This review synthesizes recent scholarship to delineate the pivotal factors affecting SME performance, including but not limited to, digital transformation, innovation, internationalization, and strategic networking

(Egu & Chiloane-Tsoka, 2023; Garcia-Martinez et al., 2023; Hu et al., 2024). Moreover, an in-depth understanding of both financial indicators (e.g., profit, revenue) and non-financial metrics (e.g., innovation, customer satisfaction) is essential for a holistic assessment of SME performance (Asmar et al., 2025). For instance, the rapid digital transformation accelerated by the pandemic has fundamentally altered business models, necessitating a re-evaluation of how digital capabilities and innovation influence firm performance (Surahman et al., 2023). Furthermore, strategic foresight in adopting emerging technologies and fostering an entrepreneurial orientation are increasingly recognized as critical enablers for SMEs to sustain competitive advantages and achieve superior financial and non-financial outcomes (Gumel & Bardai, 2023).

### **Cashless Policy and SMEs Performance in Nigeria**

The cashless policy has had a multifaceted impact on the operational efficiency, revenue growth, and overall financial performance of Small and Medium-sized Enterprises (SMEs) in Nigeria (Abubakar & Yusuf, 2026a, 2026b). The policy, which was initially operationalized in 2012 and later reinforced through subsequent financial-sector reforms, was introduced to reduce excessive dependence on cash transactions, promote financial inclusion, improve payment-system efficiency, and limit illicit financial flows (Virginia, 2023). For SMEs, the transition to cashless transactions has created both opportunities and challenges. On one hand, digital payment systems have improved transaction speed, reduced the risks associated with carrying physical cash, enhanced record keeping, and expanded customer payment options. On the other hand, poor network connectivity, transaction failures, high bank charges, cybersecurity risks, and limited digital literacy have constrained the effective use of cashless platforms by many SMEs.

The impact of the policy became more visible during the 2022 naira redesign period, when cash scarcity forced many businesses and consumers to rely more heavily on electronic payment channels. Although this accelerated digital payment adoption, it also exposed weaknesses in Nigeria's payment infrastructure, particularly among cash-dependent SMEs operating in markets, informal trade clusters, and semi-urban communities. For many small businesses, the abrupt transition resulted in delayed payments, failed transfers, reduced customer patronage, declining sales, and temporary disruptions in business operations (Akarara & Azebi, 2026; Aladejebi et al., 2023). These experiences suggest that the effectiveness of the cashless policy depends not only on policy design but also on the availability of reliable digital infrastructure, affordable transaction systems, and user confidence.

SME performance in this context can be assessed through indicators such as sales turnover, profitability, customer retention, transaction efficiency, access to finance, record keeping, and supply chain coordination. Cashless payment systems can support these indicators by enabling faster transactions, improving financial documentation, and making it easier for SMEs to participate in formal financial systems. For example, businesses that consistently use digital payment channels may develop clearer transaction histories, which can improve their chances of accessing credit from banks, fintech companies, or microfinance institutions. In addition, electronic payments may enhance supply chain efficiency by making payments to suppliers faster and more traceable (Aikor et al., 2025; Otitoju et al., 2023).

However, these benefits are not automatic. Many SMEs in Nigeria still face structural barriers that limit the gains of cashless transactions. These include unstable electricity supply, poor internet access, low trust in digital platforms, limited technical knowledge, fraud concerns, and inadequate customer readiness. In some cases, customers abandon purchases when electronic transfers fail or when confirmation is delayed. For SMEs that depend on daily cash flow, such disruptions can affect stock replacement, supplier payment, and overall profitability. Therefore, while the cashless policy has the potential to improve SME

performance, its actual impact remains uneven across business size, location, sector, and level of digital preparedness.

Given these issues, the literature on cashless policy and SME performance should not be treated as separate from the broader Nigerian context. The discussion of SME performance should be merged with the Nigeria-specific cashless policy literature so that the review clearly connects general performance indicators with the realities faced by Nigerian SMEs. Such an integrated approach provides a stronger foundation for examining how the policy affects operational efficiency, revenue growth, financial transparency, customer satisfaction, and business sustainability among SMEs in Lagos State.

### **Theoretical Framework**

The suitable theoretical framework for this study is the Technology Acceptance Model (TAM). The Technology Acceptance Model (TAM), developed by Davis (1989), provides a robust foundation for understanding how individuals and organizations adopt new technologies. The model posits that two key factors perceived usefulness and perceived ease of use determine the extent to which a technology is accepted and utilized. Perceived usefulness refers to the degree to which a person believes that using a particular system would enhance their performance, while perceived ease of use relates to how effortless the system is perceived to be. In the context of Nigeria's cashless policy, TAM is highly relevant in explaining how Small and Medium Enterprises (SMEs) in Lagos State respond to digital payment systems such as mobile banking, point-of-sale (POS) terminals, internet banking, and electronic transfers. SMEs are more likely to adopt cashless technologies if they perceive that such systems will improve their business performance for example, by increasing transaction speed, enhancing record-keeping, reducing theft, and expanding customer reach. These represent the perceived usefulness dimension. On the other hand, the perceived ease of use factor becomes critical in a developing economy like Nigeria, where challenges such as poor internet connectivity, unstable electricity supply, and limited digital literacy persist. If SME operators find digital payment systems complex, unreliable, or difficult to operate, their willingness to adopt and consistently use such technologies may decline. This directly affects the success of the cashless policy and, consequently, SME performance. Furthermore, TAM helps to explain the gains, challenges, and unintended consequences highlighted in this study. While some SMEs may benefit from improved efficiency and financial transparency, others may struggle with transaction failures, hidden charges, cybersecurity concerns, and customer resistance factors that negatively influence their perception of the system. By applying TAM, this study can assess how SMEs' attitudes toward cashless systems shape their adoption behavior and performance outcomes. The model also provides a basis for analyzing the relationship between technology acceptance and key variables such as profitability, operational efficiency, and business growth. Ultimately, TAM offers a structured lens through which the effectiveness of Nigeria's cashless policy on SMEs in Lagos State can be critically evaluated.

### **Empirical Review**

Nwoke et al. (2022), investigated the impact of cashless policy on the performance of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Suleja, Nigeria, using Neural Network regression model. A survey research design was employed to collect data from 400 MSMEs, which were segmented into three clusters based on their cashless payment system adoption using Artificial Neural Network Clustering algorithm. The results show that the MSMEs were segmented into three clusters, with Cluster 1 having high adoption (n=150, 37.5%), Cluster 2 having moderate adoption (n=120, 30%), and Cluster 3 having low adoption (n=130, 32.5%). The study found that the adoption of cashless payment systems has a significant positive impact on the financial performance of MSMEs, with Cluster 1 having the highest financial performance (mean profit margin = 25.6%, SD = 5.2). Neural network regression model was used to predict business performance metrics, with a moderate level of

predictive performance (MSE = 2.867, RMSE = 1.693, MAE = 1.693, MAPE = 42.33%). Feature importance analysis reveals that Health/Pharmacies and Repair of Home Gadgets are the most important features, with a mean dropout loss of 1.353. The findings of this study are important for policymakers, business owners, and researchers in the areas of financial inclusion, digital payments, and MSME development.

Arum et al. (2024), evaluate the effect of the application of the cashless policy on the sales performance of SMEs in Enugu metropolis. The specific objectives were to: ascertain the extent to which the use of Point of Sale (POS) systems increases the sales volume of SMEs in Enugu metropolis; examine the extent to which the adoption of mobile banking as a means of payment enhances sales volume of SMES in Enugu metropolis; and ascertain the extent to which the use of e-cash wallet enhances sales volume of SMEs in Enugu metropolis. Three null hypotheses which align with the research objectives were formulated to guide the study. The descriptive survey research design was adopted with a questionnaire as a data collection instrument. The survey involved 100 respondents who are staff of selected SMEs operating within Enugu metropolis. Results of the data analysis show that the use of Point-of-Sale systems has positively increased the sales volume of small and medium businesses in Enugu metropolis; the adoption of mobile banking as a means of payment has positively enhanced the sales volume of SMEs in Enugu metropolis; and the use of e-cash wallet has positively enhanced sales volume of SMEs in Enugu metropolis.

Olatunji et al. (2025), examines the impact of digitalization on SMEs in Lagos Nigeria, especially in digital financial services. The respondents for this study were 150 owners /managers of SMEs in Lagos, Nigeria and data were analyzed descriptively and inferentially using the chi-square test. The research adopts a quantitative research strategy to analyze the difference between SME performance before and after adopting the technology, analyze the degree of technology adoption by the SMEs, and Quantitative evaluation of the advantages of digital financial services. The study found that digitalization has improved SME operations, enhancing efficiency, competitiveness, and access to financial services. However, challenges like internet connectivity and security issues remain unaddressed, necessitating targeted interventions and support strategies.

Onasoga (2025), investigated Small and Medium-scale Enterprises (SMEs) in rural Nigeria, particularly in Odeda Local Government, face significant barriers to adopting digital financial transactions, such as low financial literacy, infrastructural deficits, and cultural preferences for cash. Despite global and national pushes for digital finance, localized studies on rural SMEs' adoption dynamics are scarce, limiting targeted interventions for financial inclusion and economic growth. This study employs a descriptive survey design, sampling 200 SMEs via stratified random sampling (Krejcie & Morgan, 1970). Data were collected through structured questionnaires and interviews, analyzed using descriptive statistics, regression models, Chi-square tests, and thematic analysis. No explicit theoretical framework was applied, but findings align with Diffusion of Innovations theory, adapted to rural contexts. Digital transaction adoption reached 71%, correlating with a 52% revenue increase (from ₦264,724 to ₦331,440). Challenges include low financial literacy (mean=2.92/5), infrastructural gaps (mean=3.04/5), and cybersecurity concerns. Statistical tests confirmed a significant relationship between adoption and SME growth (T-test:  $p=0.001$ ; Chi-square:  $p=0.015$ ). Digital financial transactions significantly enhance SME performance in Odeda, but barriers impede full adoption.

### **Methodology**

This study adopted a quantitative research approach using a descriptive survey design to examine the impact of the cashless policy on SME performance in Ojo District, Lagos State. The descriptive survey design was considered appropriate because it enabled the researcher to

collect standardized data from SME owners and managers and summarize their responses on the adoption, benefits, challenges, and consequences of cashless payment systems.

The population of the study comprised Small and Medium Enterprises operating within Ojo District, Lagos State. A sample of 50 SMEs was selected for the study. The respondents consisted of SME owners and managers who were considered knowledgeable about the financial and operational activities of their businesses. The sample was selected using a simple random sampling technique, giving each SME within the accessible population an equal chance of being included in the study.

The sample size of 50 SMEs was used because the study was limited to accessible SMEs within the selected area of Ojo District. However, the relatively small sample size is acknowledged as a limitation of the study. Although the sample provides useful insights into the experiences of selected SMEs, the findings should not be generalized to all SMEs in Lagos State or Nigeria without caution. Where a complete population frame is available, the Yamane formula may be used to determine a more statistically representative sample size:

At a 5% margin of error, a larger population of SMEs would normally require a larger sample than 50. Therefore, the study is best interpreted as a descriptive and context-specific investigation of selected SMEs in Ojo District.

Primary data were collected through a structured questionnaire administered to SME owners and managers. The questionnaire was divided into sections covering demographic information, level of adoption of cashless payment systems such as POS, mobile transfers, online banking and mobile money, perceived benefits of the cashless policy, challenges encountered, unintended consequences, and indicators of SME performance such as sales growth, operational efficiency, financial transparency, customer satisfaction, and business sustainability. The questionnaire items were measured using a Likert scale to capture the intensity of respondents' opinions. To ensure the validity of the instrument, the questionnaire was reviewed for clarity, relevance, and alignment with the objectives of the study. Data collected were analyzed using descriptive statistics only. Frequencies, percentages, means, and standard deviations were used to summarize respondents' demographic characteristics and their views on the impact of the cashless policy on SME performance.

## Results

**Table 1: Effect of Cashless Policy on the Financial Performance of SMEs in Lagos State (Ojo District)**

| S/N | Cashless Policy Indicator                                | SA          | A           | U          | D          | SD        | Total | Mean |
|-----|--|-------------|-------------|------------|------------|-----------|-------|------|
| 1   | Cashless transactions have increased my business sales   | 18<br>(36%) | 15<br>(30%) | 7<br>(14%) | 6<br>(12%) | 4<br>(8%) | 50    | 3.74 |
| 2   | Use of POS and transfers has improved revenue tracking   | 20<br>(40%) | 16<br>(32%) | 5<br>(10%) | 5<br>(10%) | 4<br>(8%) | 50    | 3.86 |
| 3   | Cashless policy has reduced cash handling risks/losses   | 22<br>(44%) | 14<br>(28%) | 6<br>(12%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.94 |
| 4   | Transaction charges from digital payments reduce profits | 17<br>(34%) | 18<br>(36%) | 5<br>(10%) | 6<br>(12%) | 4<br>(8%) | 50    | 3.76 |
| 5   | Network failures negatively affect daily income          | 21<br>(42%) | 17<br>(34%) | 4<br>(8%)  | 5<br>(10%) | 3<br>(6%) | 50    | 3.96 |

### Sources: (Field Survey, 2026)

The results show a mixed but generally positive effect of the cashless policy on the financial performance of SMEs in Ojo District, Lagos State. The highest mean score (3.96) was recorded for network-related challenges affecting daily income, indicating that while SMEs rely heavily on digital payments, infrastructural issues significantly disrupt revenue flow. Similarly, the

reduction of cash handling risks (mean = 3.94) highlights a key benefit of the cashless system, as businesses experience improved security and reduced losses. Improved revenue tracking (mean = 3.86) and increased sales (mean = 3.74) suggest that cashless systems contribute positively to financial management and business growth. However, the relatively high mean score for transaction charges reducing profits (mean = 3.76) indicates that many SMEs are concerned about the cost implications of digital transactions. The findings imply that while the cashless policy enhances transparency, security, and operational efficiency, its full benefits are constrained by challenges such as high transaction costs and unreliable network systems. This underscores the dual nature of the policy offering financial performance gains while simultaneously introducing operational and cost-related pressures on SMEs.

**Table 2: Influence of Cashless Payment Systems on Operational Efficiency of SMEs in Lagos State (Ojo District)**

| S/N | Operational Efficiency Indicator                                 | SA          | A           | U          | D          | SD        | Total | Mean |
|-----|--|-------------|-------------|------------|------------|-----------|-------|------|
| 1   | Cashless payments have reduced transaction time                  | 19<br>(38%) | 17<br>(34%) | 6<br>(12%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.88 |
| 2   | Digital payments have improved record keeping and documentation  | 21<br>(42%) | 16<br>(32%) | 5<br>(10%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.94 |
| 3   | Cashless systems have increased customer service speed           | 18<br>(36%) | 18<br>(36%) | 6<br>(12%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.86 |
| 4   | Frequent network issues slow down business operations            | 20<br>(40%) | 17<br>(34%) | 5<br>(10%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.94 |
| 5   | Use of cashless systems has improved overall business efficiency | 17<br>(34%) | 19<br>(38%) | 6<br>(12%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.84 |

**Sources: (Field Survey, 2026)**

The results indicate that the adoption of cashless payment systems has a generally positive influence on the operational efficiency of SMEs in Ojo District, Lagos State. The highest mean scores of 3.94 were recorded for improved record keeping and the effect of network issues on business operations. This suggests that while digital payment systems enhance documentation and financial tracking, operational efficiency is still affected by infrastructural challenges. Reduction in transaction time, with a mean score of 3.88, and improved customer service speed, with a mean score of 3.86, reflect those cashless systems contribute to faster and more streamlined business processes. In addition, the overall improvement in business efficiency, with a mean score of 3.84, indicates that most SMEs perceive the adoption of cashless payment systems as beneficial to their daily operations. However, the relatively high agreement on network-related disruptions highlights a critical limitation. Poor network reliability can delay transactions, frustrate customers, reduce productivity, and weaken customer confidence in digital payment systems. Overall, the findings suggest that although cashless payment systems improve operational efficiency among SMEs, their effectiveness is moderated by external challenges such as poor network connectivity, which remains a major barrier to optimal business performance.

**Table 3: Benefits of Cashless Policy for SMEs in Lagos State (Ojo District)**

| S/N | Benefit Indicator                                       | SA          | A           | U          | D         | SD        | Total | Mean |
|-----|---|-------------|-------------|------------|-----------|-----------|-------|------|
| 1   | Cashless policy has improved transaction convenience    | 22<br>(44%) | 16<br>(32%) | 5<br>(10%) | 4<br>(8%) | 3<br>(6%) | 50    | 3.98 |
| 2   | It has enhanced financial transparency in my business   | 20<br>(40%) | 18<br>(36%) | 5<br>(10%) | 4<br>(8%) | 3<br>(6%) | 50    | 3.96 |
| 3   | Cashless payments have reduced cases of theft and fraud | 21<br>(42%) | 17<br>(34%) | 5<br>(10%) | 4<br>(8%) | 3<br>(6%) | 50    | 3.98 |
| 4   | It has increased access to a wider customer base        | 18<br>(36%) | 19<br>(38%) | 6<br>(12%) | 4<br>(8%) | 3<br>(6%) | 50    | 3.90 |
| 5   | Cashless systems have improved overall business growth  | 17<br>(34%) | 20<br>(40%) | 6<br>(12%) | 4<br>(8%) | 3<br>(6%) | 50    | 3.88 |

**Sources: (Field Survey, 2026)**

The results indicate that SMEs in Ojo District, Lagos State have derived significant benefits from the implementation of the cashless policy. The highest mean scores (3.98) were recorded for improved transaction convenience and reduction in theft and fraud, suggesting that SMEs strongly value the security and ease associated with digital payment systems. Enhanced financial transparency (mean = 3.96) also ranks highly, indicating that cashless systems help business owners maintain better financial records and accountability. Increased access to a wider customer base (mean = 3.90) reflects the ability of SMEs to serve customers who prefer digital transactions, thereby expanding market reach. Although overall business growth (mean = 3.88) recorded a slightly lower mean, it still indicates a positive perception among SMEs regarding the long-term benefits of the cashless policy. The findings suggest that the cashless policy has contributed positively to SME operations by improving convenience, security, transparency, and market access. However, the slightly lower mean for business growth implies that while benefits are evident, their full impact on long-term expansion may still be developing.

**Table 4: Challenges Faced by SMEs in Adopting Cashless Payment Systems in Lagos State (Ojo District).**

| S/N | Challenge Indicator                             | SA          | A           | U          | D          | SD        | Total | Mean |
|-----|---|-------------|-------------|------------|------------|-----------|-------|------|
| 1   | Poor network connectivity affects transactions  | 23<br>(46%) | 16<br>(32%) | 4 (8%)     | 4 (8%)     | 3<br>(6%) | 50    | 4.04 |
| 2   | High transaction charges reduce business profit | 21<br>(42%) | 17<br>(34%) | 5<br>(10%) | 4 (8%)     | 3<br>(6%) | 50    | 3.96 |
| 3   | Frequent system failures disrupt operations     | 20<br>(40%) | 18<br>(36%) | 5<br>(10%) | 4 (8%)     | 3<br>(6%) | 50    | 3.96 |
| 4   | Lack of digital literacy limits effective usage | 18<br>(36%) | 17<br>(34%) | 6<br>(12%) | 5<br>(10%) | 4<br>(8%) | 50    | 3.80 |
| 5   | Customer preference for cash affects adoption   | 19<br>(38%) | 16<br>(32%) | 6<br>(12%) | 5<br>(10%) | 4<br>(8%) | 50    | 3.82 |

**Sources: (Field Survey, 2026)**

The results reveal that SMEs in Ojo District face significant challenges in adopting and using cashless payment systems. The highest mean score (4.04) was recorded for poor network connectivity, indicating that unreliable internet service is the most critical barrier affecting smooth transactions. High transaction charges and frequent system failures (mean = 3.96 each) also rank prominently, suggesting that cost implications and technical disruptions significantly hinder effective usage of cashless platforms. These challenges can directly impact profitability and operational stability. Additionally, lack of digital literacy (mean = 3.80) highlights that

some SME operators still struggle with understanding and efficiently using digital payment tools. Customer preference for cash (mean = 3.82) further complicates adoption, as businesses must balance between traditional and digital payment methods. The findings suggest that while SMEs are increasingly adopting cashless systems, their effectiveness is constrained by infrastructural, financial, and behavioral challenges. Addressing these issues is essential for maximizing the benefits of Nigeria's cashless policy.

**Table 5: Unintended Consequences (Fallout) of Cashless Policy on SMEs in Lagos State (Ojo District)**

| S/N | Fallout Indicator                                       | SA          | A           | U          | D          | SD        | Total | Mean |
|-----|---|-------------|-------------|------------|------------|-----------|-------|------|
| 1   | Loss of sales due to failed digital transactions        | 21<br>(42%) | 17<br>(34%) | 5<br>(10%) | 4 (8%)     | 3<br>(6%) | 50    | 3.96 |
| 2   | Increased dependence on technology for daily operations | 20<br>(40%) | 18<br>(36%) | 5<br>(10%) | 4 (8%)     | 3<br>(6%) | 50    | 3.96 |
| 3   | Customer dissatisfaction due to payment delays/failures | 22<br>(44%) | 16<br>(32%) | 5<br>(10%) | 4 (8%)     | 3<br>(6%) | 50    | 3.98 |
| 4   | Exposure to cyber fraud and security risks              | 19<br>(38%) | 17<br>(34%) | 6<br>(12%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.88 |
| 5   | Exclusion of customers who prefer cash transactions     | 18<br>(36%) | 18<br>(36%) | 6<br>(12%) | 5<br>(10%) | 3<br>(6%) | 50    | 3.86 |

**Sources: (Field Survey, 2026)**

The results highlight several unintended consequences (fallout) of the cashless policy on SMEs in Ojo District, Lagos State. The highest mean score (3.98) was recorded for customer dissatisfaction due to payment delays and failures, indicating that unreliable digital systems negatively affect customer experience and business reputation. Loss of sales resulting from failed transactions (mean = 3.96) and increased dependence on technology (mean = 3.96) further demonstrate that while cashless systems offer efficiency, they also create vulnerability when systems malfunction. SMEs may experience revenue losses when customers are unable or unwilling to complete transactions electronically. Exposure to cyber fraud and security risks (mean = 3.88) reflects growing concerns about digital threats, which can undermine trust in cashless platforms. Additionally, the exclusion of customers who prefer cash (mean = 3.86) suggests that some businesses risk losing a segment of their market by relying heavily on digital payment systems. The findings indicate that although the cashless policy brings notable benefits, it also introduces unintended negative effects that can impact SME performance. These consequences emphasize the need for improved infrastructure, better cybersecurity measures, and a balanced approach that accommodates both digital and cash-based customers.

**Discussion of Findings**

The findings of this study reveal that the cashless policy has a mixed but largely positive impact on the performance of SMEs in Ojo District, Lagos State. Specifically, the study shows that the adoption of cashless payment systems improves financial performance through increased sales, better revenue tracking, and reduced risks associated with cash handling. These findings align with Nwoke et al. (2022), who found that MSMEs with high adoption of cashless systems recorded superior financial performance, particularly in terms of profit margins. Similarly, the present study indicates that SMEs that actively utilize digital payment platforms tend to experience better financial outcomes compared to those with lower adoption levels. In terms of operational efficiency, the results demonstrate that cashless systems enhance transaction speed, record keeping, and customer service delivery. This supports the findings of Olatunji et al. (2025), who reported that digitalization significantly improves efficiency and competitiveness among SMEs in Lagos. However, both studies acknowledge persistent infrastructural challenges such as poor internet connectivity and system failures, which were

also identified in this study as major constraints affecting smooth operations. The study further reveals that SMEs benefit from improved convenience, financial transparency, and access to a broader customer base. These outcomes are consistent with Arum et al. (2024), who found that the use of POS, mobile banking, and e-wallet systems significantly increases sales volume among SMEs. This suggests that cashless policy initiatives contribute meaningfully to business expansion and customer engagement. Despite these benefits, the study identifies several challenges and unintended consequences. High transaction costs, network failures, cybersecurity risks, and customer preference for cash were found to hinder effective adoption. These findings are in agreement with Onasoga (2025), who highlighted infrastructural deficits, low digital literacy, and security concerns as key barriers to digital financial adoption among SMEs. Additionally, the present study notes that system failures and transaction delays can lead to customer dissatisfaction and loss of sales, representing critical fallout of the cashless policy. The findings suggest that while the cashless policy has enhanced SME performance in areas such as efficiency, transparency, and growth, its effectiveness is constrained by infrastructural and systemic challenges. Therefore, maximizing the benefits of the policy requires addressing these limitations through improved digital infrastructure, reduced transaction costs, and enhanced user education.

### **Conclusion**

This study examined the impact of the cashless policy on the performance of Small and Medium Enterprises (SMEs) in Ojo District, Lagos State, focusing on its gains, challenges, and unintended consequences. The findings reveal that the cashless policy has brought about notable improvements in SME performance, particularly in terms of financial transparency, operational efficiency, and business growth. The adoption of digital payment systems such as POS, mobile banking, and electronic transfers has enhanced transaction speed, improved record keeping, reduced cash-related risks, and expanded customer reach. However, despite these benefits, the study also highlights significant challenges that limit the full realization of the policy's objectives. Issues such as poor network connectivity, high transaction charges, system failures, and low digital literacy among some SME operators continue to hinder effective adoption. These challenges not only affect daily business operations but also reduce profitability and efficiency. Furthermore, the study identifies several unintended consequences (fallout) associated with the cashless policy. These include loss of sales due to failed transactions, customer dissatisfaction arising from delays, increased dependence on technology, and exposure to cybersecurity risks. Additionally, the continued preference for cash among some customers creates a dual burden for SMEs, forcing them to operate both cash-based and digital systems simultaneously.

### **Recommendations**

Based on the findings of this study, several recommendations are proposed to enhance the effectiveness of the cashless policy and improve SME performance in Lagos State.

1. The government and regulatory authorities (e.g., Central Bank of Nigeria) should invest in improving digital infrastructure, particularly internet connectivity and power supply. Reliable network systems will reduce transaction failures and enhance the smooth operation of cashless platforms.
2. Financial institutions and fintech companies should review and reduce transaction charges associated with digital payments. Lower costs will encourage more SMEs to adopt cashless systems and improve their profitability.
3. There is a need for capacity building and training programs for SME operators to improve their digital literacy. This will enable them to effectively use cashless technologies and minimize operational errors.

4. Strong cybersecurity measures should be implemented to protect SMEs from fraud and build trust in digital payment systems. Awareness campaigns on safe digital practices are also essential.
5. Policymakers should adopt a hybrid approach, allowing flexibility between cash and cashless systems to accommodate customer preferences. This will ensure inclusivity and prevent loss of customers who still rely on cash transactions. Implementing these recommendations will help maximize the benefits of the cashless policy while minimizing its challenges and unintended consequences.

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