



Policy Paper on

The Revised Cash Withdrawal Limit:

Implications for Nigeria's Small and Growing Businesses

January, 2023

Background Context

Key Highlights of the Cash Withdrawal Policy

The Central Bank of Nigeria (CBN) had on Tuesday, December 6th, 2022 issued a letter to all deposit taking banks and other financial institutions directing a new policy on cash withdrawal as a follow up to the recent naira redesign and the CBN existing cashless policy. This cash withdrawal limit policy following public outcry was revised on Wednesday, December 21st, 2022 and is scheduled to take effect from Monday, January 9th, 2023. A quick highlight and summary of the revised policy includes the following:

- **Individual Limits:** Maximum cash withdrawal over the counter by individuals per week shall be #500,000 with withdrawals above this limit attracting a 3% charge on the extra amount subject to a monthly limit of #5,000,000 in compelling circumstances and subject to CBN approval.
- **Corporate Limits:** Maximum cash withdrawal of #5,000,000 for corporate organizations per week with withdrawals above this limit attracting a 5% charge on the extra amount subject to a monthly limit of #10,000,000 in compelling circumstances and subject to CBN approval.
- **ATM Limits:** Maximum cash withdrawals at the ATMs shall be #20,000 per day and #100,000 per week.
- **POS machine Limit:** Maximum cash withdrawals at POS machines shall be #20,000 daily.
- **3rd Party cheque limit:** Third party cheques requiring cash withdrawal over the counter shall be limited to #100,000 and the extant limit on clearing cheques of #10,000,000 still subsist.
- **Waivers:** In the compelling circumstances where individuals and corporate organizations seeks CBN approval to withdraw cash above the #500,000 and #10,000,000 limits respectively.
- **Identification requirements:** The request for the extra amount above the limits from CBN will be accompanied with key information of the payee such as Bank Verification Number (BVN), Valid means of Identification (National ID, International Passport or Driver's License and an approval in writing by the MD/CEO of the financial institution approving the withdrawal.



Key Highlights

In this Policy Paper, we present our view of the Implications, Challenges, Opportunities of this Cash Withdrawal Policy alongside our Policy Recommendations on Nigeria's small and growing businesses. The highlights which are noted below are further expanded in the following pages.

Opportunities



Accelerate Financial Inclusion and business formalisation



Increase Digital Adoption and Literacy



Improve Financial Literacy for Entrepreneurs



Reduce Cash Related Robbery



Enable Revenue Growth and Access to Markets

Challenges

Financially Exclude Certain Small Businesses



Reduce Mobile Money and Bank Agent's Revenue



Increase Small and Retail Business Operating Cost



Increased Business Complexity Due to Power Downtime



Internet Penetration Limitations in Remote Locations



Recommendations for Policy Review and Implementation

Timeline Review



Implication for MSMEs & The Business Environment

The new policy will likely impact the business operating environment in Nigeria in the following ways:

1. Explosion in the amount of Financial Technology solutions: This new policy will facilitate an increase in demand for electronic banking and electronic business options. We expect to see an increase in the number of financial technology solutions especially those that might involve less internet requirements and data usage given the infrastructural decay in the country.

2. Enhanced oversight of the economy: Nigeria has a huge number of cash-based transactions and with this policy, it is expected that many cash-based transactions will now be carried out through the banking system which would allow the government have better overview of the economy. The data of the financial activities from the banking and financial institutions will give a more representative view of the economic activities within the country.

3. Progress with the government financial inclusion program: The revised cash withdrawal policy will create a situation where many businesses will have to adjust their modus operandi by opening bank accounts to enable usage of electronic banking options for receiving and making transfers to facilitate trade and other business operations.

"As with every policy, there would be a mix of various implications. The following pages explore the opportunities and challenges associated with the implementation of the policy."

This should significantly reduce the number of un-banked businesses and individuals in the country thereby increasing financial inclusion.

4. Black (un-regulated) market for cash might emerge: This policy will ultimately limit the amount of cash that would be in circulation. We foresee a situation where with limited cash supply in the economy and cash becoming a scarce commodity, a black (un-regulated) market will emerge. As with most scarce economic commodities which eventually have black markets, the attendant effect of this might be an increase the operating cost of businesses and individuals who resort to the black market for cash.

5. Reduction in crime and money laundering: Recent reports show that criminal activities such as kidnapping, terrorism, banditry etc have been aided by our heavy cash-based economy as the perpetrators usually place cash demands as ransom fees. The revised cash withdrawal policy is projected to be a step in the right direction to reduce some of these criminal activities. The implementation of this policy could help check criminality and banditry as tracking of financial flows and payments will enable law enforcement efficiently handle such cases.

Opportunities & Challenges of the Cash Withdrawal Policy for Nigerian NMSMEs

Opportunities

The new policy presents the following opportunities for Nano, Micro, Small and Medium Enterprises (NMSMEs):

1. Accelerate Financial Inclusion and Business Formalisation: The new limits on cash amounts may potentially encourage many entrepreneurs within the informal sector without bank accounts to open one thereby encouraging them not just to formalize their businesses but also be financially included within the formal banking system.

2. Increase Digital Adoption and Literacy: This policy is expected to drive massive digitization of the economic and financial activities as various digital finance platforms will continue to spring up with NMSMES taking advantage of these electronic platforms and cost-effective technology applications and solutions to ease the flow of funds within their businesses.

3. Improve Financial Literacy for Entrepreneurs: Given the opportunities digital platforms and tools present for better financial management, insights and reporting, this policy could improve financial literacy as many NMSMEs will embrace better cash management since most of their financial transactions will be driven electronically through e-banking, Unstructured Supplementary Service Data (USSD), mobile banking etc.



Thereby enabling improved financial knowledge, better financial accountability and discipline.

4. Reduce Cash Related Robbery: Reduction in cash related transactions may also potentially help small and growing businesses safety and protection given the impact of the reduction on cash related robbery particularly by businesses who carry large amounts of cash.

5. Enable Revenue Growth and Access to Market Opportunities: This policy could potentially lead to more business transactions going through digital platforms and we are likely to see NMSMEs witness increased transactions volume as more business transactions become transacted through electronic channels. This policy can also catalyze expansion for businesses as NMSMEs can attract more customers outside of their immediate environment without limitations of cash payments and with opportunities to explore more customers who can through digital means.

Challenges

Some of the challenges we are likely to see with regards to Nano, Micro, Small and Medium Enterprises (NMSMEs) and the implementation of this policy include:

1. Financial Exclusion of certain Small Businesses:

There are many informal businesses especially at the nano stage that do not have bank accounts and/or operate in the rural areas where access to banking and technology infrastructure such as Automated Teller Machines (ATMs) and Point of Sale (POS) machines is a huge challenge. According to a 2021 World Bank Report, about 64 million people in Nigeria do not have an account with a financial institution or mobile money platform. Also, according to a 2021 EFInA study, more than 42 million Nigerian adults living in rural areas lack basic banking services. In the light of these challenges, this policy might further increase the divide around financial inclusion. Given that many nano businesses still operate a cash economy, this policy might further impede financial inclusion particularly for those operating in rural areas and at the bottom of the pyramid.

2. Impact on Mobile Money and Bank Agents:

Retail POS operators and mobile banking agents are some of the fastest growing nano businesses in recent years who depend on the volume of cash transactions they process for their revenue and commissions. They may experience a decline in their earnings and potentially limited cashflow with this revised cash withdrawal policy. They rely heavily on businesses who conduct cash transactions to fund their cashflow and there might be reduction in their ability to generate the cashflow required to fund their transactions with this policy.

3. Increase Small and Retail Business Operating Cost:

The increased cost associated with withdrawing cash above the limit and the associated documentations might be quite cumbersome for NMSMEs and this could further increase their operating costs. Extra charges of 10% for withdrawals above the limits for corporate organizations and 5% for individuals may hamper the growth of NMSMEs given the already difficult operating environment in Nigeria.

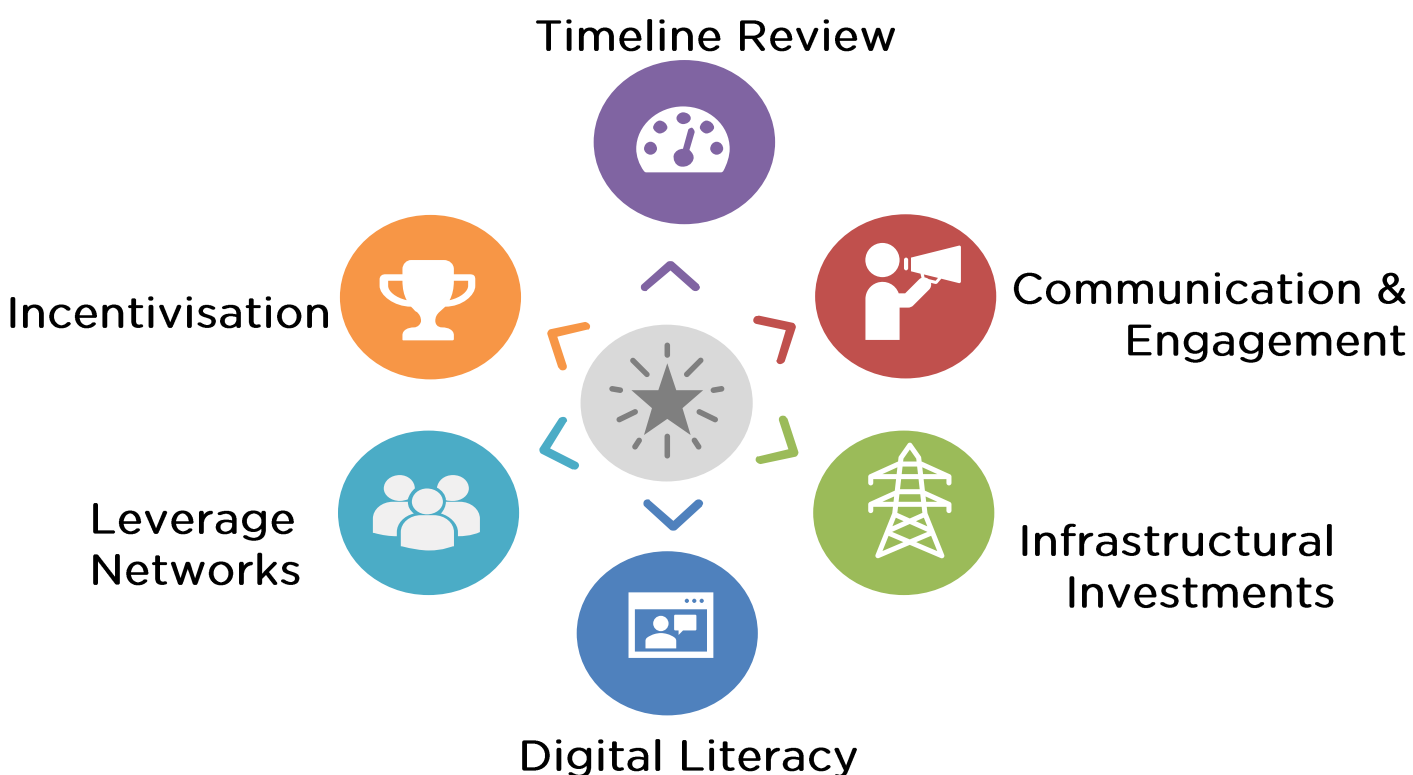
4. Increased Business Complexity due to Power Downtime:

Nigeria currently faces power infrastructure deficit and businesses are challenged with having stable and alternate power supply to power their operations. Also power failures across banking infrastructure typically cause network failure and impact the success of a cashless transaction. With this new policy, unsuccessful/incomplete transactions and any downtime recorded across financial technology platforms or infrastructure will add to additional business complexities, increase operating expenses and potentially loss of customer/revenues as the businesses try to resolve these issues that are often related to infrastructure outside of their control.

5. Internet Penetration in Remote Locations:

A big risk associated with this policy will be huge dependence on internet connectivity and quality to use the cashless systems. Many informal and nano/micro businesses that operate outside of commercial cities and urban centers may face additional challenges with being able to fully adopt this policy given internet penetration challenges within their locations.

Recommendations for Policy Review and Implementation



The following are our recommendations to the Central Bank of Nigeria (CBN) to enable the successful implementation of the Revised Cash Withdrawal Limit and expanded adoption by Nigeria's NMSMEs.

1. **Extending the Timeline for Implementation:** We recommend that the CBN reviews the timeline to commence this revised cash withdrawal limit. We note that the CBN had recently reviewed the limits upwards and believe that an extended timeline of about three (3) months would enable improved sensitization and better preparedness for adoption.
2. **Introduction of Relevant Incentives:** To cushion the effects of this policy especially in the early stages of implementation, regulatory incentives in the area of reduced charges for NMSMEs; access to finance mechanisms and tax rebates for example may encourage compliance amongst NMSMEs.
3. **Enhancing Communication and Advocacy particularly for Nano and Micro Businesses:** Better understanding particularly for nano and micro businesses outside of urban and commercial centers using local languages and inclusive communication techniques across traditional media channels (e.g. radio, community centers, religious bodies and traditional groups) will help to improve and enable understanding of this revised policies and how they can be adopted.

Recommendations for Policy Review and Implementation



4. **Leveraging NMSME Networks to Expand Awareness and Feedback Mechanisms:** Given the accessibility of large NMSME stakeholder groups and bodies (such as Business Management Organisations, Chambers of Commerce, Trade Groups, Sector Associations and Business Development Services Providers) to small and growing businesses across the Country, the CBN should leverage on these various groups at the national and subnational levels to better engage on efficient adoption processes while also getting feedback on areas of challenges and suggestions for improvement.
5. **Urgent Investment in Technology Infrastructure:** Seeing that the implementation of the cash withdrawal policy will depend heavily on technology infrastructure, mobile banking systems and Power etc and considering the current technology infrastructural deficiencies in Nigeria, there is an urgent need for continued investment and implementation of relevant policies and programs such as the National Broadband Plan, Rural Broadband Initiative; and the Rural Electrification Plan to ensure a seamless implementation of the policy.
6. **Upskilling in Digital Literacy and Technology Knowledge:** To better leverage on the opportunities this policy brings for digital literacy for small and growing business entrepreneurs and improve their appreciation of how this can help to grow their businesses, the CBN along with relevant stakeholders in the NMSME ecosystem like the Small and Medium Enterprise Agency of Nigeria (SMEDAN) can collaborate on expanding initiatives that improve digital awareness and literacy not just to expand the adoption of the policy but for overall business growth and formalization.

References

¹ The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, The World Bank Data, Accessed January 3, 2023 - <https://africa.businessinsider.com/local/markets/64-million-people-in-nigeria-still-unbanked-world-bank/nxyp3b>

² Trends in Access to Financial Services in Nigeria, EFinA 2021, Accessed January 3, 2023 - <https://www.premiumtimesng.com/news/headlines/543413-as-pos-merchants-target-nigerias-unbanked-population-banks-troubles-haunt-them.html>

Author

Jonathan Ikeolumba ACCA

Senior Research Fellow, The FATE Institute

PhD Candidate (Finance), Lagos Business School, Pan Atlantic University

Contributors

Adenike Adeyemi, Executive Director, FATE Foundation

Amaka Nwaokolo, Head, The FATE Institute

Oyebola Agunloye, Research Lead, The FATE Institute

Disclaimer

This paper may contain references to third party research, data and industry publications. No warranty is given to the accuracy and completeness of this third party information. Neither the third-party information, its inferences nor its assumptions have been independently verified.

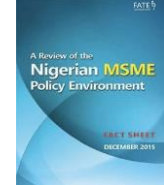
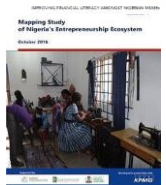
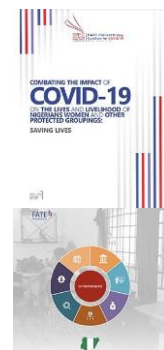
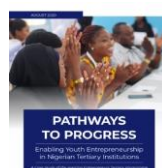
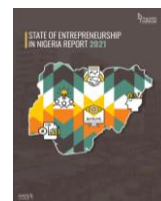
About The FATE Institute

The FATE Institute is the research, policy and advocacy arm of FATE Foundation which leads innovative thinking and creates platforms to enable idea exchange and problem-solving strategies to foster sustainable entrepreneurship in Nigeria.

Since inception in 2015, the FATE Institute has published 17 thought leadership reports on Nigeria's Micro, Small and Medium Enterprises (MSMEs) and entrepreneurs; held a yearly Policy Dialogue on Entrepreneurship; and in 2021 launched a quarterly Policy Workshop series. The Institute also recently developed the Enterprise Data Map platform to track data and insights within the ecosystem.

The FATE Institute is a member of the Global Entrepreneurship Research Network (GERN), Aspen Network of Development Entrepreneurs (ANDE) West Africa and also the Facilitator of the Nigerian Economic Summit Group (NESG) MSME Community of Practice.

Thought Leadership



*Download our White Papers & Research Reports: www.fatefoundation.org/research