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EFFECTS OF CASH CRUNCH ON SMALL AND MEDIUM SCALE ENTERPRISES IN DELTA STATE

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ABSTRACT

Small and Medium Scale Enterprises (SMEs) sales turnover has been drastically affected because customers are now prone to down their expenditures due to the effect of the cashless policy in Nigeria. This study examines the effects of the cash crunch on the sales of SMEs in Delta State. A descriptive survey design was adopted while one hundred and ten copies of research questionnaires were distributed to SMEs owners. However, eighty-seven copies of the retrieved questionnaires were found relevant to the analysis. The result indicates that the cash crunch had positive and statistically significant relationship with the sales of SMEs at a 0.05 level of significance. The study recommends that government and the Central Bank of Nigeria (CBN) should compel commercial banks to invest in enhancing network bandwidth to improve electronic transfers and encourage electronic money usage.

Keywords: Cash Crunch, Small and Medium Scale Enterprises, Cashless Policy, Electronic Transfer, Electronic Money.

INTRODUCTION

Small and Medium Scale Enterprises (SMEs) cannot survive without the availability of cash. This supports why illiquid organizations are prone to insolvency since there are insufficient funds to carry out the daily operations of the organization. Cash to organization can be likened to relationship between water and fish as it is the lifeblood of any organization (Chartered Institute of Management Accountants, 2012). Olowe (2018) asserts that cash is the most liquid asset required for the day-to-day operations of businesses.

The Nigerian economy had been experiencing smooth banking transactions with customers, despite some lapses caused by network providers before the introduction of the redesigned new notes. Historically, in the last sixteen years, the Nigerian government has designed its currency five times; 2007, 2009, 2010, 2014, and 2022 without causing a cash crunch. The redesigning in 2007, 2009, 2010, and 2014 was majorly from paper banknotes to polymer banknotes and or for a particular celebration or anniversary in Nigeria. Furthermore, none of them affected the three highest denominations of N200, N500, and N1,000 except for the 2022 redesign. The 2022 naira redesign was introduced to withdraw cash from circulation as over 80 percent of the currency in circulation was not in the commercial banks' vaults (Ochei, 2022).

The cash crunch started in mid-January of 2023 due to the deadline by the CBN that the old notes would cease to be legal tender as from January 31st, 2023. As a result of this policy, households and investors were no longer able to have access to their own deposits to make purchases and exacerbated by inadequate cash circulation and occasioned by long queues in most Automated Teller Machines (ATM). However, to sterm the tide and ease the sufferings of being in the queues for hours, the CBN on February 2nd, 2023 directed banks to give a maximum of N20,000 cash from the counter as palliatives.

Thus, the redesign of the notes affected the Small and Medium-scale Enterprises in Nigeria as attested to by the Guardian newspaper report published in February 8th, 2023. In that report, Femi Adekoya stated that "with the Central Bank of Nigeria's cashless policy, many businesses have been adversely affected and are finding it difficult to finalize transactions due to poor access to cash”. He however noted that the fallout of the cashless policy had led to an increase in the purchase cost of raw materials and petroleum products. For instance, customers are subjected to buying cash from Point Of Sales (POS) agents at a high-cost margin ranging from 20-30 percent before buying their products, because most business owners refused to accept payment through direct transfers and POS due to poor network. This scarcity of cash has compelled many customers to defer purchases of certain commodities apart from food and drugs.

Holding cash is very vital during financial or economic crisis (Sun & Wang, 2015). These researchers established that cash flow (i.e, sensitivity of cash) was significantly greater during the global financial crisis period of 2008. This study notes that the unexpected outcome of post-election violence would be the major reason for both individuals and organizations to withhold cash for precautionary motives and transactional motives. Despite that, the Nigerian government went ahead to introduce a cashless policy a few months before the 2023 general election and this action had altered motives of keeping money against post-election violence. In addition, the World Bank also noted that “the timing of and short transition period for the demonetization may have negative impacts on economic activity in Nigeria, in particular for the poorest households, as the country was recently faced with the covid 19 pandemic, the ravages of flood on investor's investments, high inflation, and fuel scarcity”. Arising from the above, this study is geared towards contributing to existing literature and as well evaluate the impacts of the cash crunch on SMEs in Delta State.

LITERATURE SURVEY

Conceptual Framework

Cash Crunch

Baye and Jansen (2006) defined the term money as "anything generally accepted for a medium of exchange". Money replaces the barter trade system, which serves the purpose of payment of goods, and services and also for settlements of debts. Thus, money comprises cash and cheque. From the above definition of money, electronic money (ATM cards) cannot be classified as money, because it cannot be used for purchases by merely handing over the card. Therefore, it cannot proxy for physical cash or cheque. Impliedly, ATM cards mainly instruments that allow the user to convert money in the bank account into cash.

The Longman Business Dictionary defines a cash crunch as "when an organization does not have enough money to operate successfully or in the normal way". Cash crunch causes illiquidity problems for organizations, as funds will not be available for smooth operations of the business (Kwode, 2015). In the study of Kwode (2015), firms are folding up because of illiquidity problems caused by cash holding and crunch. He asserted that the use of liquidity in the organization had spurred previous researchers to find out whether a relationship exists between cash holdings and the profitability of various manufacturing firms in Nigeria.

Small and Medium Scale Enterprises (SMEs)

SMEs definition varies from country to country and is also defined based on their usefulness in that country. The country's institutions are responsible to organize and develop policies and programmes to promote and grow SMEs (Hill, 2001; Dalberg, 2011; Etuk, Etuk & Baghebo, 2014; Tarurhor & Osazevbaru, 2019). Thus, in developed economies such as China and the United Kingdom, what is classified as a small-scale business can be grouped as a medium or large scaled business in Nigeria as a developing economy (Etuk, Etuk & Baghebo, 2014). Despite the observations above, the universal definition of SMEs must have some unique indices of either qualitative or quantitative variables such as the number of employees, available finance, turnover, market share, capital employed, and relative size.

SMEs as defined by the World Bank is "an enterprise with a maximum of 300 employees, $15 million in annual revenue and $15 million in assets". While Inter-American Development Bank describes SMEs as "enterprises with a maximum of 100 employees and less than $3 million in revenue (Dalberg, 2011; Tarurhor & Osazevbaru, 2019). Furthermore, the National Council of Industry (NCI) in 2003, classified Nigerian enterprises using three criteria- size, number of employees, and total cost including working capital but excludes land as depicted in Table 1.

Table 1

Classification of Nigerian Enterprises

Size	No of Employees	Total cost including working capital but excluding land
Micro	1-10	Less than 1 million naira
Small	11-35	1 million but less than 40 million naira
Medium	36-100	40 million but less than 200 million naira
Large	100 and above	200 million naira and above

Source: Adapted from Etuk, Etuk and Baghebo, 2014:657.

Theoretical Milieu

Theories of Demand for Money

Keynes (1936) propounded the theories of demand for money, specifying that individual holds money for transactions, precautionary and speculative motives. This study, therefore, adopts the inventory-theoretic (transactional motive) and precautionary motive in line with the study of Bates et al, (2009). Bates et al, (2009) emphasized that transactional and precautionary motives are the two major factors that previous researchers have identified as determinants of a firm's cash holding.

Inventory-Theoretic Approach

The inventory-theoretic theory of demand for money states that inventory is held for transaction purposes as developed by Baumol (1952) and Tobin (1956). Both authors established a functional relationship between money and interest in their respective studies. They concluded in their separate findings that a rational income earner will always prefer to "withdraw an amount of money that minimizes both opportunity and transaction costs". Thus, the demand for money is the opportunity cost of losing interest and income that would be accrued to the money if invested. Impliedly, the demand for money is a function of income and interest rate (Demand for money = f (income and interest rate).

Transactional motive applied to cash advance approach developed by Clower (1967), where agents are expected to hold cash for daily transactions as both income and expenditure are certain. It refers to an individual or SMEs desire to hold enough cash for transaction purposes. The transaction motive theory is the school of thought that contends that individuals or firms do not need to incur an additional cost in converting fixed assets into cash (Honda & Uesugi, 2021).

Precautionary Approach

The precautionary demand is a fallout from the perception that individuals are uncertain about the payments they might want, have, and or to make (Whalen, 1966). It is the desire to hold sufficient cash for unforeseen contingencies. For SMEs to have a smooth operational running organization, they need to hold substantial amounts of cash kept for unexpected funding demands (Almeida et al, 2004; Riddick & Whited, 2009; Duchin, et al, 2010; Honda & Uesugi, 2021).

Empirical Literature

The cashless policy encourages customers to carry out transactions using electronic or plastic money has major effects on the sales of the SMEs. Previous empirical studies had shown that customers prefer the use of cash to electronic or plastic money (Kaseke, 2012; Hafalir & Loewenstein, 2009; Kaur & Kaur, 2008; Patil, 2014; Sakarombe & Marabada; 2017). This implies that in the absence of cash, customers will defer purchases and that will directly affect sales and profitability. In Nigeria, the use of electronic or ATM cards had led to arguments and fights and resulted in police cases between the seller and buyers. For instance, for traders using POS, the customer account will be debited; the POS machine teller will indicate a decline and the seller account not be credited. Based on such a transaction, the customer will be deprived to collect items from which the account had been debited for that purpose. Painfully, the bank may not reverse the erroneously deducted amount until 2 to 3 weeks depending on the bank.

Kaseke (2012) study was to establish consumers' perception of the use of cash versus electronic or plastic money (ATM cards) in Zimbabwe, during the post-multi-currency period. The study uses a qualitative survey approach where master or visa cards, debit cards, and credit cards were proxies for plastic money. The result shows that educational level and gender have a positive effect on the use of plastic money. However, it was observed that its introduction had some challenges that are associated with security and network failure. Hafalir and Loewenstein (2009) examined the effect of credit cards on spending. Results indicate credit card has a positive impact on convenience user and a negative impact on revolvers. Thus, the study classified revolvers users as those customers that enjoy credit facilities and convenience as customers that have no credit facilities opportunities.

In 2016, the Indian government introduced the 500 and 1,000 Indian rupee denominations. Reports have shown that the purpose according to Narendra Mordi, the then Prime Minister is to stop corruption and reduced the amount of money in circulation within six months. Ironically, the policy did not achieve its main targets, as, currency in circulation, increased from 18 trillion rupees in 2016, to 20 trillion rupees in 2018 (Bloomberg, 2018 report). Furthermore, the Bloomberg report ascertained that "agriculture and small businesses with a liquidity shock, put people through unnecessary hardship, disrupted supply chains, and destroyed demand for everything from autos to property". In addition, the International Monetary Fund (IMF), 2018 asserted that the currency design policy in India led to cash shortages which directly affect the policy's performance. Thus, it affected business operations in the country.

As of 2008, Kaur and Kaur, assert that Indians prefer to use cash for their transaction. Their study established that about 90 percent of Indians carry out their purchases using cash instead of plastic money. Furthermore, Patil (2014) carried out a similar study in India and found that the sampled respondents prefer the use of plastic money. Thus, this can be associated with development and awareness, since the time frame between both studies was barely six years. Sakarombe and Marabada (2017) in their study in Zimbabwe established that the respondents prefer cash to electronic money. The results from the questionnaire distributed reflect that only 3% of respondents prefer plastic money and 66% cash preference.

The cashless policy has made most customers differ in their purchases, as the process of obtaining cash from Nigerian banks or POS operators is cumbersome and exploitative. Rewane (2023), the CEO of financial Derivatives Company Ltd spoke on the Channel Television special election programme titled "The 2023 Verdict" on February 10th, noted that:

The number of ATM users in Downtown Lagos (Ikoyi, Victoria Island, Lekki) used to be between three to four now forty, in Midtown (Ebute Meta) was eight now one hundred and Alimosho area was fifteen now about six hundred. In the same vein, he asserted that previously, it takes an average of 5 minutes for ATM users to get money in Ikoyi, 7 minutes in Ebute Meta, and 10 minutes on Alimosho, as against spending a whole day. The consequences of the above will have an adverse effect on sales since most customers cannot afford to stay in the ATM queue and or pay 30 percent as charges to get money from POS operators. He observed that the naira swap had affected flour sales in Lagos by 30 percent, rams sales in Kano by 70 percent, and cement sales in Kogi by 40 percent.

This study therefore hypothesized that:

H1: Cash crunch has a significant effect on sales of SMEs in Delta state.

METHODS

This study adopts a case study research design as it focuses only on SMEs. The quantitative research method was used as data were collected using a structured questionnaire distributed to the selected SMEs. As noted by Feagin, Orua, and Sjoberg (1991), Tarurhor and Osazevbaru (2019), and Tarurhor (2021), justify the use of case study, as helping researchers to have an in-depth and holistic investigation of their study. A total of one hundred and ten copies (110) of questionnaires were distributed to targeted SMEs used in the study. Ninety-two copies were returned, out of which five copies have about 15 percent missing information (data) and four copies had about 6 percent missing data. In line with the studies of Hair, Black, Babin, and Anderson (2010), Tarurhor and Amahwe, 2022 and Aruoren and Tarurhor (2023), those retrieved copies of questionnaires having missing information of about 15 % were not used for this analysis as they exceed the benchmark of 10%. Thus, the study uses a total of 87 copies of the questionnaires, which comprises 83 with complete data and 4 copies having only about 6 % missing data.

Model Specification

The study adopts a regression model approach to capture the effects of cash crunch on sales of the SMEs.

$S = f(CC)$

$S = \beta_0 + \beta_1 CC + €_1$ ………1

Where S = Sales; CC = Cash crunch; β_0 = Constant term; β_1 = Regression coefficients; $€_1$ = Error term

RESULTS

The mean value of cash crunch as shown in Table 2 is 4.42; this implies that CC has a high effect on sales of SMEs in Delta state. Observations and maximum values cannot exceed the retrieved useful questionnaires and the measurement scale respectively in the results of any study. In this study, the total observation is 87, which agrees with the total useful retrieved questionnaire received from the respondent as indicated in the methods in subsection 3.0. In the same vein, the maximum value is 5, which is in agreement with the 5 point Likert scale measurement used.

Table 2

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
S	87	3.7241	0.6099	1	5
CC	87	4.4195	0.3745	1	5

Source: Researchers' compilation, 2023.

Table 3 reports the relationship between sales and cash crunch. Results show a positive and weak relationship between both variables with r = 0.2093. Implying that cash crunch has affected sales of SMEs in Delta state. This study supports the studies of Hafalir and Loewenstein (2009) and Rewane (2023).

Table 3

Correlation Analysis

Variables	S	C
S	1.0000	
CC	0.2093*	1.0000

Source: Researchers' compilation, 2023.

The Cronbach Alpha result reports a scale reliability coefficient of 0.7882, which confirmed that the study data will not produce a spurious result (Tavakol & Dennick, 2011).

Table 4

Regression Results

Variable	CC
Coefficient	0.3407
R-Squared	0.0438
Adj R-squared	0.0325
F-Statistics	F(1, 85) = 3.89
t-Statistics	1.97
p-Statistics	Prob > 0.0000

Source: Researchers' compilation, 2023.

The regression result in Table 4, establishes a positive and statistically significant relationship between sales and cash crunch at a 5 % level of significance. Cash crunch in this study accounts for only 4 % of the variances of sales. Implying that 96% can be explained by other variables that can affect sales.

CONCLUSION AND RECOMMENDATION

The study has examined the impact of the cash crunch on the sales of SMEs in Delta state and has established that cash crunch has a positive and statistically significant relationship with sales at a 5% level of significance. However, other variables accounted for the 96% that affected sales of the SMEs such as poor network to facilitate payments through electronic cards, transfer, high cost of goods, poor timing of the cashless policy in relation to the 2023 general election, and so on.

The study recommends that government and CBN should compel the commercial banks to improve their network to avert the problems of the decline of payments with the aid of electronic transfer or payment by ATM. This policy will improve and promote the growth of the SMEs as cash cannot be easily stolen from their treasury or safe in the office.

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