

# **Management of Cash and Marketable Securities and its Impact in Small and Medium Financial Intermediaries' activities**

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## **Abstract**

In a business, anything done financially affects cash eventually. Cash to a business is what blood is to living body. The study sought to identify the management of cash and marketable securities and its impact in small and medium financial intermediaries' activities. The study highlights how cash management constitutes major parts of firms' activities, what are the problems usually encountered by the investors in term of government policy, and how does discounting of securities before its maturity period affect profit earning in a financial intermediary? The population of the study comprises of all small and medium financial intermediaries, these include cooperative societies and micro finance banks in Katsina metropolis. Systematic sampling techniques were used to select a sample of two as research subject. The study utilized questionnaires divided into two sections for data collection. Descriptive statistics were used to analyses the quantitative data and the analyzed data was reported using frequency distributions, and percentages. The study established that cash management constitutes a major area of financial intermediaries' operations. It reads that bank rate policy is not so effective in controlling credit and the investment of excess or surplus cash in marketable securities minimize cost arising from cash shortages. It was however recommended that the financial intermediaries should determine in their budget what the optimal level of cash should be for the year. That once the minimum cash balance has been established, short term investment policy for any cash surplus can be determined. That the financial intermediaries should set up strategies toward the attainments of the minimum or optimal cash level to avoid the shortage of cash because such shortage of cash could lead the intermediaries into an embarrassing situation.

**Keywords:** *Marketable Security, Financial Intermediary, Policy, Diversification, Investment*

## INTRODUCTION

Cash movement in a business is a two-way traffic; it keeps on moving in and out of business. The inflow and outflow of cash never coincides. Important aspect which is unique to cash management is time dimension associated with the movement through skillful cash management. Excess or surplus cash is normally invested in marketable securities. And, investing surplus cash in marketable securities is normally part of overall cash management. Marketable securities cannot be ignored as they constitute part of the value of financial intermediation. Short term surplus cash cannot be used for any long-term purposes. Surplus cash is invested in marketable securities primarily to earn an income, which otherwise remains idle within the financial intermediaries.

Financial intermediaries, who were flushed with money at one point of time and investing heavily in marketable securities, may issue short term securities to other and borrowed money at another point of time. The task of financial managers in this business who became involves with marketable securities either full time or part time consist of three issues. Initially, the managers must understand the detailed characteristic of different short term investment opportunities. Secondly, the managers must understand the market in which those investment opportunities

are bought and sold. And finally, the managers must develop a strategy for deciding when to buy and when to sell in each transaction. Following this trend, consequently minimizes cost arising from cash shortages and or leakages. Cash is seen as the most liquid assets of financial intermediaries. It is at the same time the least productive. Cash is control by investing its surplus on short term or long-term securities. Shortages of cash in an organization leads to stoppage in the implementation of certain transactions, e.g., in a productive set up, this can lead to the production stoppage. The excess of cash is also idle or useless if not invested. e.g., =N=1.00 would still remain =N=1.00 over a period of time and the value due to the economic situation of Nigeria would have been reduced. That is, the purchasing power of such=N=1.00 would have been reduced at the end of the period, unlike if such is invested.

In such an investment, certain factors need to be considered, these may include: credit worthy and price stability, rate of interest or yields, length of maturity period, transaction cost of buying and selling. In Nigeria today, with the existence of government monetary policy on rate of control, the Naira had been devolved, which means there, had been a fall in the value of Naira. According to an investment bank, [Renaissance Capital \(2022\)](#) predicted that the Naira will hit N482 to a dollar at the investors and exporters (I&E) foreign

exchange window in 2022. Mhango, also adds that naira at the exporters and importers FX window is 13% overvalued, judging from Rencap's real effective exchange rate, saying the local currency has a fair value of N473 to a dollar. And from Monthly Moving Average of exchange rate; [www.cbn.gov.ng](http://www.cbn.gov.ng), at January 16 2023, 453.58 (NGN) is to one US Dollar.

With an increase in the price and cost of capital, idle cash in this case will fall in value and will be unable to purchase what it can purchase at the time it was held. It is therefore good that in management of cash and marketable securities, policies have to be put into consideration because of their effort on price stability and liquidity. The holding of marketable securities is regarded as a means of earning income for an organization's liquidity reserves, and as part of the overall investment strategy that affects the profitability, it is determined with the use of present value of future net cash flow over the initial cash outlay. The essence of this research therefore, is to investigate ways in which cash and marketable securities can be managed efficiently so as to contribute to the overall objective of the financial intermediaries, under the Nigeria economy. Also, the researcher looked in to the effect of government policies on the liquidity, profitability and risk involved on investment in marketable security in microfinance bank and co-operative

societies in Nigeria with special reference to Gobarau Microfinance Bank (GMFB), and Al-Baraka Multi-purpose Co-operative Society (AMCS), all in Katsina, Katsina State, and finally, the effect of such government policies on cash when the financial intermediaries fail to invest their surplus on marketable securities that yield interests.

### **RESEARCH QUESTIONS**

1. How does cash management constitute major parts of firm activities?
2. What terms of investment does invest in marketable securities constitute?
3. What are the problems usually encountered by the investors in term of government policy or regulations?
4. What type of investment opportunity is available in the light of surplus or excess cash?
5. How does discounting of securities before its maturity period effect profit earning in a financial intermediary?

### **OBJECTIVES OF THE STUDY**

- (a) To investigate Ways in which cash and marketable securities can be managed efficiently under Nigeria economic situation so as to contribute to the overall objective of the financial intermediaries.

(b) To carry out a comprehensive review of the present procedures of the management of cash and marketable security and so well as the appraisal of the system.

(c) To investigate the effect of government policies on the market price and the rate of interest on marketable security.

(d) To critically examine the problem facing the procedures or system used in the management of cash and marketable securities.

(e) To provide solutions to some of the problems highlighter in (d) above.

(f) To determine liquidity, maturity, profitability and the risk involves in investment in marketable securities.

(g) And finally, to make comparison in the operational activities of the chosen financial intermediaries in this research

## METHODOLOGY

The study employed a descriptive survey research design to collect data from the financial intermediaries' staff. The aim of the study performed within the sample financial intermediaries in Katsina metropolis was to identify the management of cash and marketable securities and its impact in small and medium financial intermediaries' activities. This study's

dependent variable is "small and medium financial intermediaries' activities" which will hopefully change due to the independent variable, "management of cash and marketable securities". Experiment was carried out on the independent variable to see what happens to the dependent variable.

**POPULATION:** Population of the study was all the four, two each of the microfinance banks and the cooperative societies, with 19 and 8 staff respectively in Katsina metropolis, Katsina State, Nigeria.

**SAMPLING TECHNIQUE USED:** The data collected were coded using systematic sampling techniques.

**SAMPLE:** Sample of the study were two, one each of the organizations' and 14 staff, 7 each were collected.

**TOOL USED:** In this study, data collected were presented using tables and analyzed using percentages and prose form.

Gobarau Microfinance Bank (GMB) and Al-Barakah Multipurpose Cooperative Society (AMCS) both of which are the case study of this research and all Katsina were where the respondents for the research questions were sourced. The State, Katsina, were the financial intermediaries where located was created on the

27/09/1987 from the defunct Kaduna State. The State has 34 local governments. Katsina local government area has an estimated population of 459,022. Gobarau Microfinance Company (Bank) was established for the purpose of providing soft loans to the low-class individual in the local government and at the same time mobilized excess fund in form of savings from people. For Al-Barakah Multipurpose Cooperative Society was equally established with the purpose of pulling resources of the members, and using these resources in terms of need and also investing the excess in commodities. Thus, this research tried to analyze how the resources invested in marketable securities are managed and how they helped this study area to develop economically

**FINDINGS**

**Table 4.0: Departments as ascertained on visitation**

Responses	Respondents			
	GMB	AMC S	Tota l	%
Cash	2	1	3	21
Investment	3	1	4	29
Credit/Loan	1	1	2	14
Business	1	4	5	36
Operation	0	0	0	0
TOTAL	7	7	14	100

Source: Researcher’s Survey

**Analyses of findings drawn from the responses**

**Table 4.1:** If you invest your surplus cash in Marketable Securities, it is...

Response Options	Respondent			
	GMB	AMCS	Total	%
Short term	7	0	7	50
Medium term	0	0	0	0
Long term	0	0	0	0
All of the above	0	0	0	0
TOTAL	7	0	7	50

Source: Researcher’s Survey

Out of the 100% responses collected from the question, only 7 respondents representing 50% indicated that if invested surplus cash in Marketable Securities, it is short-term investment. The whole staff of the AMCS declined completely. The findings reveal that AMCS do not transact on marketable securities and may not even have the formal knowledge of the securities.

**Table 4.2:** On whether the receipts and payment balanced

Response Options	Respondents			
	GMB	AMCS	Total	%
Yes	7	7	14	100
No	0	0	0	0
TOTAL	7	7	14	100

Source: Researcher’s Survey

In basic accounting, debits and credits balance one another since they operate in exact opposite direction. This however informs the decision chosen by all the respondents who unanimously responded positively. This is the 100% affirmative.

**Table 4.3:** On whether cash management constitute a major area of your business activities

Response Option	Respondent			
	GMB	AMCS	Total	%
YES	7	7	14	100
NO	0	0	0	0
TOTAL	7	7	14	100

**Source:** Researcher’s Survey

Based on the statistics as tabulated above, 14 out of 14 respondents representing 100% confirmed that cash management constitute a major area of their business activities. The responses go along with the statement that “cash is to a business what blood is to a living body. And without cash management, there may remain no cash to operate.

**Table 4.4:** If yes to the above i.e., question 4.3, then how cash is being managed in the company

Response	Respondents

Response options	GMB	AMC S	Total	%
Holding cash idle	0	0	0	0
Investing the cash	7	7	14	100
TOTAL	7	7	14	100

**Source:** Researcher’s Survey

The responses to holding cash idle received 0%. The respondents possibly understood that the incremental liquid value of cash decline as more of it is held. Investing the cash pulled 100% of the total responses. And here, the respondents may understand that investing cash either in marketable securities, commodity markets or into other viable businesses, even for a short time, can add to company’s earnings and its proper management permits the owner to adequately meet cash demands of the business.

**Table 4.5:** If receipt is greater than payment what is being done with it

Response option	Respondents			
	GMB	AMCS	Total	%
Re-invest the surplus into other commodities	2	6	8	57

Loan out the surplus	5	1	6	43
Total	7	7	14	100

**Source: Researcher’s Survey**

57% of the respondents choose to re-invest the excess of receipts over the payment if any. The researcher had expected the same, especially for AMCS with 6 out of 8 respondents, and whose major activities cover other business activities outside banking functions. This equally indicated that cooperative societies have the capacity to diversify easily, and have free hand unlike banks whose business activities are based on the policy guide lines of CBN.

**Table 4.6:** How profit is being generated from excess or surplus cash

Response option	Respondents			
	GMB	AMCS	Total	%
By keeping the cash idle	0	0	0	0
Profits are generated from the re-investment of surplus/excess cash	7	7	14	100

Total	7	7	14	100
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**Source: Researcher’s Survey**

Through the re-investment of excess cash into other businesses, depositing cash in the fixed deposit account, creating credit through loaning, among others constitute the possible re-investment of surplus cash through which profits are further generated. Keeping cash idle generate no profit, it rather depreciates the naira value.

**Table 4.7:** The type of investment that is being invested in surplus or excess fund or cash

Response options	Respondents			
	GMB	AMCS	Total	%
Commodity goods	2	5	7	50
Contract	1	0	1	7
Marketable securities	2	0	2	14
Loan	2	2	4	29
Total	7	7	14	100

**Source: Researcher’s Survey**

The table above shows that 7 respondents representing 50% indicated that they invested their surplus cash on commodity trading. This was dominated by AMCS. It equally implies that the intermediary invested more on commodity trading like food items, electronics, provisions etc.

14% represents investment on marketable securities carried out solely by the bank. The cooperative does not deal on marketable securities.

**Table 4.8:** If discounting securities before its maturity period, how they affect earnings

Response option	Respondents			
	GMB	AMC S	Tota I	%
Yes	7	0	7	50
No	0	0	0	0
Undecided	0	7	7	50
Total	7	7	14	100

Source: Researcher’s Survey

7 respondents representing 50% attested ‘yes’, hence by discounting securities before its maturity period it affects the bank earnings because the market value is often at a lower rate than the face value. In the case of AMCS who neither say YES or NO, could not decide. This implies that the cooperative in question would not know the implication since it does not transact or do the business of marketable securities.

**Table 4.9:** If the organization faces shortage of cash or fund, how it is being solved

Response options	Responses			
	GMB	AMCS	Total	%
Borrowing	1	3	4	29

Loan recovery	3	0	3	21
Sourcing from reserved	3	4	7	50
<b>Total</b>	<b>7</b>	<b>7</b>	<b>14</b>	<b>100</b>

Source: Researcher’s Survey

Higher percentage of the respondents, a half of the total percentage had responded positively to the option ‘sourcing from reserved’, Borrowing from either company or other finance houses represents 29%. Loan recovery is the last option, and it remain a means of reducing company debtors, it includes establishing direct debit as a means of business norms for collecting receipts. It allows a business to scale without increasing the cost required to collect the debt while also providing a stable inflow of cash from which all payments can be made from.

**Table 4.10:** Possible problem(s) encountered while investing or discount securities, in term government policy or regulation?

Response options	Responses			
	GMB	AMC S	Tota I	%
Yes	6	0	6	43
No	1	0	1	7
Undecided	0	7	7	50
<b>Total</b>	<b>7</b>	<b>7</b>	<b>14</b>	<b>100</b>

Source: Researcher’s Survey

Where the member of AMCS could not respond to the question, possibly because their business does not reckon with marketable securities, one person in GMB with awareness about the security had answered 'NO' and six people out of seven affirmed 'YES' to encountering problem when investing or discounting securities in term of Government policy. The findings further revealed that fiscal and monetary policies are the major government policies that affect investment in marketable securities.

#### **DISCUSSION OF FINDINGS**

The research showed that cash is the principal asset of the two institutions. The institutions have three motives for holding liquid asset i.e., the transaction, precautionary and speculative motives. The main sources of cash of GMB and AMCs which is our case study are customers and members' deposit respectively, and the profit before taxation, others included interest from loans and advances, investments income, commission on turnover, income from trading on commodities goods, while the applications or uses of such funds include purchase of fixed assets, treasury bills, loans and advances, other assets and liabilities. It was also discovered that certain optimal level of cash is set to determine the shortage or excess of cash. Excess cash is utilized to re-invest into the business by giving it out as

loan, contract financing and commodity trading. In the management of cash, we should attempt to accelerate collection and handle disbursements so that maximum cash is available. Disbursement should be handling so as to give maximum transfer flexibility and optimum timing of payments.

Given the total level of liquid assets, comprised of cash and marketable securities, the bank precisely must determine the optimum split between those two assets; the optimal level of cash which in turns determines the optimal level of marketable securities. The optimal level of cash depends upon the predictability of future cash flow, the fixed cost of a security transaction and carrying cost of holding cash, that is, the interest rate forgone on marketable securities. There are a number of marketable securities in which banks and co-operative societies can invest. These securities can be evaluated in relations of these default risk, marketability, maturity and taxability. Specific securities considered include treasury securities, government agency securities, banker's acceptance, commercial papers, repurchase agreements, and certificate of deposit.

In the banking system cash is held on be halves of customers who can come for withdrawal at any moment, likewise for members in the co-operative society. But very often a small percentage of depositors come at the same time,

thus leaving substantial cash balance in the bill. And utilization of such deposit funds is subject to control by the central bank of Nigeria in the case of banks, this is either through imposition of liquidity ratio and cash reserve ratio or other monetary control policies. Consequently, the utilization of depositors' funds in the co-operative society for this research study has shown that it is society's management and business committee that controls society's fund.

Therefore, in order to make proper use of surplus cash, it should be invested in the show possible time. This will improve the management of cash available in the short term and avoid cash shortages. The bank rate policy is also not so effective in controlling credit in less developed countries due to lack of bill market, the narrow size of the bill market, the large non-monetized sector where barter transactions is still taking place, the existence of large unorganized money market, the existence of indigenous banks which do not discount bills with the central banks, and the habit of banks to keep cash reserves. The researcher has also tried to highlights major areas that are of immediate concerns to the selected institutions. Hence, the aims should always be to optimize the use of cash whenever available, invest excess or surplus in marketable securities and to minimize cost arising from cash shortages.

### CONCLUSION

In conclusion, it is advised that financial intermediaries should determine in their budget what the optimal level of cash should be for the year. Once the minimum cash balance has been established, short term investment policy for any cash surplus can be determined. Receipts and payments should be matched and cash surplus investment so as to minimize closing cash balance. The financial intermediaries should set up strategies toward the attainments of the minimum or optimal cash level to avoid the shortage of cash because such shortage of cash could lead the intermediaries into an embarrassing situation. Also, when the cash available is greater than the optimal levels which signify an excess or surplus, such excess cash should not be kept idle; instead, it should be invested in marketable securities so as to earn additional return. An effective internal control system for treasury management must cover the following:

- i. The preparation and co-ordination of cash budget
- ii. Establishment of desirable liquidity levels
- iii. Collection and investment of all surplus fund

- iv. Arranging for findings of any deficiencies
- v. Authorization and control of capital investment policies.

Loans are riskiest of the earning assets and generally provide most of the interest income. The risk mentioned is mainly credit risk. But when financial intermediaries invest in marketable securities, they substitute credit risk for interest rate risk in their securities portfolio.

*“A change of status cannot be achieved without the acceptance of responsibility. Money can only multiply in the hand of investor. To have a purchasing power, you must sell something. The desire to buy without a resolve sell leads to decline. This world is field of trade by barter. You give something in exchange for what you desire”*

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