



GOVERNMENT PAYMENTS AND FINANCIAL INCLUSION ΝΝΓΓΕΡΙΔ

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SUMMARY

his study investigates the effect of government spending on financial inclusion based on the type of spending, the recipient of the spending and the channel used for the spending. Extant literature shows that government spending augments aggregate demand which includes the demand for financial services. The study aims to determine the extent to which government spending, at the three tiers of government, can be used to bring the underserved and financially excluded Nigerians into the formal financial system. The paper shows that the effect of government payments on financial inclusion not only depends on the type of government payment but also on the recipient of the payment and the channel used in making the payment.

Government-related spending remains a sizable part of all payments in Nigeria. Data on the ratios of the recurrent, capital and transfer spending to total spending at the federal, state and local government levels were analyzed along with the formal and informal financial inclusion data for the years 2011 to 2016. To determine whether there are differences in financial behavior between the recipients and non-recipients of government payments, the data on the recipients of government transfer payments; salaries and wages, which form part of government recurrent spending, were also analyzed.

Results of the tests to compare the financial behavior of recipients and non-recipients of government transfer payments show a significant difference between the two groups with recipients of government transfer payments saving and borrowing more than the non-recipients. On the other hand, a comparison of the financial behavior of government employees

and non-government employees shows that government employees save and borrow more in the formal financial institutions.

Lastly, a correlation analysis of government recurrent, capital and transfer payments with formal and informal financial inclusion shows that government recurrent payments drive

The study aims to determine the extent to which government spending, at the three tiers of government, can be used to bring the underserved and financially excluded Nigerians into the formal financial system.





formal financial inclusion. However informal financial inclusion is driven by government capital payments by the three tiers of government, federal government transfer payments and the state governments' extra budgetary spending. Although external debt servicing and repayments constitute a sizable part of government spending, government payments to individuals and businesses locally still form the bulk of government payments in Nigeria. The findings show that government payments significantly affect financial inclusion in Nigeria. The analysis, however, does not include off-budget spending by some government agencies in Nigeria. In order to drive financial inclusion using government spending, government should increase the share of transfer payments in the budget and fully digitize transfer payments and payments of salaries and wages to government employees. Government should also increase the share of capital spending in the budget and implement policies that encourage private firms to digitize their payments. In this regard, contracting firms might be required to produce evidence of full implementation of digital payment systems in order to be considered for government projects. Finally, federal and state governments should consider working with local government areas in implementing their capital and transfer spending as local government payments have the strongest correlation with financial inclusion.

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SUSTAINABLE +INCLUSIVE

I. INTRODUCTION

n almost all economies of the world, government acts as the central player. They set the machinery for the smooth working and operation of the public sector and create the climate for private sector agents to develop wealth unhindered in the marketplace. The government can act as a deadening hand on change or be a catalyst for creativity.

They can cause economic stagnation through run-away deficits, or they can set a climate for sustained economic growth ¹. In 2014, it was easy to see the role of government in Nigeria's payment flows. Records show that of the US\$695 billion per annum total payments, government-related payments constituted over US\$140 billion or 20 percent of the transactions in the year 2014.²

The government thus remains a key actor responsible for setting the stage for wealth creation and promoting sustainable growth and development.³ On the one hand, increased government spending can be used to stimulate aggregate demand while on the other hand; payments made by government can be used to bring the undeserved and the fin ancially excluded populations into the formal financial system.

There appears to be a link between government payments

and financial inclusion. The more government makes payments through different digital platforms, the easier it is for government to achieve the broad goals of financial inclusion set at the various levels of governance. Figure 1 shows the structure of government payment in Nigeria based on the type of government spending, the recipient of the expenditure and the channels of making the payments.

The size of government recurrent and capital spending, the recipients of the expense (individuals/businesses) and the channels (electronic versus non-electronic) of making the payments have a direct impact on financial inclusion. Increase in government recurrent spending on salaries and wages resulting from new employees is likely to have a positive impact on financial inclusion as the donor in the different payment channels in Nigeria. Financially excluded are expected to be among the new employees. As at June 2017, payment of salaries

Departments, and Agencies (MDAs) was made directly to the employees' accounts through the Integrated Payroll and Personal Information System (IPPIS). Also, Federal Government has fully digitized recurrent payments on goods and services to businesses in these MDAs and capital payments to contractors. Full implementation of the IPPIS in all federal government MDAs and implementation of similar systems at the state and local government levels will ensure 100 percent digitization of recurrent government payments. Government transfer payments made to mostly financially excluded individuals as part of government's social benefit programs have direct impacts on financial inclusion. Government payments to individuals/households have an immediate impact on financial inclusion while the effects of government payments to businesses on financial inclusion depend on the ultimate

and wages to Federal Government employees in 459 Ministries,

beneficiaries of the payments. This study uses the framework in Figure 1 to examine the impact of government spending, at the three tiers of government on the level of financial inclusion.

In other to ensure rapid acceleration of financial inclusion in Nigeria, there is a need to structure the government payments using the ratios of the recurrent/capital payments to total payments, the recipients of government subsidies and the channel used to make the payments. This study aims at exploring government

payments and the drive towards financial inclusion, the benefits of digitizing payments and the inhibitors of electronics payment platform in Nigeria. The study will also ascertain the opportunities that exist for the households, businesses, governments and external

- ^{2.} Digitizing Government Payments in Nigeria, Bill & Melinda Gates Foundation: Financial Services for the Poor, June 2014
- 3. Pettinger, T. (2017). Keynesian economics. Available at: https://www.economicshelp.org/blog/6801/economics/keynesian-economics/
- 4. Integrated Payroll and Personal Information System (IPPIS) website, https://www.ippis.gov.ng/what-is-3/, accessed on 2nd November, 2017

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^{1.} Transcott, T, (1996). The Digital Economy: Promise and Peril in the age of Networked Intelligence (Vol. 1) New York McGraw-Hill.





II. GOVERNMENT PAYMENTS AND FINANCIAL INCLUSION

n almost every country of the world, efforts towards digitizing government payments have intensified allowing for easy linkages between payment and receipt for the economic disadvantaged section of the society and thereby creating an entry point for the inclusion of the vulnerable in society to be included in the formal financial system. This process is widely known as government-to-person (G2P) payments and it revolves around government spending in social cash transfer (SCT) and household/firm receipt in form of subsidies, grants and public goods. It is expected that as G2P is intensified, the number of persons financially excluded will reduce drastically while increase in government expenditure will stimulate income and aggregate demand in the society.

The least developed countries (LDCs) in the world, especially in Africa, are not left out in the race towards digitizing government payments and greater financial inclusion. One such way these low-income countries are driving change is in the area of intensification of digital financial services and government-topersons payments (G2P). Interestingly, studies by Lindert, Kathy, Anja Linder, Jason Hobbs, and Benedicte de la Briere (2007),⁵. showed that switching from cash payment to electronic payment cards resulted in over 82 percent reduction in administrative payment cost between 2001 and 2006 in BolsaFamilia program in Brazil. In a similar study carried out in Argentina, the transition from cash payment to electronic payment was swift and beneficial to participants in the payments ecosystem. The switch from cash to prepaid cards reduced the time spent by the recipients from more than 4 hours to about 40 minutes and over 83 percent reduction in time to receive payment by participants in the payment ecosystem.⁶.

Efforts towards digitizing government payments across the three tiers of government and between governments to person in Nigeria have intensified with the increased drive towards greater financial inclusion. In a move towards promoting accountability and transparency, the federal government commenced the independent revenue e-Collection Scheme under the Treasury Single Account (TSA). This move, along with various policy measures adopted by the Central Bank, has increased the gains made towards digitizing government payments and bringing the large unbanked population into the formal financial system. For easier and speedy disbursement of government aids to the society, digitizing the payment process offers optimal and cost effective distribution system. According to McKinsey Global Institute,⁷ digital payments and digital

financial services have the potential of eliminating huge inefficiencies in payments network and significantly fast track the productivity gains.

In 2014, cash transactions account for more than 90 percent of payment transactions in Nigeria. Evidence in the literature shows the inefficiencies associated with increased use of cash transactions in a society. Over reliance on cash payments create leakage in expenditure and revenue flow which easily fuel corruption and the diversion of public funds in less developed countries. Also, social benefits initiatives built on cash payments and government subsidies on health care delivery, premium motor spirit (PMS) and food stamps, built around cash payments, challenge governments' ability to effectively target aid and subsidies at the vulnerable in the society.

Finally, greater use of cash as against digital payments reinforces large informal economies that hinder competition and deprive governments of optimal tax revenue. In the 2011 and 2014 Global Findex report, it was stated in the report, "that by shifting the payment of wages and transfers from cash to digital payment directly into bank accounts results in faster up take of accounts opening and hence expansion and rapid financial inclusion. In addition, purchase of agricultural products done through digital payments increases security and represents one of the first entry points to formal financial system".¹⁰

In a **similar study** carried out in Argentina, the transition from **cash payment to electronic payment was swift** and beneficial to participants in the payments ecosystem.

^{5.} Lindert, K., Linder, A., Hobbs, J., & De la Briere, B. (2007) The nuts and bolts of Brazils' BolsaFamilia Program: implementing conditional cash transfers in decentralized context (Vol. 709). Social Protection Discussion Paper.

^{6.} Duryea S, and Schargrodsky, E. (2007) Financial Services for the poor. Welfare, Saving and Consumption." Inter-American Development bank, Washington, D.C.

^{7.} McKinsey Global Institute, Digital Finance for All: Powering Inclusive Growth in Emerging Economies, 2016

^{8.} Kenneth S. Rogoff, The curse of cash, Princeton University Press, 2016.

^{9.} From cash to digital transfers in India: The story so far, Consultative Group to Assist the Poor, February 2015

¹⁰ Global Findex, The World Bank's Financial Inclusion Data. 2014. Intelligence HQ. Available at: https://www.intelligenthq.com/social-business-2/global-findex-the-world-banks-financial-inclusion-data/





PAYMENT SYSTEMS IN NIGERIA

ayment systems in Nigeria can be examined directly through government payment types, the recipients of government payment or the channels through which government disburses payments. Figure 1 shows the broad payment structure in Nigeria



Figure 1: Government payment Structure

Government payment can be evaluated in terms of the types of payments, recipients of the payments and the channels through which the payment is made. Every fiscal year, the federal, state and local government outline their revenue and expenditure for the fiscal year in terms of recurrent and capital expenditure, debt and non-debt service spending and the government agency responsible for such spending. The payment flow can be from government to government (G2G), government to business (G2B) and government to person (G2P). This majorly is done through direct disbursement of salaries and wages, grants, payment for goods and services rendered and subsidies. The channels of payment between government to persons (G2P), government to business (G2B) and government to government (G2G) can be non-electronic - cash and/or cheque or via electronic platforms which includes direct debit and credit cards, internet banking, point of sales transfers, mobile money, electronic fund transfers and instant pay. While the traditional non-electronic payments constitute the major means of payment in Nigeria, digital payment platforms offer the advantage of reaching people cheaply, effectively and transparently. The report by Guy Stuart on government to person payment for Colombia and Pakistan summarizes the state of digital financial system in developing countries in the following light.

^{11.}http://www.centerforfinancialinclusion.org/storage/documents/Government_to_Person_Transfers.pdf





...but these systems have run into expensive operational problems related to sustaining an extended network of agents in countries with inconsistent electricity, poor roads and low education levels. These problems are exacerbated by the lack of trust low-income people have in formal financial systems and in turn exacerbated their lack of confidence in dealing with those systems." "

This statement captures the current state of electronic payment system in Nigeria. The current poor state of infrastructure and trust on the part of household and business actors has slowed down the transition from cash payment to electronic payment . Figure 2 and figure 3 show the payment patterns in traditional and digital payment systems.

In a typical payment system, payments are categorized into two types based on channels deployed: digital and traditional payments. In this study, digital payment is used interchangeably with electronic payments while traditional payment is synonymous with non-electronic (cash and cheque) form of payments.

In the digital payment platform, technology is at the heart of the exchange. This form of transaction can be done swiftly, remotely and transparently without the physical presence of the buyer and seller. This payment type is the digital payment presented in Figure 3.



Figure 3: Digital payments system

¹²http://www.centerforfinancialinclusion.org/storage/documents/Government_to_Person_Transfers.pdf



EVALUATION AND REACH OF G2P PAYMENTS IN NIGERIA

In evaluating the reach of G2P payment in Nigeria, data on government payments and the level of financial inclusion was drawn from several sources and the results obtained were analyzed in simple trend, bar charts and correlation table. Data on G2P payments was sourced from the Central Bank of Nigeria (CBN), NIBSS, EFinA and Global Findex databases. Data for Nigeria was collected from the Global Findex database. The data was analyzed to find out the impact of government transfer payment on financial behavior of the recipients. From the CBN database, the data sourced was used to ascertain the level and volume of cash transactions in Nigeria and also, to make comparison between the traditional payment and electronic payment. In addition, the data was used to characterize the volume and the value of electronic payment in Nigeria.

TRADITIONAL PAYMENT SYSTEM

Traditional payments are a form of liquid fund given by a consumer (payer), to a provider (payee) of goods or services as compensation for receiving those products.¹³In most domestic business transactions, a cash payment will typically be made in the currency of the country where the transaction takes place, either in paper currency, in coins or in an appropriate combination.¹⁴ Traditional payment transaction is also made with the use of bank cheque with the advent of financial instruments. Traditional payment lacks convenience, security and coverage since liquid money - cash and cheque - are involved. The value of cash and cheque transactions translate to the total traditional payments and it is analyzed in Figure 4.

Figure 4 shows the value of cash and cheque payments in Nigeria from 2014 to 2016. The data reveal that value of cheque payments significantly diminishes from N7.24 trillion in 2014 to N6.2 trillion in 2015 and further declines to N5.8 trillion in 2016.

But, the estimated value of cash payments moves in the opposite direction of the value of cheque payments. The estimated value of cash payments stood at N103.80 trillion in 2014 but increased to N114.47 trillion in 2015. By 2016, the estimated value of cash payments rose further to N146.84 trillion. These results show that there is a gradual move away from cheque payment but not away from cash transactions which remained high and currently on the increase.

ELECTRONIC PAYMENTS IN NIGERIA

Electronic payment systems have been on the rise since 2010 and may account for the current decline in the use of cheques to settle day-to-day transactions.

The current trend in the country is such that there is a gradual move away from traditional payment system to electronic payment due to technological improvement across the payment ecosystem.

Before 2010, cash transactions were the dominant form of payment but this is gradually changing as electronic payment is gradually becoming the dominant form of transacting business. 16

The transition from traditional to electronic form of payment is made possible through the emergence of smart phones, new and improved technologies and innovations in the financial service sector. All of these have enhanced and expanded the possibilities of making electronic payments in which transaction settlements are remote, instant and cashless.¹⁷ Thus, digital payment can narrowly be described as e-commerce; a web based payment for buying and selling of goods or services, and in broader manner, digital payment refers to any type of electronic funds transfer or transactions.¹⁸ The value of digital payments in Nigeria is captured in Figure 5 and categorized into Lass than N1 trillion and above N1 trillion in Figure 5 and Figure 6 respectively.



Source: Authors' computation, 2017 (Cheque payments data sourced from NIBSS and cash payments data estimated) Note: Value of cheque payments on the secondary axis and value of cash estimated as 60 percent of the total payments.¹⁵

13. Ansari, I, (2013). Electronic Payment Systems. Available at: https://www.slideshare.net/_lrfanAnsari/electronic-payment-systems-presentation

14. Cash payment. BusinessDictionary.com. Retrieved October 14, 2017, from BusinessDictionary.com website: http://www.businessdictionary.com/definition/cashpayment.html

15. Digitizing Government Payments in Nigeria, Bill & Melinda Gates Foundation: Financial Services for the Poor, 2014

16. http://skoybus.com/payment-system-in-nigeria/

17. http://nsacc.org.ng/payment-systems-and-financial-innovation-in-nigeria/

18. https://upipayments.co.in/digital-payment/





Digital payments - electronic bill payments (E-bill), mobile money and point of sales (POS) payments - are less than N1 trillion. The results from Figure 5 shows that E-bill, mobile money and POS payments appreciably increased from 2014 to 2016 though the slope of mobile money payment is linear while that of E-bill and POS payments are non-linear. Payment of transactions through E-bill is lower when compared to POS and mobile money payments in 2016. Value of payment transactions through POS and mobile money is approximately N0.8 trillion in 2016 and E-bill is N0.34 trillion. These show that acceptance of POS and mobile money payments systems in Nigeria is on the rise. Digital payments of N1 trillion and above are captured in Figure 6.



Figure 5: Value of digital payments - Less than N1 trillion Source: Authors' computation, 2017 (Data sourced from NIBSS)



Figure 6: Value of digital payments - N1 trillion and above Source: Authors' computation, 2017 (Data sourced from NIBSS) Note: Value of ATM withdrawal payments on the secondary axis





The value of NEFT (NIBSS Electronic Fund Transfer) and NIP (NIBSS Instant Pay) payments is higher than the value of ATM withdrawal payments in Nigeria though since 2014 the value of NEFT payments declined appreciably from N14.56 trillion in 2014 to N12 trillion in 2016. Whilst, value of NIP payments increased from N25.54 trillion in 2014 to N38 trillion in 2016 and value of ATM withdrawal payments rose from N2 trillion in 2014 to N4.9 trillion in 2016.

The transition from traditional to electronic form of payment is **made possible through the emergence of smart phones**, new and improved technologies and **innovations in the financial**

GOVERNMENT PAYMENT IN NIGERIA

One way to examine digital payments is to look at the government-to-person (G2P) payment flow. Generally, the state-incurred spending on individuals is carried out to maximize social welfare. This kind of spending comes in the form of capital expenditure or recurrent expenditure.

In a typical G2P payment, conditional cash

service sector

transfers (CCT) can create an avenue for including the poor financially since the transfer payment is made into the bank accounts of the beneficiaries.¹⁹

Figure 7 shows the value of transfer payments in Nigeria from 2014 to 2016. The result reveals that in 2014 the value of transfer payments stood at N377.37 billion but declined to N338.55 billion in 2015 which amounted to a 10.29 percent drop in value of transfer payments.

The value of transfer payment however, shifted upward in 2016 to N347.34 billion. This result reveals that in 2016, annual transfer spending in Nigeria increased by 2.6 percent showing a marginal increase in transfer payment in Nigeria. Though there are questions regarding the optimal distribution of the conditional cash transfer payments.²⁰

https://www.thisdaylive.com/index.php/2017/01/09/buharis-conditional-cash-transfer/
https://www.thisdaylive.com/index.php/2016/03/02/of-poverty-and-cash-transfers/





Figure 7: Value of transfer payments

Source: Authors' computation, 2017 (Data sourced from CBN)

Government payments can be broken down across the three tiers of government - federal, state and local government in Nigeria.

FEDERAL GOVERNMENT PAYMENTS

LAGOS BUSINESS

SCHOOL PAN-ATLANTIC UNIVERSITY

The disaggregated spending of the federal government comprises recurrent spending, capital spending and transfer payments.^{21.}

Year	Recurrent (N' Billion)	Capital (N' Billion)	Transfer (N' Billion)	Total (N' Billion)
2011	3,314.51	918.55	479.00	4,712.06
2012	3,325.16	874.83	405.40	4,605.39
2013	3,689.06	1108.39	387.87	5,185.32
2014	3,426.90	783.12	377.37	4,587.39
2015	3,831.95	818.37	338.55	4,988.86
2016	4,178.59	634.80	347.34	5,160.74

Source: CBN, 2016

Table 1: Disaggregated Federal government spending

Table 1 shows the decomposition of federal government spending from 2011 to 2016.

The average value of federal government recurrent spending in Nigeria from 2011 to 2016 is N3, 627.70 billion which is about 74 percent of the average total spending within the same period.

The average value of capital spending and average value of transfer payments in Nigeria from 2011 to 2016 are N856.34 billion and N389.26 billion respectively, the shares of average value of capital spending and average value of transfer payments in the average total spending are 18 percent and 8 percent respectively.





Salaries and wages constitute the bulk of federal government recurrent payments.



Figure 8a: Average share of government spending Source: Authors' computation, 2017 (Data sourced from CBN)

Figure 8a further shows the average shares of recurrent spending, capital spending and transfer payments in Nigeria. From the chart, average recurrent spending has the largest share of total spending from 2011 to 2016 with an average of 74 per cent. It should, however, be noted that external debt servicing accounts for an average of 26 percent of the recurrent spending in the period. Salaries and wages constitute the bulk of federal government recurrent payments. If these payments are fully digitized it will have a significant impact on financial inclusion in Nigeria.

Figure 8b further shows the significance of recurrent spending in Nigeria. The share of federal government recurrent spending increased from 70.3 per cent in 2011 to 81 per cent in 2016, whereas federal government capital spending decreased from 19.5 per cent to 12.3 per cent in 2016 and transfer spending of the federal government also decreased from 10.2 per cent in 2011 to 6.7 per cent from in 2016.



Figure 8b: Share of government spending Source: Authors' computation, 2017 (Data sourced from CBN)





STATE GOVERNMENT PAYMENTS

The second tier of government spending is captured by aggregate payments of thirty six (36) states and federal capital territory (FCT) in Nigeria from 2011 to 2016. The components of the states' spending are recurrent, capital and extrabudgetary spending

Year	Recurrent (N' Billion)	Capital (N' Billion)	Extra Budgetary (N' Billion)	Total (N' Billion)
2011	2055.70	1375.20	111.00	3541.90
2012	1664.40	1965.30	215.40	3845.10
2013	1948.43	1890.41	207.97	4046.80
2014	2120.48	1862.52	0.00	3983.00
2015	2267.34	1201.82	0.00	3469.16
2016	2399.24	970.61	69.32	3429.17

Source: CBN, 2016

Table 2: Gross state governments spending

Table 2 shows that the average recurrent, capital and extra-budgetary spending of state governments are N2,075.93 billion, N1,544.31 billion and N100.62 billion respectively.



Figure 9a: Share of gross state governments spending Source: Authors' computation, 2017 (Data sourced from CBN) Figure 9a shows that the states' average recurrent spending on salaries, wages and overhead is 56 percent of the states' total spending, while the average capital spending and extrabudgetary spending are 41 percent and 3 percent of states' total payments respectively. Although the share of recurrent spending is less at the state level than at the federal level, salaries, wages and overheads still constitute the bulk of spending at state level.

This high percentage is expected to have a short-term positive impact on financial inclusion. Figure 9b shows the states' recurrent spending increased from 58 per cent in 2011 to 69.8 per cent in 2016, while capital and extra-budgetary spending decreased from 38.8 per cent and 3.1 per cent to 28.2 percent and 2 percent respectively in the same period.

USTAINABLE INCLUSIVE





Figure 9b: Annual share of gross state governments spending Source: Authors' computation, 2017 (Data sourced from CBN)

LOCAL GOVERNMENT PAYMENTS

The breakdown of the spending at the third tier of government follows patterns similar to those of federal and state governments in which recurrent spending constitutes the bulk of total spending as shown in Table 3.

Year	Recurrent (N' Billion)	Capital (N' Billion)	Total (N' Billion)
2011	1,279.77	352.15	1.631.92
2012	1,345.42	299.39	1,644.80
2013	1,413.97	392.95	1,806.91
2014	1,432.60	181.23	1,613.83
2015	1,150.43	95.90	1,246.32
2016	980.56	77.27	1,057.84

Source: CBN, 2016

Table 3: Gross local governments spending







Figure 10: Share of gross local governments spending Source: Authors' computation, 2017 (Data sourced from CBN)

Figure 10 shows recurrent spending increased for local governments in the period. The figure shows recurrent spending increased from 78 per cent in 2011 to 93 per cent in 2016. Capital spending declined significantly from 22 percent in

2011 to 7 percent in 2016. Whilst capital spending is known to impact significantly on long-term developmental projects, the declining trend becomes worrisome as it impacts negatively on the long-term goal of financial inclusion.

III. EFFECT OF GOVERNMENT PAYMENTS ON FINANCIAL INCLUSION

According to World Bank, financial inclusion is measured by accessibility, usability and quality of financial services. In Nigeria, financial inclusion is measured by adult population that has access to and use financial services irrespective of medium of access - traditional or digital channels.



^{22.} Global Findex, The World Bank's Financial Inclusion Report, 2016.

Nexus of Financial Inclusion, Economic Growth and Income





Figure 11 shows the financial inclusion level in Nigeria for both formal financial inclusion and informal financial inclusion. The result shows an increase in formal financial inclusion from 42.5 percent in 2012 to 48.6 percent in 2014. The trend however remained unchanged for the year 2016. The informal financial inclusion declined from 17.3 percent in 2012 to 11.9 percent in 2014 and then to 9.8 percent in 2016. The trend in formal financial inclusion is similar to the trend recorded for the share of government recurrent spending at the three tiers of government. On the other hand, informal financial inclusion declined in a trend similar to those of shares of government capital and transfer payments.

GOVERNMENT TRANSFER PAYMENTS AND FINANCIAL INCLUSION

ata from Global Findex shows that 7.7 percent of adult Nigerians received government transfer payments in 2014. The data further shows the difference in financial behavior of recipients of government payments compared to the non-recipients of the payments

Table 4: Difference in Financial Behavior between Recipients of Government Transfer Payments and Non-recipients of Government Transfer Payments

In the past 12 months, saved or set aside money in:	Any Difference ?	
Farm or business	Yes	
Old Age	Yes	
School Fees	Yes	
In the past 12 months, saved or set aside money in:		
A formal financial institution	Yes	
An informal savings club	yes	
In the past 12 months have borrowed from:		
A formal financial institution	Yes	
Store credit	Yes	
Family or friend	Yes	

Table 4 shows that there are significant differences in financial behavior between recipients and non-recipients of government payments. Recipients of government payments saved more for farms or business, old age and school fees. The recipients also saved and borrowed more from formal and informal financial institutions.

In Figure 12, 88.3 percent of government transfer payment recipients saved in 2014 while 68.8 percent of

those that did not receive government transfer payment saved. In terms of borrowing, Figure 13 shows that while 62.3 percent of the recipients borrowed, only 43.5 percent of non-recipients of government transfer payments borrowed. The results suggest that government transfer payments recipients save and borrow more that the non-recipients.

23. Global Findex, The World Bank's Financial Inclusion Report, 2016.

The results suggest that government transfer payments recipients **save** and **borrow more** that the non-recipients.







GOVERNMENT RECURRENT PAYMENTS AND FINANCIAL INCLUSION

Data obtained from EFInA 2016 shows that 4.4 million or 4.6 percent of adult population in Nigeria earns salaries/wages from government (federal, state and local government) while 10.4 million or 10.8 percent of adult population in Nigeria receive salaries/wages from formal/informal businesses and from individuals for chores such as domestic chores. In terms of financial behavior of recipients of government recurrent spending (salary and wage earners), the data shows that there is a significant difference in financial behavior between government employees and non-government employees.

24. Enhancing Financial Innovation and Access (EFInA) database, 2016

Any difference in financial behavior between government employees and non-government employees?

Savings	Yes
Formal Versus Informal savings	Yes
Borrowing	Yes
Formal Verus Informal savings	Yes





In the analysis, 83.8 percent of government employees saved compared to 84.7 percent of non-government employees that saved. The results suggest that, generally, government employees save less often than the non-government employees. In terms of how salary/wage earners save, 90.1 percent of government employees save in banks and other formal financial institutions compared to 71.6 percent of nongovernment employees who save formally. In terms of borrowing, government employees borrow more than non-government employees with 40.3 percent of government employees borrowing in the past 12 months when compared to 35.8 percent of non-government employees. 29.5 percent of government employees that borrowed obtained the loan formally from banks and other formal institutions. However, only 8.7 percent of non-government employees borrow formally.













GOVERNMENT PAYMENTS AND FINANCIAL INCLUSION – CORRELATION ANALYSIS

Government payments are made to businesses and individuals. Recurrent expenditure on salaries and wages from any of the three tiers of government is made to individual employees while the recurrent expenditure on consumable office supplies and services usually goes to businesses. Recurrent government payments are expected to bring the unbanked new government employees and owners of businesses (suppliers of goods and services) into formal financial systems as governments digitize their payments. Also, government's capital payments to contractors for creation or acquisition of fixed assets is expected to have a positive impact on financial inclusion as the contractors also pay the unbanked employees and suppliers engaged in the projects.

Lastly, transfer payments made without goods or services being received in return, are usually targeted at the unbanked poor and therefore expected to have a very strong positive impact on financial inclusion. The level of relationship between government payments (federal government recurrent (FGR), federal government capital (FGC), federal government transfer





(FGT), state governments' recurrent (SGR), state governments' capital (SGC), state governments' extra-budgetary (SGE), local governments recurrent (LGR) and local government capital (LGC) spending) and financial inclusion (formal financial inclusion (FFI) and informal financial inclusion (INFI)) from 2011 to 2016 in Nigeria is investigated. The coefficients of the Pearson correlation between government payments and financial inclusion are presented in Table 6.

Table 6 shows the type and degree of association between different forms of government payments and financial inclusion - formal and informal in Nigeria. The government payments are federal government (recurrent, capital and transfer), state governments (recurrent, capital and extra-budgetary) and local governments (recurrent and capital) spending. The government spending analyzed above does not include off-budget spending by independent government agencies. There is anecdotal

The results show that FGR, FGT, LGR and LGC are statistically significant to FFI but FGC, SGR, SGC and SGE are not statistically significant at least at the 10 percent significance level. The informal financial inclusion variable, INFI, is positively correlated with Federal Government capital and transfer payments, state government capital and extra budgetary payments and local government capital payments but negatively related to government recurrent payments in all the three tiers. INFI is

Table 6: Correlation matrix of Government payments and Financial Inclusion

statistically significant to FGR, FGC, FGT, SGR, SGE, LGR, LGC and FFI but not statistically significant to SGC at least at 10 percent significance level.

The result provides evidence for using government payments to drive financial inclusion in Nigeria. The results clearly show that government recurrent payments especially at the federal and local government levels potentially drives formal financial inclusion. However, with government's plans of cutting down the share of recurrent expenditure, its use in driving formal financial inclusion may not be effective. On the other hand, the findings show that informal financial inclusion is driven by the government's capital payments by the three tiers of government, federal government transfer payments and the state governments' extra budgetary spending.

The results show that government payments to contractors for capital projects and subsequent payments to employees and suppliers end up more in the informal financial system. The results also show that the Federal Government transfer payments drive informal financial inclusion with little or no impact on the formal financial inclusion. Evidence to show that a proportion of these off-budget payments are not digitized. The correlation matrix in table 6 shows that formal financial inclusion variable, FFI, is positively related to government recurrent payments at the three tiers of government but negatively associated with government capital payments for the three tiers of government, Federal Government transfer payment and State Governments' Extra budgetary payments.

FGR FGC	1 -0.961*** 1 (0.002)								
FGT	-0.754* (0.083)	0.544 (0.265)	1						
SGR	0.774* (0.071)	-0.793* (0.060)	-0.467 (0.350)	1					
SGC	-0.742* (0.091)	0.760* (0.079)	0.448 (0.373)	-0.978*** (0.001)	1				
SGE	-0.570 (0.237)	0.584 (0.224)	0.345 (0.503)	-0.669 (0.146)	0.499 (0.313)	1			
LGR	0.927*** (0.008)	-0.889** (0.018)	-0.703 (0.119)	0.718 (0.108)	-0.618 (0.191)	-0.780* (0.067)	1		
LGC	-0.927*** (0.008)	0.889** (0.018)	0.703 (0.119)	-0.718 (0.108)	0.618 (0.191)	0.780*- (0.067)	1.000*** (0.000)	1	
FFI	0.759* (0.080)	-0.596 (0.212)	-0.893** (0.017)	0.474 (0.342)	-0.368 (0.473)	-0.658 (0.156)	0.827** (0.042)	-0.827** (0.042)	1
INFI	-0.894** (0.016)	0.789* (0.062)	0.840** (0.036)	-0.745* (0.089)	0.654 (0.159)	0.765* (0.076)	-0.922*** (0.009)	0.922*** (0.009)	-0.938*** (0.006)





This trend is also applicable to the state governments' extra budgetary spending. It is evident from this study, that government efforts should be channeled at intensifying the shares of capital expenditure to drive financial inclusion. In addition, concerted effort should be made by all the tiers of government to digitize the payments to achieve the desired impacts on financial inclusion.

COMPARISON OF FINDINGS IN NIGERIA WITH OTHER COUNTRIES

Data of central government payments and financial inclusion from four selected lower-middle income countries are analyzed and the results compared to that of Nigeria. The four countries examined - India, Indonesia, Kenya and Pakistan, also share similar socio-cultural behavior with Nigeria. Financial inclusion data for the years 2013, 2014, 2015 and 2016 for these countries are sourced from Financial Inclusion Insights (FII) from Intermedia. The government payment data of the countries are sourced from the Public Finance Departments and/or Central Banks of the countries.

The average share of recurrent, capital and transfer payments of the total budgets for the four countries and the average formal financial inclusion rates over the four year period are shown in Table 7.

The average recurrent to total spending ratios for the four countries are more than the corresponding capital to total spending ratios. The average shares of recurrent spending to total budgets for Kenya and Pakistan, at over 70 percent, are comparable to Nigeria's federal government average share of recurrent spending. In terms of formal financial inclusion, Kenya has the highest average proportion of adult population with access to formal financial services of 68.3 percent while Pakistan, at 8.3 percent, has the least formal financial inclusion rate. A closer look shows that the structure of government expenditure in Pakistan, in terms of the type of government spending, is similar to that of Nigeria. This suggests that data on the type of government spending might not be enough to examine the impact of government payments on financial inclusion for these countries. Data on the recipients of the payments and the mode of payments also need to be considered to fully investigate the relationship between government payment and financial inclusion.

Figures 18a - 18d show the line charts of the recurrent, capital and transfer payments over the four-year period for India, Indonesia, Kenya and Pakistan respectively. The charts also show the trends of formal financial inclusion rates for the countries over the same period. The charts show that the proportions of recurrent spending to total spending for three of the four countries increased steadily over the period while the shares of capital spending decreased over the period for the countries.

Country	Recurrent (% of total Budget)	Capital (% of total Budget)	Transfer (% of total Budget)	Formal Financial Inclusion <i>(% of adult</i> <i>population)</i>
India	53.9	39.3	6.8	57.3
Indonesia	53.6	15.3	31.1	24.3
Kenya	74.5	25.5		68.3
Pakistan	71.3	19.6	9.1	8.3
Nigeria	75.9	16.8	7.3	38.3

Table 7: Comparison of Structure of Government Payment and Financial Inclusion in Four Selected Countries and Nigeria

Source: Authors' computation (Data sourced from the countries' central banks and Intermedia)





















Kenya, with the highest formal financial inclusion rates of the four countries, recorded little or no changes in the proportions of recurrent and capital expenditure and in the percentage of adult population with access to formal financial services over the four-year period. Of the four countries, India has the lowest recurrent expenditure to total expenditure ratios and the highest capital expenditure to total expenditure ratios. The country's recurrent expenditure ratio increased steadily from 2013 to 2016 while the capital expenditure ratio decreased steadily over the same period. In terms of financial inclusion, India recorded the greatest increase in formal financial inclusion rates from 47 percent in 2013 to 63 percent in 2016.

Although the results above suggest some form of correlation between government payments and financial inclusion in these countries similar to that of Nigeria, details of the recipients of the payments and the mode of payments are needed to provide further evidence for the relationship.





IV. CONCLUSION

The paper examines the impact of government payments on financial inclusion in Nigeria. It analyses the key types of government payments by the three tiers of government in Nigeria and the impact of each of the payment types on formal and informal financial inclusion.

The findings show that government payments can be used to drive financial inclusion in Nigeria. While increase in share of government's recurrent expenditure in the budget drives formal financial inclusion, its negative impact on economic development does not make it an effective option. On the other hand, the results show that government's capital and transfer payments drive informal financial inclusion. The use of government's capital and transfer payments presents a more viable option of driving financial inclusion when compared to the government's recurrent payments. However, there is a need to digitize the payments to move the included population to the formal financial systems

The findings show that government payments can be used to drive financial inclusion in NIGERIA.



V. POLICY RECOMMENDATION

The three tiers of government should consider the following recommendations in other to achieve the financial inclusion target for 2020:

- Fully digitize payments of salaries and wages to government employees to accelerate formal financial inclusion. Full digitization of payments of salaries and wages will also reduce costs, increase efficiency and transparency and broaden usage of formal financial services. To address the constraint of recipients' lack of identity document in the digitization of government-to-person (G2P) payments, government should use the social safety net programme to drive identity enrolment by NIMC. Also, there is need for government to incentivize infrastructure diffusion at the last mile to fast-track digitization of G2P payments in these areas.
- Increase the share of transfer payments in the budget through the implementation of social cash transfer programs to financially include the recipients. The government transfer payments should, however, be fully digitized to bring the

recipients of the transfers into the formal financial system

- Increase the share of capital spending in the budget and engage the private sectors, including the firms that execute government's capital projects, on the need to digitize payments to individuals and businesses engaged in the projects. Government's procurement policies should be amended for government's contractors to provide evidence of full implementation of digital payment systems for award and/or payment for government projects.
- To ensure that government-to-business payments positively affect financial inclusion, government should, in instances where foreign loans are employed for infrastructure development, negotiate enhanced local content participation to ensure that Nigerians access financial services from payments received from the projects.
- The federal and state governments should consider working with the Local Government Areas on implementations of capital projects and transfer payments as local government spending have the most impacts on financial inclusion.

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About SIDFS

The Sustainable and Inclusive Digital Financial Services (SIDFS) initiative of the Lagos Business School engages in research and advocacy projects with the goal of creating an inclusive ecosystem for financial services. The initiative seeks to gain an in-depth understanding of the digital financial services and financial inclusion landscape while providing thought leadership on sustainable business models to deliver digital financial services to the unbanked poor. Our overall objective is to support the development and promotion of sustainable solutions to Nigeria's financial inclusion challenges and help more Nigerians access the financial services they need to improve their lives.

Founded in 2015, the initiative combines rigorous research (which informs a pragmatic approach to responsible market development) with an evidence-based advocacy platform (to inform policy and influence key decision makers in the industry).

The Nexus Series consists of six technical papers exploring the relationship between financial inclusion and macroeconomic indicators





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