The Effect of Cashless Policy of Government on Corruption in Nigeria

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Abstract

Corruption has been identified as a complex, endemic, and multi-layered problem that threaten the very existence of Nigeria and various efforts have been made by Nigerian government to curb the menace. A cashless policy was recently initiated to curb corruption among other objectives. This study therefore assessed the perceptions of stakeholders on the types of corruption that can be reduced by the cashless policy; examined the effectiveness of the policy in curbing corruption; and identified critical success factors for effective implementation of the policy. This was with a view to providing information on the effect of the cashless policy on corruption in Nigeria. Primary and secondary data were sourced for this study. Primary data were sourced through the administration of unstructured questionnaire to 100 purposively selected respondents with 25 respondents each from the banking sector, government officials, government contractors, and academics. Secondary data were sourced through library research. The data collected were analysed using descriptive statistics. The results found out that no single strategy can address all types of corruption and that the cashless policy can only reduce petty corruption which is the lowest level of corruption as against all forms of corruption. The study concluded that the inevitability of addressing the root cause of corruption and devising compatible, systemic, and multi-pronged solutions is the most appropriate approach to addressing the menace. This will require enacting or modifying legislation, having effective punishment for corrupt individuals, and systemic changes occasioned by re-engineering processes that interface with the common man through the use of innovative technology solutions such as electronic governance, which will play the role of empowering the citizens by making governance more transparent and citizen-friendly.

***Keywords**: Corruption, Cashless, Public Sector.*

Introduction

Corruption is a phenomenon that has existed throughout the ages, ancient civilisations have traces of wide spread corruption and illegality, over the last two decades however, the issue of corruption has attracted renewed interest among academics and policy makers. Concerns about corruption have mounted in recent years, in tandem with growing evidence of its detrimental impact on development (World Bank, 2004). Studies show that corruption slows growth, impairs capital accumulation, reduces the effectiveness of development and, and increase income inequality and power (Pathak, Singh, Belwal, Naz, & Smith, 2003).

The word “corruption” comes from the latin verb “corruptus’’, which means ‘to break’. Conceptually, corruption is a form of behaviour that departs from ethics, morality, tradition, law, and civic virtue (United Nation on Drugs and Crime, 2005). It includes both monetary and non-monetary benefits. It is seen as a cancer that eats the social, political and economic fabrics of development and requires the involvement of every citizen to combat it (Bitarabeho, 2003). The World Bank and Transparency International view corruption as the use of one’s public position for illegitimate private gains. It is also defined as the behaviour of private individuals or public officials who deviate from set responsibilities and use their position of power in order to serve private ends and secure private gains.

Although perceived differently from country to country, corruption tends to include fraud, bribery, political corruption, conflict of interest, embezzlement, nepotism and extortion (World Bank, 2004; Rose-Ackerman, 1999; Tanzi, 1995).

Not surprisingly therefore, there has been a growing global movement to fight corruption. In addition, many governments have devoted substantial resources and energy to fighting corruption. In Nigeria, efforts have also been made by the government to combat corruption, among which are the establishment of two anti-corruption agencies which are the Independent Corrupt Practices and related offences Commission (ICPC), and the Economic and Financial Crime Commission (EFCC), and lately the introduction of a cashless system of payment. The cashless policy does not refer to an outright absence of cash transactions in the economy but one in which the amount of cash-based transactions are kept to the barest minimum while other forms of payment, especially electronic based payments are utilized. It refers to widespread application of computer technology in the financial system. According to the Central Bank of Nigeria (CBN), the cashless policy is to achieve among other objectives, the curbing of corruption which thrive through multiple systemic leakages. The study therefore assessed the perceptions of stakeholders on the types of corruption that can be reduced by the cashless policy; examined the effectiveness of the policy in curbing corruption; and identified critical success factors for effective implementation of the policy. This was with a view to providing information on the effect of the cashless policy on corruption in Nigeria.

Review of Literature

Corruption

Corruption manifests itself in many forms which include fraud, embezzlement, bribery, favoritism, extortion, abuse of discretion, and conflict of interest (United Nations office of Drug Control and Crime Prevention, 2005). It is considered as a dynamic and complex social phenomenon given its changing meanings, manifestations, proliferations, and perceived impacts. Klitgaard (1988) provided a classical analysis of corruption by pointing out that acts of corruption involve three parties namely the principal, agent, and the client. The principal creates rules directed at assigning task to the agent and these rules were intended to regulate exchange with the client. However, a conflict of interest may arise between the principal and agent when each of the two actors is maximizing utility. A client may also provide opportunity for the agent to cheat. Consequently, corruption will take place when the agent colludes with the client to sideline the rules set up by the principal for personal aggrandisement. Studies show that the set of behaviours designated as corrupt are not homogenous, since, there are many forms of corruption with different types of participants, cultural and socio-economic contexts and techniques. This makes corruption difficult to define; however, many researchers have attempted to give corruption a definition with each lacking in some aspect. The most popular and simplest definition is the one given by the World Bank that "it is the abuse of public power for private benefit (World Bank, 2004). Other definitions are; it is the intentional non-compliance with arm's length relationship aimed at deriving some advantage from this behaviour for oneself or for related individuals (Tanzi, 1995). It is seen as a function of dishonesty, a lack of integrity and the abuse of private and/or public office for personal gain.

There is contention about whether corruption is perceived similarly in different societies and at different times in the same society and in this regard, there are various schools of thought on how corruption should be conceptualized (Habtemichael, 2009). The Relativist school of thought contend that what is corrupt in one society may not be so in another, hence, the definition of corruption will depend on the country and culture in question. The Universalist view seeks to define corruption by identifying common properties that make particular actions corruption in all societies, corruption is evil and will not go uncondemned regardless of where it is committed and what type it is. Corruption has been variously categorized, the major categories being petty corruption, grand corruption, and systemic corruption. Petty corruption, also known as administrative or bureaucratic corruption relate to tips, commissions or kickbacks that are usually demanded by junior officers in the public sector from the public in exchange for official services to be rendered. Grand or political corruption refers to the behavior of elected officials, including politicians, paying bribes to award contracts and influence elections, and using their position to provide patronage. Systemic corruption refers to a wholly corrupt system. It pervades the entire society and in the process become routinised and accepted as a means of conducting everyday transactions. It is entrenched corruption which affects institutions and influences individual behaviour at all levels of a political and socio-economic system, and tends to be monopolistic, organized and difficult to avoid.

There is a widespread consensus in the literature about the causes of corruption, however, because of its complex nature; the list of causes is never exhaustive. Some of the causes of corruption as listed in literature include: (i) cash-based economy: Nigeria payment system has been predominantly cash-based for both positive and negative reasons, negative because of its anonymity and intractability in corrupt transaction; (ii) Extra budgetary accounts: which go into illegitimate uses, (iv) public sector wages: the World Bank development report demonstrated that countries with poorly paid civil servants tended towards higher rates of corruption, (iv) penalty system: penalty imposed upon corrupt acts plays an important role in determining the probability that illegal acts would take place, (v) Tone at the top: this has to do with examples set by top political leaders, (vi) weak institutions: institutional in-efficiencies such of weak legislative and judicial systems, corrupt polices, bureau critic red tape are promoters of corruption; (vii) culture of the society that stress economic success as an important goal irrespective of the means promote corruption; (viii) monopoly power: this refers to the circumstances when public officials have absolute authority to enforce regulations and policies; (ix) discretion: which refers to the ability of public officials to enforce regulations and policies in a discretionary manner; (x) lack of accountability and transparency: which refers to the lack of public official's accountability and transparency over their actions that enable them to exploit their power (Asaolu, 2013; Kaufman, Kraay, & Mastruzzi, 2003).

There has been mixed arguement on the effect of corruption on the society. The efficiency – enhancing school of thought believes that corruption helps a country's economic growth in several ways. Bribes are seen as a way to reduce bureaucratic inefficiency in government's administration by giving an extra stimulus to public servants who feel unmotivated to work as a result of their low wages. It was believed that corruption was an effective and necessary tool for doing business in developing countries. Contrary to the above argument, the inefficiency enhancing school of thought has surpassed them by presenting incontestable empirical evidence that corruption decreases the effectiveness of industrial policies and forces businesses to go underground in order to avoid bureaucracy, taxes, and bribes needed to function.

Nigeria's Move to a Cashless Regime

The Central Bank of Nigeria (CBN) in 2012 commenced the implementation of the policy of the cashless Nigeria project, which aims at reducing (not eliminating) the amount of physical cash in circulation in the economy, and encouraging more electronic-based transactions. The policy kicked off in January, 2012 with a pilot scheme implemented in Lagos. The scheme was initially set to run till June 2012 but was later revised to the end of 2012, after which the nationwide implementation will kick off in January, 2013.The policy is expected to achieve the following objectives: drive development and modernization of our payment system in line with Nigeria's Vision 2020 goal of being among the top 20 economies by the year 2020; reduce the cost of banking services (including cost of credit) and drive financial inclusion by providing more efficient transaction options and greater reach; limit high cash usage outside the formal sector and thereby improve the effectiveness of monetary policy in managing inflation and encouraging economic growth; stem high cost of cash handling along the value chain from CBN and the banks, to corporations and traders; reduce high risk of cash handling which encourages robberies, thefts and other cash related crimes; and curb inefficiencies and corruption which thrives through multiple systemic leakages. The ultimate object of the cashless policy is the attainment of the cashless or cashlite economy. A cashless economy is simply at its prime when all means of payments are carried out without the use of physical cash. It does not refer to an outright absence of cash transactions in the economy setting but one in which the amount of cash-based transactions are kept to the barest minimum while other forms of payment, especially electronic based payments are utilised. In a cashless economy, the amount of cash with an individual is irrelevant as payments can be made by any of a plethora of credit cards or bank transfer.

The cashless society envisioned and discussed herewith refers to the widespread application of computer technology in the financial system. Some aspects of the functioning of the cashless economy are enhanced by e-finance, e-money, e-brokering and e-exchanges. These all refer to how transactions and payments are effected in a cashless economy.

Two factors make the shift to a cashless society possible: the first is the availability of proven technology: telecommunication networks, which are crucial for authorising the cashless payments as well as clearing and settlement, are becoming much more effective. Both fixed-line telephone and wireless networks can convey not only voice, but data or even images that allow people to make and authorise their payments online in real time. With the advent of wireless technology, people can now make their payments any place at any time. The second factor is customers' need for more efficient payment instruments. Customers are now more demanding and sophisticated. They need better services at lower prices. These two trends are significantly altering the payments market. The World Payments Report 2012 stated that the global volume of non-cash payments has continued to grow by 7.1% annually; card usage has continued to grow while cheque usage has declined from 22% to 16% of all non-cash global transactions.
The key instruments of the cashless policy include:

(i) Daily cumulative cash limit: N500, 000 and N3 million on free cash withdrawals and lodgements by individual and corporate customers respectively. These are upward reviews from the daily cumulative limits of N150, 000 and N1 million set in January, 2012.
(ii) Processing fees for withdrawals above limit: 3% for individual and 5% for corporate. These are downward reviews from the respective 10% and 20% fees set in January, 2012.
(iii) Processing fees for lodgements above limit: 2% for individual and 3% for corporate. These are downward reviews from the respective 10% and 20% fees set in January, 2012.
(iv) Exemptions from processing fees: this applies to accounts operated by ministries, departments and agencies (MDAs) of the federal and state governments, solely for the purpose of revenue collections. Exemptions also extended to embassies, diplomatic missions and multi-lateral and aid-donor agencies, as well as micro finance banks.

The system is targeted at encouraging electronic means of making payments, and not aimed at discouraging cash holdings. What is anticipated by the policy is that instead of making large withdrawals to effect payment for goods and services, such money will be kept in the banking system so that payments are made through electronic means. Some of the ways transactions will be consummated under the new dispensation include the following: (i) Automated Teller Machine (ATM): ATMs can be used for balance enquiry, cash withdrawal, cash deposit, funds transfer and bill payment; (ii) Mobile Banking/Payments: banking can be conducted from the convenience of mobile phones. It can be used for balance enquiry, funds transfer, and bills payment; (iii) Internet Banking: Instant balance enquiry, funds transfer, and other transactions can be made. Most banks require their customers to have a token device for internet banking services. This is to give maximum security for internet banking applications; (iv) Point-of-Sale (POS) Terminals: POS terminals allow customers to receive card payments for sale of products and services. It also allows customers to make commission from sales of third party products and services (e.g., recharge cards, bill payments, etc); (v) Electronic Funds Transfer: Money can be transferred electronically from one account to another.

Holistic View to Curbing the Menace Of Corruption

Though the potential for controlling corruption by means of cashless economy may be possible, it does not work in isolation from other anti-corruption systems. Cashless policy does not work magic in a corrupt environment; they are only as good as the people who utilise them-without integrity, cashless policy is incapable of controlling corruption. There is no anti-corruption silver bullet and no single best way to deal with corruption. If an anti-corruption strategy is to be viable, it must be designed as a multi-pronged endeavour that includes a set of complex measures in different spheres of society.
Thus, cashless economy will not bring any tangible results in the anti-corruption effort unless it is accompanied by other measures, some of which are as discussed below:

(i) Good governance (including e-governance):

More open and representative governing systems that allow for a high level of civic participation typically have more vibrant civil society organisations that can publicly reveal the abuses of corrupt officials and put their political futures at risk. The next revolution in public management is e-governance, which is expected to alter methods of service delivery and may bring about a basic relationship between and citizens at large and is currently taking place the world over at varying degrees. It has been discovered that e-governance is a system that helps to fight corruption through increased transparency in conducting public/private affairs. ICTs can be of help in minimising the opportunities for malfeasance through simplification of procedures and regulations and limit the discretion in decision-making processes;

(ii) Transparency and Accountability**:**

Secrecy and the failure to disclose information facilitates corrupt activities and its concealment. It also enables poor governance to be concealed which in itself will promote corruption. Consequently, transparency and accountability are important anti-corruption tools. To institute accountability and transparency in government, both internal and external pressure is needed. Accountability must be generated by a combination of political will from the top and public pressure from the base. Improving accountability entails efforts to improve both the detection and sanctioning of corrupt acts. Better detection requires measures to improve transparency and oversight while better sanctioning involves establishing criminal and administrative sanctions. It is argued that Freedom of Information Bill (FOI) will improve accountability by enhancing the transparency of government operations. FOI legislation will also inform citizens of the procedures for government service, curtailing attempts to subvert the system or to demand gratuities for information that legally should be public.

(iii) Legislative Oversight:

Legislative oversight provides a powerful check on executive authority, enhancing accountability where a dominant executive branch might otherwise operate with impunity. For instance, recent amendments to legislation in some countries have directed the anti-corruption commission and the Inspector-General of Police, respectively, to report to Parliament rather than the Head of State;

(v) Judicial Reforms:

Accountability requires not just establishing sanctions, but enforcing them on an impartial basis. Without enforcement, tough laws have no impact on reducing corruption, and may foster general cynicism about reform efforts. The Judiciary needs independence from the executive branch as well as institutional capacity. Strengthening judicial independence involves revising procedures for appointing, assigning, remunerating, and removing judges and prosecutors to insulate them from political influence. Strengthening the institutional capacity of the judiciary involve modernising court systems, to facilitate swift and fair procedures. This can be done by improving legal training, establishing codes of conduct for judges, attorneys, clerks and litigants;

(vi) Civil Service Reform:

Reforming the civil service is a major element of virtually every national anti-corruption strategy. Critical elements of public sector reforms will generally address individual factors, collective factors and systemic factors. For instance, better training and remuneration are intended to change individual behaviours by reducing the incentives to engage in corrupt behaviours. Systemic reforms such as reduction of discretion and the de-layering or streamlining of overly-complex bureaucratic structures are intended to combat corruption by improving transparency and reducing the opportunities for corruption to occur. To be effective against corruption, reforms at different levels of government must be developed and integrated. ‘Top-down’ reforms developed for central government institutions take longest time to reach local governments; however, it is the reform of local government institutions, delivering basic services that will make the greatest difference for the average citizens. Failure to deal with corruption at all levels in a co-ordinated manner may result in reforms that are only partly effective as we have seen over the years.

(vii) Societal Reform:

Efforts to fight corruption include societal reforms to change attitudes toward formal political processes and to mobilise political will for change. Societal reforms generate new information about the costs and causes of corruption to stimulate demand for change and provide guidance on what to change;

(viii) Promoting Ethical Principles:

Monitoring and enforcing anti-corruption laws are expensive and the compliance process must be supplemented by codes of conduct from trade and professional associations. The development of codes of conduct can control the acceptance of gifts and misuse of entrusted property. Various anti-corruption initiatives are not sufficient unless coupled with ethical theory to fight corruption, that is, there is a need to add the ethical dimension to the fight against corruption; (viii) Effective and Appropriate Sanctions: Applying sanctions to corrupt acts is an important step toward establishing accountability. Sanctions should be centered on legislation to criminalise corruption. In some countries, penal codes allow prosecution not only for direct evidence of corruption but also for possessing wealth and income that cannot be traced to lawful activities.

Research Methodology

This study assessed the perceptions of stakeholders on the effect of cashless policy of government on corruption in Nigeria. The study was conducted in Lagos because the CBN commenced the implementation of the policy in January 2012 with a pilot scheme in Lagos after which the nationwide implementation is expected to kick off in 2013. The population of the study consisted of stakeholders that have been identified for the project and these include bankers, government officials, contractors/businessmen, and academics. Primary and secondary data were used for this study. Primary data were sourced through the administration of unstructured questionnaire on the selected respondents. The questionnaire consisted of two parts, the first part elicited information on the demographic characteristics of the respondents while the second part elicited information on the perceptions of the respondents on the types of corruption that can be reduced by the cashless policy; the effectiveness of the cashless policy in curbing corruption; and the critical success factors for effective implementation of the policy. Secondary data were sourced through library research

Analysis of Findings

(a) Types of corruption that can be reduced by the cashless policy of Government

Given the fact that corruption can be broadly categorized into petty, political, and systemic corruption, respondents were asked to identify the types of corruption that can be reduced by the cashless policy. 72% of the respondents affirmed that cashless policy can reduce only petty corruption and on the condition of automation of payment processes in government agencies (Table 1).

Table 1	**Types of corruption that can be reduced by the cashless policy**					
	Contractors	Civil Servants	Academics	Bankers	Total	Percentage
Political corruption	7	2	2	9	20	20
Systemic corruption	2	4		2	8	8
Petty corruption	16	19	23	14	72	72
Total	**25**	**25**	**25**	**25**	**100**	**100**

This is in line with previous studies that all types of petty corruption can be reduced through increased transparency achieved by using modern electronic media (Prahalad, 2005; Cho & Choi, 2004; Cisar, 2003; Yum, 2003).

(b) Effectiveness of cashless policy in curbing corruption

With respect to the effectiveness of the cashless policy in curbing corruption, 48% of the respondents affirmed that the policy is ineffective in curbing corruption while 5% believed that it is effective in curbing corruption (Table 2). This line of reasoning is in agreement with previous studies that despite the promises and capabilities of non-cash payment system powered by information and communication technology to fight corruption, the cashless policy is actually shifting corruption from one group of society to another and not really reducing it. The new system of payment has created a new vista for organized crime. It facilitates electronic fund transfer through vast amounts of money obtained through acts of corruption can be transferred around the globe within seconds (Cisar, 2003).

Table 2	**Effectiveness of the cashless policy in curbing corruption**					
	Contractors	Civil Servants	Academics	Bankers	Total	Percentage
Highly effective		2		3	5	5
Somewhat effective	7	14		8	29	29
Indifference	6	4	1	7	18	18
Not effective	12	5	24	7	48	48
Total	**25**	**25**	**25**	**25**	**100**	**100**

(c) Critical success factors for effective implementation of the cashless policy

The cashless policy cannot work in isolation from other anti-corruption systems, it cannot work magic in a corrupt environment, and it is only as effective as the people who utilise them. Consequently, respondents were asked to identify critical success factors for effective implementation of the cashless policy. 43 and 36 percents of the respondents rated electronic governance and transparency/accountability as the two most important critical success factors for effective implementation of the cashless policy (Table 3).

Table 3	**Cashless policy critical success factors**					
	Contractors	Civil Servants	Academics	Bankers	Total	Percentage
E-governance	8	15	11	9	43	43
Amendment to law	3	1	3	3	10	10
IT Infrastructure			4	7	11	11
Transparency/Accountability	13	9	7	6	36	36
Total	**25**	**25**	**25**	**25**	**100**	**100**

Conclusion and Recommendation

The study assesses the effect of the cashless policy of government on corruption in Nigeria. Corruption has been identified as a bane of development in the country and the government in its effort to curb the menace introduced the cashless policy. The policy took off in Lagos as a case study in 2012 and is expected to be introduced to other states of the federation 2013. For the cashless policy to work as intended, government must first identify the type of corruption they are targeting and tackle the underlying specific drivers of such corruption identified. The study identified the fact that cashless policy may only work where the target is the reduction of petty corruption.

Though cashless policy may affect corruption in some ways, it is insufficient in itself, and needs to be complemented by other types of reforms. In certain cases, the corruption may actually shift corruption from one group of the society to another and not really reducing it.

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