

Nigeria's "Cashless" policy: Nigerian business responses to digitization policies

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The Nigerian government is a leader in West Africa in making the transition to digital payments. The government pays a majority of suppliers and employees digitally, and the central bank's "Cashless Nigeria" policy has successfully influenced many large businesses to transition their payments. The momentum that Nigeria's initiatives have built means that the key question now for many large businesses is "how" to make the shift to digital payments, rather than "when" or "if." This momentum is helping create a network effect and is lowering the use of cash, setting a strong example as it is now the largest economy in Africa.

This case study features four large businesses that have derived clear benefits by early adoption of digital payments, including the Nigerian Bottling Company contracted to Coca-Cola, and the Nigerian subsidiary of Italian shipping group Grimaldi. The case study also features the experiences of 600 small business suppliers, finding very limited adoption of digital payments among SMEs. The findings make clear the need for more incentives to support small businesses to transition to a digital payments ecosystem.

"Cashless Nigeria" is having a clear impact, influencing Nigeria's businesses and early adopters to embrace digital payments

The Central Bank of Nigeria (CBN) is implementing an aggressive strategy to reduce the use of cash in the economy in pursuit of greater efficiency, bringing more transactions into the formal financial system and increasing domestic resource mobilization. To this end, the CBN introduced the Cashless Nigeria policy in 2012, which few other similar countries can match in scope or ambition. The policy originally imposed on incorporated businesses a fee of 5% on all bank withdrawals of cash, and 3% for cash deposits, in excess of a daily limit, with lower fees

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for individuals. More recently, fees on deposits were discontinued as they were undermining the goal of taking cash out of the economy.

While some large businesses initially sought to avoid these fees by splitting deposits over several days or opening several accounts to avoid exceeding transactions limits, case study evidence collected in 2014 suggests the policy is starting to have a clear impact. Large businesses are increasingly shifting their payments to digital formats. In part, businesses are responding to the withdrawal limits and fees. However, managers interviewed for this case study also reported a change in attitudes about the competitive advantages that digital transactions can bring. Managers also expressed a desire to demonstrate good corporate citizenship by acting in step with the policy direction laid out by the Nigerian government.

Importantly, Cashless Nigeria has also included an extensive public information campaign to promote the benefits of the digital economy which appears to have played a role in the policy's positive impacts to date. The Nigerian government has also led by example and created momentum by adopting digital payment of some government salaries and suppliers.

On the basis of the interviews conducted for this case study, it is possible that the government's leadership and momentum are exerting a stronger influence on large businesses than any specific policy mechanism, such as withdrawal limits and fees. However, regardless of the relative impact of individual driving factors, the cumulative impact of these steps has begun to change business mindsets around the shift toward digital payments. The resulting "network effect" could help deliver a critical mass of businesses embracing digital payments, substantially lowering Nigeria's usage of cash.

Four Nigerian businesses leading the shift to digital payments

This case study examined the experience of four large Nigerian businesses that have gained clear benefits by early adoption of digital payments, drawn from the

manufacturing, distribution, shipping, and insurance industries. These profiles provide valuable insights into the motivations driving the transition to digital payments, and key impacts the Cashless Nigeria policy has had in each industry.

Nigerian Bottling Company: Helping individual vendors enter the digital economy

The Nigerian Bottling Company (NBC) is the national bottler and distributor for Coca-Cola in Nigeria, and has offices and depots throughout the country. NBC made a concerted effort in the three years to 2014 to transition its payments to digital formats, an initiative the company says it would not have undertaken without the Cashless Nigeria policy.

By 2014, NBC was paying all foreign suppliers and employees through bank transfers, and was paying domestic suppliers using a combination of bank transfers and checks. The company receives payments from four types of customers:

- Key accounts, such as large restaurants or grocers
- Wholesalers, usually small businesses with a fixed location and relatively few employees
- Buyers who only purchase a single product from NBC, rather than a range of beverages
- Everyday marketplace buyers

NBC found everyday marketplace buyers and single product buyers the most difficult to convince of digital payments, because cash generally dominates their entire commercial ecosystem.

However, NBC identified wholesalers as a key opportunity to digitize part of its value chain, and so negotiated with several banks to offer no-fee accounts to wholesalers (with annual revenue over US\$6,000). NBC also provided direct administrative support to these wholesalers through the account registration process. By 2014, NBC was collecting 35% of its sales to wholesalers through digital payments, and expected that share to rise to 60% within a year.

NBC's commercial staff did not immediately prioritize the shift to digital payments, preferring to focus on increasing sales volumes. However, the company's senior leadership clearly understood the potential benefits and continued to drive the transition, recognizing that digital payments:

- Create significant efficiencies by reducing the need for NBC sales representatives to collect cash from dealers in person
- Reduce business risks, particularly robberies, which previously led to higher insurance premiums

Fan Milk: Taking cash out of the system with mobile money

Fan Milk is a national producer and distributor of dairy and other beverages, selling to small and large wholesalers through distribution centers across the country. Fan Milk took its initial steps toward digital payments due to limits on cash deposits set out in the Cashless Nigeria policy.

Fan Milk partnered with a mobile money provider, Funds & Electronic Transfer Solutions (fets), to collect and convert cash payments to mobile money through agents at each of its distribution centers. By 2014, 80% of the company's collections at distribution centers were received digitally.

When deposit limits were dropped from the Cashless Nigeria policy, Fan Milk continued with its mobile money collection method because it avoided long bank queues, reduced the risk of robbery and embezzlement, and improved the company's cash flow.

Grimaldi: Digitizing payments for shipping customers and expatriate employees with onsite ATM facilities

Grimaldi Agency Nigeria operates a shipping terminal at the port of Lagos as the Nigerian subsidiary of an international shipping business based in Italy. In the three years to 2014, Grimaldi went from using cash or checks for 90% of all payments to making most transactions digitally. As of early 2014, Grimaldi

was receiving 50% of collections digitally, and had transitioned all outgoing supplier payments and employee salaries to digital formats.

Some expatriate employees initially resisted digital salary transfers because they did not have Nigerian bank accounts. However, the company arranged for a local bank to open accounts for these employees and installed an ATM in Grimaldi's office at the port to overcome this resistance.

To overcome some suppliers' resistance to electronic transfers, Grimaldi set out a predictable and rapid payments schedule, with funds more quickly available to suppliers than in the case of payment by check. Grimaldi was also able to use its market size to exert pressure on its suppliers to accept these payment arrangements.

Leadway: Tackling challenges with direct debits to increase digital collection of insurance premiums

Leadway Assurance Company is a large national insurer, offering personal and business insurance products. By 2014, Leadway had transitioned almost all outgoing payments from cash and check to digital formats. After a transition period of just two years, Leadway now pays 98% of employees by bank transfer, 90% of agents' commissions are paid digitally, and 99.5% of monthly insurance claims are paid digitally into policyholders' accounts.

Incoming payments, primarily premium payments, have been harder to transition, despite Leadway's efforts to promote the use of direct debits. This is mainly due to errors in bank platforms, and in the clearing functions performed by the Nigeria Inter-Bank Settlement System (NIBSS), the central switch owned jointly by Nigeria's banks and the country's central bank. Despite these challenges, by 2014 Leadway had reduced premiums paid by check from 70% to 40%.

Leadway also measured the costs and savings resulting from its move to digital payments. It noted a loss of float income on funds designated to pay claims, especially large payments to government departments,

some of which waited up to four months to deposit checks. However, the company still reports a net saving from the move to digital payments, largely because it now needs fewer staff to process payments.

Small businesses and consumers slower to adopt digital payments, discouraged by greater scrutiny and taxation in the formal economy

While the goal of Cashless Nigeria is to transition payments to digital formats at all levels of the business ecosystem, small businesses have not yet responded to the policy in any significant way. To assess the extent of small businesses' response, this case study conducted a survey of the payment behavior of around 600 small businesses in Lagos, in conjunction with the Nigerian National Bureau of Statistics (NBS). All businesses surveyed were suppliers of intermediate goods with 25 or fewer employees.

The survey found that 83% of respondents held a bank account in 2014; however, only 20% said they had made an effort to make payments digitally.

A key concern of small businesses was that formalization brings heightened scrutiny and an obligation to pay taxes. (Only 20% of small businesses surveyed said they pay federal taxes.) Accordingly, there is a clear need to create more effective incentives

for small businesses to embrace digital payments. Without further policy actions, there is a risk that Nigeria's early digitization progress with larger businesses could stall.

However the survey also showed some businesses recognized that the benefits of entering the formal economy and adopting digital payments are mutually reinforcing. This is because in order to open a corporate bank account, a business must be registered with the Corporate Affairs Commission. Formalizing a business through this process provides access to formal credit and higher cash limits under the Cashless Nigeria policy.

The very limited overall progress of smaller businesses in shifting to digital payments, and the continuing dominance of the cash economy, can also be seen in the very modest movement among consumers toward digital transactions. It is true that adoption of digital payments among consumers is increasing, potentially as a result of the government's public information campaign promoting digitization; however, this increase is from a very low base. The BTCA's diagnostic study of Nigeria found just 1% of consumer payments by volume, and 2% by value, were being made electronically when the study was conducted in late 2013. Similarly, a MasterCard study into cashless policies found only 1% of consumer payments at point-of-sale were electronic in 2013, putting Nigeria into the "incipient" category of countries in terms of consumer electronic payments.

Lessons to drive stakeholder participation across the business ecosystem

The experiences of the four large businesses profiled here, and the small businesses surveyed, present some important lessons to help ensure the success of Cashless Nigeria and similar policies.

1 Government policy is a key driver of stakeholder participation. While the CBN only has formal legal authority over the banking system, the early success of Cashless Nigeria shows how governments and central banks can use the policy levers at their disposal to influence multiple stakeholders across the economy.

Simply by proposing the Cashless Nigeria policy, the CBN created a paradigm that businesses needed to evolve in alignment with Nigeria's economic and technological direction in order to succeed. The experience of early adopters has also created an opportunity for governments and businesses to measure the benefits of the transition against its perceived costs.

2 Large corporates view digital payments as a way to reduce complexity in operations, as well as save on cost, improve cash flow, and reduce risks. Nigerian corporates are increasingly realizing that making payments electronically allows them to improve the efficiency of their processes and recordkeeping. These benefits have been especially useful for large corporates that manage a greater number of suppliers than small businesses, providing substantial cost savings and freeing up resources to use on more productive or sales-focused activities.

Some large corporates have also cited improvements to cash flow (as digital payments can be made in real-time, without the need for payer and payee to be physically present in the same location), and reduced risks of theft and fraud that often accompany cash-transacting processes.



3 The experience of many large corporates in Nigeria suggests that businesses need to show initiative, think laterally about their processes, and form new partnerships to reap the benefits of digital payments.

Many large businesses found it necessary to take new initiatives, such as investing in new equipment and technology, to make digital payments a viable option for their employees, customers, or suppliers. (For example, Grimaldi installing an ATM in its offices).

Forming new partnerships with other businesses, such as financial service or technology providers, also proved valuable for large businesses, allowing them to leverage existing expertise, networks, and products or services, rather than having to develop digital payment processes, networks, and infrastructure from scratch.

4 Cashless Nigeria has created a sense of inevitability around the shift to digital for large businesses. However, small businesses and suppliers are largely yet to embrace digital payments.

There is a clear need to provide more information to small businesses and suppliers about the benefits of digital payments to help overcome their concerns about the costs of entering the formal economy.

In terms of benefits, the tools that come with formal financial services often act as an incentive to small businesses to formalize. The survey showed that businesses making digital payments are also taking advantage of the record-keeping benefits of digital payment platforms. Public awareness-raising activities to highlight these benefits could support greater progress toward digital payments in the SME sector.

The most significant challenge is a perception among small businesses that the costs of formalization are high, requiring opening a bank account, registering a company, and paying taxes. Again public awareness-raising activities could help to dispel these concerns, or at least put them in perspective relative to the benefits of digitization, supporting further digitization.



Conclusion

The Cashless Nigeria policy has clearly delivered significant results, at least in relation to larger businesses. However, based on interviews conducted for this case study, these results may be less a result of the specific policy mechanisms deployed (such as fees and withdrawal limits), and more a result of the CBN and Nigerian government's leadership in creating momentum for change among corporate decision-makers. Regardless of the driving factors, the growing network of larger businesses joining the digital economy is a vital part of bringing Nigeria closer to a "tipping point," beyond which it will be even easier for businesses to make the shift to digital payments.

In relation to small businesses, however, stronger policy actions are required to explain the benefits of digitization and help overcome the perceived costs of entering the formal economy. The positive impact to date of Cashless Nigeria puts policymakers in a strong position to develop the policy actions needed on this front, and in doing so, extend to more Nigerians the benefits of the digital economy.



About the Better Than Cash Alliance

The Better Than Cash Alliance is an alliance of governments, private sector and development organizations committed to accelerating the shift from cash to electronic payments. The Better Than Cash Alliance is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. The UN Capital Development Fund serves as the secretariat.



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