A REVIEW OF CASHLESS POLICIES IN DEVELOPING ECONOMIES OF AFRICA

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ABSTRACT:

Cashless policies are being promoted in developing economies owing to the numerous benefits of cashless financial transactions over the use of cash for such transactions. This paper reviewed cashless policies in developing economies of Africa, highlighted its benefits and proffered remedies to its challenges. The benefits of cashless policies are numerous which include making financial transactions faster, cheaper, easier and safer.

Several challenges have marred the implementation of cashless policies in developing economies of Africa, most of which include: limited access to digital infrastructure, low levels of financial literacy, and a lack of trust in digital payment systems. Measures which should be taken to curb the challenges limiting cashless policy implementation in developing economies of Africa, include: enhancing access to digital infrastructure, including reliable internet connectivity and electricity, especially in the rural areas; creating awareness and promoting the use of digital payment systems, and setting up strong consumer protection measures to guard against fraud and other associated risks.

Keywords: Cashless policies, digital payment systems, developing economies,digital infrastructure, financial transactions.

INTRODUCTION

Millions of people in developing countries depend mainly on the use of cash for all their financial transactions. Cashless policies are being promoted in developing economies due to the numerous benefits of cashless financial transactions over the use of cash for such transactions. Cashless policy aims at reducing the use of cash forfinancial transactions. According to Ejiobih,Oni, Ayo, Bishung, Ajibade, Koyejo andOlushola (2019), cashless policy entails more electronic-based payments targeted at cutting down the amount of produced currency in the economy. In a cashless economy, money is spent without carrying it physically from one person to another(Adu, 2016).

Woleola (2017) reports that the most prominent cashless banking channels across the world are mobile banking, electronic card, internet banking, point of sale terminals, telephone banking and automated teller machine. According to the World Bank Development Research Group, mobile money, a financial technology enabling cashless transactions, transformed entire economies in developing countries, especially for about two billion people in these areas who had no bank account

(International Finance Corporation, 2011). The growth of digital technology is enabling more societies to become cashless.Another World Bank reportin 2014 gives evidence from across the world of the immediate benefits digital payments offer to both senders and receivers in developing economies and also the tendency for such payments to increase peoples access to affordable financial tools. (Klapper& Singer, 2014).This paper, therefore, seeks to conduct a review of cashless policies on developing economies of Africa, highlightits benefits and proffer remedies to its challenges.

Benefits of cashless policies and ways of enhancing the effects

The benefits of cashless policies, which entail cashless transactions are numerous, from faster transactions to reduced cost and risk associated with using physical currency, such as theft and fraud (Giwa, 2023). As the world becomes increasingly reliant on technology, the traditional way of doing business becomes less feasible. Thus, a cashless society offers a more convenient and secure alternative to physical cash. Electronic fund transfer, mobile payment apps and digital wallet are increasing becoming part of the lives of people in developing economies. The acceptance and use of mobile payment systems makes transactions, easier, cheaper and safer (Soyres, Jelil, Cerruti& Kiwara,2018). By making payments for goods and services easier through such electronic payment systems, firms extend their offerings to new customers which promote private sector development in developing economies (Soyres *et. al.*, 2018).

A develop economy like Sweden is a prime example of a country that has gone cashless with over 85% of all transaction made electronically, which has resulted in the creation of innovating financial solution such as instantaneous mobile payment systems and even a national digital currency (Giwa, 2023). For developing economies in Africa, Kenya leads the way, as about one individual in 96% households in Kenya, send and withdraw funds electronically, using M-Pesa mobile money platform which has transformed the way people make and receive payments, as it enabled millions of people to access financial services and helped to reduce the cost of remittances (World Bank, 2017; Soyres *et. al.*, 2018).In Nigeria, the introduction of the cashless policy in 2012 led to a significant increase in electronic payments, which helped to reduce the amount of cash in circulation,improved the overall security of the payment system, reduce the cost of cash handling and made it easier for businesses to manage their finances (Central Bank of Nigeria, 2017).

A global consumer survey conducted by World Bank in year 2021 on some selected countries in Africa, showed a high percentage of Internet users using mobile payments for financial transactions. In the survey, 1,000 to 2,000 Internet users were surveyed per country. This is shown in Figure 1. From the survey conducted, Kenya is shown as the country with the highest percentage of Internet users (84%) using mobile payments for financial transactions, with Morroco showing the least percentage (9%). The M-Pesa mobile money platform and similar technologies led to Kenya's edge in mobile financial transactions.

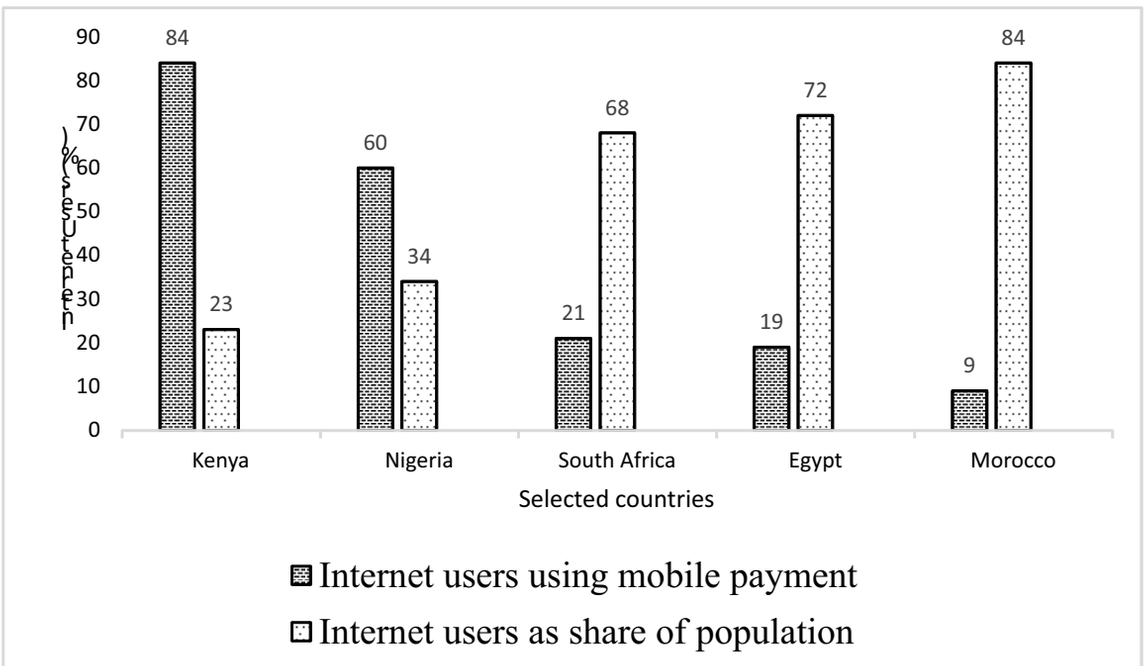

Fig. 1: Share of Internet users using mobile payment in selected countries in Africa

Source: Statiscal Global Consumer Survey, World Bank

Challenges of cashless policies implementation

Several challenges have marred the implementation of cashless policies. Limited access to digital infrastructure, low levels of financial literacy, and a lack of trust in digital payment systems have hindered its adoption (African Development Bank, 2019). These challenges have hindered the adoption of digital payment methods and slowed down the progress towards achieving the goals of financial inclusion and efficiency of payment systems.

One of the main challenges is the limited access to digital infrastructure, particularly in rural areas. According to a report by the African Development Bank (2019), only about 40% of the population in Africa had access to the internet, which is a key requirement for digital payments. This limits the use of digital payment methods to urban areas and excludes a significant portion of the population from accessing financial services.

Another challenge is the low levels of financial literacy among the population. Many people in Africa are not familiar with digital payment systems, and this has led to a lack of trust in these systems. A study by the International Finance Corporation (2018) found that trust was a major barrier to the adoption of digital payments in Africa.Furthermore, there is a significant informal economy in Africa, which is largely cash-based. This limits the adoption of digital payment methods, as many businesses and individuals prefer to use cash. The African Development Bank reports that the informal sector accounts for about 70% of employment in Africa, and this presents a significant challenge to the adoption of digital payments (African Development Bank, 2019).

In addition, there is a need for strong consumer protection measures to ensure that users of digital payment systems are not exposed to fraud and other risks. The lack of clear regulations and consumer protections has deterred many people from using digital payment systems.

Other challenges include:

Exclusion of the poor: Some low-income individuals may not have access to the technology required for electronic payments, which could further exclude them from the financial system. The exclusion of the poor is a significant challenge of cashless policies in developing economies of Africa. While cashless policies have the potential to increase financial inclusion and improve efficiency, they also risk leaving behind those who lack access to digital financial services. According to a report by the United Nations Conference on Trade and Development (UNCTAD, 2019), only 34% of sub-Saharan Africa's population had access to formal financial services in 2018, and the majority of these services were offered by traditional banks which require high minimum balances and transaction fees, making them inaccessible to the poor.The report also noted that digital financial services had not yet reachedthe majority of the population due to issues such as
limited infrastructure, high costs, and low levels of digital literacy.

Furthermore, a study by the World Bank (2022) found that in Nigeria, one of the largest economies in Africa, only 40% of adults had access to a bank account, and even fewer had access to digital financial services. The study also found that low-income individuals and those in rural areas were particularly excluded from financial services.African countries such as Kenya and Tanzania have made significant progress in increasing financial inclusion through the use of mobile money, but there is still a long way to go to ensure that all segments of the population have access to digital financial services.

Dependence on technology: Electronic payment systems can be vulnerable to technical glitches and cyber-attacks, which could disrupt the financial system and leave people unable to access their money. Dependence on technology is a well-recognized phenomenon in today's world. While technology has brought many benefits, including increased efficiency and improved quality of life, it has also created a reliance on technology that can be problematic in certain situations. A study by Harwood, Dooley, Adrian, Scott and Joiner (2014) found that people who use technology frequently are more likely to experience symptoms of anxiety and depression when they are unable to use their devices. The study also found that excessive use of technology can lead to reduced face-to-face social interactions and a decrease in the ability to empathize with others.

Another study by Tanil and Yong (2020) found that people who rely heavily on technology for information recall are more likely to experience memory problems when the technology is unavailable. The study also found that individuals who rely heavily on technology for information recall are more likely to report feeling overwhelmed and stressed when faced with information overload.These studies highlight the potential negative consequences of dependence on technology. While technology can be a useful tool, it is important to recognize its limitations and to develop strategies for managing its use.

Lack of infrastructure: Developing economies may not have the necessary infrastructure to support widespread adoption of electronic payments, such as reliable internet

connectivity and electricity. In many developing economies in Africa, the infrastructure required to support electronic payments, such as reliable internet connectivity and electricity, may not be fully developed. This can make it difficult to implement and maintain electronic payment systems and can leave people vulnerable to disruptions in service.

Cultural barriers: Cash is deeply ingrained in many African cultures and societies, and some people may be resistant to adopting electronic payment systems.

To address these issues, policymakers and financial institutions can take steps to ensure that electronic payment systems are secure and reliable. This may involve:

1. Investing in infrastructure: Governments and financial institutions can invest in infrastructure, such as reliable electricity and internet connectivity, to support the adoption of electronic payments.
2. Implementing strong security measures: Electronic payment systems should be designed and implemented with strong security measures in place to protect against fraud and other forms of abuse.
3. Developing contingency plans: Policymakers and financial institutions should develop contingency plans to ensure that people can still access their money in the event of a disruption in service.
4. Providing education and support: Individuals should be provided with education and support to help them use electronic payment systems effectively and safely.

By taking these steps, policymakers and financial institutions can help to ensure that a cashless policy does not lead to a dependence on technology that leaves people vulnerable to disruptions in service or fraud.

Conclusion

The benefits of cashless policies are numerous and include making financial transactions faster, cheaper, easier and safer. Thus, measures should be taken to stem the challenges limiting cashless policy implementation in developing economies of Africa. These can be achieved through access to digital infrastructure, including reliable internet connectivity and electricity, especially in the rural areas; creating awareness and promoting the use of digital payment systems, and setting up strong consumer protection measures to guard against fraud and associated other risks.

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