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DIGITALIZATION OF GOVERNMENT-TO-PERSON PAYMENTS IN THE WESTERN BALKANS

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Abstract

Automatization of government payments through digitalized platforms is a core element of Public Financial Management (PFM), aiming for more efficiency in expenditures usage and more accountability and transparency in the government's transactions. This paper analyses the part of government payments digitization related to Government-to-Person (G2P) payments in Western Balkan countries, which represents both a significant opportunity and a considerable challenge for these countries. Utilizing the existing literature on government payment digitalization, governance dimension, and financial inclusion, this research examines whether the digitalization of G2P payments promotes financial inclusion and control of corruption in the Western Balkans. The analysis is based on secondary data, sourced from World Bank Global Findex database and Worldwide Governance Indicators, covering six economies: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, covering the period 2017-2024. The methodology combines comparative and empirical analyses to assess the relationships between variables. Initially, the correlation between them is analyzed, followed by the use of panel data regression models (Pooled OLS, Fixed Effects, and Random Effects). Findings suggest that digital G2P payments can serve as an effective mechanism for bringing citizens into the formal financial system and expanding access to financial services. In contrast, the analysis did not identify a statistically significant relationship between G2P payment

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digitalization and control of corruption in the Western Balkans. Findings suggest that governance quality depends on a broader set of institutional, legal, and administrative factors beyond payment digitalization alone.

Keywords: G2P payments, Digital government payments; Western Balkan, Financial inclusion, control of corruption

INTRODUCTION

The digital transformation of government has redefined modern governance, enhancing focus on public service delivery efficiency, transparency, and enhanced citizen well-being. In the digital revolution era, economic transactions are increasingly transitioning from cash-based payments to electronic payment methods. Modernization of government payment systems ensures that money flows smoothly from all parties involved in the transaction, making sure they are used effectively for the purpose they are planned. A significant element of government payments, which have a direct impact on citizens, is government-to-person payments. Government-to-Person payments (G2P) include welfare programs (unemployment benefits, social assistance, disability allowances, and others), salaries, and pensions (Better Than Cash Alliance, 2012; World Bank, 2022). The main advantages of the digitization of G2P payments are related to the empowerment of the formal economy, leakage limitation, enhanced financial inclusion, and reduced transaction costs. Digital G2P payments can be a first step towards greater financial inclusion. For many recipients, especially in low-income or rural areas, receiving government payments via a bank or mobile account is their first contact with the formal financial system. The digitalization of government payments cannot be seen in isolation from other financial activities carried out in an economy. Developments must be coordinated to ensure that all financial activities can be conducted through digital systems and tools. For Western Balkan countries, digitalization of payments is seen as an important tool to foster their economic growth and ensure sustainable economic growth in order to become part of the EU family. Governments have incorporated in their policy and strategic agenda the modernization of payment systems and undertaking measures to bring their citizens into these lines of changes and modernization. The process of moving towards making payments entirely digital requires a parallel development of citizen capabilities, skills, and involvement. In this regard the European Commission has been supporting the Western Balkan (WB) countries, taking concrete actions, such as the ‘Payment Modernization Project’ coming through World Bank expertise, aiming to bring these countries closer to achieving EU standards, the Common Regional Market, and integration into the Single Euro Payments Area (SEPA). The World Bank (2024) defines that the

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transition from cash payments to digital systems comes with several benefits, such as the enhancement of governments` control over fraud and corruption. Also, digital payments bring development to financial technology and promote financial inclusion within the country, and the other perspective is the interaction and connectivity with other countries, which will lead to a reduction in the time and cost of transactions between countries as well as faster remittances.

Accordingly, to come up with the analysis of G2P payments in the Western Balkans the following research questions outline this study:

- Does digitalization of G2P payments improve financial inclusion?
- Does digital G2P payment extension help contribute to enhancement of control of corruption?

In continuation of this paper, it is organized into four chapters, starting with a literature review and conceptual framework on digital government payments, especially on G2P payments and its impact on financial inclusion, control of corruption, and the impact of government digitalization on Public Financial Management. In the second chapter, the methodology is presented, which encompasses a comparative analysis among WBs and an empirical approach to the research questions. To continue with the analysis and discussion chapter revealing the main implication of G2P digital payments. The last chapter presents the main conclusions regarding the G2P digital payments` and its main effects.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

This section encompasses an investigation of existing literature on digitalization of government payments, especially government-to-person payments, and the effects deriving from digitalization of those payments. Existing studies show that digital payments regularly produce positive impacts on financial inclusion, but the evidence on governance outcomes is mixed. Some findings identify improvements in government quality, transparency, and accountability, while others argue that more extensive institutional reforms are needed before digital payment systems become operational.

As emphasized in many studies, **digital payment** refers to those transactions done directly through financial accounts using mobile phones, debit or credit cards, and other digital platforms using the internet to conduct noncash transactions (Demirguc-Kunt et al., 2022; Lund et al., 2017). IMF (2023) defines digital payment as “A technology enabled financial transaction in which value is transferred electronically from one payment account to another through a digital device, platform, or channel. It encapsulates all forms of electronic transfers such as bank transfers, mobile money, card-based transactions, QR-code payments, and e-wallet operations, where both the payer and the payee initiate, authorize, or receive payment through digital

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means". Digital payments enable financial benefits for both the payer and the payee (IMF, 2023). Digital transformation in public services is used to increase the efficiency of public services delivered by government and to strengthen citizens accessibility to these services (Kitsios et al. 2023). Table below presents the overall view of digital payment types.

Table 1. Payment Grid: Types of Payments by Payer and Payee

Payer / Payee	Government	Business	Person
Government	**G2G** – Budgetary allocations, funding	**G2B** – Grants, payments for goods and services	**G2P** – Welfare programs, salaries, pensions
Business	**B2G** – Taxes, fees for licenses	**B2B** – Payments for goods and services	**B2P** – Salaries and benefits
Person	**P2G** – Taxes, utilities	**P2B** – Purchases	**P2P** – Remittances, gifts
Development Community	**D2G** – Taxes	**D2B** – Payments for goods and services	**D2P** – Cash transfers

Source: Adapted from Klapper and Singer (2017), based on Better Than Cash Alliance (2012)

One category of digital payments is the **digital government payments** producing benefits for both the government and other actors in the transaction. The digitalization of government payments refers to those transactions done through digital tools, IT systems, or online platforms, avoiding physical cash. It is conceptualized within the new government digitalization framework, public financial management, and financial inclusion. The literature identifies digital payment systems as a key enabler of effective public financial management (PFM). Cangiano et al. (2019) define digital payments as a success story for governments in the digital age, but they should be considered better and fully integrated with PFM systems, especially through institutional coordination to effectively use the synergy of technology. The IMF's Digital Solutions Guidelines for Public Financial Management indicate that payments digitization strengthens commitment to technology, facilitates treasury single account (TSA) operations, enhances the accuracy of fiscal reporting, and improves accountability (IMF, 2023). However, challenges like cybersecurity and financial sustainability have been unavoidable (World Bank, 2021), and it is crucial that digital payment systems should be equipped with cybersecurity management and ensure protection against possible security breaches and cyberattacks (Una et al., 2023). Similarly, digital G2P payments may consider integrating social registry systems, helping identify eligible beneficiaries and facilitating data sharing across agencies, inclusion, and strengthening both data quality and efficiency (Leite et al. 2017; Lindert et al. 2020). PFM systems such as Financial Management Information System (FMIS) and

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Treasury systems play a fundamental role in digital payments among governments and end users, and vice versa by involving fintech solutions within. The government is capable of saving more money by digitally transferring and centralizing G2P payments through a Treasury Single Account (TSA), improving transparency, enhancing security, and targeting accuracy by ensuring that benefits reach intended recipients directly, while strengthening financial inclusion and beneficiaries' control over their funds (World Bank, 2022).

The focus of this research paper is the **G2P payments**, having included the Government as one part of the transaction, and in the other part of the transaction is the person. Gupta et al. (2017) revealed the impact of digitalization and automatization of government payments and receipts in strengthening fiscal discipline and reducing corruption and fraud. According to the World Bank (2025), digital G2P payments enhance accountability in the public sector by providing that benefits are delivered exactly to the intended recipients, thus limiting rent-seeking behavior and improving governance outcomes. Through digital channels, governments can avoid fraud as they send funds directly to beneficiaries' digital accounts (World Bank, 2022). Moreover, the higher levels of digitalization of G2P payment may contribute to stronger transparency and control on fraud and corruption due to traceable payment channels (World Bank, 2025; Una et al., 2023). That is further emphasized in the developing economies (IMF, 2017; World Bank, 2021; Karinda et al., 2023; and World Bank, 2024) which could save up to 1% of their GDP by automating payments (Lund et al., 2017). Also, digital payments have a positive effect on the economy`s growth by supporting revenue mobilization and reducing informality (Agur et al., 2020; Aguilar et al., 2024).

Digitalization of payments also contributes to financial inclusion (World Bank, 2021). Moving from cash to electronic channels can be a key entry point for bringing the unbanked into the formal financial system and opening the door to future opportunities in savings, credit and insurance (Mazer & Rowan, 2016; Klapper and Singer, 2017).

Klapper et al. (2016) highlights that shift from cash-based to digital, despite being seen as a solution to reduce costs, increase efficiency and transparency, increase financial inclusion, there is evidence suggesting that large upfront investments in infrastructure to protect financial identity and the security of citizens are required. Digitalization improves public services delivery but requires a fully comprehensive approach with a focus on citizens based on ethical consideration, regulatory framework, interinstitutional collaboration, investment in digital infrastructure and capabilities, and technology integration (Latupeirissa et al., 2024). Investment and the importance of building the digital infrastructure were studied further by Putrevu and Mertzanis (2024), which emphasize that implementation of payment transactions through digital transformation methods should ensure end users' welfare and understanding of the associated

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risks and consider mitigation measures. Aker et al. (2016) conducted a systematic review and found that the magnitude of benefits varies widely with the quality of infrastructure, agent networks, and recipient digital literacy levels. Poorly designed digital transitions can lead to the exclusion of vulnerable populations, resulting in new forms of digital poverty (Kaur & Rani, 2022). Age is also defined in literature as one of the key determinants of digital payment adoption. Each additional decade of age is associated with significantly lower odds of digital payment use (Jack & Suri, 2011; Klapper et al., 2016).

Current research has largely focused on digital payments and financial inclusion linkage in developing countries. However, there is missing empirical evidence from the Western Balkans. Also, most studies examine financial inclusion outcomes, whereas governance outcomes like control of corruption have been neglected. This study aims at filling such gaps by providing a comparative Western Balkan countries analysis and testing the relationship among digital G2P payments in relation to financial inclusion and control of corruption.

METHODOLOGY

Research Design and Data Sources

This paper is giving a descriptive, comparative, and analytical view of the digitalization of G2P payments and its role in financial inclusion and the level of corruption. For the descriptive and comparative analyses on digitalization of G2P payments in Western Balkan Countries, secondary data based on the World Bank database, international reports, and empirical literature are considered.

The empirical analysis on digitalization of G2P payments in relation to financial inclusion and level of corruption the secondary data based on World Bank Global Findex database and Worldwide Governance Indicators are used. This empirical analysis focuses on the six Western Balkan economies: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. It builds a panel dataset with indicators for the period 2017-2024. The selected period reflects the available waves of the World Bank Global Findex Database (2017, 2021 and 2024) which offers consistent cross-country data on financial inclusion and the use of digital payments.

Accordingly, the paper addresses empirically the following research questions and respective hypotheses:

Research question 1: Does digitalization of G2P payments improve financial inclusion in the Western Balkans?

H1: Enhanced level of digitalization of G2P payments leads to higher levels of financial inclusion in the Western Balkans.

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Research question 2: Does digital G2P payment extension help contribute to enhancements of control of corruption in the Western Balkans?

H2- Higher levels of G2P payment digitalization are associated with stronger control of corruption in the Western Balkans.

Econometric models

To test the proposed hypotheses, two panel regression models are estimated.

Model 1: Digital G2P Payments and Financial Inclusion

$$\boldsymbol{FI_{it} = \alpha + \beta_1 G2P_{it} + \beta_2 X_{it} + \mu_i + \varepsilon_{it}}$$

where:

- FI_{it}represents financial inclusion in country *i* at time *t*;
- $G2P_{it}$denotes the level of G2P payment digitalization in country *i* at time *t*;
- $X_{it}$is a vector of control variables: GDP per capita in country *i* at time *t*;
- $\mu_i$captures country-specific effects;
- $\varepsilon_{it}$is the error term.

The statistical hypotheses are:

$$H_0: \beta_1 = 0$$
$$H_1: \beta_1 > 0$$

A positive and statistically significant coefficient would indicate that greater digitalization of government payments contributes to higher financial inclusion.

Model 2: Digital G2P Payments and Control of Corruption

$$\boldsymbol{CC_{it} = \alpha + \beta_1 G2P_{it} + \beta_2 X_{it} + \mu_i + \varepsilon_{it}}$$

where:

- CC_{it} represents Control of Corruption in country *i* at time *t*;
- The remaining variables are defined as above.

The statistical hypotheses are:

$$H_0: \beta_1 = 0$$
$$H_1: \beta_1 > 0$$

A positive coefficient would suggest that the transition from cash-based to digital government payments is associated with improvements in the control of corruption.

Variables and Measurement

The key explanatory variable is *G2P payment digitalization*, measured through the proportion of adults receiving government payments directly into account (Findex

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indicator: Received government payments into an account (% age 15+)). Following Klapper and Singer (2017), the share of adults receiving government payments through an account is used as a proxy for G2P payment digitalization because it directly captures the transition from cash-based to account-based transfer mechanisms. For the first model, the dependent variable is *Financial Inclusion*, measured by the percentage of adults (aged 15+) who own an account at a financial institution or through a mobile money provider (Findex indicator: Account ownership at a financial institution or mobile money account (% age 15+)). For the second model, the dependent variable is *Control of Corruption*, obtained from the Worldwide Governance Indicators. Control of Corruption is measured through Worldwide Governance Indicators (WGI): Control of Corruption Governance Estimate. GDP per capita is employed as a control variable to account for economic differences among countries.

In the empirical analysis the panel-data estimation techniques are employed. Both Fixed Effects (FE) and Random Effects (RE) specifications are estimated. For both models, the Hausman test indicated that the Random Effects specification was preferred and therefore used for final hypothesis testing. This approach is consistent with standard panel-data methodology and allows controlling for unobserved country-specific heterogeneity. The analysis is conducted using EViews 13.

RESULTS AND DISCUSSION

This section presents the descriptive and comparative analysis of G2P payments and financial inclusion in the Western Balkans and outlines the empirical results derived from the panel data analysis of G2P payments in Western Balkans.

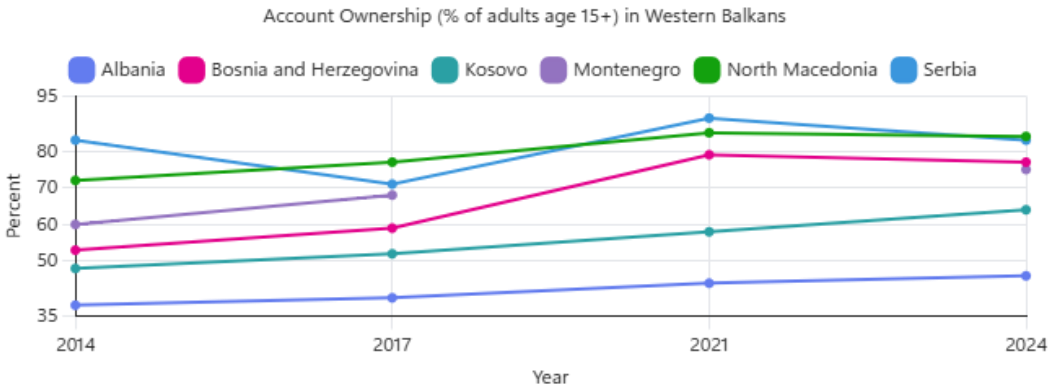
Descriptive and Comparative Analysis of G2P Payments and Financial Inclusion in Western Balkans

Western Balkan countries experience specific challenges in digital transformation, such as legacy institutional frameworks, high informality, limited fiscal capacity and the complex political economy of the EU accession conditionalities. The level of digitalization of government payments in each Western Balkan country should be understood within both a regional convergence framework and a benchmarking framework toward the European Union average. The Western Balkans Competitiveness Outlook 2024 points out that despite significant progress in digital transformation, disparities in digital access and capabilities remain across population groups and territories in the region. G2P payments are particularly impacted by the infrastructure gap, as many of the beneficiaries live in those very same underserved areas.

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Albania has consistently been ranked higher than its regional neighbors in World Bank GovTech rankings in the aspect of infrastructure investments and broadband services, but despite this, according to the OECD (2024), “Albania would benefit from implementing financial inclusion policies to address this issue and promote digital capability measures”. Financial inclusion varies within the Western Balkans, these results are better explained in graph 1, presenting the percentage of adults over 15 years old that have an account at a financial institution or mobile money account.

Graph 1: Western Balkan Account Ownership

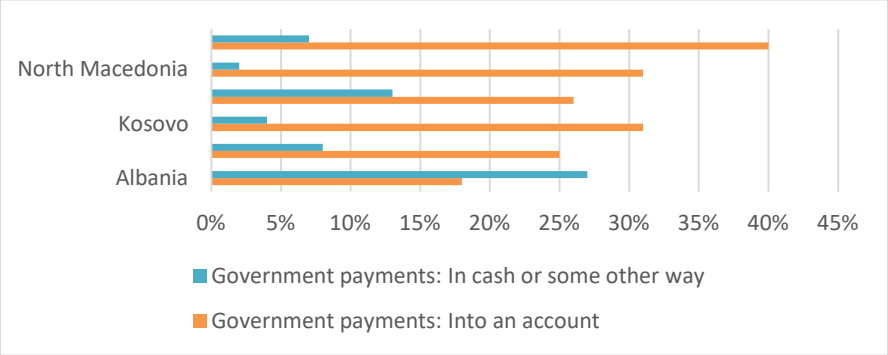


Source: Author’s calculations based on the World Bank data

The comparison across Western Balkan countries indicates an overall increase in account ownership from 2014 to 2024. Progress overall has been made, but important differences remain across the region in the level of financial inclusion. North Macedonia and Serbia achieved the highest levels of financial inclusion, with 85% and 89% respectively, in 2021, while Albania experienced a gradual but steady increase from 38% in 2014 to 46% in 2024. Regarding the intensity of digital payment utilization, Albania lags several Western Balkan peers. The use of digital payments in the adult population in Albania is lower than levels observed in Serbia, North Macedonia, and Bosnia and Herzegovina. These differences are partly contributed to Albania’s historically high use of cash and lower penetration of payment acceptance infrastructure, particularly outside urban areas. Nevertheless, post-2022 reforms have accelerated Albania’s convergence trajectory. Albania’s recent inclusion in the SEPA geographical scope is a fundamental turning point. In the graph number 2 below is presented the overall view of government payment digitalization in Western Balkan countries in 2024.

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Graph 2: Digitalization of Government Payments in the Western Balkans (2024)



Source: Author's illustration based on World Bank database

In 2024, for Western Balkan countries, government digital payments divide varies among countries, as presented in the graph 2 the amount of government payments received through digital accounts or through cash-based channels changes. These results indicate that the level of government payments in the region is moving with different frequencies. Serbia is the leader in the digital delivery of government payments, with 40% of adults receiving government transfers through an account. Kosovo and North Macedonia follow with 31%. Conversely, Albania has the lowest share of government payments made through accounts (18 per cent) and the highest share of government payments made in cash or through alternative payment channels (27 per cent). Albania is part of the EU integration process, and during the last decade has had one of the most ambitious digital agendas in the region, offering more than 95% of public services online through the e-Albania government platform. Furthermore, Albania has carried out a series of strategies and reforms regarding regulatory framework alignment with EU standards, modernizing payment infrastructures, and expanding electronic payment channels. Despite a substantial level of digitalization, government payment processes in Albania are still characterized by cash transactions, lack of traceability, and manual procedures.

Econometric evidence of G2P payments in the Western Balkans

Table 2 presents the descriptive statistics of the variables included in the analysis. The Western Balkans has moderate levels of financial inclusion with an average account ownership level of 68.05% at a financial institution or mobile money account. There is, however, variation across countries, with account ownership ranging from 40% to 85.3%. On average 74.53% of people are paid by the government into account, but there are large differences across observations. Control of corruption is still relatively weak, and all countries have negative mean values. Also, there are big variations in GDP per capita reflecting differences in economic

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development between Western Balkan economies. Table 3 reports the correlation matrix among the study variables.

Table 2. Descriptive Statistics

Variable	Description	Mean	Std. Dev.	Min	Max
Financial Inclusion (Account Ownership)	Findex indicator: Account ownership at a financial institution or mobile money account (% age 15+)	68.05	15.48	40.00	85.30
Control of Corruption	Worldwide Governance: Control of Corruption – Governance Estimate	-0.41	0.17	-0.67	-0.06
G2P Account	Findex indicator: Received government payments into an account (% age 15+)	74.53	18.35	37.40	92.80
GDP per capita	Control variable (US$)	7,398.66	2,605.70	4,009.32	13,677.78

Table 3. Correlation Matrix

Variable	(1)	(2)	(3)	(4)
(1) Account Ownership	1.000			
(2) Control of Corruption	0.197	1.000		
(3) G2P Account	0.783	0.263	1.000	
(4) GDP per capita	0.386	-0.260	0.104	1.000

As presented in Table 3, there exists a strong positive correlation between G2P payment digitalization and Financial Inclusion (r=0.783), indicating preliminary evidence that higher levels of digital government payment usage are related to higher levels of financial inclusion. It also indicates a relatively moderate positive relationship between GDP per capita and financial inclusion (r=0.386). In contrast, the G2P payment digitalization and control of corruption correlation is relatively weak (r=0.263). Furthermore, the low correlation between G2P payments and GDP per capita (r=0.104) suggests the absence of serious multicollinearity concerns.

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Table 4. Panel Regression Results: Digital G2P Payments and Financial Inclusion

Variables	Pooled OLS	Fixed Effects	Random Effects
Constant	7.267	64.131	20.202
	(0.512)	(0.084)	(0.218)
G2P Account	0.634***	-0.132	0.493**
	(0.0001)	(0.783)	(0.032)
GDP per capita	0.00183*	0.00186**	0.00156**
	(0.052)	(0.022)	(0.024)
Observations	17	17	17
R^2	0.708	0.937	0.509
F-statistic	16.956***	19.167***	7.255***

Significance: *** p < 0.01, ** p < 0.05, p < 0.1

Test	Statistic	p-value
Hausman Chi-Square	2.322	0.313

Table 4 presents the panel regression results for the relationship between G2P payment digitalization and financial inclusion. The Hausman test (χ^2 =2.322, p=0.313) indicates that the Random Effects model is preferred over the Fixed Effects specification. The difference may be attributed to the limited sample size. Therefore, the Random Effects model is used for hypothesis testing and interpretation. As presented in Table 4, the coefficient of G2P payment digitalization is positive and highly statistically significant (β=0.634, p<0.01). This result suggests that higher levels of government payments delivered through digital channels are associated with higher levels of financial inclusion in the Western Balkans. Specifically, a one-percentage-point increase in digital G2P payments is associated with an increase of approximately 0.63 percentage points in financial inclusion. GDP per capita also exhibits a positive effect and is marginally significant at the 10% level. The model explains approximately 71% of the variation in financial inclusion (R^2 =0.708). Also, the Random Effects estimates reveal a positive and statistically significant relationship between G2P payment digitalization and financial inclusion. The coefficient of G2P Account is positive (β=0.493) and significant at the 5 percent level (p=0.032). In general, the results provide empirical support for Hypothesis 1 and are consistent with previous studies emphasizing the role of digital government payments in improving the levels of financial inclusion in Western Balkans.

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Digital G2P Payments and Control of Corruption

The same empirical tests are conducted for the second hypothesis.

H2- Higher levels of G2P payment digitalization are associated with stronger control of corruption.

Table 5. Panel Regression Results: Digital G2P Payments and Control of Corruption

Variables	Pooled OLS	Fixed Effects	Random Effects
Constant	-0.473***	-0.823	-0.620**
	(0.034)	(0.156)	(0.035)
G2P Account	0.0027	0.0053	0.0030
	(0.256)	(0.496)	(0.404)
GDP per capita	-0.000019	0.000002	0.0000001
	(0.261)	(0.831)	(0.990)
Observations	17	17	17
R^2	0.152	0.865	0.050
F-statistic	1.257	8.238***	0.366
Prob(F-statistic)	0.315	0.003	0.700

Significance *** p < 0.01, ** p < 0.05, p < 0.10

Test	Statistic	p-value
Hausman Chi-Square	2.583	0.275

Table 5 presents the panel regression results for the relationship between G2P payment digitalization and control of corruption. To determine the appropriate panel specification, a Hausman test was performed. The null hypothesis could not be rejected (χ^2 =2.583, p=0.275), indicating that the Random Effects model is preferred over the Fixed Effects specification. Estimates from the Random Effects model show a positive coefficient for digitalization of G2P payment (β=0.0030), suggesting that higher levels of digital G2P payments are associated with improvements in control of corruption. However, this relationship is not statistically significant (p=0.404). Similarly, GDP per capita does not exhibit a statistically significant effect on control of corruption within the sample. The estimated coefficient is positive in all model specification but it is statistically insignificant. Therefore, Hypothesis 2 is not supported.

Finally, several limitations should be acknowledged, mainly due to data availability. The main data source is the Global Findex, which is collected in waves of surveys, and not every year, so observations are few. There are also gaps in indicators measuring G2P payment digitalisation, especially for Western Balkan countries. However, the analysis is also broad and does not fully address institutional factors such as payment system architecture, interoperability,

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cybersecurity readiness and regulatory quality. Despite these limitations, the dataset provides an important opportunity to examine the relationship between digital government payments and financial inclusion.

CONCLUSIONS AND POLICY RECOMMENDATIONS

This paper brings a general comparison of digital government payment in the Western Balkans. It contributes to the growing literature on digital government, financial inclusion, and control of corruption. From a policy perspective, the results reinforce the importance of reforms to modernize payment systems in the Western Balkans. Digital government, financial sector development, instant payment infrastructure, and SEPA integration initiatives may also support broader financial inclusion objectives, as well as more efficient payment systems.

Empirical results show that financial inclusion is positively affected by the digitalisation of G2P payments. The Random Effects model shows that an increase of one percentage point in G2P payments is associated with an increase of about 0.49 percentage points in financial inclusion. This result supports the theoretical argument of Mazer & Rowan (2016), Klapper and Singer (2017) that government payments can serve as a gateway to the formal financial system, leading citizens to open and use transaction accounts.

The positive effect of GDP per capita further confirms that economic development remains a key determinant of financial inclusion. Countries with higher-income countries usually have more advanced financial sectors, better digital infrastructure and greater access to banking services. At the same time, the G2P payment variable remains positive and statistically significant after controlling GDP per capita, suggesting that the digitalisation of government-to-person payments contributes to financial inclusion beyond the effect associated with overall economic development.

There is no statistical significance between the digitalisation of G2P payments and control of corruption. The lack of significance may be due to the small sample size and the complexity of governance determinants. This finding suggests that the governance benefits of payment digitalization may be more complex and may require longer periods to materialize. As defined from the literature the level of corruption may be influenced by a broad range of institutional, legal, political, and administrative factors that extend beyond the digitization of payment mechanisms alone. Consequently, improvements in transparency and accountability generated by digital payments may not immediately translate into measurable improvements in national governance indicators. Nevertheless, due to data availability this relationship remains an important area for future research. Expanding the dataset, incorporating additional governance indicators, and extending the period may provide deeper insights.

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The findings also display important implications for public financial management reforms in the Western Balkans. These countries should view G2P payment digitalization as more than a modernization initiative itself. Digital G2P payments should be embedded within broader Public Financial Management (PFM) reforms through stronger integration of treasury systems. It should also be considered as a broader instrument that enhances citizens' participation in the financial system. Increasing the digital G2P channels may contribute to more people owning accounts and using financial services. From a governance perspective, the absence of a statistically significant relationship with control of corruption means that payment digitalization alone is not enough to boost governance outcomes. In this regard, governments in the Western Balkans should accelerate the digitalization of Government-to-Person (G2P) payments by investing in digital and financial literacy, payment infrastructure, internet connectivity, interoperable information systems, cybersecurity, accessible financial services, and transparency mechanisms. Moreover, ongoing compliance with SEPA standards is critical to enhance payment efficiency and to assist the achievement of the EU integration objectives.

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