

Chapter 10

Impacts of Digital Payments on Socio–Economic Factors in Emerging Markets and Developing Economies

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ABSTRACT

Digital payments are increasingly becoming popular worldwide, especially in underdeveloped and developing countries, despite the challenges these countries face regarding required infrastructure and digital literacy. Digital payments have emerged as an important tool for governments to distribute the funds for social welfare schemes to their citizens directly in their accounts with zero corruption and delays. Socio-financial inclusion of society's deprived and marginalized section is another advantage of digital payments. Having access to transaction accounts, credit, savings products, and insurance helps the poor raise their incomes and become more resilient. Paperless and cashless transactions are a huge advantage of digital payments. This chapter aims to discuss the impacts of digital payments on the socio-economic factors in emerging markets and developing economies. In addition, it highlights the solution and recommendations for policymakers.

INTRODUCTION

Digital payment is a payment method that is based on the Internet, where several transactions can be processed concurrently in an orderly, precise, and productive manner, which increases productivity (B. J. Ali & Anwar, 2021; Chaveesuk et al., 2021). The usage of internet-based modern banking services improves the accuracy and efficiency of money transfer activities. The Digital Payment System (DPS) is

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becoming increasingly important for enforcing effective monetary policies through financial transactions (Lo Prete, 2022), and its effects on global economic and financial activity are visible (Aurazo & Vega, 2021). Those who opt to use the DPS reap the benefits of a swift and prompt settlement of payments instantaneously, which results in a reduction in both expenses and the amount of time spent (Balakrishnan & Shuib, 2021). Even though it has a lot of advantages, end-users had many problems with it when it was first introduced. These problems included regulatory norms, network issues, secrecy, safety, security, trust, confidentiality (Verkijika, 2018; Yang et al., 2012), and fraud (Chang et al., 2022). These problems led to the DPS not being very popular when it was first introduced. With the government's ongoing efforts to fix these problems and the regulatory authorities working to make the DPS work better, as well as the benefits that end-users enjoy, the system is becoming more popular in developing countries.

Through DPS, governments can ensure that social welfare schemes are delivered 100% to the beneficiaries cost-effectively without involving any middle layer. Indian government's scheme, "Direct Benefit Transfer (DBT)," is the best example where beneficiaries get their social welfare funds directly in their accounts without going to the banks or post offices (Varshney et al., 2021). This scheme helped the central government of India tackle corruption, which was a lot in this area where beneficiaries never received their 100% allotted funds. Therefore, digital payments can lead to financial inclusion for the marginalized section of society (Allen et al., 2016; Aurazo & Vega, 2021). Transparency is another big advantage of digital payments (Setor et al., 2021a). Digital technologies allow these services to reach people (Sardana & Singhania, 2018) who previously did not have access to them, including nearly two-thirds of adults in developing countries (Pazarbasioglu & Mora, 2020). It is because costs are going down as the technology is making the most of economies of scale. It is also making it possible to create long-lasting financial products that meet the needs of people with very low and unpredictable incomes (Sardana & Singhania, 2018). Technology is making it easier for people to get financial services, even if they don't have identification or a regular source of income.

By their digital nature, digital payments also provide opportunities for data mining (Mittal & Agrawal, 2022), which may pose a significant threat to users' privacy rights and raise the likelihood of cyber assaults, which may result in data leakage and exploitation (Tronnier et al., 2022). Regulations that are new or not complete can also leave room for non-compliance and abuse by service providers, who are not always upfront about how they monetize the data passing through their platforms. In addition, concerns are also growing about the power of tech giants, which is shown by Facebook's plan to start its digital currency platform (Brühl, 2020). In the same way, if a digital currency is not issued or controlled by a central bank, the supply may not be regulated. This could cause the currency's value to drop and inflation to get out of hand. Recent Bitcoin price variations due to Elon Musk's involvement are an outstanding example of this volatility (Shahzad et al., 2022). In terms of macroeconomics, digital currencies administered by a central bank may be able to prevent currency volatility and exchange rate risk if they are based on multiple currencies. On the other hand, even though there are many great things about the different digital payment options, businesses need to find a way to make them work together. Consequently, the authors aspire to provide an answer to the following question within the scope of this chapter: what are the impacts of digital payments in Emerging Market and Developing Economies (EMDEs)?

In summary, this chapter will analyze and synthesize the socio-economic impacts of digital payment in EMDEs and reflect its findings in the form of solutions and recommendations. This proposed chapter will discuss the impacts and demonstrate how digital payments are both a driver and a precursor of long-term sustainability for businesses, individuals, and governments. These impacts can be broadly classified as positive and negative. The positive impacts can be seen as operational efficiency, innova-

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