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Editorial

Digital Finance, Financial Inclusion and Economic Growth in Emerging Markets

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Digital finance has, over the past several years, been identified as the most effective tool for economic development, especially in emerging economies. This commentary explores the contingency of digital finance, particularly the general effects related to financial liberalization and developmental economic effects, with an understanding of the world it creates where those financially locked out of mainstream formal systems are not only included but financially connected to the global economy.

New ways of accessing and delivering financial services and related goods have emerged with digital financial products such as digital payments, mobile money, and financial technology innovations abbreviated as Fintech. For the emerging markets that still need to hear the details of banking infrastructure, digital finance is but a lifeline for the approximately 1.7 billion people who lack access to formal financial services. In light of this digitalization and focusing on mobile money tools and internet connectivity, digital finance platforms can target any underserved community, providing secure, efficient means of saving, borrowing, investing and transacting.

This discussion positively affects digital finance, one of which is the strong tendency in the developing world toward financial inclusion. Financial inclusion means the ability of firms to access financial services within a given country and the equitable chances available. Promoting savings is essential in economic development because it allows individuals and other investors to funnel their money towards education, health, and business development. Recent technological advances, solved by digital finance, significantly reduced the financial inclusion rate and the availability of affordable financial services. For instance, mobile money services include M-Pesa in Kenya’s economy. These have completely changed the face of the economy as they eliminate the need for the banking system as people use their mobile phones to perform all sorts of financial activities.

Numerous positive impacts stem from the improvement of overall efficiency in financial services. Financial liberalization enhances financial efficiency, leading to better choices, funding of small enterprises, and combating of shocks today. Digital finance also helps businesses, tiny and medium enterprises (SMEs),

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access credit and capital, which are vital in the growth of businesses. This, in turn, leads to increased employment opportunities for people and increased economic activities. Additionally, digital finance can enhance effectiveness and accountability in using financial liability. New technology decreases the expenses of standard banking services, such as having branches or manual work; thereby, the cost of financial services is currently lower. Further, the use of these transactions can provide a positive impact, tracing back to transparency and diminishing the problems with corruption, which are beneficial to economic development.

Another essential element of the digital finance industry is that regulatory frameworks and government policies are highly influential in determining efficiency and impact. In numerous emerging markets, these regulations are still relatively new, and it remains challenging to find appropriate regulations that will adequately regulate dangerous companies and products without stifling the development of innovative and beneficial products. This requires the government to engage with fintechs to provide a suitable environment for the uptake of digital finance with appropriate measures to check thefts and consumer fraud.

In addition, infrastructure challenges like connectivity, limited internet, and low literacy levels in the use of technology can slow down the advancement of the digital finance revolution in some areas. Managing these challenges requires combining efforts among the public and private sectors. To ensure everyone can reap the gains of digital finance, an effort must be made to sell this change, invest in digital infrastructure and, at the same time, reach out to various citizens with efforts to boost their digital skills or literacy, depending on the term preferred.

However, the prospects of financial inclusion through digital finance benefit economic growth and development in emergent markets. They highlight digital finance across different countries and how it has impacted them. For instance, in India, the government has promoted cashless transactions through physical transactions through payment instruments like UPI, stimulating many transactions since the government introduced digital transactions.