

## **BEYOND FINANCIAL ACCESS: BEHAVIORAL FRICTIONS AND DIGITAL FINANCIAL PARTICIPATION IN EMERGING ECONOMIES**

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### **Abstract**

The rapid expansion of digital financial infrastructures has substantially increased formal financial inclusion across low- and middle-income economies. However, greater access to financial services does not necessarily translate into active participation within digital financial systems. This paper investigates the distinction between formal financial inclusion and operational digital financial participation by examining whether financial stress, formal saving behavior and persistent cash preference are associated with digital merchant payment usage across emerging economies. Using cross-country data from the Global Findex Database (2024), the study employs a cross-sectional Ordinary Least Squares (OLS) framework. The analysis focuses on digital merchant payment usage as an indicator of functional digital financial integration, moving beyond conventional measures centered exclusively on account ownership. The results indicate that formal saving behavior is strongly and positively associated with digital merchant payment usage, suggesting that repeated interaction with formal financial institutions contributes to deeper operational integration into digital financial ecosystems. Persistent cash preference is negatively associated with digital payment usage, supporting the argument that behavioral persistence and transactional habits may limit the transition toward digital financial participation even when formal financial access exists. Financial stress also displays a negative relationship with digital payment usage, although the statistical evidence is comparatively weaker. Empirically, formal saving emerges as the dominant correlate of digital merchant payment usage, and the specified model accounts for roughly three quarters of the cross-country variation in functional digital financial participation. The paper contributes to the literature in three ways. First, it develops the distinction between institutional financial access and functional digital financial integration. Second, it introduces persistent cash preference as a behavioral friction affecting digital financial transition. Third, it provides comparative cross-country evidence regarding the interaction between financial engagement, financial vulnerability and transactional persistence in shaping operational digital financial participation across emerging economies. The findings suggest that the effectiveness of financial inclusion policies should be evaluated not only through the expansion of formal access but also through the

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extent to which households become behaviorally integrated into routine digital financial activity.

**Keywords**

digital financial integration; digital payments; cash preference; financial stress; formal saving; emerging economies

**JEL Classification**

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