



## THE FUTURE OF CORRUPTION IN THE ERA OF CASHLESS SOCIETY

Omar Alaeddin<sup>1</sup>, Rana Altounjy<sup>2</sup>, Naziruddin Abdullah<sup>3</sup>, Zalina Zainudin<sup>4</sup>, Mazhar Hallak Kantakji<sup>5</sup>

<sup>1,4,5</sup>Finance/Islamic finance department, Business school, Universiti Kuala Lumpur, Malaysia

<sup>2</sup>Ph.D. Candidate, Business school, Universiti Kuala Lumpur, Malaysia

<sup>3</sup>Economic Department, Business school, Universiti Kuala Lumpur, Malaysia

omar.alaeddin@unikl.edu.my

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### Abstract

**Purpose of Study:** This paper aims to further understand the role of a cashless society in eradicating the corruption throughout the eliminating the usage of cash.

**Methodology:** The method used for this conceptual paper is based on a wide range of literature reviews from journal articles, thesis proceedings and conferences, books and online news which are related to the keywords and research area.

**Results:** Battling the corruption by enforcing the cashless society been introduced as sophisticated method to reduce the possibility of taking bribes while everything will be recorded. This way came under light after been applied by the central bank of Nigeria in 2012 to reduce the corruption and has also been used in India to overcome the issue of counterfeit notes in 2016. Meanwhile as the information age considered a historic period in the 21st century, introducing the cashless society comes in compatible with the current trend of digitizing all the monetary system. This paper concluded the main factors can help the cashless to curb the corruption and proposed new topics for future studies.

**Key words:** Corruption, Cashless society, Economic freedom, Fiat Money.

**JEL Classification:** E42, D73, G41.

### INTRODUCTION

‘On the go’ became the concept of our current societies as most people try to get their own things done while they are commuting, eating or even in their beds. This evolution has been contributed by the internet and mobile phones revolution which managed to convert the world to a small mobile village (Olusola, 2013; Suy *et al.*, 2018). The financial technology been launched widely in the world by 2010 when wide range of payment methods get the way to the customers’ usage in many countries. Introducing diverse payment intermediaries like ApplePay, SamsungPay and other local ones as MaybankPay in Malaysia, WeChat in China and so on made the cashless society closer than expected (Kumari and Khanna, 2017; Alaeddin and Altounjy, 2018).

Using the automated payment as part of the economy was applied in many developed countries such as the UK, Sweden and other countries with no hassle. Simultaneously some African countries like Kenya, South Africa and Tanzania where using less cash in their financial transactions and become a benchmark regarding electronic payment system (Neyer, 2017; Teba, 2017).

For example, Kenya had launched M-PESA for small amount electronic payments, later in March 2007 after this method has been managed by the mobile phone operator Safaricom in Kenya an extraordinary growth had been witnessed while 40% of Kenya’s adult population adopted this new method (Jatau and Dung, 2014). Furthermore, as stated by the World Bank’s Global index at 2014 that Kenya been rated at the world top number of adult penetrations of mobile money accounts with 58% of the adults’ population holding an active one (Meena, 2017).

On the other hand, while the majority of the countries around the globe looking forward to improving their financial systems and follow the trend of the cashless monetary systems, the corruption keeps creating more obstacles to face the improvement and slow it down, which decrease the level of mutual trust between the government and the people. For example, while Nigerians are living in a rich nation floating on the oil, they are getting less than 1% of the oil revenues over the past years while the rest run in the corruption sinkhole (Jatau and Dung, 2014).

Even though corruption is considered a global snag, Nigeria seems to be the most affected country while everyone believes that there is a ‘culture of corruption’ spread widely in the country (Jatau and Dung, 2014; Tolulope, 2017). Consequently, in 2016, the Nigerian government promoted the cashless economy with a view of curb corruption among other objectives (Meena, 2017).

In this paper we are looking forward to knowing more about the role of the cashless system and how it can fight the corruption or at least decrease its expansion.

### REVIEW OF THE LITERATURE

This paper includes three parts of literature review, starting from reviewing literature about corruption, then the cashless economy and ended by reviewing the literature about the role of cashless economy to curb the corruption.

## Corruption and its implications

The existence of corruption been since ancient ages where the civilians that time have experienced high level of corruption and illegitimacy (Tyagi and Siddiqui, 2017; Van Klaveren, 2017) over the last decades the academicians raised their interest in the issue again due to its harmful impact on the development. Especially, when some researches confirmed the power of the corruption in slowing the growth, enlarging the inequality in the society and lessen the efficacy of development (Pathak, 2008; Ayoola, 2013; Montes and Paschoal, 2016).

The most known definition for corruption is the one published by the World Bank as “it is the abuse of public power for private benefit. Also many studies and organizations defined the corruption as exploit the public position to get illegal private benefits, also it’s a complicated and multifaceted problem which threaten the stability of many governments which lead them to collaborate their efforts to cut it down (Ayoola, 2013; Jatau and Dung, 2014).

Considering the corruption as social problem made it more significant to understand it deeply in aim to find the best way to curb it or minimize its effects. The widely known categorizing for the corruption is assorted as petty corruption which is more into bureaucratic matters of tips taken by public staff to get some services done, grand corruption or what can be called as the political one done by elected politicians to influence elections or award contracts, and systemic corruption when you see the whole society is corrupted (Argandoña, 2017).

From another point of view, corruption been categorized into two forms, collusive which is generally accepted by both parties involved in it, as paying few thousands to some officials to avoid paying huge amount to the tax’s authority, which made it more difficult to rule out the collusive corruption that is a win-win situation, and coercive corruption which involve some harming practices or fraudulent Practices as bid rigging which help someone to take things or rights illegally (Senthil, 2018).

The complicated nature of the corruption made it difficult to determine its main causes. The previous literature listed different factors may cause diverse level of corruption which are low salaries paid for public officers cause higher rate of corruption as mentioned by the World Bank development report. Low penalty imposed upon corrupt acts lead to an increase in the level of corruption due to the absence of fear from punishment, also the weakness of the legal system considered as a promoter for corruption. Additionally, when there is no clear system to enforce the rules and regulations as having monopoly power, discretion, and poor type of accountability and transparency that will encourage the public officials to exploit their power and derive benefit from it (Rose-Ackerman and Palifka, 2016; Dimant and Tosato, 2018).

Furthermore, the cash-based economy been categorized as main player in increasing the possibility of having corrupted economy. For example, the monetary system of Nigeria was mostly managed by cash transactions which made it impossible to trace the corrupt transactions, consequently the Nigerian government at 2016 moved towards cashless economy as a deterrent option to curb the corruption (Meena, 2017).

## Digital money and cashless societies

The percentage of the cash flow in the society can be used as a figure of its developing level, as in India at 2015 the percentage of the cash flow of GDP was 12.3% compared with 3.8% in Brazil, 5.6% in South Korea and 1.7% in Sweden. and in 2016 the share of cash transactions among the whole transactions been settled in India was 68% which is coming as the third rank after Indonesia and Russia. While at the same time some developing countries like Kenya took initiative to move towards online payments in aim to reduce the fraud and guarantee better collection (Meena, 2017). Furthermore, in its plan to be among the top 20 economies by 2020, Nigeria moved towards decreasing the huge volume of cash transactions and move forward towards the non-cash payment methods (Kumari and Khanna, 2017).

We can define the economy as a cashless economy when most of the purchases are made by digital money, also it doesn’t mean the absence of cash payment, but the level of transactions made by fiat money kept at the minimum level which lead to high level of transparency of the cash flow (Garg and Panchal, 2017; Agrawal, 2018; Udeh and Bassey, 2018).

The world payment report 2018 shows that the highest growth of non-cash transactions by region for 2016 goes to the emerging Asia which include (Malaysia, Thailand, Indonesia, Philippines, Taiwan, Pakistan, Sri Lanka and Bangladesh) with growth rate of 25.2%. See figure 1.

Shifting toward a cashless society needs to have stable telecommunication networks which are vital to authorize the payments, also having effective payment instrument as the customers nowadays are more challenging and sophisticated and always looking for lower prices and better services (Alaeddin, 2018; Engert *et al.*, 2018). And to fulfil the diverse types of customers’ needs the choices to pay by cashless payment are widely varied as it includes but not limited to debit and credit cards, Quick Response (QR)-codes, SMS, Near Field Communication (NFC) and Electronic and mobile wallets (Olusola, 2013; Kumari and Khanna, 2017).

In addition to the above mentioned, the government support is the main key in promoting the cashless transactions, as governments can make financial awareness campaigns to enlarge the awareness among the population about the benefits of cashless payments. Furthermore, the government can support by improving the technological development and withdrawing the service charges on cashless payments will make it easier to be adopted by people (Meena, 2017).

Achor and Robert (2013) in their study investigating people point of view about applying the non-cash policies the people who supported this movement are taking into consideration few vital reasons as 45.3% of them believe the cashless system will reduce cash related robbery, 21.8% of them think it will reduce cash related corruption, 18.4% see it will attract more foreign investment, while 14.2% of the supporters of this idea think it will help in cost reduction. While on the other hand those who don't support the idea of cashless having their own reasons also, 37% of the non-supporters see the high rate of illiteracy will prevent having effective cashless system, while 23.1% of them afraid of the fraud, 21.2% think the cashless will lead to indiscriminate deductions from accounts which is also supported by study applied in Lagos (Jatau and Dung, 2014). and 18.5% see the poor infrastructure will cause inefficient cashless system (Achor and Robert, 2013). Another study conducted in Delhi region with a sample size of 100 found that the cashless system is useful in fighting the illegal usage of the money which may cause more dangerous problems to the country like terrorism, corruption, money laundering, counterfeit money (Garg and Panchal, 2017).

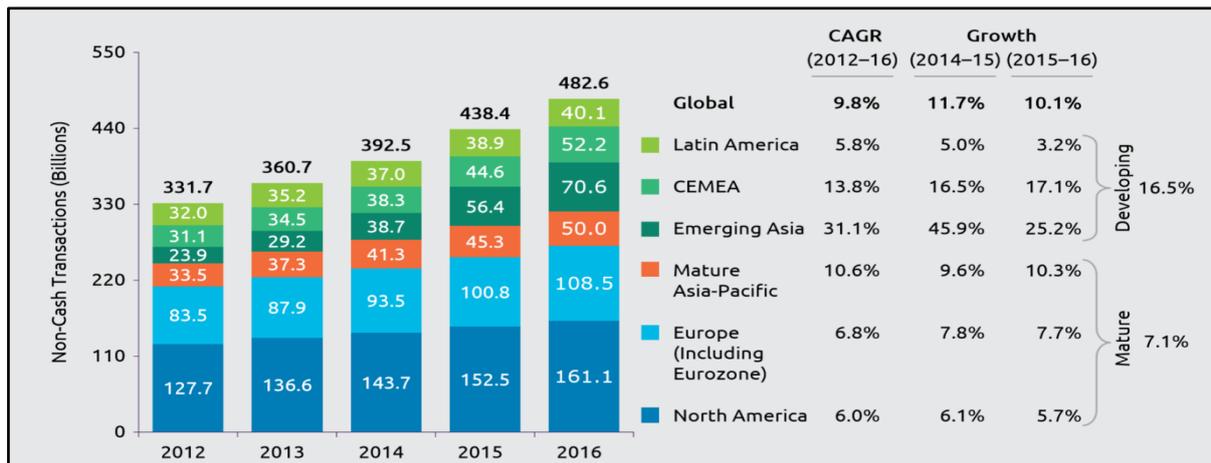


Figure 1: Number of worldwide non-cash transactions (billions), by region, 2012-2016. Source: Paribas (2018).

Regardless of the opinion of people about supporting the cashless system or not, this system has a wide range of benefits in case been applied in the right way as believed that this system will energize the development and innovation in the payment system, motivate the banks to provide more efficient options to manage the transactions and decrease the cost of their services, help the financial policy makers to have more effective inflation management system and empower the economic growth as it will decrease the level of money used in the informal economy, also this system has positive hand in curbing corruption and fostering transparency. furthermore, using the digital money will help to cut the number of notes circulated in the country which will definitely cash related crimes (Ayoola, 2013; Jatau and Dung, 2014; Kumari and Khanna, 2017; Engert et al., 2018).

Some other benefits are expected by different type of economic system stakeholders as this system expected to be convenient for the individuals in reducing the risk of carrying cash also giving instant access to the money while using the mobile payments will also help in avoiding the queue and saving time, for corporates will help to decrease the revenue leakage while from the government this system will help to increase the tax collection by making all transactions traceable also enlarge the economic development (Gupta, 2017; Fabris, 2019).

The above-mentioned benefits associated with applying the cashless system don't mean in any case that there are no challenges will be faced by economies applying this system. Cybercrime can be considered the cashless society's nightmare, as in a study conducted in India found that 63.2% of the respondents believe that cybercrime is the biggest obstacle facing the free implanting of cashless economy so the countries planning to empower the cashless need to strengthen the online security (Garg and Panchal, 2017). Same result was found in the research applied in Lagos as they concluded that using the online payment will increase the possibility of fraud (Jatau and Dung, 2014).

About the Nigerian experience with applying the cashless system the main challenge was the poor facilities as the non-stable electricity supply and poor internet connection, also the majority of the population are primitive, uneducated mostly working as farmers, so moving to use online payment is kind of mission impossible especially that most of them are illiterate (Uzonwanne and Ezenekwe, 2017). Furthermore, the culture of respecting people who show the cash when is given as a gift in the occasions like wedding, even when is given to the needy people made it difficult from a cultural perspective to apply the cashless system widely (Kida and Goyal, 2018).

### Cashless economy implication to eradicate the corruption

As mentioned before, many studies considered curb corruption is one of the main benefits the economy can get from applying the cashless system which corresponds with the current global trend of fighting corruption. As using the electronic payments will create an auditable track of payments which can inspire the transparency and accountability (Garg and Panchal, 2017).

Furthermore, other studies found that applying the cashless economy has high impact in improving the economy and society by reducing the inflation, creating corrupt free society and bring the black money to the lowest level possible (Meena, 2017; Agrawal, 2018).

Many governments moved towards applying new policies to minimize the corruption possibilities to the lowest level possible as in Nigeria the government established two anti-corruption agencies and by 2012 launched the cashless system to manage the payments. The uncontrolled level of corruption in Nigeria which has been a challenge for all solution been suggested has inspired adopting of cashless policy in all transactions aspects as income generation, income payment, and the other end to end businesses related to the government. This movement became more effective in stopping the leakage and made the government bodies related transactions more transparent and traceable (Uzonwanne and Ezenekwe, 2017; Fabris, 2019).

Same policy been planned by other governments in their movement against corruption, as in Malaysia after the unexpected loss of 61 years of Barisan Nasional (BN) party in 2018 due to the economic concerns of the voters, the new governor party started its leading covenant by focusing on eradication of corruption as its main concern. Launching the unlimited travel pass was part of efforts to start the cashless society where all the transactions are traceable which has been considered by the Malaysian prime minister as a way to fight corruption (Abdul Rashid and Meor Ahmad, 2018).

On the other hand the cashless policy is not the magical stick which can stop the corruption just by applying it, it's only as good as the people using it with trust otherwise will be unable to control corruption. Fighting corruption needs a set of complex actions in different domains of society as the cashless system have to be combined with other policies as effective governance, transparency and accountability and promoting ethical principles. As a study conducted in Nigeria to figure the stockholders opinion about the effectiveness of a cashless society to curb the corruption concluded that cashless can only in reducing the petty corruption as is related to bureaucratic actions while it's not enough by itself and need to be compiled with other type of improvements (Muhibudeen and Haladu, 2018).

## DISCUSSION AND CONCLUSION

As applying the cashless system started in some countries where the governments considered fighting corruption is there prime policy like Nigeria, India and Malaysia, this research aimed to figure out the main antecedents of corruption and how the cashless system can eliminate it, by checking the previous research done about this.

Based on the above discussed papers this research concluded that there is semi-consensus about the positives of the cashless system as it helps in reducing the corruption and enlarge the level of transparency and accountability. Also, most of the researchers mentioned that making the money traceable is the main idea to control the leakage which cause the corruption.

While on the other hand increasing the level of transparency will not be beneficial unless the people are cooperative in this matter, as always the community awareness and its willingness to cooperate and stand against the corruption is the main power to make it work otherwise applying any policy without community support will fail and get a negative result by creating hidden ways to escape it and not apply it.

Furthermore, if we agreed about its power and benefits for the economy and society applying the cashless system in not an easy step as it needs to have a stable power and network supply, stable cyber security system, strong banking system and the most important is community awareness and acceptance. Further studies can go through checking the societies where the cashless economy been applied and compare the level of corruption before and after applying, also checking the population point of view about the pros and cons of applying cashless system and whether is come along with the free economy of against.

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