MOBILE MONEY AND FINANCIAL DEVELOPMENT

A DIGITAL GATEWAY TO FINANCIAL INCLUSION?

MOBILE MONEY CONFERENCE
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Saul Estrin

Adeline Pelletier

Susanna Khavul

HOSTED BY
LSE MANAGEMENT

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International Growth Centre

1. Executive Summary

Mobile money is a potentially transformational financial innovation which has seen a rapid adoption in emerging economies but its effects on financial inclusion and macroeconomic development are not yet well understood. On Friday the 13th of October 2017, the International Growth Centre, with support from the LSE's Department of Management, hosted a Mobile Money and Financial Development Conference to explore the development and impact of mobile money on emerging markets and developing economies.

This conference was an impact event building on a three-year research initiative at the London School of Economics led by Saul Estrin (LSE), Susanna Khavul (San Jose State University/LSE), and Adeline Pelletier (Goldsmiths/LSE). The conference included participants from universities from around the world, including Georgetown University, the University of Sydney, Cass Business School, and Imperial College, London; from government and policy communities including the central banks of Ghana and Sierra Leone, DFID, EBRD, ODI, Oxford Policy Management, and from the private sector including EcoBank, Fundacion Capital, Microsave and WorldRemit.

The objective of the conference was to assess the impact of mobile money on financial inclusion and economic development. En route, panels of experts considered the effects of regulation and business models on the evolution of mobile money over the last two decades.

A number of consensus observations emerged:

- Overall, the conference concluded that mobile money should be seen as a gateway for financial inclusion and an integral tool for money management, especially for poor households.

- The technology underpinning mobile money is not sufficient on its own to bring about financial inclusion. Financial development depends on carefully constructed business processes and enabling regulatory environments.

- Mobile money does represent one of the biggest opportunity for financial development but it needs the collaboration of the private sector, governments, and regulators to be effective.

Mobile money has been adopted widely in countries where the majority of the population does not have access to traditional banking facilities or products. Thus, a fundamental question is whether mobile money fosters financial inclusion and is an effective tool for poverty alleviation. Mobile money can assist in broader financial development in developing economies: it appears to stimulate activity in broader economic and business environments and has dramatically improved the ease of international remittances.

The successful adoption of mobile money is contextual. There does not seem to be a winning formula for how to replicate success from one country to the next though there is some consistency with respect to the circumstances where it has been the most successful. Specifically, across egeographies, the use of mobile money has grown the most in times of financial shocks, family emergencies, or when educational investment is required. It has also been very important in economies where remittances, be they internal or international, play a significant role and when women head households.

Complementary products needed to further financial inclusion. Mobile money has traditionally been focused on payments and credit products but savings and insurance products can deepen financial inclusion. However, low literacy

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rates, lack of financial education, and the ease with which cash savings can be liquidated are among the obstacles to more widespread adoption of mobile money. Other problems such as high agent turnover and low customer activity also limit the volume of transactions, which need to be high for mobile money business models to be sustainable.

Mindful regulation to promote adoption. The regulation of mobile money is complex because it spans the intersection of the banking and telecommunications, industries with vastly different regulatory regimes. Regulators should be careful not to stifle innovation and should avoid precipitating adverse and unintended consequences. Specifically, too much regulation may lead to onerous requirements which cannot be met by the large numbers of people previously excluded from the financial system and may restrict the reach of mobile money, particularly in remote areas. The key to regulating mobile money is collaboration between regulators and industry stakeholders to find a balance between consumer protection and financial innovation.

Next steps bring digitalization of mobile money. As mobile money increasingly digitalises and "formalises" transactions within the informal economy, the need for interoperability grows in importance. Yet, so far, only a few countries have come close. As we look to the future, the value of mobile money may well be that the data gathered from users will spur additional product development. However, data ownership, security, and control remain vexing questions.

Overall, mobile money appears to have a positive impact on financial development and is increasing financial inclusion. The next phase of the industry will see the digitalisation and the use of data analytics to offer innovative and new products whose impact on financial inclusion will be closely watched.

The research initiative was supported through the IGC funded Mobile Payment Services in Developing Countries: Firm Capabilities and Financial Development and the Leverhulme Trust project on Mobile Money and Poverty in Emerging Markets. The Department of Management at LSE has also provided valuable financial support.

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IGC Ethiopia
Ethiopian Development Research Institute,
Blue building near National Stadium,
P.O. Box 2479
Addis Ababa, Ethiopia
Email: ethiopia@theigc.org

IGC Ghana
c/o Institute of Statistical, Social & Economic Research
University of Ghana
PO Box LG 74
Legon, Accra, Ghana
Email: ghana@theigc.org

IGC Liberia
5th Floor
Ministry of Foreign Affairs
Capitol Hill
Monrovia, Liberia
Email: liberia@theigc.org

IGC Mozambique
Avenida Ahmed Sekou Toure N. 21, 5º Andar
Flat 55, Maputo, Mozambique
Email: mozambique@theigc.org

IGC Rwanda
P.O. Box 3004
Kigali, Rwanda
Email: rwanda@theigc.org

IGC Sierra Leone
3rd Floor, IPAM, 4 George Street
Freetown, Sierra Leone
Email: sierraleone@theigc.org

IGC South Sudan
Email: southsudan@theigc.org

IGC Tanzania
18th Floor, North Tower
Bank of Tanzania, Mirambo St.
P.O. Box 2939
Dar Es Salaam, Tanzania
Email: tanzania@theigc.org

IGC Uganda
c/o Bank of Uganda
Research Department
Plot 37-45 Kampala Road
P.O. Box 7120 Kampala, Uganda
Email: uganda@theigc.org

IGC Zambia
Economics Association of Zambia,
Plot 26 Parirenyetwa Road,
Rhodes Park, Lusaka, Zambia
P.O.Box 38006
Email: zambia@theigc.org

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International Growth Centre
London School of Economics and Political Science
Houghton Street London WC2 2AE
www.theigc.org

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