Mobile Money: United for the Goal of Financial Inclusion

A comparative case study on institutional arrangements facilitating and establishing a mobile money market in a developing state
This research serves as a Master thesis in the field of International Relations and International Organization at the University of Groningen, Faculty of Arts.

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Abstract

Financial inclusion has become a very important subject in international economic development. Access to financial services is the key to reduce poverty in developing states. The most dominant form of financial inclusion is mobile money, as global mobile phone penetration is very high it is a cheap way to increase the access to financial services. However, governments and central banks experience difficulties facilitating and implementing mobile money services in their states. Developing states mostly opt for a bank-led model or non-bank model to implement mobile money services. A bank-led model allows formal financial institutions to supply mobile money and exclude mobile network operators from offering mobile money. Policymakers opt for banks as they are experienced with money settlements but inexperienced when it comes to reaching the customers. So, mobile network operators are needed. The biggest mobile money success is Kenya, a state that opted for a non-bank led model and has a dominant mobile network operator which supplies most Kenyans with mobile money. To achieve financial inclusion, it is evident that institutional arrangements have to cooperate to establish a mobile money services system. The actions of the institutional arrangements involved in three different states have been researched with the inclusive growth theory of Acemoglu and Robinson. This is a theory which focuses on the inclusive considerations of institutional arrangements and the stimulation of competition and innovation in the mobile money industry.
Table of contents

- **Chapter 1: Introduction** 2

- **Chapter 2: Theoretical Framework** 12
  2.1: Theory: inclusive growth theory 12
  2.2: Methodology: comparative case study 17

- **Chapter 3: Financial Inclusion** 18

- **Chapter 4: Case Studies** 23
  4.1: Inclusive growth theory and mobile money services 24

- **Chapter 5: Nigeria** 26
  5.1: The socio-economic context 26
  5.2: The roles of institutional arrangements 28
  5.3: The four factors 32

- **Chapter 6: Kenya** 34
  6.1: The socio-economic context 34
  6.2: The roles of institutional arrangements 36
  6.3: The four factors 40

- **Chapter 7: India** 43
  - 7.1: The socio-economic context 43
  - 7.2: The roles of institutional arrangements 43
  - 7.3: The four factors 47

- **Chapter 8: Implications for International Relations Literature** 49

- **Chapter 9: Conclusion** 53

- **Bibliography** 55
Chapter 1: Introduction

Queen of the Netherlands, Máxima Zorreguieta, is the UN Secretary-General’s Special Advocate for Inclusive Finance for Development and Honorary Patron of the G20’s Global Partnership for Financial Inclusion which is the title of the job she commenced in 2009. She started with one primary incentive: helping people further in life. As she argues, ‘Inclusive finance is not a target per se, but a means. It encourages people to participate economically and socially. It gives the people dignity [and] pride, and people become more productive’.¹ In between 2011 and 2014, 700 million people have gained access to financial services. However, there are still 2 billion people without financial opportunities.” Queen Máxima is the ambassador who spreads this important message of financial inclusion.²

The verb to include is an often-heard term in daily life, newspapers and political-economic spheres. Western governments desire to include everyone in political life as they allow all people to participate in democratic elections and desire to give shelter and food to all people. Also, governments wish to include their population in discussing the topic of economic growth. In the international relations literature, this is described by the term of inclusive growth, a term described in the book of Acemoglu and Robinson Why Nations Fail in which they define the inclusive growth theory. The inclusive growth theory focuses on the inner workings of institutions and their influence on economic growth. It separates institutions in two forms: there are inclusive institutions and exclusive institutions. Inclusive institutions are transparent democratic institutions that exist for the benefit of all and pursue what is best for all. In contrast, an elite group directs exclusive institutions, which secure their goals without considering what is best for all.³ The Organization for Economic Co-operation and Development (OECD) describes inclusive growth: “Inclusive growth refers to economic growth that creates the opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society.”⁴

Famous examples are stated in the book on the failure to deliver inclusive economic growth and on the destruction of a sovereign state through exclusive or extractive institutions. The authors frame inclusive institutions as the solution to inclusive economic growth, while setting out multiple examples.

of successful and catastrophic institutions in the book. However, Acemoglu and Robinson do not refer specifically or in general to inclusive institutions generating inclusive growth in the field of finance, nor do they refer to inclusive growth interacting with or being reached through financial inclusion. The closest the book comes to touching on these subjects is its discussion of economic growth for the inclusive society. In general, few scientists in international relations theory have written about inclusive finance developments, and the inclusive growth theory specifically has never been applied to inclusive finance.

Therefore, research on inclusive finance should include the inclusive growth theory to show how institutions act in this field. This theory is relevant to the thesis question because it focuses on political institutions facilitating economic institutions to function and support growth through the two most important elements of the theory: innovation and competition. The theory allows researchers to concentrate on the institutional arrangements facilitating these elements and on the implementation of mobile money services in developing states out of which inclusive growth should follow.

In developing states, financial inclusion has risen as a priority on the agenda of governments and central banks in the last twenty years. Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast majority of disadvantaged and low-income groups. The term is used to describe the ambition or the actual situation that enables all citizens of a state to have access to the banking services of formal institutions. To achieve the goal of financial inclusion, three determinants have to be fulfilled: access, usage, and availability. Financial inclusion is a particularly important topic for farmers and other people working in remote areas because it allows them to access financial services and improve their living conditions. A more advanced function of the mobile money services even allows the population to save and lend money through which they can insure themselves against economic flows, theft, illness, accidents, and unemployment.

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6 Ibid., 81 – 87.
As Queen Máxima argues, “This revolution is driven by mobile phones and digitalisation.” The usage of financial services has increased enormously in developing states; for example, a successful way of financial inclusion in Africa is through the usage of mobile payment services. Mobile phones allow users to deposit and withdraw cash from an account. Therefore, this system enables users to transfer money through personal identification numbers and text messaging. The biggest success of such a system in this respect has been in Kenya: Safaricom, a mobile network operator (MNO), launched a mobile banking application M-PESA in 2007, which made it possible for millions of Kenyan people to make payments and to transfer and receive money.

The ability to make payments and exchange money through a financial services system is not necessarily linked to having a bank account. This is of particular importance for Sub-Saharan Africa, where only one-third of the population has a bank account, compared to another emerging market such as Latin America, where 51% of the people have a bank account. The small percentage of African people having a bank account does not signify that African people are financially excluded. Without having an account at a financial institution, in several African states the majority of the people transfer money with a mobile phone.

This development has created an extraordinary situation from a Western perspective because the role of a mobile phone provider has expanded to providing mobile money services, and that of a mobile phone company now covers tasks of a financial institution. What the exact role of the supplier of a mobile money service is differs in every country. Some vendors also offer savings accounts, and other providers cooperate with banks to supply mobile money. One thing remains the same in all states: the government and the central bank together play a crucial part in facilitating and implementing the network of suppliers and financial institutions for mobile money. The stance of governments and central banks towards these mobile-money services is vital for the widespread success of the services and for the eventual financial inclusion of people. Next to that, mobile money services can also be a stimulator and platform for start-ups and innovations in different industries which can expand their market through mobile money.

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It is seen as a government and central bank responsibility to increase the access to banking services for their people. However, in order to develop the technology, they have to cooperate with financial institutions and MNOs that can provide the financial products. In some developing states such as Egypt or Cuba, government tries to limit internet use and financial inclusion initiatives because of distrust and fear of losing control to foreign parties. New financial institutions and MNO initiatives could endanger the people in power and their financial stability of the state.\textsuperscript{15} Nevertheless, most states react positively to private developments on the front of financial inclusion. International institutions, the government, the central bank, financial institutions, and MNOs cooperate to create a banking service for their people, such as in the mobile-money services system in Kenya. The result and success of the cooperation between these partners can differ a great deal. Therefore, this thesis will examine this interaction to see what determines the success of a financial inclusion instrument such as mobile money in developing states. Developed states are excluded from this research because their citizens are mostly financially included, and so, issues of financial exclusion play a minor role in these societies. Generally, they have a higher income and are more economically developed. Their citizens have a demand for more advanced financial products and ATMs and credit cards are within almost everyone’s reach.\textsuperscript{16}

As stated earlier, the inclusive growth theory based on the book by Acemoglu and Robinson is relevant for this research. The core themes and basis of the theory are the concepts of competition and innovation. In their philosophy, if there is a high level of competition and innovation in a state, this should lead to \textit{creative destruction} that keeps the market products updated to market demand. Creative destruction is referred to as old technologies being replaced by new technologies which keep the market and the products competitive to other states or competitors. Inclusive political-economic institutions must establish a competitive and innovative environment.\textsuperscript{17} This is the same for financial inclusion and mobile money which also profits of such an environment. Therefore, the theory suits the research topic of the thesis because if the concepts of inclusive growth theory are fulfilled, financial inclusion can be achieved creating access and opportunities for all segments of the population. The theory will be discussed more comprehensively in the section on the theoretical framework of the research.

This research will point out which factors are of importance when creating a suitable environment for financial inclusion in a state. A comparative case study methodology will be used to exemplify


\textsuperscript{17} Acemoglu, Daron & James A. Robinson, \textit{Why Nations Fail: The origins of power, prosperity and poverty}, (London: Profile books, 2013), 82.
positive and negative developments in the area of financial inclusion in developing states. Case study examples will be used to show which institutional arrangements, such as among international institutions, the government, the central bank, financial institutions, and relevant companies, are necessary to stimulate mobile money development for the goal of financial inclusion. These institutional arrangements must cooperate to establish such a financial system. Particular attention will be paid to the actions of governing institutions and their role in ensuring and facilitating a well-functioning regulatory framework in their state. The government and the central bank play a vital role when implementing regulations to allow industry players to include their people financially.¹⁸

Three case study examples will be used to compare the facilitation and implementation of mobile money services systems in states. The mobile money developments in Kenya, Nigeria, and India will be examined for how institutional arrangements cooperate and function to achieve financial inclusion. The level of financial inclusion through mobile money services will be measured through four factors: policy and regulation, income, the number of mobile banking accounts, and social inclusion. These variables are the instruments of the comparative case study method of Alexander George called structured focused case comparisons, which is the method used for this research. The countries selected for the research of mobile money services in developing states are Kenya, Nigeria, and India. These case studies are selected because they have different regulatory frameworks for mobile money development. This will help illustrate the issues that arise between institutional arrangements in the process because different factors stand out.

Nigeria provides an example of a central bank that recently licensed financial institutions to operate mobile money services. However, there are a small number of mobile money users because Nigerians are used to transferring money through ATM’s and not through mobile phones. In addition, the communications and network infrastructure does not fulfill customers demand.¹⁹ In India, there are other problems: the government, the central bank, financial institutions, and mobile providers cannot agree on a well-functioning regulatory framework for mobile money services.²⁰ Meanwhile, Kenya is an example of successful cooperation between institutional arrangements, which allows all people to participate and use the mobile money services.²¹

Whether the financial inclusion system of a state generates inclusive growth is dependent on the factors stated above. The core themes of the theory (competition, and innovation) together with the four factors (social inclusion, policy and regulation, the number of mobile banking accounts, and the income level) will determine the level of inclusive growth in the field of inclusive finance through mobile money services in a developing state. Therefore, the case study will focus on these factors, which are together responsible for achieving this form of inclusive growth.

All these elements lead to the following research question:

*How can institutional arrangements realise inclusive growth in developing states in the field of inclusive finance through mobile money services systems, as proposed in the theory of Acemoglu and Robinson?*

All the different elements of the question will be analysed and examined in order to answer this question. The thesis will start by introducing the theory and its core themes, which are the brick stones of the research. These central themes, competition and innovation, are the prerequisites for studying every example of financial inclusion in this research. There will be an investigation into what extent the political-economic institutional arrangements that are active in the mobile money industry increase inclusiveness.

After the theoretical framework is established, the research will indicate what the goal of financial inclusion is, why it is important to achieve financial inclusion in a developing state and how inclusive growth can stimulate inclusive finance. It is important to agree on the factors that influence the process of financial inclusion and especially those that influence mobile money services so research can reflect upon the contribution of each factor to the goal of financial inclusion.

In the middle section of the research, the theory and these factors will be applied to the three case studies. To be able to reflect on the way to achieve inclusive growth in the field of inclusive finance through a mobile money service, the effect mobile money services have for the purpose of financial inclusion in Kenya, Nigeria, and India will be examined. The research will examine the case studies on the role that institutional arrangements play in facilitating competition and innovation in the mobile money industry. Each case study starts with an illustration of the socio-economic context. Thereafter shall the role and the inclusive considerations of the different institutional arrangements be examined; to what extent do they influence mobile money development and how do they stimulate competition and innovation. The policy and regulation issue factor is extensively described in this part and is summarised in the corresponding factor analysis after this section. In the last section of each case study, the four factors from the theory will be used to determine the level of financial inclusion. The
four determinants will allow the research to conclude whether a developing state enjoys inclusive growth in the field of inclusive finance through mobile money services. Below the four factors are specified.

First, the research will examine how the institutional arrangements affect the facilitation and implementation of financial services in the state. An executive policy and well-functioning regulatory framework are needed for a sustainable environment of a system of financial inclusion. Focus will be on the respective roles of international institutions, the government, the central bank, financial institutions, and related companies in the industry facilitating the mobile money services. (Factor 1: policy and regulation issues.)

Secondly, the research will analyse the statistics on the level of financial inclusion with special attention to the number of mobile banking accounts and financial institution accounts. Because the level of mobile banking accounts compared to general financial institution accounts indicates the size of the role of mobile money services in a state, a high level of mobile accounts implies a successful implementation of mobile money services. (Factor 2: mobile banking accounts.)

Thirdly, it will be examined whether the mobile money services are inclusive, and whether the use of the service is in everyone’s reach or only in the reach of privileged groups in society. A well-functioning communications and distribution network of agents is the key to supplying financial services. Being able to adequately serve mobile money services countrywide is very important for a successful and widespread implementation of financial services. (Factor 3: social inclusion.)

Fourthly, the research will look at the gross national income per capita in a state. Economic growth can be generated by the presence of mobile money services or other financial services. The income level is interrelated with the use of financial services. As people have more income, they become more interested in financial services. If they have no money and only goods, financial services are almost irrelevant. (Factor 4: income level.)

As described above, the different subjects of research are divided in the following sub-questions:

1. What are the main features of the inclusive growth theory of Acemoglu and Robinson? What is their perspective on inclusive finance?

2. What is financial inclusion and why is it an important goal for developing states?

3. What is the role of the different institutional arrangements in facilitating and implementing mobile money services in developing states for the purpose of inclusive finance and inclusive growth? Three case studies: Kenya, Nigeria, and India.

- The role of international institutions
- The role of government
- The role of the central bank
- The role of financial institutions
- The role of companies in the industry

The responses to these sub-questions will provide the required information to reflect on the influence of mobile money development on the level of financial inclusion in the three case studies. Thereafter the results are considered in the light of international relations literature. Lastly, the information from the case studies will allow the research to respond to the main research question.

Before the theoretical framework is further explained, the importance of inclusive finance will be shortly initiated with a quote from Forbes Magazine on the topic. Thereafter will be indicated what this research can contribute to International Relations (IR) literature.

“Most people probably don’t think of Kenya as an innovation and technology hub, but in 2007 it became the launching pad for M-Pesa, a transformative mobile phone-based platform for money transfer and financial services. Since then, M-Pesa has undergone explosive growth in 2013, a staggering 43% of Kenya’s GDP flowed through M-Pesa, with over 237 million person-to-person transactions. M-Pesa is nearly ubiquitous in the daily lives of Kenyans due to a range of services that include money deposit and withdrawal, remittance delivery, bill payment, and microcredit provision.”

“Nearly a decade after its launch, M-Pesa has transformed economic interaction in Kenya. Its success reshaped Kenya’s banking and telecom sectors, extended financial inclusion for nearly 20 million Kenyans, and facilitated the creation of thousands of small businesses. M-Pesa has been especially successful in reaching low-income Kenyans: new data indicate that the percentage of people living on less than $1.25 a day who use M-Pesa rose from less than 20% in 2008 to 72% by 2011.”

As this article from Forbes Magazine describes, significant economic progress has been made through financial inclusion. In the book called *The Little Data Book on Financial Inclusion*, statistics show the financial development. This is an essential book on inclusive finance development of the World Bank. A book Queen Máxima always brings along visiting developing states to underline the importance of financial inclusion. Since the first version of the book in 2012, the number of people without a viable alternative for the cash economy or for informal financial services dropped from 2.5 billion people in 2012 to 2 billion people in 2015, when the second version of the book appeared.

However, challenges remain, and there persists an enormous gender gap. For both men and women, bank account ownership has increased, but an 8–10% difference endures across income groups in developing states. A more intensive policy program is needed in order to achieve gender parity. The Global Index of the *Little Data Book on Financial Inclusion* shows promising opportunities for developing countries.

In 2012, 1.7 billion people of the world’s unbanked population had a mobile phone, which indicates that the foundation is already there for major steps in mobile money services. Also, 100 million government employees globally still receive their payrolls in cash. To push these payment structures into digital deposits would be another step towards the goal of financial inclusion. Policy design and regulation in developing states are areas in which progress should be possible. Also, as Acemoglu and Robinson point out in their book, market competition and innovation are crucial aspects for inclusive growth. However, so is inclusive finance because supportive policies stimulate innovation and drive competition. An open market for all players active on the mobile money market remains of key importance. Over the past decade, financial inclusion has risen as a global priority. Increasing the accessibility of financial services has allowed multiple parties to enjoy advantages, especially for low-income populations and small businesses, and has enabled individuals to profit from the opportunities, and to save and/or lend money for better health care or retirement. Increasing stability and inclusive growth through financial inclusion supports the political system, from which governments can profit.

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29 Ibid.
Moreover, financial inclusion helps realise global community goals such as reducing poverty, and creating shared prosperity and economic progress.  

When looking at IR literature, the applied theory can be linked to neo-liberalist and institutionalist notions as well as development strategies in the North-South debate. The theory of Acemoglu and Robinson responds to the inclusiveness considerations of political and economic institutions where the writers highlight the importance of a competitive and innovative environment for economic development in a state. Acemoglu and Robinson reason out of a liberalist philosophy and promote a competitive and relatively free market, however, they also note the influence of institutions in creating such a competitive environment. The theory uses, just as the neo-liberal institutionalism school, realist and liberalist notions to explain development in states and the international society. The findings of neo-liberal institutionalist Robert Keohane are very related to the theory of subject. He considers a complex system of interdependence between various actors which only cooperate on the condition of common goals or/and values. Keohane mostly aims at the inter-state level where states and international institutions must cooperate to achieve political or economic goals. Also, in the case of mobile money, various institutional arrangements have to cooperate to establish a successful mobile money system. The research findings will be relevant to the IR school and these neo-liberal institutionalist notions specific because it focuses more on the cooperative efforts within the states and to what extent the different actors, institutional arrangements, cooperate and promote economic (mobile money) development.

Besides its relevance for the neo-liberal institutionalism school, the research is also relevant for the North-South debate in IR literature. Traditionally, the North-South debate is made up out of Modernization theorists and Dependency theorists, which disagree on the reason and the factors that caused an uneven relation between the North and the South. For this research the considerations of Dependency theorists are especially interesting as they argue that the best solution for developing states to develop is self-sustained economic development. Acemoglu and Robinson also believe that the internal institutional system is a key factor for development and growth. Earlier, increasing product exports, improving the infrastructure or development aid initiatives were the most logical possibilities for self-sustained development in developing states. However, technological developments have changed and eased internal economic development. Particularly mobile money can be a driving factor for economic development in a state as it allows everyone who has a mobile phone access to financial services. New technologies such as mobile money can help close the gap of the North-South divide.

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35 Krüger, L, ‘North-North, North-South, and South-South relations’, Global Transformations and World Futures. 2 – 3.
and fasten economic development. This research can add a new dimension to the North-South debate, which can be relevant for policymakers and regulators in developing states and IR scholars.

After the research topic has been introduced, the relevancy and research outline is described, research shall continue by providing by explaining the theoretical framework.

**Chapter 2: Theoretical Framework**

The tools that allow the research to examine the thesis question will be the inclusive growth theory and the comparative case study methodology.

**2.1: Theory: inclusive growth theory**

Economic growth is an acknowledged concept as a basis for a successful, prosperous state. All governments try to pursue economic growth to reduce poverty and inequality, or for its own wealth. There are multiple types of models to explain the growth of the economy and the variable speed of growth in the different economies. Simple economic growth models mostly define growth as a combination of labor, physical capital, and output whereas some more advanced models include investment, innovation, or human capital in its models.\(^{36}\) Inclusive growth is another approach to economic development, as the African Development Bank describes: “Inclusive growth is economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions, or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality”.\(^{37}\) Inclusive growth focuses on sustained poverty reduction, which is broad-based across sectors and inclusive, and where the population is allowed to contribute to and benefit from the economic growth.\(^{38}\) This all occurs in an open economy where all individuals and businesses have equal opportunities to markets and resources.\(^{39}\)

Out of this concept, economist Daron Acemoglu and political scientist and economist James A. Robinson developed the inclusive growth theory, which is defined in their book *Why Nations Fail. The Origins of Power, Prosperity, and Poverty*. In the book, the authors claim that nations fail not through policies, geography, culture, or value systems but through institutions, especially the political institutions that shape the economic institutions, which fail to represent and pursue the will of the

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people. As stated earlier, they point out two types of political institutions: exclusive or extractive institutions, which are led by the elite: a group of individuals that pursue their goals at the cost of the mass of the people. In contrast, there are inclusive institutions in which the majority of the population is involved in the governing process, which should cover and pursue the general will. Acemoglu and Robinson argue that if political institutions want to achieve success, there should be political centralisation to provide basic public services, such as justice, enforcement of contracts, and education. If power is centralised, and these functions are fulfilled, institutions will develop into inclusive institutions and will enable an ideal investment climate for innovation and competition. This development will lead to continuing growth as shown in the Industrial Revolution. Investors and innovators need to have the faith that the powerful will not squander their investments or efforts.

The authors argue that extractive institutions can stimulate economic growth if they are not dependent on technology. If they are dependent, in the end, they will not succeed because innovations and creative destruction are needed to continue growth and development in a state. The open market should allow new technology to replace older ideas. Creative destruction is crucial for a market to remain economically relevant. Extractive institutions block socio-economic innovation since the ones in power do not want their ideas/technologies to be replaced by the new market players. Such bodies are also the institutions blocking networks that facilitate financial inclusion and mobile money services. Those “bad” institutions are led mostly by the vested interests of the elite, who prevent growth and innovation, and which will eventually result in underdevelopment and a loss of competition. The existing technology blocks ideas for new technology, and stops innovation and creative destruction. Authoritarian governments, bankers, and intellectual property monopolists are today’s examples of extractive institutions. The current global debt problems led us to reflect further on extractive institutions such as the banking industry. Does excessive debt push inclusive institutions to become extractive? Debt is highly extractive towards future generations.

The authors emphasise what occurs within nations. They focus on the internal situation of a state as the reason for successful economic growth, driven by a transparent political institution that allows competition and creative destruction to thrive, which stimulates the development of the state’s market and national business to grow. A negative side to the story is the fact that the authors leave out the

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41 Ibid., 75 – 76.
most common factor for successful growth: (foreign) competitors pushing the internal to innovate and grow. They see no importance in the competition between states accelerating inclusive growth, although history has shown that external competition has been vital in empowering innovation and growth. Foreign explorations of European states in between the 16th and 19th centuries are the biggest example of competition between states, in which they all searched for new territory and goods to boost their economies and brought European states heaps of wealth and success.44

Today, China is an example of an exclusive institution is what Acemoglu and Robinson argue. The authors assume that its growth is exclusive and will not last, although an option exists to transform into an inclusive institution.45 The Chinese state should create an environment that satisfies the conditions of inclusive growth as described by the African Development Bank.46 One can easily conclude that these conditions in China must improve before inclusive growth is realised through an inclusive institution. Acemoglu and Robinson argue that history has shown that you cannot get your economics right if you do not get your politics right. The authors believe China does not endeavour an environment of fairness, equal justice, and political plurality. It will not achieve a combination of political and inclusive economic growth because it is under the grip of the Communist Party. This is an authoritarian monopolist, which experiences economic growth by mobilising resources through large-scale operations from a weak base. However, the growth is not sustainable because this policy does not lead to competition and creative destruction, which are the bases for innovation and inclusive growth.47 If China allows its economy to be directed through creative destruction, old products being replaced by new products, which can influence political and economic power relations, China’s growth might endure. However, as the author rightly argues: “Can you imagine a 20-year-old college dropout in China being allowed to start a company that challenges a whole sector of state-owned Chinese companies funded by state-owned banks?”48

Jeffrey Sachs, a professor in economics at Colombia University (United States), agrees with Acemoglu and Robinson’s conclusion on the development of China. He agrees on the point that inclusive institutions are essential in driving competition and innovation and encouraging its people to

continue developing and inventing. This will only happen when inventors can enjoy the economic benefits. On top, the profit motive for businesses will drive diffusion because this will push competitors to spread the new invention and lead to more economic development. He also consents with the argument that governments such as the Chinese government will turn into democracies or disappear into the graveyard like the USSR because those institutions uphold individual development of which a company can profit.

However, Sachs also criticises statements of Acemoglu and Robinson. Sachs argues that economic development is influenced by more factors than competition and innovation. Diffusion, geography, and the cultural environment are factors that should not be neglected. Besides, Sachs argues, the authors discuss the Chinese state of Mao Zedong as completely “extractive,” without noticing the fact that in between the years 1949 and 1979 his regime laid the foundation for industrial and market growth by investing in health and literacy during this period. These are important factors for inclusive growth.

However, Sachs and also other economists and institutionalists disagree about the factors of influence as the reason for economic development. Also the ones Acemoglu and Robinson point out. Nonetheless, ‘Why Nations Fail’ is a substantive addition to the topic of the sustained comparative economic development of states.

Acemoglu and Robinson focus on nations, but the role of transnational institutions has become increasingly important in the process of inclusion. In particular, the institutions that are promoted by the U.S. throughout Europe and Canada, aim to ensure the protection of intellectual property, which is the number one enemy of competition and innovation. Competition among nations between the different intellectual property regimes has been essential for preventing intellectual property monopolists from suppressing innovation through excessive copyright and patent law. It is a genuine danger to the core subjects of the inclusive growth theory. Competition, creative destruction, and innovation are also the drivers of the mobile banking industry. Therefore, consumers should be protected against mobile network operators who block competition and try to benefit from the lack of competition at the consumer’s cost, by the government, the central bank, and international institutions.

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50 Ibid., 3.


Another major issue that critics point out and what the authors of the book fail to mention, is how to move from an exclusive institution to an inclusive institution. They point out lots of examples and situations in the history of the two types of institutions but fail to provide a practical handbook of suggestions for institutions willing to change. They do not describe the transformation process.\textsuperscript{54} However, they do shift focus to political and economic institutions facilitating economic growth.\textsuperscript{55} This theory allows the research to focus on the inclusive considerations and actions of the government, the central bank, and financial institutions on the subject of financial inclusion and economic growth in general. The focus will be on how political and economic institutions facilitate competition and innovation, and how this leads to the facilitation of bank access for all citizens irrespective of their social-economic status.

The linkage between financial inclusion and inclusive growth is strong and easily made. When there is a positive development in inclusive finance, the resulting growth will also be inclusive. In contrast, inclusive growth does not necessarily imply financial inclusion to be part of the growth. A state can enjoy growth through an increase in the level of education or infrastructure without more people gaining access to banking possibilities. For this research, the focus will be on the inclusive growth stimulating financial inclusion through mobile money services.

The authors conclude the book by restating their core themes: the danger of an extractive elite group, which disables innovation and competition in the state and could endanger the ones in power. Sustained economic development can only be achieved with inclusive political institutions. The authors have a positive view on the future of the West because most institutions are inclusive, but every institution should remain vigilant as there are big challenges for inclusive institutions. For example, the growth of patent requests can endanger our innovative environment. Next to that, the complexity of today’s societies makes people less connected to politics, which is a danger to a critical condition for inclusive growth: political centralisation.\textsuperscript{56}

The elements of the theory will be applied to the case studies with the help of the comparative method explained below. The research will operationalise the theory by focussing on the core elements of the theory, innovation and competition, and how these are facilitated and stimulated by institutional arrangements to achieve the goal of financial inclusion. The thesis will look at the extent to which


innovation and competition encourage inclusive finance and, in this paper specifically, mobile money services to function. The focus will be to see whether the level of access, usage, and availability of financial inclusion increases through the elements of the inclusive growth theory.

2.2 Methodology: comparative case study

The methodology for this research is the structured, focused case comparison. This is a comparative case study which allows research to structurally examine the thesis question. In response to the limitations of Mill’s methods and controlled comparison, Alexander George systematised case study procedures and developed the method of structured, focused case comparisons. This methodology takes two or multiple unique situations and assesses them on several variables. This makes the methodology suited for this research as it investigates the three case studies on different variables.

In contrary to Mill’s more statistical methods, the structured, focused case comparison is a more straightforward approach. It has been split up into several questions that should lead systematically to a possible comparison between cases with the help of independent and dependent variables. The structure of methodology is made up out of five variables. Research will examine the case studies with this structured set of questions and uses the following several variables upon the cases will be tested.

1. Specify the research problem and the group of events to examine.
2. Define which factors are the independent, dependent, and intervening variables of the relevant theories.
3. Determine which cases to be studied and compared.
4. Determine how best to characterise the variance in the independent and dependent variables.
5. Formulate a detailed set of standard questions to be applied to each case.

This method, unlike other comparative case study methods, does not consider one or all but one variables to be the same but allows various variables to stand out in the case studies. As a consequence, this method creates a basis for systematic comparison highlighting different variables which are important. This is important because India, Nigeria, and Kenya have different variables that handle the success or failure of mobile money services in their states.

58 Bennett, Andrew, "Case study methods: Design, use, and comparative advantages," Models, numbers, and cases: Methods for studying international relations (2004), 32 – 33.
When operationalising the methodology for this research, the following variables are applied:

1. The success or failure of mobile money services and financial inclusion in a developing state.

2. The inclusive growth theory components, the inclusive considerations of institutional arrangements and how they stimulate competition and innovation.


4. The following four independent variables: policy and regulation issues, mobile banking accounts, social inclusion, and income level, will indicate the level of financial inclusion in the examined states and will also show the contribution of mobile money to the level of financial inclusion.

5. The standard questions for each case are the following:

   - What is the role of the different institutional arrangements in facilitating and implementing mobile money services in developing states for the purpose of inclusive finance and inclusive growth?
   
   - To what extent do the four factors, policy and regulation issues, mobile banking accounts, social inclusion, and income level, influence the level of financial inclusion through mobile money services in the case studies?

The questions as stated above should lead the reader to form a conclusion about the effect of mobile money services in these developing states on inclusive finance according to the inclusive growth theory.

**Chapter 3: Financial Inclusion**

Financial inclusion today is about much more than microfinance was about. It is about a mass global development of more people wanting more sorts of financial products. The magnitude of the development has resulted in more products at lower costs for everyone instead of the small value loans that microfinance initiatives offer to start-ups. The use of financial services used to be only available to a small group of the population depending on their income level, gender, volatility, location or financial literacy, and not available for the majority of the population. Now there is more to offer: a range of products tailored to every lower-class individual. The biggest drivers of the advance in products are the mobile network operators (MNO), which are the providers of the financial products. Before, microfinance was only about credit and savings and not about enabling lower-class people to transfer money. Banks were the exclusive supplier of credit and savings on the market.

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changed with the entrance of MNOs to the market and when mobile money services started services to transfer money that were earlier only available to wealthy people. People can now acquire access to financial services at local agents by using their mobile phones. Dependent on the country and the types of financial products they offer, people can transfer money or credit, pay bills, or save money. As money transfers are directly linked to depositing money, the first steps to becoming a financial institution are made because the next step will be providing savings and credit functions, and disrupting the banking industry. A great revolution in banking is on its way with regulators and policymakers as guardians of the revolution in the telecom and banking industry, checking the development of different financial products of MNOs. These are crucial tasks for regulators because telecommunication companies are inexperienced in the sense of fulfilling the function of a financial institution. Many challenges lie ahead for governments, central banks and relevant companies which the thesis will discuss in the following chapter.

In other regions, they expand inclusive finance is spread differently. In Latin-American states for example, people are financially included through digital banking and payrolls paid directly to the peoples’ bank accounts, which encourages them to participate in this revolution. In Asia, financial inclusion is achieved through the expansion of savings in Asian countries which are highly demanded. In particular, digital payments from government institutions into accounts for pension and cash transfers are a major driver for financial inclusion.

As shown, there are various methods to financially include a population. Dependent on policy and consumer needs, innovations have tried to create financial inclusiveness in developing states. There are more technologies to achieve this goal alongside mobile banking. Multiple types of cards have been used to introduce the unbanked to financial services. There are stored value cards, payroll cards, and smart cards. Stored value cards can be divided in closed-loop and open-loop cards. An open loop card is the name for the credit cards and debit cards used in the West. Closed-loop cards are cards that can be used only in a specific shop or product. The connection of stored value cards from the United States and Central-America pushed people, especially those in Panama and Mexico, to use financial services because they could receive money from their relatives in the United States through this system. Payroll cards are a type of stored value card and are used to deposit a salary directly to an account. With this technology government can obligate companies and thereby push workers to use the cards as its salary is deposited to the account. This has had a significant influence on stimulating inclusive finance in Latin America. Governments mainly use smart cards with the same philosophy as

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63 Ibid., 12 – 16.
the payroll cards: to urge their people to use financial services. The concept of government to person (G2P) cash transfer programs in the form of income support, pensions, and poverty alleviation is a big opportunity to expand the financial inclusion revolution.\textsuperscript{64}

A popular form of inclusive finance is agent banking, where local agents in commercial banks affiliates in small towns offer access to financial services. A system designed to lower the costs of banking for poor people because commercial banks have high transaction costs and often do not find it viable to facilitate the small-amount money transfers of the lower class. When there are no branches close to the customer, consumers are reluctant to join commercial banks. Agents are deployed to narrow the distance and lower the costs of banking, and are enabled to provide more and more financial services over the years. Brazil has been a success story providing 13 million users with financial services through the agent banking system.\textsuperscript{65}

Two developments have been the basis of the expanded concept of financial inclusion. What is central in the expansion of the different forms of financial inclusion is the usage of mobile phones. First, more research has demonstrated the need of lower class people for more types of financial products; people are interested in more products than just credit. Mobile phone data provide research with statistics concerning the demand of the population. Second, technological innovations are of key importance in effectively meeting consumer needs and have been the basis of the aforementioned financial inclusion systems.\textsuperscript{66} Cheaper innovative business initiatives such as mobile money services offer the possibility of providing isolated populations with a broad array of products. A new market will arise with different products that all have their own challenges and will be hard to tackle if the responsibility and the provision of the products come down to the service providers alone. A vital goal of the institutions is to cooperate in order to create a market that is safe to use for all market actors. The role of the government to facilitate this interaction and an efficient, reliable infrastructure is the foundation for a successfully interconnected market. Because poor people have irregular incomes and are more fragile in emergencies, they know how to move money by financial instruments in between the periods they need to spend or save money. The extension of financial products to the poor is therefore needed and asked for. However, before these products can be successfully implemented in society, there are some important issues to deal with. The products must be affordable and within the reach of the customers

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and a party needs to supply the product and mitigate the risks of offering mobile money. The only way to create a well-regulated and operational framework is when the concerned institutions cooperate.\(^\text{67}\)

In the Commonwealth Finance Meeting of Ministers in 2011, a meeting between ministers of former British colonies, these issues were accurately identified: “For example, an insurance company cannot effectively function without actuaries, independent agents selling policies, and reinsurers who aggregate risk. Payment service providers and providers of short-term savings products need a low-cost infrastructure of origination and delivery points that permit money transfers and savings services at prices acceptable to low-income individuals sending low values. Long-term savings providers need prudentially regulated financial institutions for deposit intermediation. For credit products, reliable credit bureaus are needed. And loan aggregators can diversify risk by consolidating different loan portfolios with varying geographic and other risks.”\(^\text{68}\)

As the above part shows, cooperation is needed between government institutions and MNO’s. The corner stones of the theory of Acemoglu and Robinson are competition and innovation, e.g. the market and infrastructure should be provided through the government because payment services can compete in a market that is controlled by reliable institutions. Only then, with market competition, can new business initiatives arise, resulting in new possibilities for financial inclusion.

The meeting of the ministers continues, “The commercial challenges of these various products can be effectively ameliorated if a number of companies work in partnership while focusing on the products and services they know best. Such an ecosystem represents a shift from vertically integrated business models that limit efficiency and scale. However, these ecosystems do not always develop easily, or quickly, on their own. In fact, competitive forces may stifle the emergence of some cooperative relationships, such as with payment service providers who have invested so heavily in distribution infrastructure that new entrants find it difficult to compete.”\(^\text{69}\)

The conference also point out the problems confronted when establishing a free market: old payment providers blocking access of new entrants to the market, a classic example of a market dominated by exclusive institutions.\(^\text{70}\) In this sense, the topic of financial inclusion is not any different and shows that the theory of Acemoglu and Robinson is not related to any particular market or institution. Hence,

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\(^{68}\) Ehrbeck, Tilman, Mark Pickens, and Michael Tarazi, "Financially Inclusive Ecosystems: The roles of government today," *Focus note*, no. 76 (2012), 55.


governments should take up the responsibility and create an unbiased playing field with an appropriate framework. Other vital points of improvement for a mobile money service such as the limited interoperability of the system, insufficient qualified agents, and a low level of financial literacy and income will be discussed in the following section.

There is also criticism to the politicians chasing the goal of financial inclusion as a means for economic development. Problems could arise when the increase in credit products by the poor enlarges debt burdens and the financial integrity. Credit products and over-borrowing could cause financial instability.71 Next to that, although a lot of poor people may gain access to financial services, it would not immediately make them rich. The poor might use their accounts solely for consumption and not take advantage of the greater opportunities. Overvaluing the importance of financial services and an unprepared market as described above are also often heard counterarguments to the goal of financial inclusion.72

Before the research starts, an agreement on the definition of financial inclusion is necessary, because there is an erroneous assumption that financial inclusion is achieved by simply increasing physical access to financial services. A more comprehensive definition should include the frequency of the use of the products, whether they suit the needs of the market and whether they increase welfare. A common way to look at financial inclusion is to focus on usage, availability, and access.73 These are broad categories that provide governments with guidelines for discussing their policies on the subject. In developing states where mobile money services are implemented, the focus is still on increasing access to the services because usage and availability come next. The reason is simple: The only data most governments are provided with are the data on the level of service provision.74 Therefore, books such as The Little Data Book on Financial Inclusion are crucial as an example of data provision that contributes to the financial inclusion development. However, to determine the success of a system of mobile money services for this research, more specific factors are needed as more is researched than only statistics. For this research, the following specific determinants shall be used: policy and regulation issues (1) and income level (2) which will indicate the availability of financial services to the people, the number of mobile banking accounts (3) will indicate the percentage of the people who use financial services via their mobile phone, and social inclusion (4) refers to the level of access for

different groups of society. These factors together indicate the level of financial inclusion through mobile money services in the case studies.

Before case studies are examined, it is expedient to restate and summarise the theoretical framework of the research. The case study research will evaluate the core elements of the relevant theory, innovation and competition, and to what extent these are the motors of success for a mobile-money service in the states that are being examined. The inclusiveness of the mobile money service will be determined by investigating four determinants in the states: policy and regulation issues, mobile banking accounts, social inclusion, and income level. Thereafter, the research will reflect upon the thesis question with the results of the case studies.

Chapter 4: Case Studies

The causal link between the theoretical framework and the subject of discussion is stipulated and in the following part will the theory be applied to research the case studies. The case studies will focus on the role of the institutional arrangements involved in the creation and function of mobile money services. They will examine the impact of international institutions, governments, and central banks in facilitating an open competitive market in which there is a high interoperability between market players, and in which users have sufficient network coverage. Attention will be paid to the cornerstones of the inclusive growth theory, competition and innovation, and to what extent governments, central banks, and international institutions stimulate these elements in the mobile money services industry. Also, the research will examine the cooperative efforts of market actors, financial institutions and mobile network operators, and the way they supply financial products to the people. As governments are mostly concerned with regulation for the financial institutions, this could imply a tremendous freedom for MNOs on the market. Do governments and central banks want these parties to compete and cooperate, and will they facilitate the cooperation? Who offers the mobile money services, and do they have the same regulation as traditional financial services?

Thereafter, each state will be examined on the inclusiveness and success of the mobile money services system with regard to the goal of financial inclusion. This will be concluded after the case studies have been tested on four factors; the first determinant to be examined will be the state’s policy and regulation issues on mobile money services. This part will intertwine with the first part of the case study research on the role of governments and central banks in the field of inclusive finance. The second, third, and fourth factors, which are mobile banking accounts, social inclusion, and income level, will lead to a conclusion on the current state of and the inclusiveness of mobile money services in the case studies. Traditionally, MNOs have the ability to reach the unbanked with their distribution and communication network while banks usually have the monopoly for taking deposits.
problems that arise in the interaction between MNOs and financial institutions will be dealt with because they mostly have different objectives and business models, and both parties have to comply with different regulations and standards.  

The examination of these critical issues and the subsequent outcome of the research will show how different institutional arrangements influence inclusive finance development. This research can hopefully contribute to the debate on the future decisions of institutions relating to inclusive finance. The reason why these developing states are chosen as case studies to investigate is because each one will indicate different successes or failures of policies and cooperation in the mobile money services industry. All three case studies, Nigeria, Kenya, and India, have a sufficient level of mobile phone usage in its state, which allows research to identify the weaker parts of the system. Also, the governments in all three case studies have executed policies trying to improve the use of the mobile money services among its people. However, these states have come across different issues whilst using mobile money services. For instance, Kenya is an example of the most successful and inclusive mobile money service in the world, but Nigeria and Nigerians experienced predicaments. Nigeria has had difficulties increasing the usage of the mobile money services, whereas India’s government has still not been able to unite MNOs and financial institutions to offer the mobile money services at an affordable price. The different political-economic situations in the case studies will allow the research to elaborate on government policy and the cooperation of actors in the industry.

4.1: Inclusive growth theory and mobile money services

In the book of Acemoglu and Robinson, there is no discussion on the link between inclusive growth theory and mobile money services. The book does not deliberate on financial inclusion in the light of inclusive growth and, also, fails to offer a description of the transformation process from an exclusive institution to an inclusive institution. Both are very relevant issues for the institutional arrangements engaged in the facilitation of mobile money services in developing states, because developing states often benefit and experience from strong market leaders in mobile money, either bank or non-banked led, which are the only ones dominant enough to roll out the product on such scale at low costs. This leads however to a powerful position of the large companies in a developing state. These companies will put competition and innovation in the industry in danger, because they will make it harder for competitors to enter the market or for consumers to change to another company because they want to

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77 Tiwari, Muditi and Deepti K.C., “Mobile Payment Systems: What Can India Adopt From Kenya’s Success?,” The Consultative Group to Assist the Poor, April 2 2013,
maximise profit. When rolling out mobile money services in a developing state, the same issues arise. The monopolist actions of a company are often essential to create a market for a product.\textsuperscript{78} The World Economic Forum wrote about this topic in a report in 2011, “[the] initial adoption appears to be driven by constrained access to formal financial services, as opposed to well-developed institutions and competitive markets.”\textsuperscript{79} The initiation of the mobile money industry needs a strong leader. These are difficult issues for policy makers because premature regulation stopping anticompetitive practices may incur extra costs for society or products may not even reach the market. The balance of anticompetitive regulation is the responsibility of policy makers. Policy makers are, in this sense, the guardians of their citizens and the products they buy on the market. The government and the central bank have the responsibility for ensuring that the mobile money services industry remains a well-functioning competitive market that obligates market actors to lower prices. An example of MNO dominance is Safaricom in Kenya, which has 68\% of the users of mobile money and determines the terms of the product.\textsuperscript{80} The dominant company can be understood as an exclusive institutional arrangement, which counters the idea of Acemoglu and Robinson of a transparent inclusive institution. They reason that exclusive institutions that block competition in the end will cease to exist, because the institution becomes extracted to the benefit of the elite group which lowers its competitiveness.

Acemoglu and Robinson argue that institutions or institutional arrangements will endure if they are able to transform from an exclusive to an inclusive institution.\textsuperscript{81} In developed states, there are lots of examples of mobile money services industries having inclusive institutional arrangements acting on competitive markets. Countries such as Japan and the USA are examples of an inclusive and transparent mobile money sector that Acemoglu and Robinson would like to see. A big reason for the difference of institutions is that in developed states, financial sectors are further developed and people have a higher income, which results in a demand for different types of financial products. Also, in developed economies the interoperability of a competitive market allows consumers to change easily to another company which increases competition. These circumstances created through central bank regulation push institutional arrangements of the industry that operate on the market to be competitive

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and serve customer demand. These circumstances together establish a market without the need of a dominant player or exclusive institution.\textsuperscript{82}

The process of development in the mobile money industry is closely related to exclusive institutions becoming inclusive institutions. The case studies will demonstrate the difficulties policy makers experience when developing a well-functioning competitive market for mobile money services. Further, the research will illustrate the exclusive or inclusive attitude of institutional arrangements involved in the industry.

**Chapter 5: Nigeria**

5.1: The socio-economic context

The case study comparison will start by examining a country with huge mobile banking potential, Nigeria. Nigeria has the biggest population in Africa of which a large part still is unbanked but has a mobile phone. As is widely known, its economy relies on oil revenues. The income of the oil exports has flooded to the military regime for thirty years and has left the country in poverty. Weak economic conditions, job shortages, and a high (cyber) criminality rate are issues Nigeria has to cope with. The consequence of the regime is that today 28\% of the population lives below the poverty line in a country that could be one of the richest in the world, considering the fact that Nigeria has abundant resources and revenues.\textsuperscript{83}

According to the 2015 version of the *Little Data Book on Financial Inclusion*, the Nigerian population consists of 96.6 million people older than 15, of which only 44.4\% has access to financial services. This is 10\% more than the average of other Sub-Saharan countries. However, only 2\% of Nigerian people have a mobile banking account, whereas the average number of Sub-Saharan states having mobile banking accounts is 9.4\%.\textsuperscript{84} Further, 89\% of Nigerians have a mobile phone, which after South Africa is the highest percentage of mobile phone owners in Africa.\textsuperscript{85} These numbers indicate a sizeable group having the wealth to afford a banking account and a mobile phone, and they indicate there is network coverage, so why is there not a mobile banking revolution in Nigeria? There are a number of reasons.

Firstly, financial institutions have always promoted the use of ATMs to transfer money. The Nigerian population, who mostly uses ATMs, distrusts the financial sector because of the high rate of fraudulent behavior. This is a serious problem in Nigerian banking and has come from the time that the military regime was in power. They were masters in falsifying (electronic) payments and generated the idea under the Nigerian population that bank transfers are not to be trusted, including transferring money with a mobile device. The level of consumer protection is still a critical issue in Nigerian banking.\(^{86}\)

Secondly, although the former President Obasanjo has started programs to improve financial literacy in the 2000s, ICT developments are still not widespread because people are not sufficiently educated to use the mobile money services. Nigerians have been accustomed to using landlines for phone calls and using ATM services to transfer money.\(^{87}\)

Thirdly, the infrastructure for electronic and mobile banking is outdated. The unreliable communications network infrastructure is insufficiently consistent to supply all Nigerians with electricity, which has resulted in people having difficulties with (trusting) electronic payments. Further, the distribution network of agents is very poor in rural areas, which restricts residents from using mobile money services. This is a primary condition for a mobile banking revolution. Both technologies, internet banking and mobile money services, are still not sufficiently stable and developed to reach all people.\(^{88}\)

Fourthly and lastly, all these issues can be linked to rather late government action on this topic. Where neighboring countries such as Benin, Ghana Mali, Cote d’Ivoire, and Burundi adopted the mobile money industry earlier, Nigeria has been slow in developing the mobile money market. Since late 2010, only 16 new mobile money services operators have been issued a license to provide mobile money products.\(^{89}\) Therefore, time is needed to let people get used to the technology and to extend and improve the financial infrastructure.

Nonetheless, there are positive prospects for mobile banking in Nigeria. Although people have been accustomed to using cash from ATM machines, a turning point has been reached in the attitude of Nigerians towards mobile money services. The government has set up a help desk to improve the confidence in mobile money. Their customer service has promised to respond to problems in 72 hours. Therefore, people have started trusting the services and are getting familiar with the usage of the


\(^{87}\) Ibid., 24.

\(^{88}\) Ibid., 4 – 5.

services that are offered at reasonable costs. There is big potential in Nigeria because there is an enormous demand for person-to-person (P2P) money transfers and business-to-business (B2B) money transfers, and people have trust issues with ATM machines and making transactions with cash.\textsuperscript{90} Another push towards mobile money is that the people will not have to rely on the poor infrastructure of electronic banking or the bank branches. It appears that mobile money can be the solution to these issues. The government is aware of this, but more government help is needed to improve the access, the infrastructure and the regulatory framework for the services.\textsuperscript{91}

5.2: The roles of institutional arrangements

The regulatory framework for financial institutions and MNOs to operate is the responsibility of the government and the central bank. In the case of Nigeria, the Central Bank of Nigeria (CBN) plays a crucial role as an independent organ while cooperating with the government. They have designed the playing field on which financial institutions have to compete and cooperate on the mobile money market. This allows research to measure the government incentives on one important element of the theory, competition. Although the jihadi group Boko Haram terrorises the northeastern part of Nigeria, which makes it harder to extend the reach of mobile money services throughout the whole state, the Nigerian government and the central bank have made progress in enabling and expanding the market for financial products.\textsuperscript{92}

In 2010, the CBN allowed 16 licensed mobile money operators (MMO), which are affiliates of financial institutions, access to the mobile money market. In 2012, the National Financial Inclusion Strategy was introduced with its target of increasing financial inclusion by 20% by 2020.\textsuperscript{93} One of the government actions together with the CBN is to engage the national post company, Nigerian Post, into this process of financial inclusion. Because Nigerian Post has country wide access to the people, a partnership with financial institutions is an appropriate plan in order to deliver the financial products country wide.\textsuperscript{94} A financial adviser has been appointed by the government and the CBN, which advises the government in the ways financial services can be delivered best and with which parties the

Nigerian Post can cooperate to deliver the financial products. As stated earlier, these parties are the 16 MMOs that have been appointed to offer financial services.\(^{95}\)

This is an example of government and a central bank taking the joint responsibility for the goal of financial inclusion and enabling innovation. The government facilitates the development of this technology and the partnership between different industries, which leads to progress towards the goal of financial inclusion through innovations and an expansion of the market for financial products. As stated in the introduction of this chapter, a free market is hindered by government interference, because appointed parties are the only ones issued to deliver the financial products. This restricts competition on the market of financial products but at the same time is a precondition to deliver the products to the people at affordable costs.

Although government initiatives support and interfere in the mobile money development, it is eventually delivered to the consumers through the private sector. Generally, in delivering mobile money services there are three types of business models: a bank-centric model, an MNO-centric model or a form of cooperation.\(^{96}\) MNOs have a distribution network of agents, which gives them access to the consumers. Therefore, MNOs mostly take the initiative to provide the financial services because they see market opportunities and room for innovation. In Nigeria, MNOs were blocked because they were not licensed to operate financial services.\(^{97}\) The Nigerian government has prohibited MNOs offering financial products. The role of MNOs is downsized to provide the technology and infrastructure to the financial institutions that supply the mobile money services. Since the end of 2010, the government has licensed 16 MMOs, which are mostly the major banks in Nigeria, to provide mobile money services. MMOs are financial institutions or corporate organisations that have the freedom to operate and the responsibility for the sector. This gives them the incentive to be active on the market and has resulted in MNOs searching for financial institutions to collaborate with in order to supply the financial products.\(^{98}\)

A positive development for the level of competition in Nigeria is that MMOs and MNOs, just as any other company, will adjust and introduce their new financial products to the demand of the market. The most recent development in financial products is that Nigerian people possessing a debit card has

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\(^{96}\) Donovan, Kevin, "Mobile money for financial inclusion," Information and communication for development (2012), 67.


doubled between 2012 and 2015 from 18.6% to 35.6%. This indicates more competition on the financial products market and leads to financial inclusion in general because more people have access to financial services.

In the case of Nigeria, the government and CBN protect their people from market fluctuations and gaps between supply and demand with a restricted mobile money market. A government-guided form of mobile money development has been seen more frequently in developing states in the last few years. Earlier models of mobile money development reasoned out of MNOs incentive to innovate and start a mobile money service, collaborating with banks in a later phase if the products happened to be successful and people demanded more types of financial products. In 2015, governments in developing states have become concerned about situations such as in Kenya or Pakistan where overly powerful MNOs determine market conditions that disable competition and results in consumers bearing the costs. Therefore, the Nigerian central bank has sidelined MNOs through regulation but has allowed MMOs or the financial institutions to enter the market and innovate the industry. The exclusion of MNO’s also signifies losing the experience and the infrastructure to reach the customers MNO’s have. A future challenge for the central bank is to see how to connect MNO’s and MMO’s to reach the optimal mobile money product.

Although the market is restricted, the MMOs have the incentive to innovate as there is competition of 15 other MMO’s, product innovation is crucial. Allowing these 16 MMOs to innovate the industry signifies that old electronic or ATM banking is being replaced by new mobile money practices. In the words of Acemoglu and Robinson, this would be called creative destruction. The former technology is being replaced by the newest technology of mobile money adjusted to the demand of the people. This is making the financial products more inclusive as demand shapes the financial products the MMOs offer. What can be questioned is whether this restricted form of competition will allow the MMOs to be able to adjust their products to the people’s needs throughout the country. Since MMO’s, in contrast to MNO’s, are inexperienced with a communications or distribution network which is needed for a countrywide supply. Considering the fact that the CBN has introduced these MMOs to guide the mobile money market in a fast-changing environment of products, the CBN shall have to take responsibility together with the Nigerian Communications Commission to monitor their behavior and when needed, to adjust regulation.

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Mobile Money: United for the Goal of Financial Inclusion
Another government initiative influencing innovation in the field of mobile money services is an action plan from the 2012 National Financial Inclusion Strategy to improve the ID system of citizens. Before, there was not even an estimate of the size of the population (or its demand for financial services). Because not even half of all Nigerians have an ID card, the prerequisite for receiving government payments has been lowered from having an ID card to filling in a government form and having a phone number. The innovation and improvement of the identification system has created a database of the population, which is important to access for the mobile money market actors. This allows MMOs to adjust to the consumer demand for financial products.102

The government together with the CBN has made, maybe late, a major step in mobile money development by licensing the 16 MMOs to compete on the market, thereby allowing the creative destruction or innovative disruption of the financial services industry and creating a platform for innovation and competition in the mobile money industry. The CBN in particular has secured a market competition that creates certainty for the consumers as well as the suppliers, thus establishing the certainty that people can obtain mobile money products at a reasonable cost and that MMOs should invest in its products because they will compete for the demand for their services.

This change of government policy is in line with the theory of Acemoglu and Robinson. In the first place, the government changed its policy and started programs in 2013 improving financial literacy to make sure all people can use financial services.103 Secondly, the Central Bank, a political-economic institution with centralised power, has used its power and responsibility to increase the inclusiveness of financial services and financially include the population. In this case, the CBN is an example of an inclusive political-economic institution.104 Thirdly, the CBN’s actions together with those of MMOs will enormously increase the number of people who can access financial services and exchange money. Therefore, financial inclusion will generate future inclusive growth.105

When considering the role that the different institutional arrangements have had in stimulating inclusive growth through mobile money services in Nigeria, one must conclude that the CBN, which is granted government permission, plays an elementary role in this process in which the CBN’s policy determines the terms of a restricted mobile money market. The Nigerian government has decided that financial institutions in the form of MMOs are mobile money providers and has excluded the MNOs

from offering mobile money services. At this moment, it is too early to decide what the influence of their policy on the mobile money market is. What is evident, is that the sidelining of MNO’s has made it much more difficult to spread the mobile money since they are experienced with the infrastructure that is needed. International institutions play a minor role in this development, although they fulfill an important role in spreading the importance of financial inclusion in general, just as described in the introduction with the example of Queen Máxima of the Netherlands.\textsuperscript{106}

5.3: The four factors

After having drawn up the socio-economic context in which Nigeria resides and analysing the efforts of institutional arrangements to stimulate mobile money, the next step in the research will be to determine what the influence on mobile money services is on the level of financial inclusion in Nigeria. This is needed so the research can take the government’s and CBN’s actions into perspective, and see to what extent the actions of institutional arrangements actually stimulate inclusive growth through the mobile money services. Therefore, all case studies will mainly use statistics from the 2012 and 2015 versions of \textit{The Little Data Book on Financial Inclusion} to reflect on the four factors that indicate the state’s level of financial inclusion.

\textit{Policy and regulation issues.} As described in the part on the role of institutional arrangements, the government and CBN have taken serious action since 2011 to adjust the regulatory framework to the conditions of the mobile money industry. The level of supportive actions by the government urges research to consider recent developments as a substantial contribution to increasing inclusive finance through mobile money services. The future will show the impact of their policy. There is still much to improve such as the level of interoperability between the providers of different financial products, which is a major future opportunity to expand the mobile money. The CBN and the government have a crucial role in facilitating interoperability through a well-functioning regulatory framework.\textsuperscript{107}

\textit{Mobile banking accounts.} Statistics show that the actions of the government and the CBN have not been effective so far. They have not led to a substantial increase in the use of mobile money services. Because the MMOs just recently started operating on the market, people still need to get accustomed and trust the use of mobile money. The use of mobile money services has not increased between 2012 and 2015. This can be caused to several issues: a) financial literacy education just started in 2013; b) the unstable political situation in parts of the country, which results in people wanting to have their


Mobile money action recently started. In the statistics can be seen that the use of ATMs and debit and credit cards has increased enormously. The use of ATMs to receive money from has increased from 40.8% in 2012 to 70.5% in 2015 and the use of debit cards doubled from 18.6% to 35.6% in the same period. This is both +17% above the Sub-Saharan countries average. These numbers have resulted in a clear increase in the number of people having access to financial services from 29.7% to 44.2%. This development can be of positive influence on later mobile money developments because many people have made the initial step moving from cash to digital money.

Social inclusion. Rural areas have a substantially lower level of financial inclusion, 20% less than urban areas. This is not incomprehensible for more remote regions, because the infrastructure and network coverage in Nigeria is poor. What can be argued is the low level of awareness of mobile money in general. Campaigns promoting the mobile money services to the unbanked have reached a small amount of the population. The advertising of the mobile money product is a logical first step to improve the spread of mobile money. A reason for this unknowingness of potential customers could be the exclusion by the government of MNOs offering mobile money because they have the communication network of agents who can spread the message. If the MNOs could provide mobile money, they would have the incentive to spread the word. A positive impact is the financial literacy programs educating people, especially lower class people, how to use mobile money services.

Income level. The general income level is interrelated with the number of people having access to financial services. As people earn more money, they will have the desire to secure their money and use formal financial services to do so. Since 2012, the general national income per capita of Nigeria increased immensely from $1,180 to $2,710, which is a relatively high GNI for a Sub-Saharan country. This also indicates a rising demand for financial services, which is also shown in the increase of the use of credit and debit cards. However, this cannot be attributed to mobile money services and also did not increase the use of mobile money.

As the four factors for financial inclusion indicate, there has not been growth through the mobile money services towards the goal of financial inclusion. The government and the CBN have made a big contribution to the financial inclusion process by mobilising the mobile money industry. However,

progress in the users of mobile money is not there yet. There is not an increase in the number of people using mobile money services, but there is an enormous increase in financial inclusion. A very small group of the population is aware of the possibilities where the majority is still inadequately informed about the services.

Returning to the main thesis question, did institutional arrangements realise inclusive growth in the field of inclusive finance through mobile money services? At the moment, the answer is negative. The recent actions of the government and the CBN will in the future probably help realise inclusive growth in this field because they have enormously improved the level of competition and innovation in the mobile money market. The levels of competition and innovation in the financial services markets have improved drastically as one can see from the growth in people using debit cards and the increased level of access to financial services in general. Therefore, the level of competition and innovation has increased, the political institutions executed programs to stimulate inclusive finance and the level of financial inclusion increased. However, it did not improve through mobile money services. The appointed MMOs have not yet been able to innovate the traditional financial services for new mobile money services.

Nevertheless, Nigeria has big mobile money potential which could lead to the same level of financial inclusion as in Kenya. There is a lot of demand for person-to-person money transfers because people distrust ATMs and electronic services. Also, for business-to-business money transfer, there is enormous potential, because most large-value money transfers are done with cash, which makes these transfers sensitive to fraud, and difficult to secure and insure. Further, there is a high level of mobile phone penetration which means the foundation for country wide mobile money services is already there. Plus, there is a large Nigerian migrant population that desires to send their money safely nationally and abroad. All these ingredients together with political institutions stimulating inclusiveness present a big mobile money future for Nigeria.

Chapter 6: Kenya

6.1: The socio-economic context

Whereas Nigeria is inexperienced with mobile money services, Kenya is the example of a successful adaption of mobile money services that has lead to a very high level of financial inclusion.

The main driver of the development has been the M-PESA application of Safaricom, a mobile network operator owned by Vodafone. The M stands for mobile and PESA stands for money, translated from the local language Swahili. The application was introduced in 2007 and quickly became widespread throughout the country. When the application was introduced, users acquired the possibility to transfer
money, pay bills, and upload airtime via their mobile phones. Since then, other mobile money services have entered the market, and the mobile money market and the different types of financial services are still growing.\textsuperscript{112}

Before 2007, Kenyan people were not accustomed to using electronic or mobile money devices to transfer money. Only 26.4\% of adult Kenyans had access to a formal financial institution in 2006.\textsuperscript{113} People were used to wiring money via post offices or through intermediaries, family, and friends. All possibilities, via post or a friend or relative, were either expensive or very insecure and at risk of theft.\textsuperscript{114} The mobile money development expanded rapidly and four years later in 2011 after the introduction of M-PESA, more than 60\% of adult Kenyans used mobile money services to either send or receive money.\textsuperscript{115} And now, in 2015, 74.7\% of the Kenyan people have access to financial services while using all sorts of financial products, as the financial market matured.\textsuperscript{116} What started as an application to transfer money has now grown into a whole set of financial products that can be used on mobile devices. Next to transferring money, users can access the application for payments, savings, pensions, credit, insurance, and other products.\textsuperscript{117}

The situation of Kenya in 2007 and 2011 can be compared to the development of Nigeria between 2011 and its current situation: Both countries were used to traditional banking and were inexperienced in new banking technology. Also, both countries had a weak financial infrastructure, large numbers of P2P transfers and international remittances, and little usage of debit and credit cards.\textsuperscript{118} They both were exposed to the possibilities of mobile money services; however, in Kenya, mobile money took off quickly whereas in Nigeria there has not been little progress yet.

The Bank for International Settlements points out one of the reasons for the discrepancy in development. They argue that the goal of institutions should be to facilitate an open level playing field but that it is more important that regulation of the mobile money market is customised to the types of

\begin{thebibliography}{99}
\bibitem{114} Aker, Jenny C. and Isaac M. Mbiti, “Mobile Phones and Economic Development in Africa,” \textit{Center for Global Development}, (June 2010), 18.
\end{thebibliography}
financial products and the types of actors on the market.\textsuperscript{119} Whereas Nigeria excluded MNOs from offering mobile money services, Kenya allowed MNO initiatives to enter the mobile money market and gave the MNOs the freedom to develop their products. This is a crucial difference with the Nigerian development, and the different outcomes are known. The majority of the Kenyan population became financially included through the mobile money services, but how did institutional arrangements in Kenya activate the mobile money development to become so successful?

6.2: The roles of institutional arrangements

As stated earlier, the roll out of M-PESA in Kenya is an example for other policy makers and regulators in developing states. The M-PESA application has enabled Kenyans to transfer money P2P and B2B, allowing the formerly unbanked access to financial products. M-PESA has stimulated entrepreneurial activity because people are not dependent on an untrustworthy financial infrastructure anymore.\textsuperscript{120}

Contrary to Nigeria, Kenya has allowed MNOs and other non-bank mobile money providers to enter the market of financial services after the government and the Central Bank of Kenya (CBK) noticed that the level of financial inclusion was very poor in 2006. Commercial financial institutions were closing local banks in rural areas because they carried too many costs operating the banks in remote areas, which led people to become financially excluded.\textsuperscript{121} The government and the CBK encountered the urge to modernize the financial market to the needs of the highly demanding Kenyan population. There were already some developments in mobile money services and so they licensed Safaricom to launch a new mobile application. The CBK did not have experience with non-bank providers, and this was not regulated, because the codification of regulation takes a long time in Kenya. However, the CBK, which noticed a chance of financially serving the unbanked at low costs, provided Safaricom with access to the market while the CBK monitored and reviewed their actions to ensure financial stability. This was a signal of the CBK that it was prepared to take the steps needed to provide the unbanked with financial services.\textsuperscript{122} Professor Ndung’u, governor of the CBK, described the CBK’s actions in the following way:

“When regulators embrace a leadership role in developing the market, they become innovative and take reasonable risks inherent to making the changes needed to create a more inclusive financial sector. Although regulators’ main concern is always the safety and soundness of financial systems, those that have made the most progress have been willing to explore new routes or to use new tools to enhance traditional financial activities.”

Encouraged by Vision 2030, which is a government goal to achieve middle-income status for Kenya in 2030 by increasing financial access, the CBK took on the operational, liquidity, and legal risk of tolerating non-bank actors and its innovations entering the mobile money market, of which Safaricom was one. The CBK operationalised their policy by executing a test and learn approach when it came to innovations in the financial services industry, subsequently shaping the regulatory framework to how the market responded to the test phase. The Kenyan government and the CBK stood with their philosophy of facilitating the optimum market conditions while minimising their own role. The only regulation that is needed is the one stimulating market growth. Professor Ndung’u also addresses, “A regulator must realise that better regulation is more beneficial than more regulation. This is because we must ensure that innovations are not stifled by heavy regulatory regimes.”

Therefore, with the government’s Vision 2030 in mind, the CBK has applied regulation that enables a platform for technological innovation and stimulates a supportive environment for (future) market actors. They are concerned with keeping the balance between financial access and financial insecurity. Just as in Nigeria, the Kenyan government has improved the citizen identification system. This regulation contributes to the mobile money development as a well-functioning ID system that helps companies to better understand the demand of the consumer.

After new regulation had already passed the government a few years earlier, in 2014 the national payment system (NPS) regulation was presented, which codified regulatory practices that had already been the standard in the last couple of years. Although the former dominant banks complained about the access and freedom that non-bank actors were allowed to have to the market, the regulation was drawn up. This regulatory framework enhanced the much-needed certainty for mobile money market

actors. Investors’ and MNOs’ confidence in the market raised, which stimulated further investments and developments of which consumers profited in the form of better technology and services that better meet their needs, such as the maintenance of privacy issues. The NPS included both banks and non-banks as mobile money market actors to accelerate competition on the market.\(^{127}\) Moreover, the NPS regulation stated that agreements between agents and the mobile money provider cannot be exclusive, which allows parties to cooperate with multiple parties. This means that all parties will look for collaborations, thus optimising market demand and market share. This increases competition, from which consumers profit.

The enhancement of certainty for market actors results in more competition and investments, which will lead to innovation and creative destruction. The first innovation initiatives which follow out of the platform of innovation which Safaricom is, have already been authorised by government officials. It is a new communication technology called mobile virtual network operators. It has been developed by commercial banks to improve the delivery of products to their respective customer bases and to push providers to think of the delivery of the financial products. This is an example of creative destruction, which has pushed MNO’s to lower prices for delivery of which the consumers benefit.\(^{128}\)

In spite of the increased activity in the industry, regulators should keep monitoring the financial landscape to see where changes are needed to maintain an open level market. For example, M-PESA lacks interoperability. Therefore, users are forced to use M-PESA supported applications because they are the only ones offering some financial product.\(^{129}\) This raises the costs of using it for consumers and endangers competition. This is the consequence of a dominant MNO that takes charge in the mobile money industry that is not severely controlled. It indicates that government institutions or the central bank are not sufficiently monitoring the market.

The interoperability of the network is a crucial theme for the CBK because regulators are seeking to find the right level of market intervention to support growth in the industry. For optimal market competition, the CBK will ask MNOs to become interoperable to disrupt dominant powers and increase competition, which will lower the costs of the services and increase the supply for the consumer. The timing of MNOs having interoperability is crucial. If the policy is executed “too early,” potential MNOs are distracted because implementing the communication and distribution infrastructure can be difficult and costly. When MNOs become interoperable “too late,” market actors

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initially have more incentive to enter the market as they are not subjected to anti-competitive regulation. The danger is that, later, the dominant actors create an environment that is most profitable for them and not for the consumer. Therefore, in developing legislation, regulators often opt for a dominant market player, such as M-PESA in Kenya, to start up mobile money services in a new market. Although, in general, policy makers find that market-led solutions should be the primary choice, they understand that the young mobile money industry should benefit from a dominant MNO that has the incentive and power to expand the market.\textsuperscript{130}

The CBK has executed a policy that can be seen as a true example of an institution stimulating inclusive growth. They have actively created an open level playing field by enabling all actors, removing entry barriers, and creating a stimulating legal environment for the actors active on the market. This has attracted foreign and domestic competitors, resulting in more investments and competition on the market. The actions of CBK and government are inclusive, as their policy stimulates a high level of competition; it lowers the costs of financial services and broadens access to financial services to lower-class people.

A consequence of the CBK policy has been that Safaricom, as a local affiliate of a mobile phone provider, could become the leader of the market. The M-PESA application has achieved enormous growth through offering financial services countrywide because they had the distribution and communications network. Also, M-PESA has become an innovative platform for businesses to introduce new services and applications linked to M-PESA.\textsuperscript{131} The ongoing development in competition and innovation creates more growth. This is a positive example of Acemoglu and Robinson’s philosophy, in which a political inclusive institution (the CBK) motivates an economic institutional arrangement (Safaricom) to support inclusive actions and to push the core elements of the inclusive growth theory.

It is to be questioned how inclusive the actions of Safaricom are. The MNO’s activities have had an inclusive effect, because they have supplied technology and services that have helped lots of unbanked Kenyans access to financial services and new financial products. Also, M-PESA has been a platform for innovation for other companies to collaborate or connect with in order to develop new technology. However, its dominant position on the market seems to hold back competition, which endangers an open level playing field standard, and causes consumers to suffer more expensive services. Further, users experience difficulties on the level of interoperability of the provider, literally excluding its users.

from moving money to others or using the services of others. Both are characteristics of an exclusive or extractive organisation. The CBK will play a crucial role in guiding this process and balancing regulation and support for Safaricom. This is an existing scenario in which an institutional arrangement with the exclusive behavior of Safaricom can be directed by political institutions to execute a more inclusive approach. According to Acemoglu and Robinson, it is the responsibility of political institutions to keep track of economic institutions being inclusive.

To sum up, a clear difference between the approaches of Kenya and Nigeria governing institutions has been the fact that the mobile money market is led by an MNO in Kenya and by the central bank in Nigeria. The MNO’s drive to maximise market share has helped to build up the Kenyan mobile money market. For the future, it is the task of government and CBK, a political inclusive institution, to positively influence and monitor the market and to make sure the economic institutional arrangements active in the sector positively contribute to the goal of financial inclusion.

6.3: The four factors

Policy and regulation issues. The presence of policymakers and regulators in Kenya is less visible than in Nigeria. In particular, the regulator, the central bank, positions itself as the best possible facilitator for every supplier of mobile money. The CBK finds that the only regulation there should be is the regulation that positively stimulates market competition. As stated earlier, the CBK should keep actively monitoring dominant mobile money market players to retain optimal market competition.

Mobile banking accounts. The high percentage of the population having a mobile banking account is a logical consequence of the mobile money revolution in Kenya. When comparing the numbers to the Sub-Saharan average, 34.2% has an account with access to financial services, which makes the statistics even more outstanding. As stated in the introduction part on Kenya, 74.7% of the people have an account at a formal or informal financial institution of which 58.4% has a mobile banking account. In Kenya, only 42.3% of the people had any sort of financial account in 2012. The number of people using a debit card has increased by 5% since 2012 to 34.7% in 2015, but only 11.2%  

actually use the debit cards to make payments. Although the number of people using ATMs dropped by 16.5%, more than half of Kenyans, 52.7%, still use it as main mode of withdrawal. What is the most relevant fact about the people having financial accounts is that, of the group of 53.0% who sends and receives domestic remittances, the number of people using a mobile phone increased from on average of 60% in 2012 to 90% in 2015. The use of mobile money services is of key importance for transferring and receiving of money. For more advanced financial services such as borrowing and saving money, about 75% of Kenyans still lend or borrow money but mostly rely on friends or relatives and not on financial institutions.  

Social inclusion. The level of social inclusion is what makes Kenya a unique model for other developing states. In particular, Safaricom has had the ability to cover the most important issues the population was confronted with. It has been able to supply the people with sufficient agents and distribution points to create demand. It has gained the trust of the Kenyan population for using mobile phones to cover banking activities. Plus, it has been able to facilitate a network that could cover the usage, which made it possible to introduce financial services to people living in rural areas.

This is also what one encounters when looking at the statistics on the level of financial inclusion. As stated above, 74.7% of the population has access to a form of financial services. This level of financial inclusion is more or less the same for women and people living in rural areas, and a bit less for the poorest 40% (63.4%). The numbers indicate that the level of financial inclusion is spread fairly among the population and regions of the country.

Income level. The income level has increased by 32% in between 2011 and 2015, from a gross national income of $790 per capita to $1160 per capita. This is an enormous increase of gross national income during a period in which the use of mobile money services has also grown. Nevertheless, income level remains a difficult obstacle on the way to financial inclusion. Kenya’s GNI is $1550 lower than Nigeria’s GNI. This makes the high level of financial inclusion in Kenya even more admirable. As poor people transfer very low amounts of money or, worse, only have physical goods that resemble their wealth, it is very costly for financial institutions to supply the lower-class and for MNOs to facilitate the infrastructure. The use of cheaper mobile money services has been a great step in transferring money between people. However, the low amount of money the poor have

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and transfer to each other makes it difficult to keep it profitable for the provider. The mobile money development will help to decrease the level of poverty in Kenya, but it will take time, which makes it difficult to comprehensively achieve the goal of financial inclusion.

What the four factors indicate is that although Kenyans generally have a low income, the mobile money development is widespread in the country. While the enormous high level of financial inclusion is continuously increasing, there is no big discrepancy in access to financial services with underprivileged groups such as women, the poor, or people living in rural areas. These statistics reflect positive prospects for the goal of financial inclusion even though people are still using more traditional financial services as ATMs to withdraw money, or friends and family to borrow money. The role of mobile money services is substantial and is growing fast. About 90% of the people who send or receive payments use mobile money services.

Policymakers and regulators, the government and the CBK, have been key players in enabling mobile money development. The role of the CBK as regulator, facilitator, and monitor of the mobile money industry has been of enormous stimulating power to market competition, of which Safaricom has been able to profit the most. The government has been of importance as a market facilitator by codifying the NPS, which will push further growth in the sense that it creates market certainty for investors and market actors. International institutions are also in this case side actors, although they fulfill an important supporting role of convincing policymakers about the importance of financial inclusion as the example of Queen Máxima of the Netherlands shows.

The CBK has been the driver of increasing market competition and innovation, which has led to creative destruction. Traditional financial services have mostly been replaced by new technologies such as mobile money, but also the use of debit cards has increased. The dominant MNO, Safaricom, has in its turn been able to spread mobile money services at scale and to become a platform for the new technologies or applications of other companies. As long as the dominance of the MNO does not restrict market competition and so cause higher costs for the consumer, this is a very positive development.

In conclusion, the CBK has been enormously important in driving competition and innovation in the mobile money industry. It has allowed MNOs and, in Kenya’s case, Safaricom, to roll out the infrastructure needed for countrywide mobile money services without disregarding the importance of market competition. On top, as a result, Safaricom and the M-PESA application also facilitate more innovation and competition in the mobile money industry. Nonetheless, there is still much work: 25%

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of the people is not financially included and most people only use the less advanced mobile money services. However, the mobile money operators have been able to financially include a big part of Kenya’s population irrespective of where they live, what they earn, or their gender. When referring to the thesis question, this is an example of all institutional arrangements collaborating and realising inclusive growth in developing states in the field of inclusive mobile money services.

Chapter 7: India

7.1: The socio-economic context

Where Nigeria and Kenya are cases studies that have much in common as far as the financial market of the country is concerned, India has its own infrastructure and people have very little demand for sending remittances electronically. The country is still mostly a cash economy, which transfers money through a typical Indian tradition, called Hawala. Hawala is different than other remittance systems: it is a remittance system that is build upon trust and a network of family relationships or regional connections to transfer money. Indian people are more interested in advanced options of mobile money: receiving government funds, and saving and depositing money. However, the number of people using debit and credit cards is slowly increasing while people are also becoming interested in simple financial services such as transferring money through their mobile phone.

In a country with a population of over a billion residents of which most is unbanked, the government and the central bank, inspired by the developments in Kenya, are looking for ways to spread mobile money development. The size of the country is a complicating factor. The execution of policy, regulation, infrastructure, and interoperability are issues that are far more difficult to resolve or achieve when dealing with a country of this size. The importance of well-functioning regulation of the market becomes even more crucial because there are hundreds of banks, MNOs, and other market actors that want to participate. In this web of actors, the central bank of India, the Reserve Bank of India (RBI), has opted for banks as the central providers of mobile money services because they are the ones who eventually do the settlement of financial services. However, they have not been able to scale up the mobile money development yet.

7.2: The roles of institutional arrangements

A major issue for Indian mobile money development is the marketing promotion of the product because there is no clear incentive for agents to promote the product. In addition, MNOs are prohibited from offering mobile money products themselves. This is the same problem that Nigerian mobile money development has encountered. The role of MNOs is limited to a supporting role in the sense of partnering with banks to provide and deliver the product. In India, the MNOs are called business correspondents, which should ensure that the mobile money is spread and used throughout the country. As the RBI adopted a bank-led approach that allows only banks to offer the actual mobile money, Indian banks have sought to deliver the financial services in various ways: exclusively bank driven, in cooperation with NGOs, or in collaboration with MNOs.\footnote{Singh, Ardhendu Shekhar, Bhama Venkataramani, and Dilip Ambarkhane, "Role of Mobile Banking in Financial Inclusion," Social Science Research Network, (2014), 7.}

There has been enormous progress in the level of mobile phone penetration in India, from about 50\% of the India population in 2009 to more than 77\% in 2015. Thanks to government programs and the help of the four biggest MNOs, it has become possible to acquire a mobile phone at a reasonable cost.\footnote{Dey, Sudipto, “India adds 13 mn mobile phone users in July-Sep,” Business Standard, November 18, 2015, http://www.business-standard.com/article/current-affairs/india-adds-13-mn-mobile-phone-users-in-july-sep-115111701224_1.html.} The next step should be for another collaboration between related parties and to facilitate the use of mobile money at reasonable costs.

The financial institutions face two challenges in this process. On the one hand, they need to meet the demand of their existing customers and to improve the products they use. On the other hand, banks see opportunities in banking the unbanked; however, this goal of financial inclusion is often just government policy and the potential executors of the policy, banks, regard this long-term goal as less important than serving their current users. Banks are not prepared to make the investments which are needed for a success. Investments in mobile money development must be made together with MNOs in order to deliver the products at affordable costs, but also, financial literacy, infrastructure, and information on customer demand must be improved. Therefore, as banks are focused on profit and business, they chose primarily to serve their more advanced, urban users.\footnote{Tiwari, Muditi and Deepti K.C., “Mobile Payment Systems: What Can India Adopt From Kenya’s Success?,” The Consultative Group to Assist the Poor, April 2 2013, http://www.cgap.org/blog/mobile-payment-systemswatcan-india-adopt-kenya’s-success.} Because it is more difficult and costly to reach out to people in rural areas and they chose to serve the urban population, banks have prevented the mobile money market from reaching scale. Banks should approach mobile money differently. Instead of searching for large margins by offering fancy financial products and lucrative loans to banking consumers, banks should understand that profits in the mobile money
industry come from a large volume.\textsuperscript{148} There is an enormous market of over a billion people using mobile phones to take advantage of. While banks are provided access, they are not fully prepared to serve the entire mobile money market. MNOs’ business models are focused on increasing scale and should be more incentivised by adjusting regulation that allows MNOs more chances to profit from mobile money development.\textsuperscript{149}

A more active role for MNOs will also help to overcome the lack of interoperability that the sector has trouble with. It is uphold by the banks which do not bear ‘the costs’ of a stringent market. Since the lack of interoperability lowers competition on the market, innovative development of products is hampered because the market actors have less incentive to innovate. MNO’s are experienced with interoperability issues, as this is also an important theme in the mobile phone market. The Indian government has already set up the India mobile payment system (IMPS), which unites mobile money suppliers and should help resolve the issue of interoperability between banks and between MNOs.\textsuperscript{150}

Another example of poor regulation is the RBI policy that only allows registered customers to use mobile money services and only to a certain amount. Policymakers and regulators opted for more influence of banks instead of MNOs because banks are experienced with financial integrity issues. This policy was intended to protect its citizens and the financial institutions from too much financial insecurity. However, the result is more severe. It resulted in blocking the unbanked lower class from using it because most of them are not registered. Regulation is limiting the market for people it wants to include.\textsuperscript{151}

This is also the biggest problem for mobile money in India: regulation. The bank-led model together with this last example indicates that India, a country that has experienced a lot of economic growth in the last decade, and which has enjoyed relatively more economic growth than Kenya and Nigeria, also has many difficulties finding a well-functioning regulatory framework for mobile money actors.

The IMPS demonstrates that policymakers are aware of the crucial partnership between banks and MNOs to reach the unbanked. Recently, in 2015, a new financial provider was introduced, which pushes the responsibility of mobile money to the MNOs, although banks are still needed. They are called payment banks, which are a government short-term initiative that should lead to the financial

\textsuperscript{150} “Financial Inclusion and Integration through Mobile Payments and Transfer,” \textit{African Development Bank Group}, (March 2012), 21 – 22.
\textsuperscript{151} “Financial Inclusion and Integration through Mobile Payments and Transfer,” \textit{African Development Bank Group}, (March 2012), 11.
Mobile Money: United for the Goal of Financial Inclusion

inclusion of 75 million people. The payment banks are an example of innovation that will stimulate mobile money. However, more rigorous creative destruction is needed. Too much government interference has prevented market actors from creating a platform for innovation in India.


MNOs should be allowed into the green area as shown in the picture above to improve the customer interface, transaction processing, and account provision. MNOs have much more experience in these areas. Banks fail to meet consumer demand while MNOs have the ability to adequately supply customers.

From the inclusive growth theory perspective, government and central bank interference has strongly limited competition and innovation development. The government and RBI indicated that they want to stimulate financial inclusion but the effect has been that lower-class people are excluded through regulation from financial services.

The exclusion of MNOs from offering mobile money just as it is in the case of Nigeria seems to be crucial for widespread mobile money development. The knowledge and network and communications infrastructure that MNOs have are valuable assets in mobile money development, especially because it gives the providers information on consumer demand. This phenomenon is the result of limited market competition and results in a very low level of innovation. The inclusive growth theory components are underdeveloped in India and are crucial to mobile money development. In the next

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chapter, where the case studies results will be summarised, the cornerstones of the inclusive growth theory and its relation to mobile money development will be reflected upon.

7.3: The four factors

Policy and regulation issues. The stance of Indian policymakers and regulators towards mobile money development is positive and active. However, as described above, they fail to create a level playing field for the mobile money market. Regulation has led to a constrained market in favor of the financial institutions that cannot meet consumer demand. Regulation is the most challenging issue for the future of mobile money in India, although new initiatives such as the IMPS and adjustments of the policy in favor of the amplification of MNOs’ influence will stimulate mobile money in the future.

Mobile banking accounts. Statistics display the tendency that was described earlier: only 2.4% of Indians have a mobile money account. There has not been a mobile money revolution because increased competition and innovation is blocked by regulation. However, the number of people having an account at a financial institution has increased enormously from about 35% in 2011 to 52.8% in 2015. Nearly everyone that has an account with access to financial services (53.1%) has an account at a financial institution (52.8%). The government policy on mobile money also reflects these numbers, because the RBI relies on banks as far as the provision of financial services in general and of mobile money is concerned. The increasing level of financial inclusion can be assigned to other forms of electronic banking. Thanks to the economic growth, the number of people using debit cards rose about 15% in the same period, which logically resulted in the same growth of people using ATMs as the main mode of withdrawal.

Social inclusion. In general, around half of the population has access to financial services. The level of financial inclusion is more or less the same in rural areas, which indicates that the infrastructure in rural areas is not the obstacle for more inclusiveness. Women and the poorest 40% of the population have about 10% fewer financial accounts, at 43%. The use of mobile phones and the internet is increasing. 77% of the people have a mobile phone. The possession of a mobile phone is a prerequisite for using mobile money. The foundation for further mobile money development is already there. The costs of mobile money must be lowered to spread the use further than only privileged urban Indians.

156 Ibid.
157 Ibid.
Income level. The GNI per capita in India was $1270 in 2011 and was $1570 in 2015.\(^{158}\) The 23.6% growth of the GNI cannot be contributed to mobile money development because mobile money use is still very low.

The four factors together reflect the image India has. There is a lot of financial activity and also growing financial inclusiveness, but mobile money does not seem to be part of the positive economic developments. Regulation is the reoccurring issue and forms the obstacle for financial inclusion through mobile money services. The banks that are responsible for offering mobile money services are not able to reach the customers with affordable mobile money products. People are not aware of the feature because banks do not have the communications network to spread the message.

If policymakers want to push mobile money development further, some risk with respect to financial integrity must be taken as the governor of the CBK described in an earlier chapter. The RBI follows a policy that relies on financial security. Their top priority is a stable foundation of financial institutions which are allowed to provide mobile money and develop new mobile money products and delivering methods. If the RBI truly wants to achieve financial inclusion, they have to pursue a more inclusive policy focused on the demand of the unbanked. The new payment system is a positive sign in this respect. The role of MNOs should be extended. They should not only be providing network support but should have an incentive to increase the mobile money market. They will have incentive if they are allowed to offer mobile money products.

Allowing MNOs to enter the market will at the same time enormously increase competition and innovation in the industry. MNOs have the technology and also the R&D programs to improve their communications network because this is their core business. The increased number of market actors will drive competition and innovation, which will stimulate financial inclusion because mobile money will be more widely available at lower costs. The level of financial inclusion is rising, but nearly 50% of the Indian people are still not financially included. If mobile money wants to be a contributing factor for inclusive finance in India, affordable costs of the mobile money products and a bigger communications and distribution network are crucial. The RBI should become more of an inclusive institution. Regulation must be adjusted in favor of the MNOs, which will lead to more competition and innovation through which mobile money services can stimulate inclusive finance in India.

Chapter 8: Implications for International Relations Literature

Before returning to the research question, the relevance of the findings of this research for IR literature will be discussed. What can be concluded is that the key factors for enabling mobile money development are of political and regulatory nature. In particular, the central bank plays a crucial role in guiding and facilitating mobile money development. As also shown in the case studies, policymakers opt for a bank-led or non-bank-led form to provide mobile money. A non-bank led form creates an open level playing field for all potential suppliers of mobile money, whilst a bank-led model allows exclusively formal financial institutions to offer mobile money. Or more simply stated: governments and central banks opt for a constrained or a free mobile money market.

The research results show that the two countries with a bank-led mobile money industry, Nigeria and India, have very little mobile money development (around 2%) and have difficulties coming to an appropriate bank-led regulatory framework to stimulate the industry. The banks responsible for providing the mobile money services are not able to supply the mobile money against affordable costs for the population. Kenyan policymakers chose a non-bank led form of mobile money development. MNOs were allowed to provide mobile money to customers, of which the MNO Safaricom has profited the most. The reasons why they succeeded are identified. The level of financial inclusion has increased to 75% with mobile money as the biggest driver. Although Nigeria and India have a relatively higher GNI than Kenya, the level of financial inclusion in Kenya is much higher. What has been crucial in the success of Kenya has been the open level playing field on which all market actors could compete to supply the products and be innovative. The CBK has been the facilitator of a competitive environment in which actors had the freedom to act and develop the market.

What can be concluded from the case studies is that the attitude of governing institutions to a new financial market as the mobile money market is crucial for success and to reach the goal of financial inclusion. Governments and central banks should be facilitating and inviting actors on the market instead of constraining the market. The institutions’ actions should be inclusive instead of excluding certain actors, which limits the development of the product.

The relevance of the research for IR literature is mostly related to neo-liberalist and institutionalist notions as well as development strategies in the North-South debate. The theory of Acemoglu and Robinson directs research to the debate on the attitude of institutions and their liberalist philosophy on how the market should work. Liberals have had a long struggle with realists on the importance of institutions and a free market. Out of the need to explain major 20th century institutional developments such as the rise of the United Nations, (liberal) institutionalism developed to one of the key concepts of liberal IR theory. Instead of the realist state-centric view on world politics, institutionalists focused
the efforts of international organizations and the ability of the international society to cooperate in world affairs. Liberal institutionalists reason that there will only be peace if parties who have common goals or interests cooperate and develop into ‘integrated communities’ out of which can follow economic growth. According to liberalists, international cooperation is not a zero-sum game and states are able to achieve absolute growth. Mobile money is neither a zero-sum game, its success is dependent on the cooperation of all parties involved.

Especially, the findings of the (neo-) liberal institutionalist Robert Keohane are relevant for the research as his theory include all actors. Keohane has made a big contribution to the realism-liberalism debate in which he took from both theories what he thought was useful and developed his own theory, neo-liberal institutionalism. Inspired by neoliberal thoughts, he examined international institutions and their ability to act and cooperate with states and other actors. He reasoned that cooperation between institutions and states could be beneficial for both parties, but acknowledged that cooperation could also be problematic and very costly. His idea of complex interdependence renounces realist state-centric assumptions. He allows more actors to the stage. According to Keohane, institutionalists differ from realists because the interaction among actors across borders increases links between actors and non-state actors in international society. Therefore he does not consider state actors or high politics more important than low-politics, but reflects on all participating actors. He argues that there is a broader spectrum than solely politics. Among involved actors, agency and the commonality of principles and values, will direct their actions instead of security issues and military force. Therefore, his focus on the interaction and the relation between state and non-state actors is crucial. The complexity of the relations between all parties forces the theory to include more actors and issues areas.

Keohane also rejects some liberal assumptions on the interaction between free market trade and government interference. He discusses the cooperation on an interstate level between international institutions, but the right form of cooperation between institutions in the mobile money industry is also important at national level. Keohane opts for market interference as unregulated markets are to the disadvantage of the ones who lack sufficient power or resources to grow.

His notions relate to the idea of Acemoglu and Robinson and the issues studied in the research. The role of governing institutions and the stimulation of free market competition for mobile money development are issues which are vital for a successful implementation of mobile money. The authors of ‘Why Nations Fail’ address the importance of competition and innovation for a prosperous market and nation state. And the role inclusive political-economic institutions play in facilitating these corner

160 Ibid.
Mobile Money: United for the Goal of Financial Inclusion

It can be stated that the inclusive growth theory emphasizes the influence of economic institutions and actors which contributes to the neo liberal institutionalism debate.

Research also shows that the actions of institutional arrangements in the developing states for successful mobile money development are key. Governing institutions create the environment of which commercial parties depart from, develop and possibly profit. The theory of Acemoglu and Robinson urges IR scholars to look beyond traditional IR schools and pushes institutions and neo-liberal institutionalists to look what the market demands and when they must cooperate. An inclusive attitude of the governing institutions is needed to include all actors on the market.

The research shall also push IR literature to turn to the North-South debate. Responsible for the success of mobile money is a stimulating environment of competition and innovation which each states creates and establishes. Therefore, state responsibility is needed. In the North-South debate there are different schools such as the Modernization or Dependency theorists who differently explain the divide and developing possibilities states have. The research is especially relevant for Dependency theorists, who reason that external factors such as exploitation or colonialism are responsible for underdevelopment, should add in Acemoglu and Robinson their findings. Dependency theorists also separate the North, developed states, from the South, underdeveloped states, but focus on internal development. The research shows that economic development can also be achieved through mobile money with as most outstanding example Kenya. Especially low-class people in developing states have become able to acquire access to financial services through mobile money. And have acquired the possibility to transfer money easily, trade and increase their income. Some traditional Western development strategies for developing states have become obsolete. Central in the North-South divide has been the divergence in (economic) development between North and South and the difference in resources (money, technology, knowledge) between the two parts. Although the mobile money development does not take away these discrepancies, new technology, which can be accessed in the South, reduces the inequality gap between North and South. It allows an enormous amount of people access to financial services which can speed up economic development. New technologies, such as the use of mobile money, rapidly include a big amount of the population financially who produce self-sustained economic growth. Mobile money makes developing states less dependent of the North and development aid as it allows states to develop internal growth.

Lipietz, a dependency scholar, wrote in 1987 that he believes that the underdevelopment of developing states comes from unevenness in industrialization between North-South. He points out the growth of

\[162\] Krüger, L, “North-North, North-South, and South-South relations,” Global Transformations and World Futures. 2 – 3.
poverty and inequality in the South and the need for better living conditions. However, technological development and globalization have increased the possibilities to grow for developing states. The widespread global usage of the internet and mobile phones is one of the factors which makes this possible. Kenya’s development shows that new technologies such as mobile money can drive internal economic development and decrease poverty and inequality. Mobile money development exemplifies that for self-sustained economic development traditional factors such as infrastructure, primary product exports and development aid are not essential.

All in all, the governing institutions are responsible for supporting cooperative efforts of institutional arrangements and for internal development and growth. When relating to the case studies, governing institutional arrangements make crucial decisions in that sense. Governments and central banks seek the balance in the cooperation between financial institutions and MNOs in which they secure the state’s financial integrity but at the same time stimulate mobile money development. For example when policymakers and regulators opt for a bank-led model, they place the financial integrity of the state and the consequence of a constrained mobile money market above the goal of financial inclusion. They get around the risk of potential financial insecurity caused by MNO’s and “the costs” are in this case for the consumers who cannot acquire affordable mobile money products. Governments and central banks are crucial in creating an environment in which market players can embark, develop their products and, a step further, allow the population to develop. The creation of an open level playing field for mobile money ensures market competition and future innovations in the mobile money industry. The research results indicate that a more liberalist stance of governing institutions is needed for self-sustained development.

In a time where big IT companies such as Google and Facebook gather much information and knowledge from citizens, the companies become more powerful and intertwined with government responsibilities in the political and economic arena. At the same time, these companies’ products have stimulated competition enormously and are both gigantic platforms for innovation. For IR theory, it is important to track the power relation between governments and these economic institutional arrangements and to see whether their actions are inclusive.

The inclusive growth theory of Acemoglu and Robinson is a theory that allows IR scholars to view the inclusive considerations of all sorts of political and economic institutional arrangements and to evaluate to what extent each institutional arrangement cooperate and creates self-sustained growth. A competitive and innovative environment created by the governing institutions is essential. Although

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Acemoglu and Robinson used mostly historic events to illustrate the theory, their philosophy is still very relevant today where new technologies challenge the balance and cooperation between public and private institutions but also challenge the traditional uneven relationship between the North and the South. Technological development has created enormous chances for developing states to close the gap.

Chapter 9: Conclusion

Now that the case studies have been examined and the findings have been placed in an IR perspective, it is time to reflect on the research results and to return to the main research question. The case studies have allowed the opportunity to investigate the actions of institutional arrangements active in the facilitation and implementation of mobile money. The case studies demonstrated two main issues that are considered important, especially for policymakers and regulators who want to realise inclusive growth in developing states in the field of inclusive finance through mobile money services systems, as proposed in the theory of Acemoglu and Robinson.

First, the theory has proved to be very relevant to the thesis question. It has pushed research to look for the inclusive considerations of the political-economic institutions, governments and central banks, and to see whether their policy facilitates mobile money development for all classes and all areas. The policymakers and regulators are responsible for facilitating a competitive and innovative environment in the industry. To stimulate these main components of the theory, it is the government’s and the central bank’s task to create an open level playing field on which all actors can compete and have the freedom to develop new technologies. If such an environment is shaped, free market competition will bring together supplier and consumer demand. This will allow consumers to profit and to use affordable and practical mobile money products, which will stimulate financial inclusion.

The second remark is closely related to the theory and focuses on the key role that policymakers and regulators have for mobile money development. A well-functioning regulatory framework for market actors is crucial if mobile money wants to succeed in a developing state. The most crucial decision is if policymakers and regulators opt either for a bank-led or a non-bank led form of mobile money development. The implementation of mobile money through official financial institutions is much more protected because they are experienced with settlement issues, advanced financial services, and financial integrity in general. However, compared to MNOs they are inexperienced in the sense that they do not have the infrastructure to reach the potential mobile money customers. A scaled roll out is needed for the success of mobile money, because the margins on mobile money transactions are very low so it will only become profitable is scale is reached. MNOs are used to this business model, because this is the same in mobile phone industry. However, the business model of banks is focused
on financial margins. In many developing states, this situation leads to a collaboration of a bank and an MNO where banks supply the settlement of the mobile money and MNOs facilitate the communications and distribution infrastructure. Through the regulation that disables MNOs to enter the market and to provide mobile money on their own, they have and feel very little incentive to stimulate the usage of mobile money. The passive role of MNOs is one of the main reasons mobile money has not yet been a success in Nigeria and India, where only 2% of people have a mobile money account.

An example of a non-bank led success is the development of mobile money in Kenya where the central bank has created an open level playing field where MNOs was also able to offer mobile money. Safaricom has become the dominant MNO in the mobile money industry and were able to roll out a mobile money network relatively fast because it already had a big mobile phone market share and a big database of Kenyan mobile phone users. A big advantage of MNOs over banks is that they already have stores and agents throughout the country. Further, they are a big part of the innovation progress because the M-PESA application has become a platform for innovation itself. Many other innovation initiatives are linked to its application. The success of Safaricom’s application M-PESA has led to 58% of the Kenyan population using the application, giving a financial inclusion level of about 75%. Kenyan regulators actively monitor the actions of market actors in the industry. They try to adjust regulation to increase competitiveness and innovation and, on the other hand, to secure the financial integrity of the state. The facilitating role of the CBK has led the state with the relative lowest GNI of the three case studies to have a substantially higher level of financial inclusion. The CBK’s policy is an example for policymakers and regulators in other developing states.

In general, the government and the central bank have the same goal: financial stability of the state. The government is also a facilitator of a competitive and innovative environment for the industry, but is also responsible for creating the foundations for mobile money development. Government actions can stimulate and upgrade the level of financial literacy, and improve identification systems and the infrastructure of which the mobile money suppliers will profit.

A positive development has been that policymakers have become aware of the potential power of mobile money, which is a relatively cheap financial service compared to ATMs and debit and credit cards. Also, international institutions have acknowledged the importance of financial inclusion as the quote of Queen Máxima of the Netherlands shows. However, the role of international institutions in the process is limited to a supporting role of spreading the message on the importance of mobile money and financial inclusion. In the end, policymakers and regulators create the regulatory framework crucial for success.
The regulatory framework must be inviting and stimulating to all actors in order to be competitive and innovative. Both Nigerian and Indian policymakers have noted that MNOs are key players for the success of mobile money and the goal of financial inclusion. The liberal view of free market competition will match demand and supply and is very suited for mobile money development as the demand in every state is different. For example, in India people are less interested in transferring money because they have the old tradition of Hawala. A free market will easily encounter this fact and adjust to other consumer demand such as saving mobile money. In all states the situation is different, there is not one direct guide to achieve financial inclusion through mobile money services. Policymakers and regulators in all states have to adapt their policy to their own historical or cultural environment. Whether they opt for a bank-led or non-bank led model, regulators should monitor and facilitate a well-functioning market, and search for what is the best option or cooperation to supply mobile money. One thing is essential; all institutional arrangements have to cooperate to create mobile money success.

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