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Policy and the potential of mobile money for financial inclusion

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Mobile money has changed the face of financial services forever. It has driven significantly greater financial inclusion in emerging markets around the world, positively impacting whole communities and economies.

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By the end of 2018, there were more than 866-million registered accounts in 90 countries – up 20% from 2017. The industry processed transactions worth an astonishing $1.3bn per day in 2018, with digital transaction values growing at more than twice the rate of cash transactions. The impact of mobile money cannot be underestimated. Just a few short years ago, it was unthinkable that keeping money in digital form could become more important than cash.

Sub-Saharan Africa has far and away the highest concentration of registered mobile money customers worldwide, accounting for almost 46% of the total. While Asia led global growth in sector with 90-million new accounts opened last year alone, sub-Saharan Africa still saw strong growth despite its significant user base, adding over 17.5-million new accounts in 2018. In 13 African countries, over a third of adults are active mobile money users. Notably, mobile money is gaining momentum in West Africa in particular, with 54% of the combined adult population of Ghana, Côte d'Ivoire, Benin and Senegal now using this form of currency on an active basis.

Sleeping giants and regulation

While providers in African markets continue to see growth in registered accounts, rates will inevitably slow as the majority of the population gains access to mobile money. There is, however, a huge opportunity to unlock growth and increase financial inclusion in the continent's sleeping giants: Nigeria, Ethiopia and Egypt.

These markets are the three most populated on the continent with a combined adult population of over 242-million, but citizens in each market have limited availability of mobile money services and low rates of financial inclusion. The reasons for this vary. In Nigeria and Egypt, regulation has limited the range of providers that can offer these services, resulting in lower levels of investment and fewer innovative products and services. In Ethiopia, restrictions on competition, low levels of internet connectivity, and limited consumer trust and financial literacy have created barriers to uptake and market entry.

Only by creating a regulatory environment that encourages investment and provides a supportive environment for innovation can mobile money thrive in these markets. But change is coming. Regulatory innovation introduced last year in Nigeria and Egypt promises to harness the potential of mobile money to drive financial inclusion, and reforms. In addition, an ambitious financial inclusion strategy in Ethiopia have been attracting the attention of both mobile network operators and other industry players. Our research shows that these reforms could spark a wave of adoption in these three countries that leading to more than 110-million new mobile money accounts in the next five years, helping to achieve the financial inclusion targets set out in their respective national financial inclusion strategies.

Balanced approach to taxation

Mobile money growth in sub-Saharan Africa also requires a progressive and balanced approach to taxation. Mobile is already one of the highest taxed industries in the region and the situation is especially complex for mobile money providers, who encounter three layers of taxation: general taxes, mobile sector-specific taxes, and mobile money taxes. Last year, industry concerns intensified regarding the introduction of taxes on mobile money transactions throughout the region, particularly in markets such as Uganda, Kenya, Zimbabwe and Gabon.

Taxes on mobile money services are likely to alter the demand structure for mobile money, compelling lower income groups to resort to informal means of payment in order to escape higher transaction charges associated with the tax imposed. The net effect is a reversal in financial inclusion gains that put the attainment of wider development goals at risk. Rather than taxing mobile money transaction values directly, the government could tax mobile money in a less punitive manner or, even better, leverage mobile money to increase collection of existing taxes in a digital and efficient way.

The future of mobile money growth in sub-Saharan Africa hinges on a supportive, forward-looking policy and regulatory environment that will power a new phase of growth. That requires active collaboration between all parties – mobile money service providers, governments and mobile operators. Together, we can unlock new growth to bring the social and economic benefits of mobile money to more and more customers that have traditionally been underserved by the financial system.

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