

## Chapter 25

# Mobiles for Development: The Case of M-Banking

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### ABSTRACT

*This chapter offers a survey of recent literature on access gaps that focuses on pro-poor market solutions provided by mobile applications. The emerging literature on mobile uses in developing countries has focused on the benefits of voice and text messaging. However, there is little academic research on mobile applications such as m-banking. While a large number of low income people have access to mobile phones, these groups are excluded from the financial market. M-banking offers the opportunity to diminish this financial exclusion by offering access to credit and to savings which are key tools capable of transforming the livelihoods of the poor and the efficiency of the market. Accessibility is the major barrier for the expansion of mobile adoption by the poor. There is an important role for regulators to play in enabling an appropriate environment for the increase in the mobile penetration as well as business models for m-banking.*

### INTRODUCTION<sup>1 2</sup>

The surge of technological optimism that began in the 1990s with the expansion of the economies based on information and knowledge promised to significantly diminish social exclusion. However, as with other technological innovations, the growth of the information communications technologies (ICTs) sector has two sides of the coin. On the one

hand, they offer a window of opportunities for the marginalized sector of the economy by inserting themselves in new productive processes, and on the other hand, they can reinforce existing disadvantages if few points of access are provided for them.

Latin American governments have responded to the risk of increased ICTs exclusion largely by implementing universal access programs that offer shared access initiatives in low income communities. These supply side solutions often with a top down approach have had little knowledge about

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the needs of low income groups and thus with some exceptions have provided limited impact on poor communities. Additionally, the level of public funding is not enough to address the ICTs needs and scale of demand of the underserved population in the region.

These programs are consistent with the view ICTs access gaps are the result of an unavoidable market failure. Low income people or those that live in remote areas cannot afford to pay the market prices of ICTs services. Thus, the government must intervene, offering subsidies or directly providing connectivity to the underserved population. The argument in this paper is that the most effective policies to address access gaps have a pro-market approach. A successful example of a market solution is the dramatic increase in mobile phones that has offered the most cost-effective and accessible alternative to communications for low income groups. Innovative business strategies such as pre-paid systems have contributed to dramatically increase mobile penetration in developing countries. These market strategies reached an increase in ICTs access by low income groups that no public initiative has achieved to date.

This chapter offers a survey of recent literature on access gaps that focuses on pro-poor market solutions provided by mobile applications, specifically, mobile banking (m-banking). During the last years, there has been a surge of empirical studies that document the striking level of adoption of mobile telephones by the poor. This emerging literature on mobile uses in developing countries has focused on the benefits of voice and text messaging. However, there is very little academic research on mobile applications such as m-banking. While a large number of low income people have access to mobile phones; these very groups are currently excluded from the financial market. M-banking offers the opportunity to diminish this financial exclusion by offering access to credit and to savings which are key tools capable of transforming the livelihoods of the poor as well as the efficiency of the market. Indeed, inequality

and social exclusion diminish economic growth and create inefficiencies in the function of the market in a country (Aghion, Howitt, & Mayer-Foulkes, 2005; Bordeau de Fontenay & Beltran, 2008). The most important role for regulatory policy is to promote an enabling environment for these strategies to flourish.

The first section presents indicators that show the level of digital adoption in Latin America followed by the literature on uses of mobile phones and its impact on pro-poor development. The third section presents recent studies on mobile banking that are portrayed as a transformative market solution to the access gap faced by low income groups and identifies the role of regulatory policy in this area. This paper concludes with suggestions on the role of regulation in fostering pro-market solutions to help diminish social and economic exclusion through mobile services.

## **ICTs ADOPTION IN LATIN AMERICA**

Latin America still faces the problem of a significant number of underserved groups of the population; this lack of connectivity and significant adoption of ICTs in the region varies across income groups, countries and technologies. As shown Digital Opportunities Index (DOI) in figure 1, Latin America is behind other developing regions in terms of ICT adoption, especially those that have implemented successful ICTs strategies, such as Korea and Ireland.<sup>3</sup> The low level of adoption, illustrated by these measures of digital competitiveness is limiting the opportunities to use ICTs for social and economic development.

There are a number of factors that hinder upon the level of adoption of ICTs in the region including low national income, unequal distribution of rents and regulatory policies that maintain barriers to entry. As a result of this accessibility to ICTs is a key barrier to use. The tariffs expressed in percentage of income per capita are much higher in Latin America than in developed countries. For

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