Mobile Money Services as a Panacea to Financial Inclusion in Sub-Saharan Africa: The Case of Uganda

Emmanuel Eilu, Makerere University, School of Computing and Informatic Technology, Kampala, Uganda
Theresa Odur Auma, Makerere University, Makerere Institute of Social Research, Kampala, Uganda

ABSTRACT

One of the most important drivers for sustainable economic growth and development is financial inclusion. This explains why financial exclusion is a leading cause of extreme poverty and a key barrier to growth. The level of financial inclusion in Sub-Saharan Africa still remains low. However, there is evidence that mobile money technology, taking advantage of the high level of mobile phone penetration in the region, has been seen to drive financial inclusion. However, very few studies have been conducted in the region to particularly establish the extent mobile money service usage has leveraged financial inclusion. In this study, we investigate the extent to which three most common mobile money services namely, sending money, receiving money and bill payment have leveraged financial inclusion in a Sub-Saharan African country like Uganda. Our study reveals that the most widely used mobile money service in this rural area was for receiving money. This has greatly enhanced financial inclusion by facilitating both domestic and international remittance.

KEYWORDS

Financial Inclusion, Mobile Money Services, Poverty, Receiving Money, Sending Money, Sub-Saharan Africa, Sustainable Economic Growth

INTRODUCTION

Financial inclusion is one of the indicators of a strong financial sector, it is one of the driving forces for an all-inclusive economic growth and development. Financial inclusion can be defined as access to financial services such as savings and credit by a bigger percentage of both rural and urban populations. However, although financial inclusion is an important ingredient for economic growth and development, statistics from Sub-Saharan African countries show that the level of financial inclusion, or access to banking, is still low. This, therefore, means that, the degree to which private individuals particularly from rural areas accessing financial services is limited. For example, only about 34 percent of adults in Sub-Saharan Africa had an account at a formal financial institution by the end of 2014, with the lowest share (about 14 percent) of adults holding a bank account in West Africa. The limited access to financial services in Sub-Saharan Africa is as a result of a number of challenges. Some of these challenges range from high poverty levels and high costs of opening and maintaining accounts, to long travel distances to financial institutions and lack of required documentation to open up an account, just to mention but a few. However, there is a light at the end of the tunnel for financial inclusion in Sub-Sahara Africa. The wide spread advancement of mobile banking and mobile money services has a potential to narrow the financial exclusion gap. There is overwhelming evidence that

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mobile money technology, taking advantage of the high levels of mobile phone penetration in Sub-Saharan Africa, has created a means of overcoming some of the diverse barriers to financial inclusion. However, very few studies have been conducted to establish the extent mobile money technology has leveraged financial inclusion particularly in rural areas where over 70 percent of the sub-Saharan African population live. This paper, therefore, establishes the extent mobile money technology has leveraged financial inclusion amongst the rural population in Sub-Saharan Africa.

BACKGROUND

After the 1970s, a number of Sub-Saharan African countries have been enjoying an extended period of strong economic growth (Mlachila, 2013). The mid 1980s saw sweeping reforms in the financial section in many Sub-Saharan countries as part of the World Bank Structural Adjustment Policies, popularly known as SAP. These sweeping reforms were aimed at restructuring and privatizing state-controlled banks and other government parastatals. SAP was accompanied by supplementary policies that eased entry and exit restrictions, interest and capital controls, as well as the overhaul of supervisory and regulatory frameworks in the banking sector (Nyantakyi & Sy, 2015). While SAP registered some success, it is evident that the overall economic benefits of the program in Sub-Saharan countries continue to be debated among experts (Nyantakyi & Sy, 2015). This strong economic performance as a result of SAP has not necessarily caused a significant decrease in poverty levels or substantial improvement in the majority of livelihoods. Falling living standards and macroeconomic instability is still evident in many Sub-Saharan African Countries (Ryan & Tsunemine, 2016; Mlachila, 2013). For economic growth and development to be stable, it has to be socially and politically viable, meaning it has to be inclusive of all (Ryan & Tsunemine, 2016). One of the most important components for an inclusive sustainable economic growth and development is access to financial services, or commonly referred to as financial inclusion (Ryan & Tsunemine, 2016). Financial experts observe that universal access to financial services (financial inclusion) is integral to the economic and social development, and that financial exclusion is a leading cause of extreme poverty and a key barrier to growth (Ryan & Tsunemine, 2016; Nyantakyi & Sy, 2015). Financial inclusion can be understood as the population’s access to financial services such as savings and credit, it is an extremely important factor for an all-inclusive economic growth and development (Paelo, 2016; GSMA, 2015).

The level of financial inclusion, or access to banking, in sub-Saharan Africa still remains low. This, therefore, indicates that there is less financial inclusion particularly in low-income communities, and the degree to which private individuals particularly from rural areas access financial services is limited (Nyantakyi & Sy, 2015). According to Ryan & Tsunemine (2016), by the end of 2014, only about 34 percent of adults in Sub-Saharan Africa had an account at a formal financial institution, with the lowest share (about 14 percent) of adults holding a bank account in West Africa (Ryan & Tsunemine, 2016; Nyantakyi & Sy, 2015; Paelo, 2016). A number of challenges limit greater financial inclusion in many Sub-Saharan countries. Some of these challenges include: financial constraints, the high cost of opening and maintaining accounts, long travel distances to financial institutions, lack of required documentation, tedious bank regulation and poor road infrastructure to mention but a few (Demirgüç-Kunt et al, 2015). However, despite the low level of financial inclusion in Sub-Saharan Africa, there is a light at the end of the tunnel driven by the advancement of mobile banking and mobile money services (Ryan & Tsunemine, 2016).

There is evidence that mobile money technology, taking advantage of the high levels of mobile phone penetration in Sub-Saharan Africa, has created a means of overcoming some of the diverse barriers to financial inclusion (Paelo, 2016). At the most basic level, mobile money service is the provision of financial services through a mobile device, in a broader sense, it includes a number of distinct but related services offered over a mobile digital platform including; mobile money transfer, mobile payment and mobile banking (Paelo, 2016; Donovan, 2012; PEW Research Center, 2015). Ryan and Tsunemine (2016) observe that mobile money services are accelerating the inclusion of
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