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How has Mobile Phone Penetration Stimulated Financial Development in Africa?

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Key words:

Africa

banking

financial development

mobile phones

shadow economy

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Notes

Note. *, **, ***: significance levels of 10%, 5%, and 1%, respectively. Heteroscedasticity and Autocorrelation Consistent (HAC) p values in brackets. Fin. = financial. Bolding represents significance at 1%, 5% or 10% for estimated coefficients and Fisher test. Bolding also reflects failure to reject the null hypothesis of Ramsey's RESET.

Note. *, **, ***: significance levels of 10%, 5%, and 1%, respectively. Heteroscedasticity and Autocorrelation Consistent (HAC) p values in brackets. Informal 1: Absolute informal financial development. Informal 2: Relative informal financial development.

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2 = Relational

Fin. = Financial; Investment;

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Structure Database; FD = Financial Development; AfDB = African Development Bank;



Fd = Financial system deposits; Bd = Banking system deposits; M2 = Money supply.

“Relative to the spread of some other technologies that have been introduced in sub-Saharan Africa—improved seeds, solar cook stoves and agricultural technology-mobile phones adoption has occurred at a staggering rate on the continent. Yet few empirical economic studies have examined mobile phone adoption. This could be due to a variety of factors, including unreliable or nonexistent data on individual level adoption (leading to measurement error) ... ” Aker & Mbiti ([2010](#), 225).

In order to have a mobile money account and make a deposit, a customer must own a cell phone SIM card with the mobile operator and register for a mobile money account. The customer then makes cash deposits at the physical offices of one of the operator's mobile money agents. These cash deposits create electronic money credit in the account. Customers can make person-to-person transfers of mobile money credit to the accounts of other mobile money users in the same network. They can also use their mobile money credit to pay bills and to buy phone airtime. Withdrawals (conversion to cash) could be made at the offices of the network's mobile money agents. There is also a possibility for a mobile money customer to make a transfer to someone who is not registered with the same network. In this case, when notice of the transfer is received through an SMS text message, the recipient can receive the cash at a mobile money agent (Demombynes, & Thegeya, 2012).

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informalization). This proposition appreciates the deterioration of the formal banking sector to the benefit of other sectors (informal and semiformal). See Asongu ([2011a](#)).

A referee has also suggested an OLS approach with a lot of controls for the omitted variable bias problems. This suggestion is premised on the lack of good instruments at a macro level necessary for an Instrumental Variable empirical strategy.

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