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Colin C. Richard

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## HOW THE U.S. GOVERNMENT'S MARKET ACTIVITIES CAN BOLSTER MOBILE BANKING ABROAD

COLIN C. RICHARD\*

To combat corruption and increase the effectiveness of foreign aid, the United States should require that all of its foreign aid distributions, reconstruction projects, and payments for services abroad go through banking channels—that is, the U.S. government should strive to eliminate cash transactions whenever possible. In U.S. operations in many parts of the developing world, this will mean utilizing nascent mobile banking industries, an event that will have numerous positive results for these economies.

Mobile banking is “any kind of payment or transaction undertaken using a mobile phone against a bank account that is accessible directly from the user’s mobile phone.”<sup>1</sup> Mobile banking is the function most central to the concept of branchless banking, “the delivery of financial services outside conventional bank branches using information and communications technologies and non-bank retail agents.”<sup>2</sup> For example, a customer living in Freetown, Sierra Leone, could send money home to his family in Kabala, a five-hour drive away, simply by sending a text message. Upon receipt of the text message, the family member would only need to walk into one of several mobile money agents in Kabala—two pharmacies, a restaurant, and a merchant—to cash out the transfer. The total transaction, from sending the funds to the funds being cashed out, typically takes only a few minutes and is often a fraction of the cost of other available options.

Mobile banking, while built on the foundation of a domestic transfer product, has the potential to develop into a platform for delivering the full spectrum of retail banking to rural and poor communities that have traditionally been unbanked or underbanked. Worldwide, “[one] billion people do not have a bank account but do have a mobile phone,” a figure that is expected to grow by 70% by next year.<sup>3</sup> The reach of wireless

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\* Fulbright Fellow, Sierra Leone; J.D., Georgetown University Law Center; B.A., Political Science, University of California, Berkeley.

1. Ignacio Mas & Kabir Kumar, *Banking on Mobiles: Why, How, and For Whom?*, 48 CGAP FOCUS NOTE 1, 1 n.1 (2008), available at <http://www.cgap.org/gm/document-1.9.4400/FN48.pdf>.

2. *Branchless Banking Policy*, CGAP, <http://www.cgap.org/p/site/c/template.rc/1.11.1772/> (last visited Jan. 18, 2011).

3. MARK PICKENS, CGAP, WINDOW ON THE UNBANKED: MOBILE MONEY IN THE PHILIPPINES 1

availability is also rapidly increasing. The availability rate for Africa in the first quarter of 2003 was under 5%.<sup>4</sup> It grew to nearly 31% by 2008 and is expected to reach 50% in the first quarter of 2012.<sup>5</sup> Mobile banking reduces the reliance on physical banking outposts and greatly expands the reach of banks by leveraging these preexisting mobile and retail networks. Reach expands significantly without a commensurate increase in service costs. This is especially important in developing countries where mobile availability often extends much farther than banks.

Both the military and diplomatic establishments in Washington have recognized the benefits of this suggested policy change. In the fall of 2008, then Acting Assistant Secretary of the United States Army Peter E. Kunkel advocated for a similar policy modification, emphasizing that the United States, “with minimal impact on its traditional roles and missions and culture, can create a banking system wherever it is asked to go, made possible . . . by its local economic leverage as a market participant.”<sup>6</sup> Similarly, the U.S. Department of State has created a marketplace of ideas in its Tech@State: Mobile Money Conference, which brought hundreds of entrepreneurs, policy makers, and academics together with the goal of fostering the development of mobile money.<sup>7</sup>

The United States is active as a market participant abroad in two significant ways. First, in war zones and elsewhere, the United States engages in reconstruction projects and enters into contracts with workers for a broad range of services. An audit by the Special Inspector General for Afghanistan Reconstruction revealed that \$56 billion has already been spent on such projects in Afghanistan, with plans for an additional \$16.2 billion in the future.<sup>8</sup> Second, the U.S. government provides \$29 billion in foreign development aid and military aid to 154 countries around the world—Afghanistan received \$2.69 billion and Iraq received \$599 million in fiscal year 2009.<sup>9</sup>

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(2009), available at [http://www.cgap.org/gm/document-1.9.41163/BR\\_Mobile\\_Money\\_Philippines.pdf](http://www.cgap.org/gm/document-1.9.41163/BR_Mobile_Money_Philippines.pdf).

4. Mas & Kumar, *supra* note 1, at 3.

5. *Id.*

6. Peter E. Kunkel, *How Jesse James, the Telegraph, and the Federal Reserve Act of 1913 Can Help the Army Win the War on Terrorism: The Unrealized Strategic Effects of a Cashless Battlefield*, MIL. REV., Nov.–Dec. 2008, at 88, 96, available at [http://usacac.leavenworth.army.mil/CAC2/Military\\_Review/Archives/English/MilitaryReview\\_20081231\\_art013.pdf](http://usacac.leavenworth.army.mil/CAC2/Military_Review/Archives/English/MilitaryReview_20081231_art013.pdf).

7. See TECH@STATE, <http://tech.state.gov> (last visited Jan. 18, 2011).

8. SPECIAL INSPECTOR GEN. FOR AFG. RECONSTRUCTION, QUARTERLY REPORT TO THE UNITED STATES CONGRESS 3 (2010), available at [http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q\\_2010Book.pdf](http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q_2010Book.pdf).

9. See U.S. DEP'T OF STATE, CONGRESSIONAL BUDGET JUSTIFICATION: FOREIGN ASSISTANCE SUMMARY TABLES FISCAL YEAR 2011, at 6, 10, 12 (2010), available at <http://www.state.gov/>

Of the 154 countries in which the U.S. government plays a direct participating role in the economy, the vast majority of these are markets in which mobile phone penetration outpaces access to financial services for that country's citizens—often drastically.<sup>10</sup> In Afghanistan, 46% have access to a mobile phone, while only 20% have access to financial services<sup>11</sup> and less than 5% have bank accounts.<sup>12</sup> The difference is even more pronounced in Iraq, where 67% have access to a mobile phone, but only 17% have access to financial services.<sup>13</sup> In both countries, mobile banking services—such as those provided by Roshan in Afghanistan—are now in operation.<sup>14</sup>

This policy change will affect mobile banking in two specific scenarios. First, when the United States contracts with individuals abroad—for example, when the Department of Defense hires Afghan citizens for translation services—compensation will be required to go through a bank account. In countries where accounts in traditional banks are effectively not an option for the vast majority, this creates the opportunity for mobile banking companies to serve this segment of the market.

Second, when the United States distributes individualized development aid, such as credits for food, water, or other necessities, this distribution should be done through bank accounts as well. Again, this will often require mobile banking services. A similar noncash approach has been pursued before in the form of prepaid debit cards distributed in disaster recovery zones.<sup>15</sup> When the United States contracts with third-party nongovernmental organizations or foreign governments to distribute aid, it should condition such aid with the same requirement that they transact through banking channels. These changes will be relatively inexpensive, and they will generate numerous immediate benefits.

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documents/organization/138174.pdf.

10. See *Deployment Tracker: Mobile Money Exchange*, WIRELESS INTELLIGENCE, <http://www.wirelessintelligence.com/mobile-money> (last visited Jan. 18, 2011).

11. *Id.*

12. Andrew Higgins, *In Afghanistan, Signs of Crony Capitalism*, WASH. POST, Feb. 22, 2010, available at <http://www.washingtonpost.com/wp-dyn/content/article/2010/02/21/AR2010022104317.html>.

13. See *Deployment Tracker: Mobile Money Exchange*, *supra* note 10.

14. See *id.*

15. See, e.g., Kathy Chu, *Flood Victims Get Prepaid Cards: Disaster Aid for Pakistan Has Advantages, Critics*, USA TODAY, Nov. 9, 2010, at 3B, available at [http://www.usatoday.com/money/world/2010-11-09-prepaidrelief09\\_ST\\_N.htm](http://www.usatoday.com/money/world/2010-11-09-prepaidrelief09_ST_N.htm) (floods in Pakistan); Shaila Dewan, *Confusion on Debit Card Aid*, N.Y. TIMES, Sept. 9, 2005, at A17, available at <http://www.nytimes.com/2005/09/09/national/nationalspecial/09debit.html> (Hurricane Katrina).

In the military context, this simple change will assist in securing the landscape for both our troops and the local citizens. As Kunkel notes, it will “eliminat[e] the need to put every person involved in distribution and usage [of cash] at risk of personal violence.”<sup>16</sup> Reducing cash transactions reduces opportunities for insecurity; there are no citizens queuing for payment, and there are no sums of cash being distributed at known locations at regular intervals.

In the development context, conducting all transactions through the secure mobile banking channels will lead to significant increases in accountability because there are records on all transactions, and much of the opportunity for corruption and graft is eliminated.<sup>17</sup> Moreover, conducting transactions through these channels will provide an influx of user data, allowing for U.S. aid and reconstruction agencies to better track, analyze, and understand the efficacy of their activities abroad.<sup>18</sup>

Most significantly, conducting transactions through mobile banking systems will support the development and expansion of financial systems in markets that do not currently have substantive access to them. It will help entrepreneurial mobile banking activities to reach business viability sooner by supporting additional revenue streams. The United States is already a market participant in these economies. Where there are not easily accessible financial services, the United States now has available an inexpensive, direct way to increase access. It should seize this opportunity.

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16. Kunkel, *supra* note 6, at 88.

17. See, e.g., Jason Thomas, *Making Afghanistan More Dangerous*, N.Y. TIMES, Aug. 20, 2010, at A19, available at <http://www.nytimes.com/2010/08/21/opinion/21Thomas.html> (“I knew the drill; this was a shakedown, one of countless that occur every day in the country. It didn’t matter that I was a Western aid worker. The police wanted to search my car and haul off the cash.”).

18. Karen DeYoung, *‘Crucial’ Audit on Afghanistan Contractors*, WASH. POST, Oct. 28, 2010, at A9, available at <http://www.washingtonpost.com/wp-dyn/content/article/2010/10/27/AR2010102708692.html> (“In Iraq, where extensive corruption and waste was uncovered in U.S.-funded reconstruction projects, a database eventually was developed to collate all contractor and project information. No such system exists in Afghanistan, where the United States has spent \$55 billion in reconstruction funds since 2001.”).