

RETAIL FINANCE DISTRIBUTION: EVIDENCE BRIEF

Institutional and Regulatory Capacity: Which Rules Attract Investment?

Background

In 2007 Kenya's central bank let Safaricom launch M-Pesa on the strength of a single administrative letter — a “letter of no objection” — rather than a finished body of payment-system law. Safaricom invested roughly US\$30 million over the service's first three years, and Kenya built the most-cited mobile money market in the world.

Afghanistan's central bank was criticised for the opposite failure: an inability to police Kabul Bank, whose 2011 collapse wiped out roughly US\$900 million in fraudulent loans, froze a World Bank trust fund and left civic trust in the financial sector permanently diminished.

Most of the developing world sits between these poles. This brief asks a narrower question than whether regulation matters: which specific forms of institutional and regulatory capacity are tied to market expansion and investment, and which are tied to their absence.

Scope of the Synthesis

The evidence base combines a major cross-country research paper (Fiocco, 2019), a nine-country panel study of Sub-Saharan African mobile money (Grzybowski et al., 2023), a systematic review of 37 studies on digital payment technologies (Shahen & Sharaf, 2025), an econometric and case-study analysis of Indian fintech (Farukh et al., 2026), a household-survey study from Vietnam (Truong et al., 2023), a business-model case study of Nigerian mobile money operators (David-West et al., 2020), and a structural equation model of digital banking in Jakarta (Natsir et al., 2023).

Together the studies span roughly 2007 to 2025 across Kenya, Afghanistan, Nigeria, Tanzania, South Africa, India, Vietnam, Brazil and Indonesia, and mix panel regression, case comparison, structural equation modelling and systematic review. The interventions of interest are licensing posture, interoperability rules, multi-agency regulatory design, e-KYC and consumer-protection rules, and fiscal incentives; the outcome is market expansion — account and transaction growth, operator survival and investment inflow.

1. Synthesis of Findings

1.1 Regulatory Tolerance and the Window for Market Formation

The clearest pattern is that early forbearance — delaying rules until market behaviour is observable, rather than deregulating permanently — precedes several of the largest expansion episodes on record. Kenya cleared M-Pesa in 2007 and did not codify a full National Payment System Regulation until 2014, by which point it had a market to regulate rather than a hypothesis (Fiocco, 2019; Grzybowski et al., 2023).

Tanzania applied the same logic to interoperability in reverse: instead of mandating it, the Bank of Tanzania let operators reach a bilateral market agreement in 2016, making Tanzania the first African country with cross-network mobile money transfers. Kenya followed in 2018, when Safaricom, Airtel and Telkom Kenya agreed to interoperate under a framework the central bank endorsed rather than imposed (Grzybowski et al., 2023).

The mechanism is sequencing rather than absence of regulation. In both cases a credible rulemaking capability existed and was exercised later, which distinguishes forbearance from regulatory vacuum — a distinction that matters when the approach is recommended elsewhere.

1.2 Licensing Architecture and the Ceiling on Expansion

Where regulators restricted who could hold a licence, expansion slowed even with comparable demand. Nigeria's central bank required mobile money to run through banks rather than telecoms, explicitly to control money-laundering risk; adoption reached only 0.6% of adults against Kenya's 67%, and telecoms were not licensed directly until 2019 (Grzybowski et al., 2023).

David-West et al. (2020), studying eight Nigerian operators directly, found the licensing regime compounded this on the supply side: non-bank operators could offer only payments while credit stayed reserved for banks, narrowing the business case entrants could build. One operator put its annual maintenance cost at roughly ₦600 million against 25 licensed operators splitting a thin market — a figure that explains why the authors describe the sector's business models as unsustainable.

India shows a similar pattern, with telecoms required to partner with a bank and banks showing little interest in serving villages given the costs involved (Fiocco, 2019). Brazil adds a third variant: the state re-awards Banco Postal's correspondent-banking monopoly to a single bidder every five to ten years, producing higher prices and fewer than 14 million accounts opened since 2013.

1.3 Institutional Failure and Investment Flight

Afghanistan is this evidence base's starkest case of institutional failure becoming market failure. Kabul Bank's 2011 collapse froze a World Bank trust fund, prompted Western donors to suspend payments, and cut the government's capacity to pay salaries and social services (Fiocco, 2019).

Years later, even a well-designed mobile salary pilot for Afghan police — who reported collecting 30% more per paycheck once commanders could no longer skim it — showed limited effect on savings or remittance behaviour, and many participants were unsure they would continue using the service.

Not every failure traces to scandal. South Africa's MTN withdrew its own mobile money product within months of a 2017 launch simply because it could not compete with banks' existing mobile offerings (Grzybowski et al., 2023) — proof that regulatory clearance alone does not guarantee a return.

1.4 Regulatory Quality as a Measurable Driver

India supplies the most quantified evidence that regulatory quality drives outcomes independently of infrastructure or economic scale. Farukh et al. (2026), running a fixed-effects panel model, find a regulatory-quality coefficient of 0.27 ($p < 0.05$) alongside significant effects for fintech adoption (0.45) and digital infrastructure (0.39).

Behind that number sits a layered architecture: five regulators — RBI, SEBI, IRDAI, PFRDA and IFSCA — share overlapping jurisdiction, while NPCI's Unified Payments Interface gave every bank a shared rail that

processed 6.28 billion transactions worth ₹10.62 lakh crore in July 2022 alone. The same system can shut a channel overnight: India's Supreme Court struck down private-sector e-KYC in 2018 before a 2019 policy reopened it for DFS providers. It can also be used deliberately to court capital, through IFSCA's incentive programme, GIFT City tax deferrals and dedicated fintech hubs.

Shahen and Sharaf (2025) find the same pattern across 37 studies, concluding that favourable policy environments are ultimately what make digital payments succeed. Vietnam shows what happens short of that: Truong et al. (2023) report a legal framework covering only payments, with no rules yet for peer-to-peer lending, cryptocurrency or crowdfunding, despite fast fintech growth.

Table 1. Direction of evidence in this cell

Pathway	Direction of evidence
Forbearance followed by codification	Positive (case comparison)
Operator-agreed, regulator-ratified interoperability	Positive (panel and case)
Shared, regulator-sponsored payment rails	Positive (panel regression)
Regulatory quality as an independent driver	Positive ($\beta = 0.27$, $p < 0.05$)
Bank-only licensing of mobile money	Negative
Rotating monopoly concessions	Negative
Weak supervision of deposit-taking institutions	Negative (severe, persistent)
Partial legal frameworks covering payments only	Negative on investment certainty

Directions summarise seven studies; several rest on single-country case evidence.

2. Cross-Cutting Trends and Insights

Key cross-cutting trends and insights include:

- Sequencing beats speed: delaying rules until a market exists, then codifying them, worked better than writing rules first (Fiocco, 2019).
- Licensing scope shapes revenue, not just entry: restricting non-bank operators to payments narrowed the business case regardless of how many licences were issued (David-West et al., 2020).
- One scandal can freeze a whole sector: Kabul Bank's collapse suppressed trust and donor confidence years after the fraud itself (Fiocco, 2019).

- d. Clearance is not a value proposition: MTN's South African exit shows regulatory approval cannot rescue a weak competitive position (Grzybowski et al., 2023).
- e. Shared rails beat fragmented ones: India's UPI outran markets where interoperability remains, as one paper puts it, "not offered to customers" (Farukh et al., 2026; David-West et al., 2020).
- f. Regulatory capacity is a sequence of decisions rather than a single lever, and each decision leaves a trace in market outcomes.

3. What Works

- a. Forbearance followed by credible rulemaking: clearing a service first, then legislating once behaviour is known, let Kenya write rules for a real market (Fiocco, 2019).
- b. Interoperability the regulator ratifies rather than imposes: Tanzania and Kenya both reached cross-network transfers through operator agreements (Grzybowski et al., 2023).
- c. A shared, regulator-sponsored payment rail: India's NPCI-run UPI avoided the duplicated systems seen elsewhere in this evidence base (Farukh et al., 2026).
- d. Fiscal incentives layered on a working base: IFSCA's incentives and fintech hubs built on existing regulatory architecture rather than substituting for one (Farukh et al., 2026).
- e. Regulators who negotiate with non-bank operators on products current licensing forecloses, such as interest-bearing wallets (David-West et al., 2020).

4. What Doesn't Work

- a. Bank-only licensing without complementary support: Nigeria and India both restricted entry to manage risk and both saw slower adoption than comparable markets (Grzybowski et al., 2023; Fiocco, 2019).
- b. Rotating monopoly concessions: Brazil's Banco Postal model produced higher prices and far less reach than a competitive alternative might have (Fiocco, 2019).
- c. Weak watchdog capacity: Afghanistan's central bank could not detect Kabul Bank's fraud before it collapsed public trust (Fiocco, 2019).
- d. Partial legal frameworks: Vietnam regulates payments but not peer-to-peer lending, crypto or crowdfunding, leaving investors without footing (Truong et al., 2023).
- e. Assuming a licence is a business model: market entry cleared by regulators still failed where the competitive position was weak (Grzybowski et al., 2023).

5. Challenges

- a. Multi-agency complexity: five overlapping Indian regulators add coordination costs even when each agency's intent is expansion-focused (Farukh et al., 2026).

- b. Sudden regulatory reversals: India's 2018 e-KYC ruling shut a low-cost onboarding channel overnight before a 2019 policy partly restored it (Farukh et al., 2026).
- c. Compliance costs concentrate market power: Nigeria's roughly ₦600 million annual operator cost favours large players over smaller entrants (David-West et al., 2020).
- d. Scandal effects outlast the scandal: trust in Afghanistan's financial sector stayed depressed years after Kabul Bank, regardless of later reforms (Fiocco, 2019).
- e. Institutions and infrastructure are hard to separate: countries with stronger institutions also tend to have better infrastructure, complicating attribution (Shahen & Sharaf, 2025).
- f. Case-based inference: several of the strongest claims rest on single-country narratives rather than comparable panels.

6. Areas for Further Research

- a. Isolating institutional quality from infrastructure, using natural experiments and instrumental-variable designs as Shahen and Sharaf (2025) recommend.
- b. Treating licensing reversals as natural experiments: Nigeria's 2019 mobile network operator licensing and India's 2019 e-KYC reopening offer before-and-after data not yet fully used (Grzybowski et al., 2023; Farukh et al., 2026).
- c. Testing monopoly-concession models against open licensing, with Brazil's Banco Postal structure inviting direct comparison with more competitive regimes (Fiocco, 2019).
- d. Following Vietnam's regulatory gap forward: whether new rules for peer-to-peer lending or crypto, once written, reproduce the payments sector's growth (Truong et al., 2023).
- e. Measuring investment directly — capital raised, operator survival and market entry rates — rather than inferring investment from account growth.
- f. Extending the evidence beyond Sub-Saharan Africa and India to South-East Asian regulatory regimes with comparable licensing variation.

7. Conclusion

Institutional and regulatory capacity is not a single lever regulators pull or do not. It is a sequence of decisions — when to tolerate ambiguity, what a licence actually permits, how one institution's failure is contained or allowed to spread, and whether infrastructure is shared or duplicated — and each decision leaves its mark on whether a market grows.

Kenya bought time before writing rules and got a market worth regulating well. Afghanistan's regulator missed one

bank's fraud and lost public confidence in an entire sector for years. Nigeria and Brazil restricted licences and both grew more slowly than their mobile penetration would predict. India built five overlapping regulators and one shared payment rail, and both show up in its numbers.

For anyone assessing where digital financial markets are likely to expand next, the practical move is to skip the question of whether a country's regulation is good or bad

and ask something narrower: can the regulator observe a market before finalising rules, does the licence leave room for a real business, is there a credible watchdog over deposit-taking institutions, and is core infrastructure shared rather than rebuilt by every entrant. Where the answer is yes, this evidence suggests investment tends to follow — not because regulation disappears, but because it becomes something a business can plan around.

About this Evidence Brief

This evidence brief provides a cell-wise summary of studies on “Institutional and regulatory capacity support → Market expansion and investment” from ICED's Evidence and Gap Map of the Retail Finance Distribution Initiative. It highlights how stronger institutions and regulatory systems create the conditions for markets to expand, attract investment and build confidence.

For the full map, visit www.iced-eval.org/evidence-and-gap-maps

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