



Arab Monetary Fund efforts to promote financial inclusion in the Arab region

Dr. Fatima Zohra FEKIH

Laboratory MECAS, Abou Baker Belkaid University
Tlemcen, Algeria

fatimazohra_fe@yahoo.fr

Received: 06/03/2023

Accepted: 02/04/2023

Published: 22/04/2023

Abstract:

Decision makers around the world are now increasing in the importance of financial inclusion. There is no doubt that strengthening financial inclusion has positive repercussions on the efficiency of the financial and banking system and ensuring its stability and safety. On the Arab international level, Arab governments witnessed a remarkable improvement in the indicators of financial inclusion, despite the fact that they are still below the required level compared to their flying from foreign countries. In this regard, this research paper came to highlight the efforts of the Arab Monetary Fund in the field of promoting financial inclusion in the Arab region in support of the efforts made by central banks and Arab monetary institutions. This initiative came with the aim of providing technical advice, supporting strategies and programs of financial inclusion in the Arab countries, and helping them to improve the possibility of financing and expanding banking services.

Key Words: Financial inclusion, Arab Monetary Fund, Financial and banking system.

JEL Classification: O23, E52.

* Corresponding author: FEKIH Fatima Zohra (*fatimazohra_fe@yahoo.fr*)

Introduction

Financial inclusion provides financial services to commercial customers and individuals who have been excluded from the system at an affordable and easily available cost. Financial services are provided mainly by banks along with other financial institutions such as the Post Office, insurance companies, brokers, investment funds, etc., collectively known as the financial sector. Despite progress in financial inclusion worldwide, more than 2.5 billion people worldwide are still excluded from access to financial services. This restricts their ability to save, borrow and protect themselves and their families from hunger and crime. To address these problems and increase access to financial services to the poor, many innovative approaches have been adopted, particularly in developing countries. These services range from agent banking to the provision of financial services through mobile networks.

At the Arab international level, Arab governments have seen a marked improvement in indicators of financial inclusion, although they are still below the required level compared to their foreign countries. In this context, the efforts of the



Arab Monetary Fund in promoting financial inclusion in the Arab region were in support of the efforts made by central banks and Arab monetary institutions. This initiative has been directed to provide technical advice and support financial inclusion strategies and programs in Arab countries and help them improve financing and expand banking services.

I.General framework for financial inclusion:

1. Definition of financial inclusion

The UN report (2006) entitled, "*Building inclusive financial sectors for development*" (referred to sometimes as the "blue book") played a significant role in bringing international attention on this issue. The publication was a follow-up to the Montefrey Consensus in 2002, under which heads of State resolved to address the challenges of financing for development. The U.N. Report defines an inclusive financial system as one which provides credit to all "bankable" individuals and firms; insurance to all insurable individuals and firms; and savings and payment services for everyone. Financial inclusion does not imply that everyone will use all available financial services; rather everyone has the option to use them.

The World Bank defines financial inclusion in its report 2014 entitled "*The World Financial Development Report*" as the proportion of individuals and firms that use financial services has become a subject of considerable interest among policy makers, researchers, and other stakeholders. (World Bank, 2014)

According to the joint report of the Arab Monetary Fund and the Consultative Group to Assist the Poor, issued in January 2017 under the title "*Financial Inclusion Measurement in the Arab World*", Financial inclusion refers to a state where individuals, including low-income people, and companies, including the smallest ones, have access to and make use of a full range of formal quality financial services (payments, transfers, savings, credit, and insurance) offered in a responsible and sustainable way by a variety of providers operating in a suitable legal and regulatory environment.. (Chehade, Navarro, Yisr, & Attia, march 2017)

It was defined by the G20 and the Global Financial Inclusion Alliance (AFI) as "The measures taken by the supervisory bodies to enhance the access and use of all segments of society, including marginalized and affluent groups, of financial services and products that suit their needs, and to provide them in a fair and transparent manner and at reasonable costs".

Access to a well-functioning financial system and the attention of the international community is a challenge that has been facilitated to some extent by the 2006 UN report "The Comprehensive Construction of the Financial Sector for Development" which was able to attract international attention to the community on this issue and financial inclusion was able to prioritize as a political issue in many countries. (GPFI, 2010).



2. The G20 Principles for Innovative Financial Inclusion

The repercussions of the global financial crisis 2008 prompted the G20 to consider assessing the global financial system where between 2.1 billion and 2.7 billion adults, or 72 percent of the adult population in developing countries, do not have a basic bank account, i.e. excluded from the financial system. (G20 Group, 2010)

In this regard, a meeting was held in Seoul in 2009 for the Global Partnership for Financial Inclusion (GPFI), which was aimed at enhancing the financial inclusion of about half of the world's working-age population.

The Global Partnership for Financial Inclusion (GPFI) is a comprehensive platform for all G20 countries, interested countries outside the G20 and relevant stakeholders to continue working on financial inclusion, including the implementation of the G20 Financial Inclusion Action Plan, adopted at the G20 summit in Seoul. Recognizing financial inclusion as one of the key pillars of the global development agenda, G20 leaders endorsed a concrete plan of action for financial inclusion. Not only was financial inclusion prominently included in the leaders' declaration, but it was also highlighted as an important component of Seoul's development consensus and financial sector reform agenda. Then, the leaders announced the creation of the GPFI to institutionalize the work that the Financial Inclusion Expert Group (FIEG) started in 2010 and to continue the work. GPFI was officially launched on December 2010 in Seoul.

Implementation was led by the three main implementing partners: the Alliance for Financial Inclusion (AFI), the Advisory Group for the Assistance of the Poor (CGAP) and the International Finance Corporation (IFC) and chaired by the three Troika countries of the G20, Namely Korea, France and Mexico. In 2012, the World Bank Group and the SME Finance Forum joined GPFI as an implementing partner. The Organization for Economic Co-operation and Development (OECD) joined GPFI as an implementing partner in 2013. In 2014, Better Than Cash and the International Fund for Agricultural Development (IFAD) also joined as implementing partners.

At the Toronto Summit in June 2010, G20 leaders issued nine principles of financial inclusion, known as the Innovative principles of financial inclusion. (Pearce, 2011)

- **Principle 1: Leadership**

Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.

- **Principle 2: Diversity**

Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.



- **Principle 3: Innovation**
Promote technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses.
- **Principle 4: Protection**
Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers, and consumers.
- **Principle 5: Empowerment**
Develop financial literacy and financial capability
- **Principle 6: Cooperation**
Create an institutional environment with clear lines of accountability and coordination within government; and also encourage partnerships and direct consultation across government, business, and other stakeholders.
- **Principle 7: Knowledge**
Utilize improved data to make evidence-based policy, measure progress, and consider an incremental “test and learn” approach by both regulators and service providers.
- **Principle 8: Proportionality**
Build a policy and regulatory framework that is proportionate with the risks involved in such innovative products and services, and is based on an understanding of the gaps and barriers in existing regulation.
- **Principle 9: Framework**
Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk based AML/CFT regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market based incentives to achieve the longterm goal of broad interoperability and interconnection.

II. Financial inclusion in the Arab World

According to the World Bank's Findex Global Financial Services Mainstreaming Index, about 38 % of the world's total adult population does not have access to formal financial services.

- Less than a quarter of adults with accounts with financial and banking institutions have savings accounts.
- 72% of adults have access to formal financial services.
- 5% of adults, without regard to the GCC countries, resort to borrowing from official channels.

Just over a fifth (21.3 %) of adults in the MENA region have a loan account with the bank, although this does not include individuals with more than one loan (the real figure is likely to be lower). Access to bank deposits varies from 10.4 % for Yemen and 19.2% for Syria. More than one bank deposit account per adult in Oman, Lebanon, UAE and Iran.



In 2017, the United Arab Emirates ranked first among the Arab countries in terms of adults with official financial accounts, with a rate of 88%. It was followed by Bahrain, Kuwait and Saudi Arabia with 83%, 80% and 72%, respectively. While, Mauritania scored the lowest rate of 21% during the same period. (Table 1)

Table 1 : « Financial Institution Account (% age 15+)»

Country	UAE	Bahrain	Kuwait	SA	Libya	Lebanon	Algeria	Tunisia	Egypt	Mauritania
% Account	%88	%83	%80	%72	%66	45%	%43	%42	%33	%21
World ranking	35	42	51	59	66	97	101	103	121	

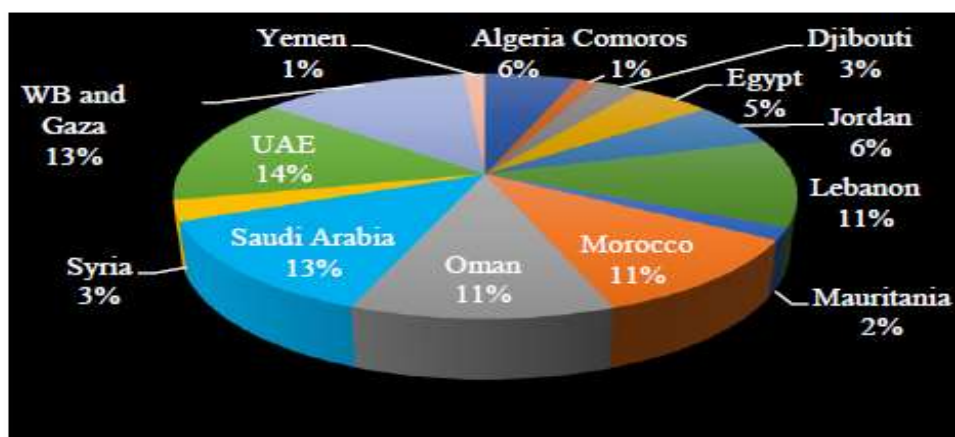
Source: (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2017)

As for the gender gap in obtaining finance, it reached about 22% in the Arab countries in 2017, while it reached only about 7% in the countries of the world. . Although the gap in Arab countries decreased compared to 2011, at that time it was about 26%, it widened compared to 2014, registering 16%. The widening gap in 2017 is due to the higher proportion of adult males with accounts with official financial institutions than females, with the proportion of both males and females in 2017 being about 48% and 26%, respectively. In 2014, it was about 38% and 22%, respectively, in the Arab countries, Jordan recorded the largest gap of about 29% and was the lowest gap for Bahrain and Mauritania at 11%. (Hassini, 2020)

In terms of deposit accounts, most Arab countries show low deposit accounts (Figure 1). Commercial banks in Jordan and Algeria possess only 6%, and Egypt 5% whereas the remaining countries stand below this rate and most of their current financial capabilities are comparatively underdeveloped such as Yemen, Syria and Djibouti. Countries that record relatively developed financial systems in the region like the UAE and Saudi Arabia record 14% and 13 % of deposit accounts per 1,000 adults, while Oman, Lebanon and Morocco reached an equal rate of 11 % in 2017. Therefore, it was concluded that geographical expansion of formal banking could not satisfactorily attract adult deposit accounts, and this caused a state of weak financial inclusion in Arab countries. (Yakubi & Basuki, 2019).



Fig. 1: « Deposit accounts with commercial banks per 1,000 adults by countries 2017»



Source : (World Bank Group, 2017)

A study of the World Bank has shown that some people do not have a bank account due to one of the following reasons:

- They do not have funds that require the use of a bank account.
- High cost of banking and distance.
- A family member already has an account.
- Lack of documents and lack of confidence in the financial system.

With regard to borrowing services from financial institutions, as well as credit card holders at the age of puberty, the percentage in Arab countries is still below the required level. It rose very slightly from 13 percent in 2014 to 14 percent in 2017. Globally, this percentage has risen from 22 percent in 2014 to 23 percent in 2017.

The United Arab Emirates topped the list of Arab countries with 46% in 2017, followed by Bahrain with 36%, while Algeria ranked last with 5%.

III. The role of the Arab Monetary Fund in promoting financial inclusion

1. Introducing the Arab Monetary Fund

Arab Monetary Fund is a Regional Arab Organisation, Founded in 1976, and has started operations in 1977. Member Countries (22) are: Jordan, United Arab Emirates, Bahrain, Tunisia, Algeria, Djibouti, Saudi Arabia, Sudan, Syria, Somalia, Iraq, Oman, Palestine, Qatar, Kuwait, Lebanon, Libya, Egypt, Morocco, Mauritania, Yemen, Comoros. (Arab Monetary Fund)

The fund aims at contributing to the achievement of the following objectives:

- Correcting disequilibria in the balance of payments of member States.
- Striving for the removal of restrictions on current payments between member States.
- Establishing policies and modes of Arab monetary co-operation.



- Rendering advice, whenever called upon to do so, with regard to policies related to the investment of the financial resources of member States in foreign markets.
- Promoting the development of Arab financial markets.
- Paving the way towards the creation of a unified Arab currency.
- Promote trade among member States.

2. The efforts of the Arab Monetary Fund to enhance financial inclusion in the Arab region

The Arab region has the appropriate potential to take appropriate steps with regard to financial inclusion. In this context, policymakers and regulatory authorities are working on important reforms to support financial inclusion, particularly supporting access to official funding for 63 % of citizens over the age of 15, as well as companies.

Arab financial bodies and authorities, in cooperation with the Arab Monetary Fund, have made great efforts to lead the Financial Inclusion Initiative for the Arab Region. In this regard, the Council of Governors of Arab Central Banks and Monetary Institutions initiated in 2012 the establishment of a regional working group to promote financial inclusion in Arab countries, for which the Arab Monetary Fund undertakes the work of the technical secretariat, called “The Financial Inclusion for the Arab Region Initiative (FIARI)”.

Financial Inclusion for the Arab Region Initiative (FIARI) is a regional platform created amid growing demand from member institutions from the Arab Region for tailored solutions to regional financial inclusion issues. It was launched by the Arab Monetary Fund (AMF), German International Cooperation (GIZ), and AFI at the 2017 Global Policy Forum (GPF) and later joined by the World Bank as a technical partner. (AFI)

In this context, the Council of Arab Central Banks and Monetary Authorities’ Governors, in light of the growing need to sensitize all Arab actors to the importance of financial inclusion, endorsed in 2016 the 27th of April as the Arab Day for Financial Inclusion, celebrated this year under the theme of “Towards Building Financial Literacy that promotes Financial Inclusion.” (Council of Arab Central Banks and Monetary Authorities’ Governors)

The Initiative covers: (FIARI, 2020)

- Financial inclusion strategies and data.
- Women’s financial inclusion.
- Financing of micro, small, and medium enterprises (MSMEs).
- Financial Technology and Digital finance .
- Agricultural Finance.
- Green finance .
- Microfinance.
- Financial market infrastructure .
- Responsible finance, consumer protection, and financial education.



IV. Keeping up with the launch of financial inclusion strategies in the Arab countries:

1. Technical aid to the Republic of Iraq to support levels of financial inclusion:

In March 2019, the Central Bank of Iraq (CBI) took a set of measures and steps with the support of the partner institutions in the initiative, represented in:

- Reform of the sector of non-banking financial institutions.
- Non-branch banking and banking agent.
- Digitization of government payments.
- Laws and controls for consumer protection.

The World Bank conducted on October 27, 2020 the first training in a series of trainings to be delivered to Iraqi authorities on the National Financial Inclusion Strategy development process. The training provided an overview of financial inclusion including key indicators that underpin the rationale for the development of the Iraq's National Financial Inclusion Strategy; explored an approach and roadmap and conduct preparatory work. This session also explored how to identify and engage the National Financial Inclusion Strategy stakeholders during the development process, as well the role of Working Groups; discussed the diagnostic work that underpins the development of a National Financial Inclusion Strategy including on the demand, supply, geospatial and technical diagnostic elements; and discussed in detail the Central Bank considerations, next steps and World Bank support. (FIARI, 2020)

2. Demand side statistical survey of financial inclusion:

Financial inclusion is measured through two complementary approaches: a demand-side and a supply-side assessment. The demand-side assessment is based on Household/Individual Field Surveys whereas the supply-side analysis relies on the banking statistics of financial services providers. (Bank Du Liban, 2018)

As part of the compilation of financial inclusion data in Arab countries, the Regional Financial Inclusion Initiative team in the Arab region, in collaboration with the German Development Agency (GIZ), completed the demand-side statistical survey model for financial coverage at the beginning of 2019. The survey consists of the following axes:

- Characteristics of origin, sources of financial services
- Awareness, perception and use of future funding
- Budget, income and expenditure
- Additional short surveys on:
 - Use of trade credit
 - Lease Finance.
 - Crowd funding.
 - Other types of financing (debt discounting, insurance, etc.).
 - Activities in the informal sector.
 - Equity and Shares.
 - Financing Social Institutions.



- Financing start-up companies.

3. The strategy of the Republic of Tunisia to support financial inclusion

In 2019, a strategy was prepared by the Central Bank of Tunisia in collaboration with the National Institute of Statistics. It aims to develop access to the financial sector. Tunisia's strategy includes the following six main themes:

1. Financing and refinancing microfinance institutions
2. Digital Finance: Support financial integration by improving access to digital finance services.
3. Smaller insurance: providing responsible small insurance that provides services in line with the needs of the low-income group and small enterprises
4. Social and solidarity economy: finding solutions to enable the sector to finance appropriately.
5. Financial education: improving citizens' ability to choose and make the right decision.
6. Social and economic assessment of financial inclusion.

4. Technical Assistance to collect data on women's financial inclusion in Palestine

The National Committee for Financial Inclusion in Palestine, represented by the Governor of the Monetary Authority and the Board of Directors of the National Capital Market Authority for the Financial Inclusion in Palestine, launched the participation of the representative of the German government in Palestine in cooperation with the World Financial Inclusion Alliance (AFI) and the German Agency for International Cooperation GIZ.

The national strategy for financial inclusion in Palestine aims to increase the percentage of financial inclusion in the Palestinian state, in addition to achieving the Palestinian vision towards an advanced financial sector that meets the financial needs to improve living conditions and enhance the social welfare of individuals, as well as raising the percentage of financial inclusion for individuals who are 36.4% to 50% as a minimum By the end of the year 2025, as well as enhance the access and use of all segments of society for financial services through the appropriate official channels with reasonable cost and time, protect their rights, and enhance their financial knowledge, enabling it to make the appropriate financial decision. (Capital Market Authority, 2016)

Alliance for Financial Inclusion has provided support to the Palestine Monetary Authority in 2019/2020 to develop sex-disaggregated data framework to advance NFIS implementation and women's financial inclusion, that incorporates effective collection and analysis of demand side data. (Arab Monetary Funds, 2020).



5. Technical assistance to support digital financial inclusion in Egypt

Egypt aspires to be a leading country in the field of digital payments, as it works to launch a new phase of financial inclusion for citizens as it is one of the pillars of growth and transformation of the digital economy and the promotion of economic reform. Financial inclusion works to integrate the informal economy of individuals and institutions within the formal economic structure of the state, and ensures the development The service provided by the financial institutions included in its scope. (Benlakhdar & Chenebi, 2019)

Work under Financial Inclusion Global Initiative (FIGI) in Egypt, jointly with the Bill and Melinda Gates Foundation – and Egypt is one of the first round of countries. This covers technical assistance in consumer protection, digital payments, development of payments strategy. The FIGI Egypt ASA activities are aligned with the framework for Payments Aspects of Financial Inclusion (PAFI). A joint report by the CPMI and the WBG, and is organized under four components which are:

- i.Diversified Financial Services/ Use of Technology,
 - ii.Strengthening the National Payment System Governance,
 - iii.Complementarities with Social Transfer Programs,
 - iv.Financial Consumer Protection and Financial Literacy.
- The advisory program of the Global Initiative for Financial Inclusion in Egypt was also used to support the financial authorities in ensuring the continuity of payment systems, and ensuring the continuity of critical payment services including cash payments, mobile wallets, bank accounts and payment cards.

**Conclusion:**

The rise of financial inclusion as an important policy goal is due in part to mounting evidence that access to financial products can make a positive difference in the lives of the poor.

The Financial Inclusion for the Arab Region Initiative (FIARI) is one of the key drivers for enhancing levels of financial inclusion, translating the readiness and readiness of the Arab Monetary Fund to provide and enhance the level of technical support and capacity development to support member states and make all efforts to provide financial services to Arab countries.

In this regard, it should be noted the steps and actions taken by Arab countries to promote financial culture, especially digital ones, and Arab countries can develop and integrate country action plans that contribute to the digital transformation of financial systems and support economic development to achieve sustainable growth and alleviate poverty.

Challenges:

In general, it can be pointed out that there are a number of challenges facing the financial systems of the countries of the region that limit access to financial services. The most prominent of these challenges are as follows:

- The lack of development in the infrastructure of the Arab financial sectors to the extent that guarantees increased opportunities for financial access
- Weak levels of competitiveness among Arab financial and banking institutions and high credit concentration rates, whether in terms of credit provided to individuals or companies.
- The slow development of non-bank financial institutions, in particular contractual savings institutions and investment funds, and the limited local debt instruments and markets, in particular the bond and sukuk markets, which leads to increased dependence on bank credit, which provides short-term resources on the basis that are appropriate to meet the medium and long-term financing needs of individuals and companies.

Recommendations:

After we reviewed the importance of financial inclusion in enhancing economic growth in the Arab countries and explained the role of the Arab Monetary Fund in supporting the application of financial inclusion in the Arab region. We would like to present a number of recommendations and proposals to enhance and expand it in the Arab region, which are the following:

- Arab countries can work on developing and integrating country action plans that contribute to enhancing the social and environmental responsibility of financial and banking institutions and supporting Economic development to achieve inclusive and sustainable growth. And that is through the adoption by a number of central banks in the Arab countries of the principles issued by the Arab Monetary Fund on how central banks deal with the repercussions of natural disasters and climate change on the banking system and financial stability.



- Developing legislation, regulations and regulatory frameworks that help improve the spread of financial and banking services and encourage innovation in this field
- Follow-up efforts to upgrade the sound infrastructure systems of the financial and banking system and encourage the development and expansion of non-banking financial services, in addition to developing policies and programs that enhance transparency in financial and banking transactions.
- Developing a national strategy for financial inclusion and urging decision makers on the importance of achieving harmony and linking between the strategies of small and medium enterprises, financial inclusion and financial education.
- Expanding the role of Islamic banking to give impetus to financial inclusion by allowing individuals and small and medium enterprises whose prefer banking operations that are compatible with Islamic law, as a large proportion of Arab societies do not prefer dealing with traditional banks because of the religious factor.
- Activating the strategic and complementary partnership between the public and private sectors and strengthening the role of banks to finance sustainable development projects with the aim of creating more job opportunities for young people.

Bibliographic References :

- Arab Monetary Funds. (2020). *(FIARI) Annual Report issued in 2020 (Achievement of the initiative until the end of 2019)*.
- Bank Du Liban. (2018). *BDL Financial Inclusion Demand Side Survey Report: Implimentation and Key Findings*. In Statistics and Economic Research Department.
- Benlakhdar, S., & Chenebi, S. (2019). The importance of financial inclusion in achieving development. *Journal of Research in Finance and Accounting* , 4 (1), 104-129.
- Capital Market Authority. (2016). *Study of fanancial inclusion in Palastin*.
- Chehade, N., Navarro, A., Yisr, B., & Attia, H. (march 2017). *Financial Inclusion Measurement in the Arab World*. Donors and Investors, Policy.
- Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2017). *Measuring Financial Inclusion and the Fintech Revolution (T. G. F. Database)*. Washington: Worl Bank Group.
- FIARI. (2020). *Financial Inclusion for the Arab*. Annual Report.
- G20 Group. (2010). *Innovative Financial Inclusion Innovative Financial Inclusion*. ATISG Report.
- GPFI. (2010). *G20 Principles for Innovative Financial Inclusion About the Principles and the Global Partnership for Financial Inclusion (GPFI)*. Récupéré sur <https://www.gpfi.org/publications/g20-principles-innovative-financial-inclusion-executive-brief>



- Hassini, D. (2020). Circulating digital financial services to support financial inclusion in Arab Countries. *Journal Of North African Economies* (16(2)), 97–114.
- Pearce, D. (2011, March). Financial Inclusion in the Middle East and North Africa Analysis and Roadmap Recommendations. (W. Bank, Éd.) *Policy Research Working Paper* .
- World Bank Group. (2017). *End Extreme Poverty, Boost Shared Prosperity*.
- World Bank. (2014). *Treatment Of Slaughterhouse Effluent Using Upflow Anaerobic Packed Bed Reactor*. International Congress on Informatics, Environment, Energy and Applications-IEEA.
- Yakubi, Y., & Basuki, B. (2019). Financial Inclusion and Digital Finance in the Arab World: Current Status and Future Priorities. *International Journal of Innovation, Creativity and Change* , 6 (3).