

An Analytical Study of the Reality of Some Indicators of Financial Inclusion in Algeria

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Abstract:

This study aims to provide a theoretical framework for financial inclusion, offering insights into the underlying concepts associated with this term. The study also examines the current state of financial inclusion in Algeria by analyzing various indicators. It further highlights the key strategies and mechanisms implemented by the Algerian government to ensure that financial services are accessible to all segments of society, with an emphasis on both quality and affordability. These efforts are vital in promoting financial inclusion through the actions of relevant authorities.

Ultimately, the study concludes that financial inclusion in Algeria remains limited due to several obstacles that hinder the achievement of the desired levels of inclusion. Therefore, it is essential to create favorable conditions for the successful implementation of financial inclusion programs in Algeria, while also enhancing the use of advanced technologies to effectively promote financial inclusion in practice.

Keywords: Financial inclusion; partial indicators; bank cards; financial institutions.

Jel Classification Codes: G2 ,G210,G290 .

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1. INTRODUCTION

A multitude of studies conducted globally have examined the concept of access to finance, financial services, and products, which collectively fall under the umbrella of financial inclusion. This subject has garnered significant attention in recent years, particularly from international and global economic organizations, as one of the key pillars in the economic development agenda.

The goal is to effectively align efforts aimed at achieving higher levels of financial inclusion. International financial institutions have recognized that the development of a national strategy that incorporates all relevant efforts is the optimal approach to enhancing financial inclusion and promoting both economic and social development.

In response to these findings, Algeria has initiated a series of measures aimed at developing mechanisms and strategies to address the essential components of financial inclusion. These efforts began with improving access to banking and financial services for both individuals and institutions. This approach also involves identifying factors that hinder the advancement of financial inclusion levels and formulating constructive policies to address challenges and foster the growth of financial inclusion.

Research Problem

Building on the previously discussed points, the central research question for this study is:

What are the key indicators for the implementation and enhancement of financial inclusion in Algeria?

To address the central question of this study, the following sub-questions are proposed:

- What constitutes financial inclusion, and what are its key indicators?
- What is the current state of financial inclusion in Algeria?

Study Hypotheses:

- Financial inclusion is defined as the ability of individuals, particularly those with low incomes, to access formal financial services and benefit from them at affordable rates. The primary indicator of financial inclusion is the quality of the financial services

provided.

- The limited levels of financial inclusion in Algeria are mainly attributed to a lack of trust in financial institutions, low financial literacy, and limited awareness among the general population.

Study Objectives:

The objectives of this study are to:

- Clarify the core concepts and dimensions of financial inclusion.
- Evaluate the current state of financial inclusion in Algeria by examining key indicators and identifying the barriers hindering its progress.

Previous Studies

- Mohamed Amin Zayekh's study, titled "Information Technology and Its Role in Achieving Financial Inclusion: An Analytical Study of Algeria's Situation from 2000-2020," is a doctoral dissertation presented in 2023 to the Department of Economics at the University Center of Tipaza, Algeria, with a focus on monetary and banking economics. This study aimed to explore the role of information and communication technologies (ICT) as a driving force for enhancing financial inclusion. Using a case study approach, it examined the experiences of the United States, Malaysia, and the UAE in leveraging technology to boost financial inclusion, while also analyzing Algeria's position and the necessary steps for advancement. The study concluded that ICT adoption significantly contributes to improving financial inclusion, establishing a positive relationship between ICT and access to financial services.
- Amina Khelj's study, titled "The Role of Islamic Banking Industry in Promoting Financial Inclusion in Arab Countries with Reference to Algeria," is a doctoral thesis submitted in 2022 to the Department of Finance and Accounting at Hassiba Ben Bouali University in Chlef, Algeria. This research explored the potential of Islamic banking as a channel for expanding financial inclusion across Arab countries. A case study approach was employed to analyze leading experiences in Islamic banking, focusing on Saudi Arabia, Oman, and Sudan's

Islamic microfinance. The study concluded that the Islamic banking sector serves as a crucial tool for enabling individuals who have voluntarily excluded themselves from the formal financial system due to religious reasons.

- Marwa Kerdousi's doctoral dissertation, titled "The Role of Financial Technology in Promoting Financial Inclusion: A Case Study of Several Algerian Banks," was presented in 2024 to the Department of Management Sciences at the University of 08 May 1945 in Khemis Miliana, Algeria, specializing in Finance and Banking. The study assessed both international and domestic policies related to the adoption of financial technology (fintech) solutions, developed indicators for financial inclusion, and evaluated the role of fintech companies in enhancing financial inclusion. The results showed that fintech has significantly contributed to advancing financial inclusion worldwide.

2. The Reality of Financial Inclusion in Algeria

In Algeria, financial inclusion remains relatively low. Despite efforts by the government to reform and modernize the banking sector, financial exclusion persists, with an increasing volume of money circulating outside the formal financial system.

2.1 The Conceptual Framework of Financial Inclusion

The concept of financial inclusion is interpreted differently by various experts and institutions. Karkar (2019, p. 364) defines it as providing banking services to low-income individuals and businesses at minimal cost and in a timely manner.

- According to the World Bank, financial inclusion means ensuring that individuals can access financial products and services—such as transactions, payments, savings, credit, and insurance—at affordable prices, which meet their needs and are provided responsibly and sustainably (Gharib & Drid, 2021, p. 182).
- Financial inclusion is commonly described as a state in which all individuals have access to a comprehensive range of high-quality financial services at affordable prices, ensuring the dignity of

customers. These services should be accessible to vulnerable groups, such as the poor, rural populations, and marginalized communities.

- This definition underscores the importance of safeguarding the rights of consumers of financial services and encouraging responsible financial management. It also emphasizes the need to reduce reliance on informal financial channels, which can often lead to the misuse of financial and banking services. (Kadi, 2021, p89)

Financial inclusion involves providing accessible financial products and services to individuals and organizations at affordable prices, ensuring business sustainability, promoting individual well-being, and addressing issues of inequality and poverty. From the above definitions, we can conclude that financial inclusion is characterized by several key features:

- Focus on low-income individuals and the poor.
- Accessibility for individuals and small- to medium-sized institutions.
- Provision of a wide range of financial services, including savings, credit, insurance, and loans.
- Emphasis on achieving broader societal benefits, such as job creation, economic and social growth, poverty alleviation, and improved income distribution. (Bhanas, Rasoul, & Bessisa Belabbas, 2019, p215)

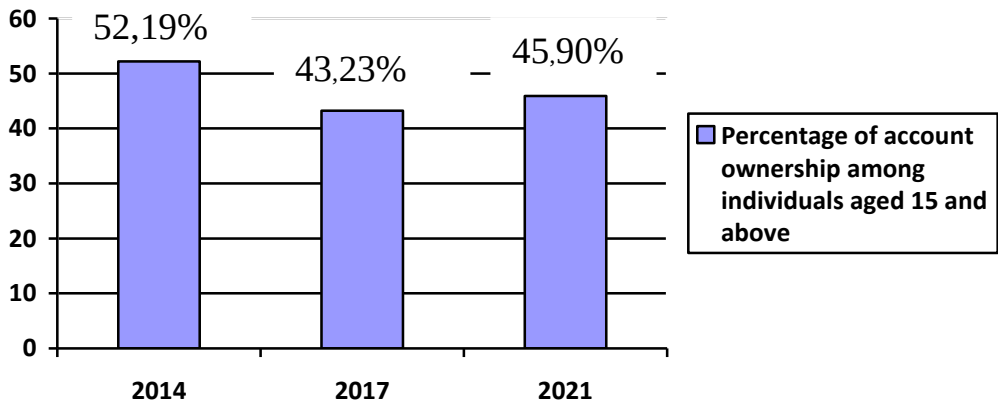
2.2 The Evolution of Financial Inclusion Indicators in Algeria

Algeria ranks among the countries with low levels of financial inclusion, despite efforts by authorities to combat financial exclusion. This section examines the development of financial inclusion in Algeria from 2014 to 2021, focusing on the following indicators:

2.2.1 Bank Account Ownership

The following figure shows the percentage of bank account ownership among adults in Algeria between 2014 and 2021:

Fig.1. Percentage of Bank Account Ownership Among Adults in Algeria from 2014 to 2021



Source: Prepared by the researcher based on World Bank data, site: <http://databank.worldbank.org/source/global-financial-inclusion>, accessed on 30/11/2024 at 09:30

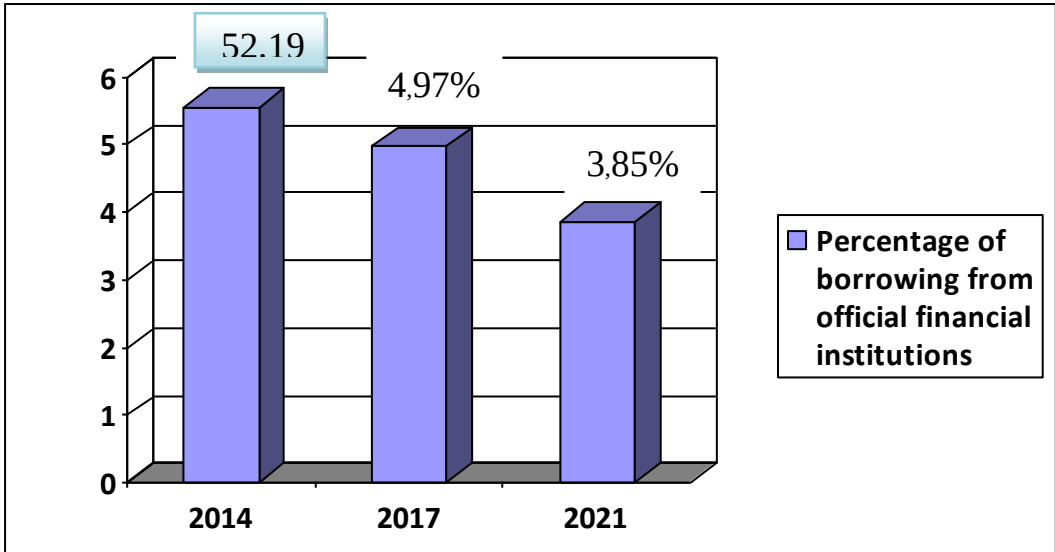
The data shows that bank account ownership in Algeria remains below the global average, highlighting the country's limited financial inclusion.

There was a decline in bank account ownership from 2014 to 2017, mainly due to political and security crises, as well as the closure of inactive accounts. This period coincided with the early stages of financial literacy initiatives and government efforts to promote banking. Individuals with bank accounts were more inclined to use them, especially following the introduction of the unemployment benefit program in 2022.

2.2.2 Borrowing from Financial Institutions

The following figure illustrates the percentage of adults borrowing from financial institutions in Algeria between 2014 and 2021:

Fig.2. Percentage of Borrowing from Financial Institutions by Adults in Algeria from 2014 to 2021



Source: Prepared by the researcher based on World Bank data, site :

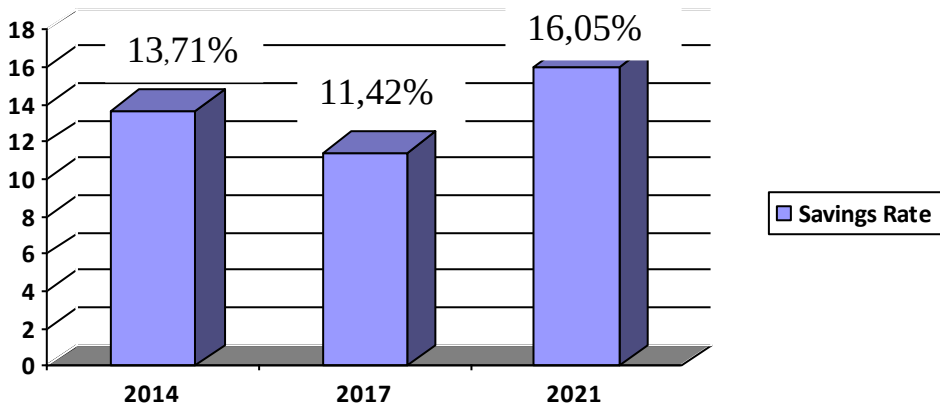
<http://databank.worldbank.org/source/global-financial-inclusion>, accessed on 30/11/2024 at 10:15.

The percentage of borrowing from financial institutions remains very low and has continued to decline since 2014. This suggests that a large proportion of Algerians prefer to borrow from alternative sources such as family, friends, or relatives. The reluctance to borrow from financial institutions may be attributed to the prevalence of usury, high borrowing costs, and the complex procedures and conditions set by financial institutions, which may be burdensome for ordinary individuals.

2.2.3 Savings in Financial Institutions

The percentage of individuals saving in official financial institutions reflects societal financial awareness and the preference for formal financial dealings. It also indicates the role of banks and financial institutions in mobilizing private savings by offering diverse financial services and savings tools. The following figure presents the savings rate of individuals aged 15 and above in financial institutions in Algeria from 2014 to 2021:

Fig.3. Savings Rate of Individuals Aged 15 and Over in Financial Institutions in Algeria from 2014 to 2021



Source: Prepared by the researcher based on World Bank data, site: <https://databank.worldbank.org>, accessed on 25/10/2024 at 10:45

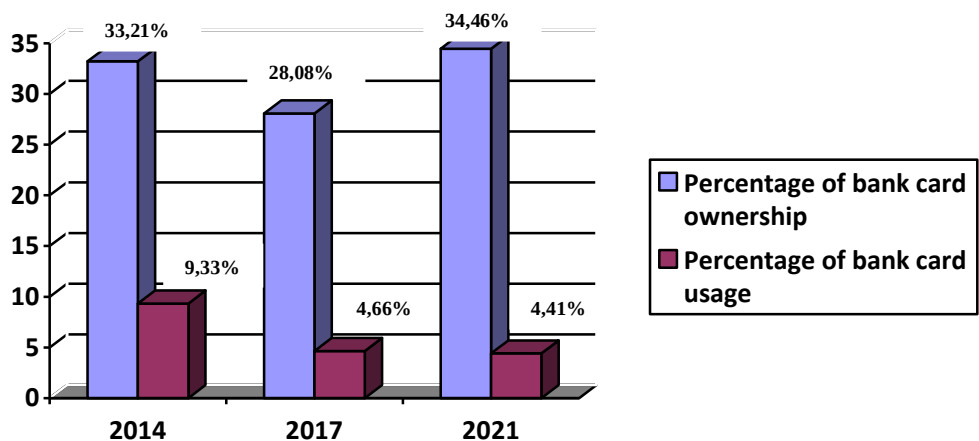
From the figure, we observe a decline in the savings rate in 2017, which decreased by 11.42%. This drop was attributed to the fall in oil prices, which impacted various economic and social indicators in Algeria, leading individuals to draw upon their savings. Additionally, the prevailing interest rates in Algerian banks did not incentivize saving, and the decline in purchasing power due to inflation further contributed to this decline.

Additionally, Algeria saw a slight improvement in the savings rate in 2021, reaching 16.05%. This growth can be attributed to government policies aimed at supporting economic recovery from the pandemic's impact, along with a strong focus on promoting financial literacy, Islamic banking services, and the integration of digital financial tools.

2.2.4 Ownership and Use of Bank Cards

The following figure illustrates trends in the ownership and use of payment and credit cards by Algerian adults between 2014 and 2021.

Fig.4. Percentage of Bank Card Ownership and Usage



Source: Prepared by the researcher based on World Bank data ,site: <https://databank.worldbank.org>, accessed on 25/10/2024 at 10:53

From the figure, we observe a decline in the percentage of bank card ownership between 2014 and 2017. The persistently low oil prices during this period increased pressure on the treasury and led to a contraction in the monetary market. This trend continued until 2021, primarily due to the economic strain caused by the COVID-19 pandemic and the associated lockdown, which further strained the national economy and caused liquidity shortages, ultimately reducing withdrawal operations. Additionally, the low level of financial literacy in society contributed to the weak usage of bank cards, or even to their non-use after being issued by financial institutions.

3. Analysis of Some Financial Indicators in Algeria

Modern banking operations are increasingly defined by the growing role of banking technology, with concerted efforts to improve and develop banking service delivery methods. Algeria has been actively working to introduce many banking technologies into the national market as part of its efforts to enhance banking services and achieve the goals of financial inclusion.

3.1 The State of ATMs in Algerian Banks

ATMs play a crucial role in the growth of electronic payments, allowing for convenient cash withdrawals and banking transactions without

the need to visit physical branches. The number of ATMs and the transaction volumes processed through them in Algeria from 2019 to 2022 are shown in the table below.

Table 1. Development of the Number of ATMs and the Volume of Transactions Conducted Through Them in Algeria from 2019 to 2022

Year	Total Number of Active ATMs	Total Number of Transactions	Total Value of Transactions (Billion DZD)
2019	1,725	9,829,653	118.167
2020	3,035	59,428,934	1,085
2021	3,057	88,722,689	1,758.987
2022	3,469	127,035,461	2,282.846

Source: Prepared by the researcher based on data from GIE Monétique, accessed on 05/07/2024 at 22:30

From the data, it is evident that the total transaction volume has consistently increased, especially from 2020 onward, which saw a remarkable rise of 482.46% compared to 2019. This surge was driven by Algeria Post's membership in the Automated Clearing House (GIE Monétique), which enabled transaction exchanges between banking and gold cards starting on January 5, 2020.

In 2021 and 2022, the volume of transactions continued to rise, driven by the exceptional circumstances of the COVID-19 pandemic, which led to a shift toward electronic payment methods.

3.2 Reality of Payment through Electronic Payment Terminals

In addition to Algeria Post, Algerian banks have been distributing electronic payment devices to merchants and economic institutions. These devices have been installed in various retail shops, businesses, and supermarkets, enabling customers to make payments for their purchases using banking or gold cards. The volume and number of transactions conducted through these devices in Algeria are as follows:

Table 2. Development of the Number of Electronic Payment Terminals and

Transaction Volume in Algeria from 2019 to 2022

Year	Total Number of Electronic Payment Terminals	Total Number of Transactions	Total Value of Transactions (Billion DZD)
2019	23,562	274,624	1,916.994
2020	33,845	711,777	4,733.820
2021	37,661	2,150,529	15,113.249
2022	46,263	2,712,848	19,343.056

Source: Prepared by the researcher based on the following site: <https://giemonetique.dz/ar/activite-paiement-sur-tpe>, accessed on 05/07/2024 at 23:00

Table 3. Electronic Payment Terminal Activity from 2016 to 2024

Year	Total Number of Active Electronic Payment Terminals
2016	5,049
2017	11,985
2017	15,397
2019	23,762
2020	33,945
2021	37,561
2022	46,263

Source: Prepared by the researcher,

site: <https://giemonetique.dz/en/activite-paiement-par-mobile>, accessed on 10/12/2024 at 21:00

From the above tables, we can observe a continuous growth in both the total number of electronic payment terminals and the number of transactions conducted through them. This upward trend can be attributed to the widespread adoption of these devices by merchants, especially following the issuance of the 2020 Finance Law, which mandated merchants to provide electronic payment methods for their customers. This was part of the government’s policy response to the COVID-19 crisis.

3.3 Reality of Accessing Financial Services Online

Online payments through bank cards were introduced in Algeria in October 2016, initially covering large billers such as utilities (water, energy, gas), telecommunications (fixed and mobile phone services), insurance companies, airlines, and certain government agencies (Electronic Payment in Algeria, 2024). Currently, this service is available to all businesses wishing to integrate it, provided they have obtained a license from GIE Monétique. (Online Payment Process, 2024)

Table 4. Volume of Financial Transactions Conducted Online in Algeria from 2019 to 2022

Year	Total Number of Transactions	Total Value (Billion DZD)
2019	204,480	504.880
2020	4,397,960	5,463.720
2021	7,621,646	11,376.470
2022	9,158,125	18,251.100

Source: Prepared by the researcher based on the site: [GIE Monétique](https://giemonetique.dz/en/activite-paiement-par-mobile), accessed on 06/10/2024 at 18:00

Table 5. Volume of Financial Transactions Conducted Online in Algeria from January to September 2024

Year	Total Number of	Total Value (Billion DZD)
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	Transactions	
January	422,782	3,374,064,529.05 DZD
February	420,763	3,367,573,343.46 DZD
March	472,457	3,647,797,574.76 DZD
April	418,558	3,292,375,246.61 DZD
May	455,361	3,483,253,985.07 DZD
June	375,546	2,964,305,403.72 DZD
July	444,145	3,698,403,119.11 DZD
August	489,952	4,003,550,888.99 DZD
September	517,726	4,180,490,494.89 DZD

Source: Prepared by the researcher based on the site: [GIE Monétique](#), accessed on 10/12/2024 at 20:00

From Table (04), we observe a sharp increase in the total number of transactions after 2019, which marked a significant leap. This surge can be attributed to the integration of Algeria Post's gold cardholders with banking cards, as well as the measures implemented during the COVID-19 crisis, which positively impacted the spread and growth of financial technology in Algeria. Online payments in Algeria are notably dominated by the services sector, including telecommunications, utilities (electricity and water), insurance, and transportation.

In Table (05), we see a steady month-on-month increase in the number of electronic payment transactions, indicating strong demand for such services across all segments of society.

4. Ways to Enhance Financial Inclusion in Algeria

Based on global financial inclusion indicators, Algeria ranks in the second group within the Middle East and North Africa (MENA) region. While the country has taken significant steps to improve financial inclusion, various challenges still hinder further progress. This section will explore the

initiatives of the Bank of Algeria, identify key barriers, and propose potential solutions to enhance financial inclusion.

4.1 Efforts of the Bank of Algeria in Enhancing Financial Inclusion in Practice

The Bank has implemented several initiatives aimed at promoting financial inclusion throughout the economy.

Key actions taken by the Bank of Algeria to advance financial inclusion include: (Ben Yahia & Sari, 2023, pp 522-523)

- **Dynamic Communication Strategy:** The Bank has actively engaged banks and financial institutions operating within Algeria, involving them in the creation of regulations and procedural frameworks aimed at enhancing financial inclusion.
- **Active Contribution to Financing Economic Projects:** A particular focus is placed on small and medium-sized enterprises (SMEs). In line with the new policy, the Bank coordinates various efforts to support the financing of these businesses, ensuring alignment across initiatives.
- **Focus on the Youth:** The Bank has launched promotional campaigns to introduce a variety of banking products, especially those incorporating new technologies, mobile applications, and financial innovations. These efforts aim to ensure that all citizens, particularly the youth, can access banking services and adapt to modern financial mechanisms.
- **Study of Economic Activities in Various Regions:** Banks have undertaken analyses of local economic activities, allowing them to tailor financial products to meet the specific needs of businesses and citizens in different regions of Algeria.
- **Promotion of Islamic Banking Products:** Recognizing the demand from a significant segment of the population, the Bank of Algeria has introduced Islamic finance windows, offering a range of services in accordance with Islamic financial principles. Additionally, a deposit guarantee system has been implemented to support Islamic banking operations.

- **Encouraging the Use of Digital Products:** The Bank has implemented a system mandating that certain banking services, such as bank cards and annual statements, be provided free of charge.
- **Reduction of Precautionary Measures on Banks and Financial Institutions:** The Bank has lowered minimum liquidity requirements and allowed banks to defer or reschedule loans for customers. This ensures continued financing for beneficiaries even during challenging economic conditions. (Senousawi, 2023, p94)

4.2 Mechanisms for Enhancing Financial Inclusion in Algeria

The following solutions and mechanisms are critical for addressing the barriers that hinder the advancement of financial inclusion in Algeria:

4.2.1 Supporting the Physical Infrastructure

A robust financial infrastructure is key to meeting the growing demands of financial inclusion. Establishing and equipping this infrastructure is fundamental to promoting economic growth and ensuring that citizens have access to necessary financial services. This remains a primary goal of financial inclusion in Algeria.

The mechanisms for achieving this goal include:

- **Legislative Environment:** Establishing a favorable legal and regulatory framework is essential. This includes passing laws and amending regulations that govern financial institutions. A key example is Law No. 23/9, dated 3 Dhul-Hijjah 1444 (June 31, 2023), which encompasses the monetary and banking law. (Law No. 23-09, 2023)
- **Geographical Expansion:** Expanding the reach of financial service providers is critical. This involves creating new access points for services such as mobile banking, point-of-sale systems, and ATMs operated by bank agents. Expanding these services ensures that even remote areas are better connected to financial services.

- **Leveraging Technological Developments:** Advancements in technology are crucial for enhancing the financial inclusion landscape. The expansion of digital financial services, including mobile payments, ATMs, and electronic bill payment systems, can significantly improve financial inclusion. These innovations help reduce costs, minimize risks, and create a more level playing field for both financial service providers and their customers.

4.2.2 Consumer Financial Protection

Consumer financial protection is a fundamental element in fostering trust between customers and the banking sector, improving customer relationships, and ensuring long-term loyalty. These factors collectively contribute to greater financial inclusion and overall economic stability.

To align with global banking sector developments and enhance financial services for consumers, Algeria has introduced significant legal and regulatory measures aimed at protecting consumer rights. These regulations ensure the security and safety of consumers' economic rights, safeguard against monopolies, and promote fair competition. As the banking sector grows rapidly, ensuring consumer protection and access to banking services has become essential. The increasing volume of transactions and the legal obligations associated with banking relationships underscore the importance of these protective measures. (Sebti, 2020, pp. 829-847)

4.2.3 Enhancing Financial Awareness and Knowledge

Increasing financial awareness among consumers is essential to align their demand for financial services with the ability of service providers to meet those needs. Moreover, educating individuals about their rights and responsibilities empowers them to make informed financial decisions. (Behouri, 2019, p168)

4.2.4 E-Governance

The development of e-governance is vital for enhancing financial inclusion in Algeria. E-governance initiatives have been instrumental in promoting the adoption of electronic financial services. Key components of e-governance include:

- Organizing the distribution of information through official websites and facilitating communication with citizens.
- E-governance relies on the mandatory collection of electronic government payments from individuals interacting with various government entities, which helps promote the use of modern and electronic payment methods. (Rezig, 2023, p326)

5. CONCLUSION

Financial inclusion is a key driver of banking sector development. Providing accessible, low-cost, and timely financial services to all segments of society is vital for fostering growth within the banking sector. However, Algeria still faces challenges in achieving optimal financial inclusion levels.

The country continues to struggle with low financial inclusion indicators, inadequate infrastructure, regulatory frameworks that do not align with current banking trends, limited use of technology, and a general lack of financial literacy among the population.

To overcome these challenges, Algerian authorities must adopt comprehensive strategies and initiatives aimed at improving financial inclusion. These efforts will broaden access to financial services and products, stimulate investments, support economic and developmental projects, and ultimately contribute to achieving wider economic and social development objectives.

The main finding derived from the study can be summarized as follows:

- Financial inclusion plays a vital role in the advancement of banking services by enabling the provision of modern financial products that cater to the diverse needs of society.
- Financial inclusion levels in Algeria are currently very low, mainly due to underdeveloped financial infrastructure, limited adoption of electronic payment systems, and insufficient financial awareness among the population.
- Savings rates in Algerian financial institutions are disappointing, largely due to low interest rates, high unemployment rates, inflation, reduced purchasing power, and a lack of investment in commercial

banks.

- The low borrowing rates from financial institutions in Algeria are linked to high loan interest rates and the conflict of interest-based transactions with Islamic law.

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