MENA FINANCIAL INCLUSION REPORT

2020

Bahrain FinTech Bay

FinTech Consortium

Jordan FinTech Bay

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Acknowledgement

We would like to express our deep gratitude to all those who helped to make this project possible. A project like the MENA Financial Inclusion Report 2020 can only be realized with the enormous support from the project's team and external supporters. Several partners have invested significant resources into the project.

Numerous advisors, founders, investors, and industry experts have given us access to their knowledge, networks, and time because they support our vision and wanted to move the FinTech ecosystem forward.

We would also like to highlight the support of the interviewees who trusted us by sharing their views and expert knowledge with us. By providing us with solid quantitative and quantitative data and insights, they created the basis and the heart of our research. Thank you for your support!

Methodology

The intention behind the MENA Financial Inclusion Report 2020 is to raise awareness on the current state of financial inclusion both globally and regionally, and highlight the necessary steps that need to be adopted to promote further inclusivity. Moving forward, the intention behind the report is to provide a long-term reference for key stakeholders in the region including individuals, government entities, financial institutions, and FinTechs to further understand the most suitable approach toward promoting financial inclusion.

The report utilizes a case-by-case approach to measure financial inclusion across the MENA region. Case studies were implemented to adopt an empirical approach toward investigating the current landscape of financially inclusive initiatives by relevant authorities. The case studies were conducted with the intention of generating a theory on the barriers to financial inclusion, as well as emerging trends adopted by specific countries to promote inclusivity. The report mainly focuses on eight MENA countries as other case studies were excluded due to unavailability of data as per the Global Findex Database.

The World Bank's Global Findex Database is the most comprehensive benchmarking index that tracks and documents financial inclusion rates in different countries by addressing different dimensions including bank account ownership, payments, savings, loans, and managing risks. Therefore, the report focuses on the results of the World Bank's Global Findex Database to support the analysis and direction of the report. This report will focus on access versus usage of financial services. Access includes access to financial accounts; whereas usage includes specifically savings, credit, and digital payments. The report will solely focus on the four factors to measure financial inclusion in each country case-study.

Following the study of the eight countries, individual reports were constructed to ultimately draw multiple-case conclusions on key activities and barriers to strengthen or limit financial inclusion. Through the collection of such data, the report was then able to provide an analysis on MENA's financial inclusivity position.

Recommendations were later built from the analysis to create a crucial framework of mechanisms for varied stakeholders in the ecosystem to digest as a means of promoting the agenda of financial inclusion in the coming years.

Executive Summary

The concept of financial inclusion refers to when individuals or businesses have sustainable access to quality financial services and products to satisfy their financial needs. Financial inclusion is identified as a fundamental driver of a nation's economic and social development. It has become increasingly important for individuals to be able to fully participate in the financial ecosystem of an economy and be able to utilize accessible and quality financial services. FinTech has the potential of enabling financial inclusion by maximizing the utilization of technology to increase the access and innovation in financial services. Increasing financial inclusion represents greater equality, customer reach, increased transparency, and efficiency within the society.

The MENA Financial Inclusion Report explores the state of financial inclusion in selected countries of the MENA region; Algeria, Bahrain, Egypt, Jordan, Morocco, Saudi Arabia, Tunisia, and United Arab Emirates. The level of financial inclusion is determined by looking at factors that are seen to affect the awareness and accessibility to financial services including banking, savings, credit, and digital payments. The identified factors include financial literacy, initiatives targeting underserved population, micro-financing for SMEs, and the push for FinTech and digitalization.

With 1.7 billion unbanked individuals globally, the global financial inclusion rate stands at 76%. The financial inclusion in the MENA region is significantly less when compared globally with the regional rate recorded at 20% for the aforementioned countries collectively. Due to this, it is instrumental for countries and the relevant stakeholders in the region to be aware of the initiatives run by other countries and adopt specific measures to increase financial inclusion in the region.

Therefore with the current state of financial inclusion in the MENA region, the report frames a generic strategy that can be implemented to eliminate the barriers to financial inclusion from enabling access, increasing usage, maximise usage, and improving quality and range. This framework can be referred to when structuring recommendations in addressing financial inclusion including regulations, digitalization and financial literacy.

Key Facts

Unbanked	Mobile Penetration	Digital Payments
2 billion unbanked individuals worldwide	**66%** mobile penetration rate worldwide	**52%** made or received digital payments worldwide
301 million unbanked individuals in MENA region	**70%** mobile penetration in MENA region	**38%** made or received digital payments in MENA region

Foreword

Bahrain FinTech Bay and Jordan FinTech Bay are excited to announce the launch of our first cross-border publication. The MENA Financial Inclusion Report 2020 highlights the state of financial inclusion and progress made across eight Middle East and North Africa countries, whilst highlighting challenges and recommendations to provide better financial access to undeserved groups across the Arab world economies.

The report presents a holistic view of critical factors impacting financial inclusion and explores the different applications of innovative FinTech solutions that could drive economic and social development.
Emerging technologies and digitalization have already shown considerable positive impacts on financial inclusion by lowering accessibility, cost, and financial literacy barriers and this new wave of technological advancements, manifested in FinTech solutions, presents a significant opportunity across industry sectors to capitalize on and join the race to serve the unbanked. Underlying infrastructure, regulatory environments and levels of digitalization in financial services are all crucial to delivering a strategic framework for financial inclusion.

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Financial Inclusion

Financial Inclusion

Across the globe, approximately two billion individuals either do not have complete access or have limited access to basic financial services such as credit and savings. The concept known as "financial inclusion" became popular in the early 2000s as a growing interest amongst various financial institutions, policymakers, and government entities after identifying the direct correlation between financial exclusion and poverty. Financial inclusion has become an integral part of national economy vision and strategies in various countries for maximum growth opportunities.

Financial exclusion, alternatively, has been identified as one of the major socio-economic challenges by the World Bank Group Financial.[1] Prior to deep-diving into the subject, the report acknowledges that the definition of financial inclusion can include but is not limited to the following explanations:

> Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.[2]
>
> **World Bank**

> A state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.[3]
>
> **Center For Financial Inclusion**

Gateways to Financial Inclusion

The degree of financial inclusion can be measured by assessing the availability of key financial services. The report will focus on four key areas that act as a gateway to financial inclusion. The report has categorized the four gateways by access versus usage as illustrated in the diagram. These areas include:

Banking

Banking includes both having easy access to traditional and digital transactions that can be linked to a checking/savings account. The transactions involved with regards to such accounts include but are not limited to withdrawing cash, storing money, receiving payment of funds such as wages, pensions, and social assistance, converting cheques into cash, wire transfers, and paying for goods and services electronically or via card. The access and usage of these financial services is key not only toward promoting financial inclusion but to a broader social inclusion as it eliminates restrictions for various groups from benefiting from available financial services.

Savings

Savings has a direct impact on poverty, net savings, and investments in an economy. The service allows households to absorb financial shocks and invest in human capital, which ultimately leads to higher growth.

Credit

Credit plays a significant role in easing consumption and protecting households and businesses against income shock. The easy access to credit is helpful for families, especially to low-income individuals, as unrestricted access would allow to meet required or sudden funding needs.

Payments

Payments for products and services not increase the circulation of money and boost the economy, but also allows people to send and collect money from relatives and friends for emergencies or meet other financial responsibilities/needs.

Unbanked vs. Underbanked

The terms “unbanked” and “underbanked’ are widely associated with the topic of financial inclusion. Although both terms are sometimes mistakenly used interchangeably, unbanked and underbanked are distinct by definition.

Unbanked

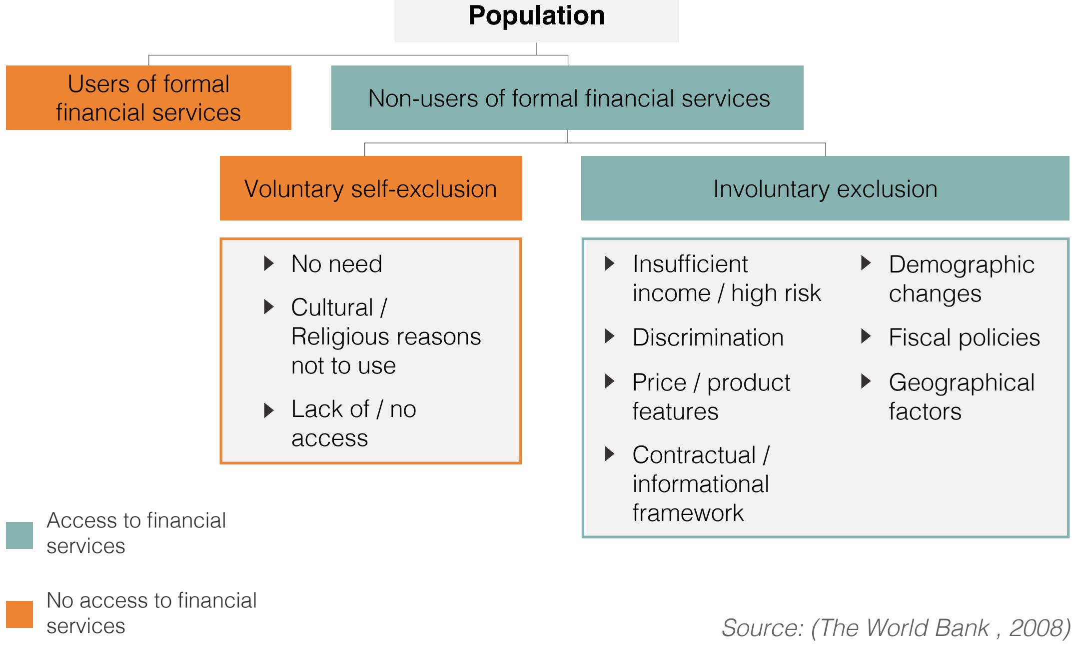
refers to individuals who do not have access or make use of any form of banking services including not having a bank account, debit card, checking account, or savings account.

Underbanked

individuals represent a slightly broader percentage of people who do not take advantage of the full slate of banking services but use a select few. The underbanked can also rely on alternative financial services to fund transactions and manage their finances.

The financial exclusion of the unbanked and underbanked can either be categorized as voluntary or involuntary exclusion. In the case of voluntary exclusion, individuals have access to financial services but choose not to engage with the financial system due to personal reasons or beliefs. On the other hand, involuntary exclusion is when individuals face barriers such as insufficient income or physical proximity of banks/ATMs that prevent them from accessing financial services. The figure below is a representation of voluntary and involuntary exclusion categories:

Figure 1.1: Factors of Financial Exclusion



Source: (The World Bank , 2008)

Irrespective of whether individuals are voluntarily or involuntarily excluded from financial inclusion, it plays a crucial role in the domain of the financial services sector. As an example of a contributing factor to financial exclusion is demographic changes. A wide age gap in a country's demographics is understood to cause financial exclusion as the older generation are unable to take advantage of financial services due to the technological divide.

As exclusion from financial services forms part of a much wider social exclusion, reducing it has been at the forefront of many financial stakeholders' agenda. Therefore, it is important to understand how to measure financial inclusion and what factors are needed to frame the direction for financial services.

Measuring Financial Inclusion

In recognizing the need for financial inclusion policies and initiatives, the G20's Global Partnership for Financial Inclusion (GPFI) proposed a "Basic Set" of indicators to help measure financial inclusion which includes:

Figure 1.2: Possible Lenses to Measure Financial Inclusion[4]

1. Access

Access to financial services: Ability to access available financial services and products and measuring access that requires deep analysis of different barriers including cost and physical proximity of bank branches, and ATMs.

2. Usage

Usage of financial services: Moving beyond the basic adoption of financial services to include focus on permanence and depth usage based on length and frequency of usage.

3. Quality

Quality of the financial services delivery: Measuring the consumer's experience demonstrated in attitudes and opinions towards its relevance, ease of use, and added value.

4. Welfare

Welfare from financial services: Impact of financial services on the lives of consumers and businesses including consumer consumption, business activities, and wellness.

Providing individuals and businesses with access to financial services has been the primary focus of concerned stakeholders. However, access to such services alone is not completely sufficient for developing the inclusivity of a financial system. Users with access will not be able to realize the full value and benefit of financial services if they do not make use of it. Similarly, there will be a lack of use if the quality of delivery is low leading to unsatisfied customers. Therefore, usage and quality are equally important when benchmarking different financial markets in terms of inclusivity.

For each of the four dimensions of measuring inclusivity of financial services, both supply-side data (collected from financial services providers) and demand-side data (collected from individuals and households) are essential to form a comprehensive understanding of a country's level of financial inclusivity.

Typically, supply-side data captures physical outreach information, such as number of ATMs, bank accounts, and branches from financial services providers. While demand-side data provides input from local households to show the level of consumer satisfaction and whether financial inclusion is equitably distributed across the population. The combination of demographic information from household respondents and the quantitative data from financial services providers can be used as a proxy for measuring financial inclusion.

What does financial inclusion solve?

Economic literature shows that the enhancement of financial services fosters growth and development on three levels; household, business, and the overall economy. The report identifies 8 of the 17 United Nations' Sustainable Development Goals (SDGs) that financial inclusion can solve.

Eliminating Poverty (SDG 1)
Including people in poverty within the financial system is likely to improve the current standard of living of people with low income levels. By providing them with the needed financial service, people can take better control of their economic life and gain access to saving instruments and credit facilities to support the management of unexpected expenses. The increase in a country's net savings leads to an increase in productive investment, consumption, and active lending, which ultimately reduces poverty and income inequality.

Fostering Quality Education (SDG 4)
Worldwide, economic growth has been closely linked to the development of human capital and education. In order to achieve quality education, it requires significant investment in learning opportunities. Financial services such as saving instruments, credit facilities, and domestic/international remittances would help households manage expenses associated with education. Additionally, high levels of literacy equates to individuals who make more informed decisions regarding their finances- therefore leading to better and more usage of financial services.

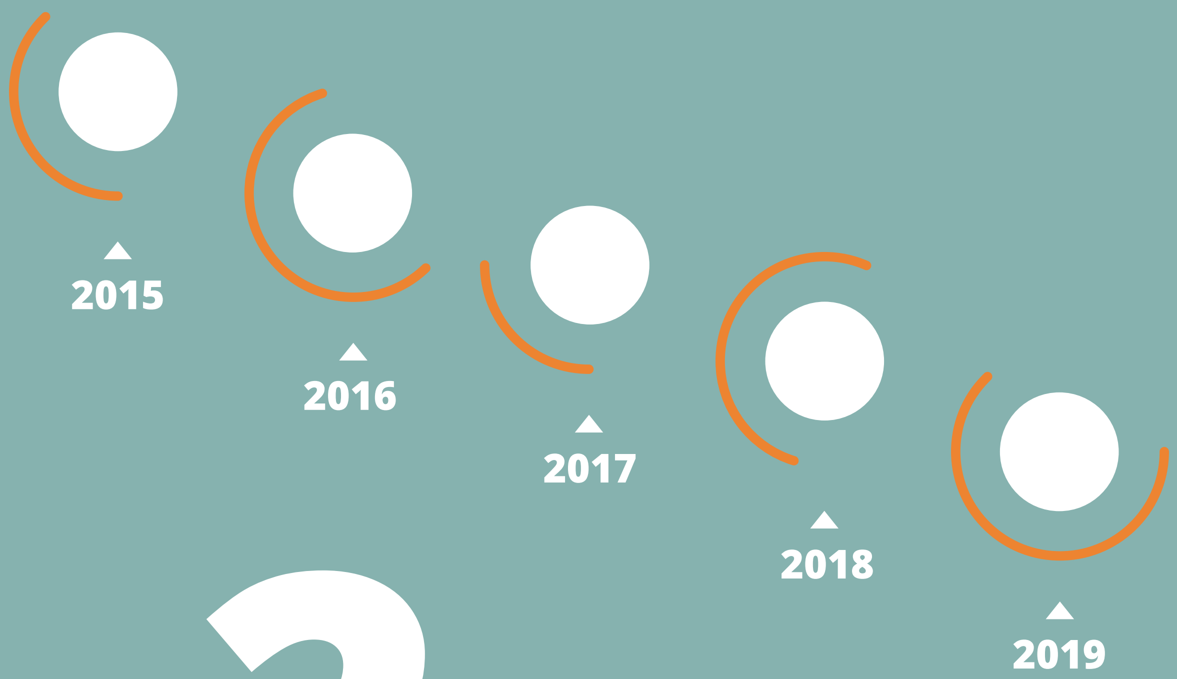
Achieving Gender Equality (SDG 5)
It is estimated that the financial inclusion gender gap is causing females income loss of about 27% in the MENA region.[5] By giving women greater control over their finances through financial inclusion, household income increases and finances are more likely spent on necessities such as food, education, and healthcare. Saving accounts, for example, can help women build credit history and provide them with investment opportunities which aids them in asserting their economic power and achieving gender equality. Such measures will eventually reduce the gap in gender financial exclusivity.

Promoting Sustainable Economic Growth (SDG 8)
With individuals and businesses gaining access to more financial services, savings increases and larger pools of liquidity are extended; resulting in stimulating economic growth as productive investments increase. In return, such economic growth generates more income and employment opportunities.

Promoting innovation and sustainable industrialization (SDG 9)
Micro, small, and medium enterprises (MSMEs) have unmet financial needs of $5.2 trillion every year.[6] By making flexible credit and investment opportunities easily accessible through innovative mechanisms, such as digitized payments to help businesses to keep track with outflow of funds to significantly reduce the risk of fraud.

Reducing Inequality (SDG 10)
In the context of developing countries, the United Nations Development Programme highlighted that income inequality has increased by 11%.[7] Sizable gaps between the rich and the poor continue to persist in terms of access to education, health care, and finance. Financial inclusion models can narrow this gap by reducing barriers to access. Through relaxing credit constraints and offering cheaper services for the poor, who generally lack collateral, credit history, and connections, the benefits of financial inclusion extend beyond more productive allocation of capital. Access to savings also allows low-income households to absorb financial shocks, accumulate assets, and ease consumption.

Following the definition of financial inclusion as well as highlighting factors hindering and promoting it, the next step is to study the existing efforts by stakeholders to achieve maximum economic growth. The next section measures the level of financial inclusion on a global scale and gives a perspective on where the MENA region stands. Therefore, the next section provides an overview of the current state of play in the global and MENA region and explores various initiatives undertaken specifically by selected MENA countries addressing financial inclusion through financial literacy, regulatory reforms, digitalization, and specifically targeting underserved groups to sustain long-term inclusion.



2 State of Play

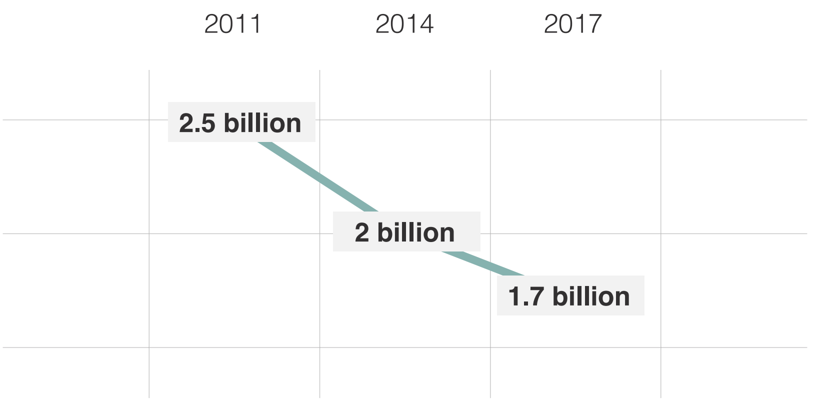
State of Play

Global Overview

Financial inclusion, a tool for economic development.

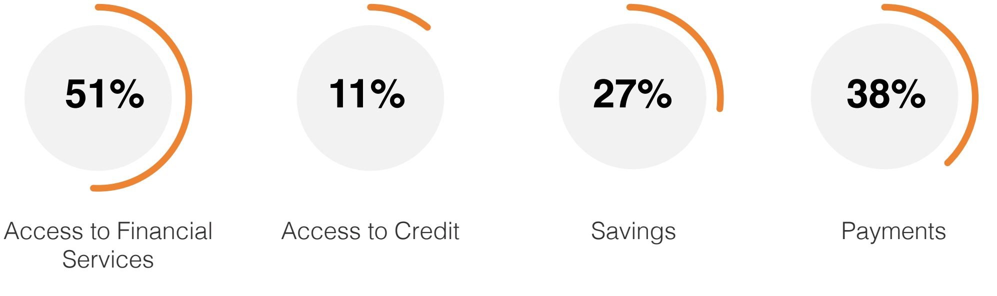
Several developments across the world have pushed bank account ownership from 51% in 2011 to 69% in 2017, a 35% increase. At present there are 1.7 billion unbanked individuals across the globe. The chart below is a representation of the growing financial inclusivity rates with a breakdown by access to general financial services, credit, savings, and digital payments. The global financial inclusion rate is currently at 76%.

Figure 2.1: Unbanked Global Population



Source: (The World Bank , 2017)

Figure 2.2: Financial Inclusivity Rates

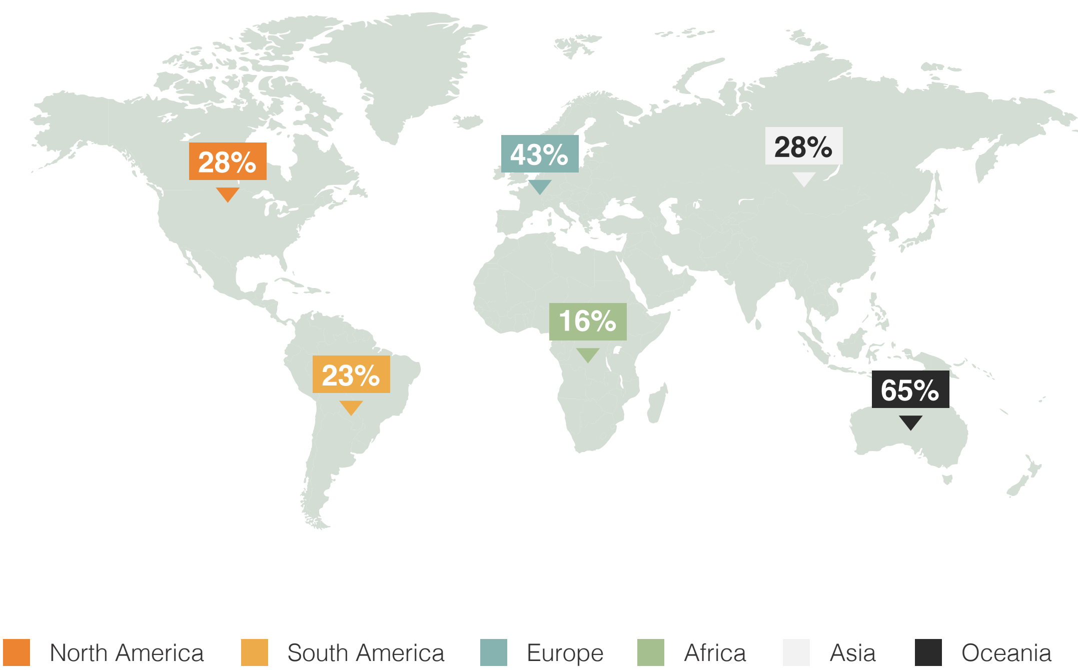


The major underserved segments of financially excluded groups amount up to 24% on average of the world population. The figure below highlights the breakdown of the segments:

Women	Low-income people	Illiterate people	Refugees	People living in rural areas
49.6% of population[8]	**9.6%** of population[9]	**13.7%** of population[10]	**0.9%** of population[11]	**44.7%** of population[12]

To provide inclusion rates by region, it is observed that Africa, Asia, and the Americas are below the global average; whereas Europe and Oceania are above average.

Figure 2.3: Financial Inclusion by Region



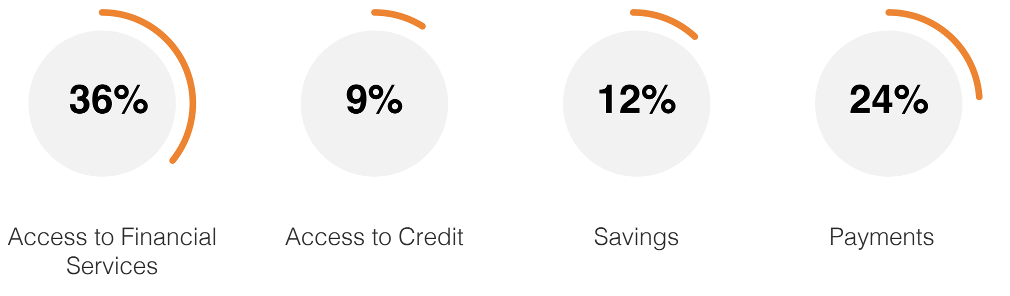
Note: The financial inclusion rates above are based on four factors only: access to financial accounts, savings, credit, and digital payments.

Source: (The World Bank , 2017)

MENA Overview

The breakdown of the MENA region highlights that financial inclusion across various streamlines are lower than global experiences as highlighted below:

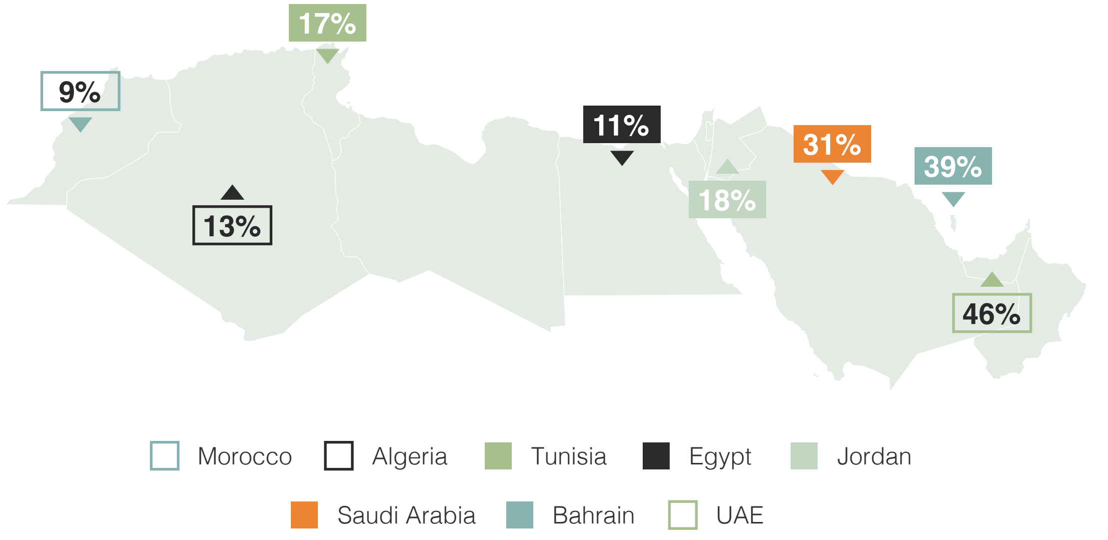
Figure 2.4: Financial Inclusivity Rates



The MENA financial inclusion rate is 20%, which is also notably less than the global rate highlighted in the previous page. Nonetheless, the region only covers 10% of the top 20 countries with the highest rates of financial exclusion.[13]

In regards to underserved groups, men in the region appear to be more dominant in the financial inclusion sphere at 19% of the gender's population compared to only 9% of women during 2016. Furthermore, adults in the poorest 40% of households and twice as likely to not have accounts.[14]

Figure 2.5: Financial Inclusion in the MENA Region



Note: The financial inclusion rates above are based on four factors only: access to financial accounts, savings, credit, and digital payments.

Source: (The World Bank , 2017)

As highlighted in the map above, there are various levels of financial inclusion within the MENA region, with UAE taking the lead and Morocco lagging behind. The following is a deep dive into various case-studies of different countries within the MENA region that will focus on financial literacy in the country, specific targeting of underserved groups, microfinancing for SMEs, and the push for digitalization.

Algeria

Algeria focuses on a number of initiatives to address financial inclusion. The economy has a specific focus on SME development and boosting financial literacy amongst diverse groups of people. This is achieved through decreasing the overall illiteracy rate, supporting SMEs through funds and grants, and mobile technology.

Access to Banking
24%

Access to Credit
3%

Access to Savings
11%

Digital Payments
14%

Key Initiatives

As part of their national strategy of decreasing illiteracy rate, Algeria has managed to decrease illiteracy rate from 42% in 2006 to 10% in 2017.[15] Additionally, Algeria has introduced key educational projects to increase awareness in understanding finances. For example, INJAZ Al-Arab, a non-profit organization, was established with the main objective of educating and training the youth in the Arab World with a focus on workforce readiness, financial literacy, and entrepreneurship.[16] Similarly Algerian literacy association, Iqraa, introduced its Alphabetisation, Formation et Insertion des Femmes (AFIF) program with the objective of educating and training women and girls from different social standings to acquire literacy skills and professional qualifications in order to strengthen their career growth and economic position. Therefore, such initiatives encourages financial well-being, independence, and contribution to the community with a focus on the unbanked population.[17]

In 2004, the SME Credit Guarantee Fund Fonds De Garantie Des Crédits Aux PME (FGAR) was established to support SMEs in having access to medium-term bank financing. The main objectives of FGAR includes granting credit guarantee to SMEs, providing advice and technical assistance to SMEs, and endeavour into projects that aim to promote and support SMEs.[18] As of September 2018, FGAR managed to back $553 million in loans, supported 2289 projects and approximately 70,000 jobs.[19]

Algeria has also been looking into the introduction of mobile payments since 2018 after 11 banks and 9 companies participated in the launch of Algeria's first e-payment service in October 2016. Within the next 2 months, 5,000 e-payment transactions had been carried out and the service collected around 930,000 subscribers. In 2017, the government authorities set out a detailed plan for the launch of the mobile payment system to increase financial inclusion by addressing factors including identity identification, access to telecommunication networks, and data protection. The aforementioned initiatives indicate a push for digitalization in the economy in order to be more financially inclusive.[20]

Bahrain

The Kingdom of Bahrain has exuded financial inclusion efforts to increase the accessibility and efficiency of the most suited financial service for daily transactions. The government of Bahrain has been working continuously on improving the financial and social development of its citizens. Not only that, but private sectors as well have shown considerable efforts and interest in lowering the barriers to financial inclusion. This includes the introduction of digital banks, improved payment systems, financial literacy, and national initiatives of digitalization. All these initiatives are targeted to better improve the customer experience and enable maximum usage of financial services in the country.

Access to Banking
59%

Access to Credit
17%

Access to Savings
31%

Digital Payments
51%

Key Initiatives

The physical access to financial services showed a growth where there has been a constant increase in branches at 26% and ATM machines at 6% between 2011 and 2017 despite the reduction in the number of banks. However, Bahrain aims to move towards a cashless economy by encouraging the use of digital channels for executing transactions as reflected in a 74% increase in point of sale through debit/credit cards and an 87% increase in payments made through the internet.[21]

Additionally, the government supports initiatives catered to providing financial options to micro, small and medium enterprises through initiatives like the Bahrain Development Bank and the Tamkeen Labour Fund. Bahrain also encourages ecosystem innovation through the introduction of crowdfunding initiatives to fill the gap in lending and investment opportunities to SMEs and startups for product and solution development.

In terms of shifting towards a cashless society, Bahrain is in the process of introducing the Wage Protection System (WPS) which formalizes the distribution of employees' wages directly into their bank accounts in the private sector. This regime is in unification with neighbouring GCC countries to ensure timely payment of wages to employees and track employers who breach their obligations to employees. Such a development ensures that each employee in the country under the WPS will have a bank account and will make use of the available financial services.[22]

A positive outlook for financial inclusion in Bahrain is the availability of various financial literacy thematic programs targeting diverse groups on economic education, investment, and entrepreneurship. Additionally, there are numerous training programs such as those offered by INJAZ Bahrain to young individuals to support them in learning more about informed financial planning such as earning, spending, sharing and saving money.[23] Other private institutions and universities are working on financial literacy through personal finance management courses on how to better manage money.

Egypt

Strengthening financial inclusion is critical for underserved Egyptians in utilizing financial services and provide access to funds for Micro, Small and Medium Enterprises (MSMEs). The country identified financial inclusion as a priority in its strategy of Sustainable Development Strategy (SDS): Egypt Vision 2030.[24]

Access to Banking
18%

Access to Credit
6%

Access to Savings
6%

Digital Payments
13%

Key Initiatives

The Egyptian Banking Institute (EBI), under the Central Bank of Egypt, introduced a national initiative called Shaping the Future since 2012. The focus on the development of Egypt's strategy for financial literacy, deliver financial education and awareness, and friendly financial products. This indicates towards a dedicated government strategy to spread financial literacy across the country.

In 2018, the Central Bank of Egypt (CBE) launched its "Strengthening Financial Coverage, Censorship and Supervision of Banks in Egypt" project in cooperation with the European Union (EU). EU will be supporting approximately $3.7 million of technical assistance for a term of three years to further strengthen CBE's regulatory framework on banking and support financial inclusion efforts.

The CBE is looking into digitizing The Village Savings and Loans Association (VSLA) scheme which was first implemented in 2014. The scheme focuses on accumulating savings to be provided as loans within members of the group. The VSLA has benefited over 18,000 participants of which 92% are women and 8% are men. Through the scheme, VSLA members have taken 6,138 loans of which 71% of the loans were used for income generating projects. Digitizing the process would promote a cashless society and ensure the efficiency and security of the scheme.[25]

Additionally, Egypt introduced legislation to require the majority of payments to the government be made electronically including any salaries and fees to be made by public and private entities. The CBE has also promoted the national electronic payment card, Meeza, which conducts government payments, allows customers to withdraw funds from ATMs, conduct local purchases and e-payment transactions. Furthermore, Egypt's Ministry of Finance installed 7000 POS terminals at government entities, universities and registration offices. These initiatives are all in the efforts of reducing reliance on cash, increasing transparency, and encouraging consumers to open bank accounts.[26]

Further collaboration between key players within Egypt's ecosystem contributes to drive financial inclusion in the country by making digital payments accessible and the main mechanism of executing transactions. MasterCard and Etisalat, a multinational Emirati based telecommunication company, in collaboration with the National Bank of Egypt (NBE), introduced a mobile payment wallet named "Flous" in 2013. This mobile payment solution allows Etisalat subscriber-base in Egypt to make payments including the transfer of money between subscribers, deposit and withdraw cash through Etisalat and NBE branches. Additionally, Flous also allows subscribers to make bill payments and pay for products and services at various merchants' in Egypt.[27]

Jordan

The Global Findex highlighted that Jordan's financial inclusion is increasing in a promising rate following an uptick from 24.6% of the population in 2014 to 33.1% in 2017.[28] Jordan has worked on several initiatives with a particular focus on underserved segments such as women, refugees, youth, and SMEs. The government has played a major role in introducing new initiatives for financial literacy, funding, and digitalization.

Access to Banking
26%

Access to Credit
17%

Access to Savings
10%

Digital Payments
20%

Key Initiatives

One of Jordan's primary initiatives focuses on promoting financial literacy within the country. The Queen Rania Foundation's Edraak program offers online courses for individuals focusing on personal finance management - leading to a greater understanding of managing finances and making more informed decisions. Alternative programs include workshops and training programs that were launched by various entities including INJAZ and the Al Judge for Scientific Care also focusing on encouraging financial literacy within the country.[29]

As per the Central Bank of Jordan's National Financial Inclusion Strategy (2018-2020), initiatives in Jordan primarily focus on five types of stakeholders: micro, small and medium-sized enterprises; women; refugees; youth; and the bottom 40% of low-income households. International organizations are also focusing on the strategy including the United Nations that offered during 2019 technical support to further expand the financial inclusion initiative in Jordan.[30]

Presently, there appears to be an uptick of support for SMEs as the Central Bank of Jordan also highlighted that there was a 10.4% increase during the end of 2018 in comparison to the prior year.[31] The sustainability of SMEs is crucial for the Jordanian economy as it embodies 98% of businesses in Jordan and covers 40% of the national GDP.[32] Since 2014, the European Union, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and German Federal Ministry for Economic Cooperation and Development (BMZ) has funded a $38 million budget support program focused on microfinance with a focus on promoting financial inclusion in Jordan. Alongside the program, GIZ provides technical assistance as part of the program.[33] Additionally, the Jordan Loan Guarantee, which was established by the United States Agency for International Development and Overseas Private Investment Corporation (OPIC), provides loan guarantees to creditworthy SMEs with eligible loan purposes including financing equipment, construction, and inventory.[34] The private sector also plays an active role by managing the Innovative Startups and SMEs Fund (ISSF) that focuses on investments for innovative startups and early stage SMEs. Contributors to the fund include the World bank ($50 million investment) and the Central Bank of Jordan ($48 million).[35]

Finally, Jordan finds it crucial to focus on the provision of accessible resources and financial services, specifically payments and remittances. For example, the Digi#ances project focuses primarily on providing access to cross-border transfers with a focus on refugees in Jordan. Additionally, during 2016, the United Nations High Commissioner for Refugees (UNHCR) and World Food Programme (WFP) initiated a partnership to introduce an iris scanning payment system for refugees in Jordan's Za'atri camp, which targeted more than 75,000 individuals, allowing individuals to process payments for basic resources including food.[36]

Morocco

The Kingdom of Morocco has a key focus on financial inclusion, as evident by the rapid developments and changes implemented. For example, eliminating the need for a minimum initial deposit to open a bank account, or launching banks in rural areas for better access. Some of their key initiatives include introducing training programs, building their digital economy, and focusing on microfinancing.

Access to Banking
16%

Access to Credit
3%

Access to Savings
6%

Digital Payments
9%

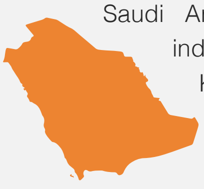
Key Initiatives

Financial institutions in Morocco are taking the lead in financial literacy by organizing training programs focused on financial inclusion. Bank Al-Maghrib, central bank of Morocco, focuses on three core areas in digital financial inclusion: payment and payment systems oversight, innovative regulatory approaches, and cybersecurity frameworks. They even launched a National Mobile Payment Strategy to help with financial inclusion given the high mobile penetration rate in the Kingdom.[37]

Working closely with the World Bank, Morocco has established a Development Policy Financing Program to promote financial inclusion by transitioning into a digital economy and focusing of MSMEs, digital platforms, and infrastructure. This will be achieved through regulatory reforms of financial instruments (conventional and Islamic), a push for entrepreneurs to develop digital solutions for better use of financial services, even reaching rural areas. The government's five year plan up to 2021 includes USD $700 million injection into the economy to drive digitalization through the private sector, instead of the economy's historical reliance on government support.[38]

Furthermore, it is known that Moroccan banks have a focus on microfinance for SMEs to improve financial inclusion. It is observed that financial inclusion rates are rising over the years; back in 2015, 50 in every 100 Moroccans had bank accounts; whereas in 2017, it had gone up to 74 accounts for every 100 Moroccans. Monetary authorities of the Kingdom are working on boosting penetration rates by focusing on banking requirements, or by increasing access for rural areas to banking services.[39]

Saudi Arabia



Saudi Arabia has documented 6.9 million unbanked individuals (28% of the adult population). The Kingdom has asserted progress in its financial inclusion progress due to the many initiatives introduced, pushing bank account ownership from 51% in 2011 to 69% in 2017. Based on the metrics, Saudi performs above the global and MENA bank account penetration rate at 87%.[40] Saudi Arabian Monetary Authority (SAMA) introduced several initiatives for banking services and digital/FinTech solutions to provide greater access for individuals across several channels. Some of the initiatives are mentioned below:

Access to Banking
54%

Access to Credit
11%

Access to Savings
14%

Digital Payments
43%

Key Initiatives

The government launched the Financial Sector Development Program 2020 as part of the Saudi Vision 2030 where the key focus is promoting and enabling financial planning, i.e. financial literacy. Some of the initiatives under the program are tailored products for home-ownership savings, education savings, investment, schemes to target to low-income segments, and others. Some of their key performance indicators highlighted are to increase their GDP contribution from 20% to 35%, and increase the bank account penetration rate to 90%.[41]

As the central bank, the Saudi Arabian Monetary Authority (SAMA) has led several initiatives with financial institutions to increase awareness on financial inclusion. The introduction of "Responsible Lending Principles for Individual Customer" in 2018 was aimed in ensuring consumer protection. Another example is SAMA's agency banking initiative that helped increase the bank account ownership.

Saudi Arabia has also initiated a FinTech initiative through the launch of digital payments in collaboration with the Digital Transformation Program 2020. With the launch of the regulatory sandbox, the government aims to launch innovative products that will facilitate the efficient deployment of financial services across the board, reaching the unbanked population.

Tunisia

Presently, the state of play for Tunisia highlights a lower middle income economy with low rates of financial inclusion at 37%, which is below the regional and global average rates previously highlighted.

Access to Banking
23%

Access to Credit
9%

Access to Savings
18%

Digital Payments
17%

Key Initiatives

In regards to increasing financial literacy, the International Labour Organization (ILO) Social Finance Programme launched for various countries including Tunisia publicly accessible financial education material that can be taught for underserved groups.[42] The manuals focus on promoting financial literacy in varied aspects including saving, borrowing, and women's participation in money management decisions.[43]

La Poste Tunisienne, which operates the local postal service, is playing an active role in promoting financial inclusion through banking services. The entity has partnered with key entities including Western Union and MoneyGram to provide international money transfer services. The unconventional methods proved to be successful as 90% of formally banked individuals in Tunisia are linked with La Poste Tunisienne highlight an approach for increasing accessibility to financial services and products for underserved groups with existing restrictions to traditional formats of banking services.[44]

Enda Tamweel, for example, is a microfinance firm that was launched in 2015 to offer financial services to stakeholders in Tunisia.[45] Key external actors are also playing an active role in promoting financial inclusion by supporting such initiatives within Tunisia.[46] For example, Citi launched a $10 million loan guarantee facility for Enda Tamweel to support more than 17,000 micro-enterprises in Tunisia. Additionally, the African Development Bank announced a $134 million loan to Tunisia to promote financial inclusion among youths with a focus on SMEs within the demographics.[47]

United Arab Emirates (UAE)

The UAE's current status highlights a high rate of financial inclusion both regionally and globally at a rate of 87% of the population above the age of 15 having access to a financial account.[48] Nonetheless, the public-private sector continues to launch initiatives targeting financial inclusion to ensure that the standard is maintained alongside upcoming technological advancements.

Access to Banking

69%

Access to Credit

19%

Access to Savings

29%

Digital Payments

67%

Key Initiatives

A prime example of encouraging financial inclusion would be through a focus on financial literacy. During 2018, the UAE Bank Federation launched a public handbook on financial literacy with the intention of ensuring that the population had access to financial knowledge.[49] The initiative is crucial as during 2019 it was calculated that only 38% of adults in the UAE are financially literate.[50]

The UAE is also conscious of promoting financial inclusion among communities with disabilities. Dubai's Emirates NBD launched Braille-enabled services to support visually impaired customers interested in opening an account through their branches. Additionally, the bank also launched key initiatives to support hearing impaired customers including the implementation of hearing loops and training staff to communicate in American Sign Language.[51]

Finally, in regards to SMEs, the Emirates Development Bank launched a $27 million scheme to support such entities in their operations and boost their commitment to the GDP to 70% by 2021. The initiative ensures that SMEs are provided the necessary funding and access to financial services as a means of sustaining the costs of operations.[52]

In regards to the drive for digitalization, the UAE is playing an active role in paving the way towards supporting the growth of the local FinTech ecosystem and beyond. Specifically, the UAE has launched specific regulations including the launch of a regulatory sandbox in two offshore sites and rules on crypto-assets and alternative lending. Additionally, both the Abu Dhabi Global Market (ADGM) and Dubai Financial Services Authority (DFSA) are part of the Global Financial Innovation Network (GFIN) highlighting an active stance in investigating and ultimately promoting cross-border operations.[53]

Barriers to Financial Inclusion

Based on analysis of the eight countries, several key challenges were highlighted that led to financial exclusivity in certain regions.

1 Access vs. Usage

Globally, one out of five accounts and two out of three mobile accounts are inactive.[54] Despite certain countries, such as Bahrain, Saudi Arabia, and the UAE having a high rate of bank account penetration rate over 50%, there is no evidence of the extent of usage of financial services.[55] Financial inclusion is truly achieved when people start making use of the available financial services; by enabling the free flowing of funds between credits and debtors.

2 Emotional and Cultural Beliefs

The MENA region is heavily influenced by religious beliefs and cultural opinions. People in general are emotionally attached to their money and due to religious reasons become cautious in the way money is used. Several unbanked individuals do not include themselves in the financial system due to religious reasons. While there are Islamic banking options, specifically within this region where Bahrain is leading the sector, as well as consumer protection legislations in place, people still find it difficult to trust the financial system. Increasing access to Sharia' compliant loans has increased loan application rates by 20%. Thus proving that the consideration of religious and cultural beliefs can help boost financial inclusion.

3 Informal Channel

Majority of the unbanked population utilise informal channels as it appears to be more embedded into the community in terms of cultural beliefs, trust, and convenience. This is a risk as there is no legal protection or certainty around these informal channels as there would be for regulated financial services, leaving the unbanked vulnerable and open to fraud.

4 Knowledge Gap

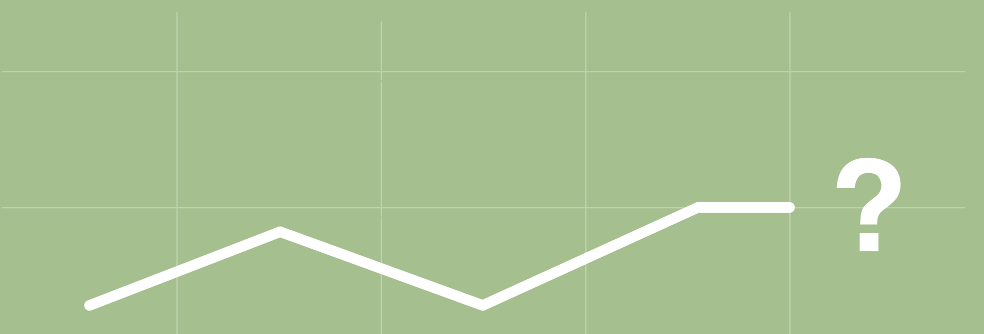
Due to legal jargon, complicated contact structures, lack of understanding of availability of financial services and which service to utilize at which point, there is an evident gap in knowledge. Examples of financial illiteracy include personal finance management, lack of understanding of credit facilities, and awareness of the availability of financial services, and investment opportunities.

5 Technology Infrastructure

It is crucial for countries to develop their technological infrastructure to ensure that the population has easy access to broadband and mobile accessibility. A high penetration rate has proven to be beneficial in key countries allowing individuals to tap into new forms of resources that can promote financial inclusion. Additionally, the cost acquiring smartphones and internet costs have gone down, thus lowering the barriers to entry. Given a developed infrastructure, companies can build and launch innovative products leading to better connectivity amongst unbanked and banked individuals.

6 Identification Documents

The lack of identification documents has appeared to be a major barrier to entry for several underserved segments, especially refugees and low-income households. Without the lack of authorized documents, individuals will be unable to utilise financial services that require numerous documents for proof of identity.



3

Looking Ahead

Looking Ahead

Enabling Financial Inclusion

The previous section highlighted the barriers to financial inclusion in the studied countries of the MENA region. Based on these findings, governments, regulators, private sector, academia, and individuals need to collectively adopt specific measures in order to increase the level of financial inclusion within the region.

A higher level of financial inclusion can only be truly achieved when individuals maximise the usage of financial services and are not voluntarily excluded from the financial services system. The report undertakes a case-by-case approach for each economy to measure and assess their level and measures of financial inclusion. While each country has their own set of challenges based on their demographics, economic situation, and financial sector development, the report has constructed a general strategy. This strategy is to be implemented across the board to eliminate barriers to financial inclusion as per the following framework:

Enabling Access	Increasing Usage	Maximize Usage	Improving Quality and Range

Enabling access

Individuals should be able to open an account seamlessly with minimum barriers. Lack of legal documentation is identified as one of the main deterrents to opening a bank account. With advanced e-kyc measures in place, banks can easily access a centralized database of identification information, thus making it easier for individuals to open a bank account. Secondly, making formal financial services readily available through agency banking to rural areas, can increase access to financial services.

Inorganic growth and usage via mandatory transactions

As usage of financial services increase at an individual/household/business level, it is important for governments to take a step in being financially inclusive by introducing nationwide initiatives. Such initiatives include having a digital payment system in place. The government-to-person (G2P) channel will make citizens actively use their bank accounts for mandatory transactions such as utility bills, taxes, and wages.

Increasing organic growth and usage

The increasing use of smartphones and high internet penetration rates can be leveraged to increase utilization of financial services through mobile phones. To support usage, a developed and strengthened technology infrastructure is required, an example would be the real-time gross settlement (RTGS) where transfers are settled accurately in real-time. Efficient mechanisms of using financial services will attract users to continuously use the available financial services and encourage others to switch to using digital financial services.

Improving quality and range of financial services

Factors to support delivering better quality and wider range of financial services starts from building an advanced technological infrastructure and financial system to the establishment of policies and legislations. Example of improving quality of service would be consumer protection regulations to establish trust between individuals and financial institutions. A strong and focused regulatory environment towards financial inclusion will help individuals venture into investment opportunities, insurance, SME and microfinancing. Example of range would be introducing crowdfunding platforms for business financing.

The framework above describes the journey through which an economy can achieve financial inclusion goals. The next section will deep dive into key areas of focus as illustrated below:

Regulations
A Catalyst for Financial Inclusion

- Transparency and consumer protection
- Convenient and economical financial services
- Initiate agent banking services
- Activate bank accounts

Digitalization
FinTech for the Unbanked

- Establish a strong technological infrastructure
- Increase use of FinTech and digital innovation

Financial Literacy
Understanding Financials

- Encourage a national agenda for financial inclusion
- Collaborative efforts to extend financial services
- Promote financial knowledge through educational institutions

Regulations: A Catalyst for Financial Inclusion

A fair and comprehensive regulatory framework can be a catalyst for financial inclusion that capitalizes on the unbanked regional population. With the entry of newly emerging alternative banking solutions including payments, digital banks, non-banking agents, the risk of banking with new entrants is high. This is due to the unconventional and non-traditional way of doing business with the new entrants and heavy reliance on technology. Therefore, several countries need to have an enabling framework that introduces legislation protecting consumers against anti-money laundering, theft, and fraudulent activities whilst maintaining an encouraging environment for support.

Transparency and consumer protection

The legacy of financial turmoil, especially since the financial crisis of 2008 has resulted in uncertainties of the risks involved in the banking industry. World Bank results revealed that 12% of the unbanked MENA population lack trust in financial institutions. The World Bank also identifies the lack of trust to be the third major reason for no financial accounts for the unbanked.[56] As transparency and full disclosure are one of the core requirements of some of the unbanked individuals, it is necessary for regulators to implement and maintain an environment of full transparency. Currently, Bahrain is the only jurisdiction in the MENA region that has introduced open banking regulations and has made it mandatory for banks to comply. Other jurisdictions will find the financial services sector driving change by implementing open banking solutions without an official mandate and APIs, such as UAE and Jordan. The implementation of open banking encourages transparency and a connected environment where data is accessed with the permission of the account holder only. Not only that, but open banking enables external third parties to connect with financial institutions and consumers in a safe environment under the regulators supervision.

Convenient and economical financial services

The World Bank highlighted costly financial institution services as the second major reason (19%) for the regional unbanked population.[57] Regulators can mandate financial institutions to be more accommodating of the unbanked by being convenient and cheaper. High minimum deposits and interest rates are deterrents of people utilizing these financial services. Initially, the infrastructure cost of running bank accounts were very high, thus banks discouraged the low-income individuals to bank with them by placing high minimum deposits as it would cost the bank more to maintain these accounts. Given the emergence of new FinTech solutions that are more affordable and convenient, it will not be easier to run and maintain accounts; thus no minimum deposits required. As a solution, lowering or in some cases eliminating the minimum depository amount can push for individuals to open bank accounts and store money with a legal entity. Moreover, microfinancing for MSMEs (Micro, small, and medium enterprises) can boost financial inclusion by considering small businesses that require minimum capital at a low interest rate to remain afloat. Currently the MENA region has approximately 3 million borrowers (nearly 2% of global microfinancing borrowers) with an aggregate loan portfolio of $2 billion.[58] Morocco and Tunisia are leading examples of developing microfinancing sector as they consistently conduct regulatory reforms for better inclusivity. At this point, Morocco accounts for 64% of the total outstanding portfolio in the region.[59] As an alternative, crowdfunding is an emerging market, specifically in the GCC, where alternative lending platforms are performing in direct competition with banks. UAE and Bahrain are amongst the few who have implemented crowdfunding regulations for both conventional and Sharia' compliant sources.

Initiate agent banking services

Individuals in the MENA region expressed in a World Bank research that financial institutions are too far away and therefore inaccessible (9%).[60] Financial institutions, particularly in under-developed and/or developing economies, can delve into agency networks to reach and provide their financial services to rural areas as a different distribution channel. Agent banking services is a quick-to-market strategy for financial institutions to scale their service via a network of third-party agents. This typically includes retailers. This option eliminates the banks' need to establish a physical presence, thus reducing cost and time taken to reach the unbanked population. As a prime example, Saudi Arabia has implemented agent banking regulations that encourage the provision of banking services at a reduced cost to foster financial inclusion, whilst ensuring full compliance and consumer protection.

Activating bank accounts

There has been a great amount of focus on providing individuals and businesses access to banking services, such as bank accounts, in order to reduce the unbanked population. However, it is equally significant for these bank accounts to remain active, i.e. individuals utilize the banking services offered. An example to encourage active use of bank accounts, the UAE was the first in the GCC to implement the Wage Protection System (WPS) where all employee salaries are paid into locally regulated bank accounts. As other GCC countries are rolling out this system, financial inclusion rates are expected to move upwards.[61] Moreover, financial institutions have several loyalty programs in place that help them retain customers and actively use their account in turn for a reward or benefit.

Digitalization: FinTech for the Unbanked

The ambition of digitalization processes, products, and services provides the MENA region with the opportunity to tap into new methods. These methods can both increase access and usage of banking services with a focus on individuals and businesses with existing limitations. As FinTech is making an appearance across various parts of the financial services value chain, it has become more accessible for individuals and businesses to make use of digitalized financial services that improves overall customer experience and convenience. The following section reviews the recommendation to refer to local technological infrastructures and the entry of FinTechs as a means of reaching financially excluded groups through accessible and easy to use platforms.

Establishing a strong technological infrastructure

A country that is interested in promoting financial inclusion through digital channels needs to primarily review its technological infrastructure, i.e. network connectivity, cloud infrastructure, etc.. Following the review of the case studies in the past sections in this report, a key enabler in some cases is the establishment of a solid technological foundation that includes high broadband and mobile penetration rate.

A high rate of access to broadband and mobile encourages accessibility on a digital front when there are physical restrictions including citizens based in rural areas, as well as the younger population expecting a better customer experience and engagement. In order to deliver such market demand to underserved groups, it is important for countries to focus their resources in driving digital transformation - towards a seamless, agile, accessible financial services sector. The MENA region has a high share of young individuals (ages 0-24), nearly half of the MENA region's population, as well as a high mobile penetration rate of 64% during 2017.[62,63] This status iterates that there is massive opportunity for FinTechs to target the market.

Ultimately, the development of local technological infrastructures can ensure that non-traditional methods are considered and accessible to promote financial inclusion, including through the entry of various FinTechs. While access to the network is important, it also needs to be financially accessible. The cost of acquiring the internet needs to be affordable in order for users to make use of the infrastructure.

Increasing use of FinTech and digital innovation

As a result of the rise in digital innovation, technology has integrated with financial services to develop competitive software and applications delivering services and products that are more transparent, efficient, and automated. Through the adoption of key technologies, financial services can be accessed by a wider population in various ways. The ultimate purpose of developing FinTech solutions and digitalization of the existing processes of financial services is to make it more affordable, accessible, convenient, and online. Key examples that can promote financial inclusion include but are not limited to the following:

Mobile money

While some financial institutions are working on digitizing their existing products and processes, mobile money has started to play a bigger and more important role in and individuals' life. Recognized as a powerful instrument, the simplicity of mobile wallets and applications has made it easier to be financially inclusive as individuals with limited access can now use such services and become part of the financial services. Mobile wallets typically require a bank account to be connected to; thus enabling users to not only open bank accounts but to also actively use their account for day-to-day transactions through their wallets.

Blockchain for identity management

The implementation of blockchain technology can support initiatives aimed at promoting financial inclusion. One application could be a decentralized mechanism for identity management. The lack of identity documents is one of the primary reasons for people not having bank accounts. Blockchain's identity solution tools enable information to be stored securely within the blockchain network. Given the high mobile and internet penetration rates, it will become considerably easier to open an account through a phone. A prime example would be the 2017 Building Blocks program by the World Food Program (WFP) that utilized blockchain technology for humanitarian efforts targeting 100,000 refugees in Jordan. The technology allows for individuals without government identity documents and bank accounts to be stored within the system and provide a digital wallet to purchase necessities.[64] Another example in Tunisia would be the new national payment infrastructure based on cryptocurrencies. Tunisians can pay their bills, as well as manage their legal documents through the crypt-transaction platform.[65]

Digital remittances increasing volume

Remittances remain a popular route for the demand for access to financial services with the healthy flow of finances from migrant workers to their home countries as more people choose to pursue employment outside of their home country. Therefore, innovation and digitalization is fundamental for providing seamless and highly accessible for cross-border transfers An example of a country with a high concentration of remittance activity would be the UAE with the value reaching $46 billion in

2018, owing to the large population of expatriates sending money back home.[66] The implementation and access to mobile remittance applications can promote the ability for individuals to easily transfer money without physical restrictions, including those based in rural areas, and lack of access to traditional bank accounts. There have been several success stories outside of the MENA region that have successfully reduced the financial exclusion rate through online and mobile platforms of payment and connectivity. An example would be M-Pesa launched in Kenya (2007) that creates opportunities for small businesses, and plays a significant role in reducing poverty. The digital availability of transferring money, paying bills, taking small loans, and other facilities, led to 277 million mobile-money accounts in sub-Saharan Africa, which is more than the total number of bank accounts. This shows that digital platforms can go a long way in attracting the unbanked population due to its ease of use and online availability.[67]

Alternative lending channels

Individuals have been known to lack trust in the financial system as it is highlighted as one of the major concerns for not banking with financial institutions. Secondly, small businesses struggle in securing funding for their business given their high risk levels. These challenges are then translated into high rates of financial exclusion. Digital channels and online marketplace platforms eliminate these challenges as businesses can secure funding through crowdfunding, peer-to-peer lending and neo-banking channels. These platforms make the economy inclusive towards small businesses and alleviates their funding challenges. During 2018, the global crowdfunding market was valued at USD$ 10.2 billion.[68]

Financial Literacy: Understanding of Financials

Financial literacy concerns an individual's ability to make informed and effective decisions with regards to existing financial products and services based on their awareness and knowledge of such resources. In most countries, there still remains a proportion of the population that remains excluded from financial services mainly due to their lack of awareness and comprehensive understanding about available regulated financial services. Increasing financial literacy can contribute to people making more informed financial decisions.

A study by the Organisation for Economic Co-operation and Development (OECD) showcased a correlation between financial literacy and financial inclusion. The study revealed that people who were aware of more financial products and services, had higher usage rates of services than those who were less aware.[69]

It is vital for educational institutions, governmental bodies, and financial services entities to collaboratively develop programs promoting financial literacy especially for underserved populations such as those in rural areas or low-income groups who cannot afford financial education.

Encourage a national agenda for financial inclusion

It is vital that governments adopt national agendas that focus on promoting financial literacy and inclusion. Additionally, a unified drive between government and private sector entities helps in addressing voluntary and involuntary exclusion by creating awareness of the availability of different options such as Islamic banking for groups with religious concerns. Such awareness can be achieved by reaching out to excluded communities and promoting products available within a country such as digital banking or payment platforms that enable individuals to be banked remotely.

Collaborative efforts to extend financial services

Through joint initiatives between government entities, FinTechs and financial institutions, accessibility of financial services to rural areas and underserved groups will be made easier through a unified approach. As seen in Bahrain, the collaboration between a financial institution and FinTech provider gives unbanked employees access to financial services.

Promote financial knowledge through educational institutions

Encourage educational institutions to introduce programs or courses with the objectives of spreading greater awareness and better educate excluded groups including those living in remote areas, women and the younger generation. Thus ensuring that such target groups gain a better understanding of different financial services options and personal finance management; making it easier to adopt these services.

Conclusion

The MENA Financial Inclusion Report aims to act as a reference point for the promotion of financial inclusion in the MENA region to help reach global benchmarks. While the MENA region highlights various barriers to entry for the underserved segments, numerous opportunities for financial inclusion initiatives have also been identified. As highlighted in the previous sections, three primary pillars; regulation, digitalization, and financial literacy, need to be identified as key drivers within each nation to ensure the growth of financial inclusion and overcome social and technological barriers.

Today, smartphones are becoming increasingly available at a cheaper cost, and technological infrastructure is developing at a rapid pace; thus enabling financial inclusion. Not only that, but governments are becoming increasingly aware of the significance of financial inclusion related initiatives. It is recommended to follow the strategic framework of access, use, scaling, quality, and range of financial services.

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