The reality of financial inclusion in the Arab countries and the role of financial technology in promoting it (country experiences)

ABDERRAHIM LEILA[1]	BELDJILALI FATIHA
Ibn khaldoun university-TIARET- (Algeria)	Ibn khaldoun university-TIARET- (Algeria)
Leila.abderrahim@univ-tiaret.dz	*Fatiha.beldjilali@univ-tiaret.dz*

Received: 07/03/2022 ***Accepted: 19/05/2022*** ***Published: 30/06/2022***

Abstract :

This study aims to highlight the importance of financial inclusion in promoting economic growth and the stability of the financial system, while standing on the reality of financial inclusion in a group of Arab countries and the role of financial technology in promoting it, by analyzing financial inclusion indicators and highlighting the role of financial technology companies in providing many financial services and their contribution to Supporting economic diversification efforts and policies.

We adopted the analytical approach using a number of forms to illustrate the development of indicators of financial inclusion and financial technology techniques used in the Arab countries, and concluded the need to adopt a comprehensive strategy aimed at relying on digital payments and financial technology as a main tool to enhance financial inclusion and the transition to a non-monetary economy, by modernizing the communications infrastructure. And preparing a law to develop non-cash financial transactions under the umbrella of central banks, in addition to approving regulatory frameworks that achieve integration between information and communication technology and the financial sector.

Keywords: financial inclusion, economic growth, financial system, financial technology.

JEL classification codes: B26 ; O40 ;F36 ;F65 ;G17 ;P40.

[1] ***Corresponding author, ABDERRAHIM LEILA***

Introduction

Many countries seek to enhance financial inclusion by increasing access to financial services for individuals and low-income companies as part of their comprehensive strategies for economic and financial development. Financial inclusion means that individuals and companies have access to useful and affordable financial products and services that meet their needs such as transactions. Payments, savings, credit and insurance are provided to them in a responsible and sustainable manner.

Providing financial services makes everyday life easier and helps families and businesses plan for everything from long-term goals to unexpected emergencies.

The improvement in financial inclusion worldwide is due to banking technological innovations or what is known as financial technology, through the development of digital solutions and the expansion of payments via mobile phone and the Internet, and the adoption by governments of payment systems for salaries, pensions and social security benefits through bank transfers.

From the above, the following problem can be posed:

What is the reality of financial inclusion in the Arab countries, and what is the importance of financial technology in promoting it?

- Research hypotheses:

To answer the research problem, the following hypotheses can be formulated:

- Financial inclusion contributes to stimulating economic growth and achieving financial stability;

- The level of financial inclusion in the Arab countries reflects the size of the efforts made to that end.

- Fintech companies in the Arab countries contribute to bridging the financial inclusion gap.

- Research importance:

The importance of the research comes from the rising global interest in the subject of financial inclusion in the light of what international experiences have proven that financial inclusion enhances financial stability, and also contributes to economic growth and works to raise financial efficiency as well as improving the living conditions of members of society, especially the poor among them, and it is of great importance It is related to the growth of financial technology investments in the Arab countries in recent years and its importance in providing many financial services.

- Research aims:

Shedding light on the role of financial inclusion in enhancing financial stability and stimulating economic growth, presenting indicators of financial inclusion in the Arab countries, and shedding light on mechanisms for achieving financial inclusion through a clear strategy in light of financial inclusion standards and controls.

The research also aims to highlight the pivotal role of financial technology companies in providing many financial services that lead to improving the role of these institutions in supporting economic diversification efforts and policies.

Research Methodology: In line with the nature of the research and its objectives, the descriptive approach was relied upon to understand the aspects related to financial inclusion, while the analytical approach was employed in analyzing financial inclusion indicators, analyzing the reality of financial technology, and identifying the level of financial inclusion in Arab countries and the reasons for its decline compared to the rest of the world.

- Structure Search:

*The concept and objectives of financial inclusion;
*The reality of financial inclusion in the Arab countries;
* Financial technology techniques used in Arab countries with reference to international experiences.

I. The concept of financial inclusion and its objectives:

1- The concept of financial inclusion: Financial inclusion, or what is known as financial inclusion, is a term given by many definitions, most notably:
Financial inclusion is the ability of individuals and companies to access useful and affordable financial products and services that meet their needs and that are provided in a responsible and sustainable manner, as defined by the World Bank in 2008 (world bank, 2018).
It is the provision of financial services to the deprived sectors of society at the appropriate time (ramji, 2009, p. 6)
The World Bank defines financial inclusion in its 2014 report on financial inclusion indicators as “the proportion of the population that uses financial services out of the total population.” Financial inclusion has multiple dimensions that reflect a variety of possible financial services such as accounts payable, savings, credit, insurance and pensions, which It can be offered differently to individuals and companies (world bank, 2014, p. 15)

The OECD and the International Financial Education Network (INF) define financial inclusion as: “The process by which access to a wide range of formal and controlled financial services and products is enhanced in an adequate and reasonable time and price, and the use of these services is expanded and products by different segments of society through the application of innovative approaches that include financial awareness and education in order to enhance financial well-being and social and economic integration (Arab Monetary Fund , 2016, p. 2).

From these definitions we conclude the following:

- Financial inclusion means that a customer has access to a range of formal financial services, from simple credit and savings services to more complex financial services such as insurance and pensions.
- Financial inclusion means that clients have access to more than one provider or grantor of financial services, ensuring a variety of competitive options.

2- Reasons for moving towards financial inclusion: The reasons for the state’s interest in the financial inclusion process are due to:

- The Central Bank's study of the experiences of some countries, which emphasized the importance of financial inclusion.
- Compatibility with the state's orientations represented in: the greatest interest in the poor and marginalized, and micro, small and medium enterprises.
- Improving the country's economic conditions by making use of its unused internal resources.
- Adopting a sustainable development strategy, for which financial inclusion is one of the pillars of its achievement.

3- Financial Inclusion Objectives:

Due to the global interest in expanding the scope of financial inclusion and creating alliances between global financial institutions and bodies to coordinate and work within common and unified mechanisms, the benefits derived from financial inclusion are growing, as the Consultative Group to Assist the Poor believes that building an inclusive financial system is the only way to reach the poor and low-income in order to achieve the goals of inclusion the following financial (Dieme, 2020, p. 4):

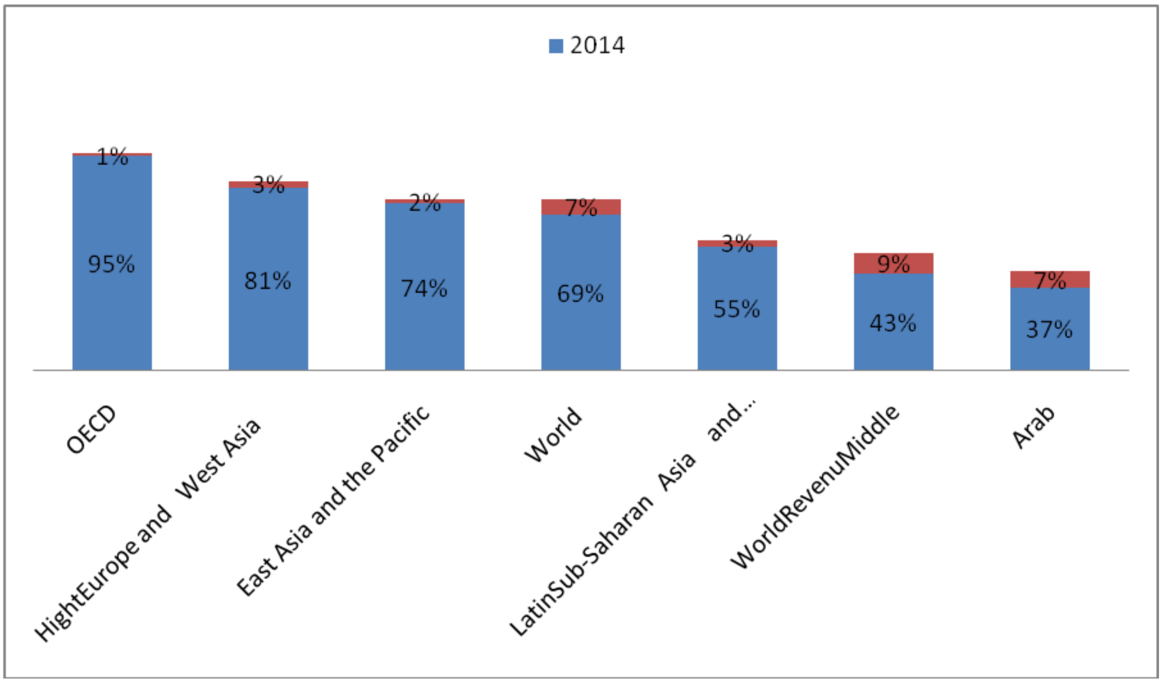
- Enhancing the access of all segments of society to financial services and products to educate citizens about the importance of financial services and how to obtain them and benefit from them to improve their social and economic conditions;
- Facilitating access to funding sources with the aim of improving the living conditions of citizens, especially the poor;

- Promoting entrepreneurship and economic growth;
- Enabling small and medium-sized enterprises to invest and expand;
- Reducing poverty levels and achieving prosperity and economic well-being.

II. The reality of financial inclusion in the Arab countries:

1- Ownership of an official bank account: The Arab region still has the lowest levels in the world in terms of financial inclusion, as only about 37% of adults in Arab countries own bank accounts, i.e. about 160 million Arab people or 63% of adults are excluded from services Official finance and finance. Despite the noticeable increase in account ownership in most Arab countries between 2011 and 2017, we find a great discrepancy between countries. In 2017, the percentage of account ownership was remarkably high in the United Arab Emirates, Bahrain, and Kuwait at 87%, 83% and 80%, respectively, while this figure does not exceed 25% in Yemen, Djibouti, Sudan, and Mauritania. Comoros , Iraq, and Syria. Noting that the Fintech sector has formed over the past years a revolution in the field of global and Arab financial systems, as it has come to meet many needs and services related to various financial operations in advanced ways that greatly compete with traditional financial services in terms of speed and cost.

Figure 01: Percentage of citizens who own an official bank account and are over 15 years old in the periode 2014/2017



Source : World Bank, financial inclusion,2017, p11.

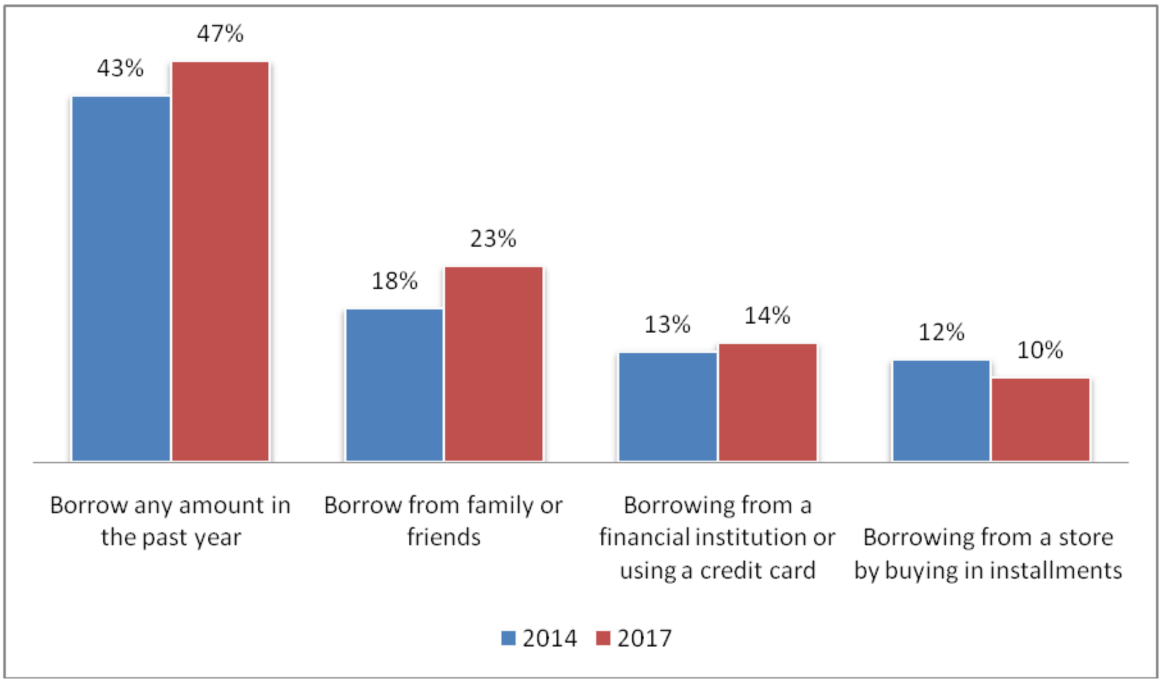
Statistics also indicate that 79% of young people aged between 15 and 24 years in the Arab region do not have bank accounts in any official financial institution, which is the lowest rate in the world. 27.7 % of adults in the poorest 40 % of families in the Arab world have bank accounts, compared to 43.4 % in the richest 60 % of families, which reflects inequality in access to formal financial services among society groups according to income. Arab women still suffer from clear exclusion in banking and financial transactions. Despite the increase in the financial inclusion rate among women from 13.8 % in 2011, only about 25.6 %of women still own bank accounts (which is the lowest percentage in the world), compared to 48.3 % of women Men (world bank, 2014), which reflects a large gap in financial inclusion rates between the sexes, amounting to about 23%, meaning that Arab women's chances of owning a bank account are 23 percentage points less than men's. In rural areas, the percentage of account ownership increased from 11.2 % in 2011 to 18.7 % in 2014 and 27.8% in 2017, but it is still the lowest percentage around the world.

In addition to the gap between males and females in owning accounts, the gap between the highest and lowest incomes, and the gap between residents of cities and rural areas, there is another gap related to the level of education. The ownership of a bank account for those with primary education only does not exceed 26.5%, while it reaches 48.7% for those with primary education. Secondary education in the Arab world, which reflects the importance of culture in general and financial awareness and culture in particular, when opening bank accounts and participating in the formal financial sector.

The Arab countries have recorded a remarkable improvement in the rates of financial inclusion among women, especially in Saudi Arabia, where account ownership among women increased significantly from 15.2 percent in 2011 to 58.2% in 2017, in the UAE (from 47.2 percent to 76.4%), and in Bahrain (from 47.2 percent to 76.4%). (48.8 % to 75.4 %), and in Egypt (from 6.5% to 27 %). On the other hand, women still suffer from financial exclusion in Yemen, Djibouti, Sudan, Mauritania, Palestine, Morocco and Iraq, where less than 20% of women have accounts in formal financial institutions, and this percentage drops to less than 2 percent in Yemen. The gender gap persists in the issue of financial inclusion as a result of males owning accounts almost twice as much as women in most Arab countries, where Arab women in general still suffer from more difficulty in accessing formal financial channels than men, as a result of structural barriers (including legal restrictions), regulatory obstacles (know your customer requirements), and thus lack the basic financial tools needed for asset ownership and economic empowerment.

2- Borrowing from official financial institutions or via credit cards: The Arab region ranks last in the world in terms of borrowing from official financial institutions. Although 39% of adults in the Arab countries obtained loans, only 8% of them borrowed from an official financial institution or with a credit card, compared to a global average of 22.5 percent. It should be noted that the percentage of borrowing from an official financial institution has decreased in The Arab world compared to 2014, despite the efforts of Arab banks and central banks to stimulate bank lending, especially for small, medium and micro enterprises.

Figure 02: Percentage of borrowers from official financial institutions or credit card users over 15 years old



Source : World Bank, financial inclusion,2017, p20.

The percentage of borrowing in the Arab countries is still below the level despite the slight improvement estimated at 4% in 2017 compared to 2014 (from 43% to 47%), only 30% of this percentage represents borrowing from a financial institution or using a credit card, which indicates that individuals They prefer to borrow outside official channels. At the level of countries, the Gulf countries remain superior compared to the rest of the Arab countries. The UAE ranked first, followed by Bahrain and Kuwait. Only Algeria recorded the lowest rate of borrowing, due to the increasing rise in interest rates.

It is worth noting that in all Arab countries without exception, the percentage of male borrowers exceeds the percentage of female borrowers, which indicates that women suffer from access to financing opportunities through official financial channels and financial exclusion more than men.

In this context, universal financing and equal access to credit among all segments of society help to address the phenomenon of poverty and inequality in the Arab region. Despite the need for the poor to borrow more for the purpose of education and consumption, Table 8 shows that the richest 60% of the population borrow more from an official financial institution than the poorest 40% in all Arab countries, and this may be due to the high risks associated with the poor borrowers' lack of real guarantees such as land Real estate in case of default. Accordingly, the Arab region is the only region in the world where poverty has increased since 2010, in addition to the fact that persistent inequality makes it difficult to achieve inclusive and sustainable economic growth that limits the exacerbation of poverty.

3- Financing Small and Medium Enterprises in the Arab World:

Within this framework, small, medium and micro enterprises are the main driver of job creation, income generation and economic growth, and play an important role in alleviating poverty and achieving sustainable development goals. Obtaining financing from official financial institutions remains one of the biggest challenges facing small, medium and micro enterprises in the Arab region, as available statistics indicate that the share of small and medium enterprises from bank financing in Arab countries does not exceed 9.7% of total bank credit, according to a study. The Arab Monetary Fund issued in 2017, compared to 8% in 2014, according to a statistical study carried out by the World Bank in cooperation with the Union of Arab Banks. The share of small and medium-sized enterprises in bank financing ranges between 34% in Morocco, 16% in Lebanon, 14% in Palestine, 11% in the UAE, and below 10% in Bahrain, Jordan, Tunisia, Sudan, Kuwait, Saudi Arabia, Mauritania and Egypt. These numbers indicate that the biggest challenge facing small and medium enterprises in the Arab world is the difficulty of obtaining bank financing, and therefore Arab banks should attach greater importance to this vital sector, which constitutes a huge investment and financing opportunity for them.

In the past few years, small and medium-sized companies in some Gulf countries witnessed stumbles due to the slowdown in economic growth due to the drop in oil prices. In the UAE, statistics from the Khalifa Fund at the end of 2017 show that about 50%-70% of financing applications submitted by small and medium-sized enterprises are rejected by traditional banks. Thus, loans to

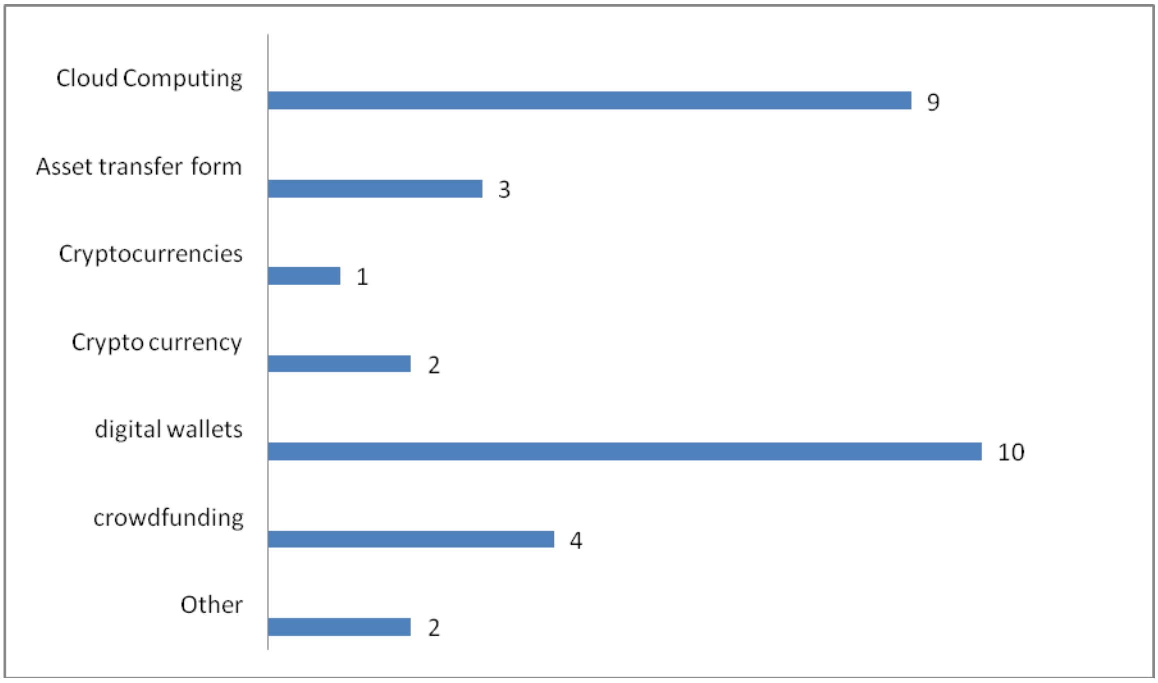
SMEs represent only 44% of existing bank loans in the UAE. In Egypt, the data of the Central Bank of Egypt showed that its policies stimulating the expansion of lending to small customers helped the growth of the share of small and medium enterprises in total loans, as the data showed that the share of small and medium enterprises in total loans amounted to about 8% by the end of 2017 (chehade, 2017).

In recent years, the Arab countries have tended to adopt digital transformation strategies according to comprehensive visions that include among its objectives the availability of financial services electronically, the provision of government services through the digital payment system, and the encouragement of the role of financial technology companies, but despite the efforts made, they face many challenges, including the need to Legislative development, low levels of financial education, and risks threatening cyberspace.

III. Financial technology techniques used in Arab countries with reference to international experiences:

1- Fintech technologies used in the Arab countries: Fintech startups in the Arab countries have invested in payments, remittances, insurance technology, direct lending operations, digital banks, crowd funding funds, block chain and crypto currencies, but most of them are concentrated in the field of payment, as the 85% of FinTech companies work in payments, remittances and migrant remittances. In the United Arab Emirates, the remittances of immigrants, who represent more than 90% of the population, amounted to more than 44.5 billion dollars, about 75% of which were transferred through money transfer companies, a quarter of which were transferred through banks (michael, 2019, p. 6). In a survey conducted by the Arab Monetary Fund, which included 14 countries, it revealed that Most countries have three digital technologies that have been adopted, and cloud computing and digital wallets were the most common technologies adopted in the Arab countries, and in conjunction with the efforts made by banks to change the infrastructure to keep pace with modern financial technologies, the trend towards employing computing in financial applications increased due to its ability to provide The tools that companies need in order to develop applications and provide new solutions to the market at the speed requested by customers. The survey also indicated that there are 12 countries that use at least one financial technology. Crypto currencies, digital currencies and the financial asset transfer model are among the new technologies that have not yet been applied in most Arab countries .

Figure 3: Fintech technologies used in Arab countries



Source : Arab Monetary Fund, Arab Financial Stability Report, October 2019, p 165.

Through this figure, we note that there are 10 Arab countries that implement digital wallets and 9 countries that apply cloud computing, while only four countries apply crowd funding technology and three countries apply the financial asset transfer model or what is known as the block chain, and only two countries adopt digital currencies and only one country currencies Bahrain is the only country that has adopted five of the six listed technologies and has included the Financial Asset Transfer Model as the only technology not yet used in the country.

The United Arab Emirates applies four technologies, except for crypto currencies and digital currencies. In contrast, Egypt, Tunisia and Lebanon only apply one technology.

The average value of transactions in the financial technology sector in the Arab countries between 2015 and 2019 was estimated at about $1.8 million, and the financing of financial technology projects was close to 7% of the total financing of emerging projects in the Arab countries between 2015 and 2019 (Arab Monetary Fund, october2019, p. 167). This situation reflects the possession of countries that apply technology technologies Finance The most advanced incubating environments for emerging companies, which were made possible thanks to a combination of governmental and national factors, the involvement of the private sector, a good level of culture and political stability. And foreign investors , in addition to the lack of confidence in the traditional banking systems, which prompted the development of mobile payments solutions and the widespread use of the mobile phone, in addition to the spread and expansion of the use of the Internet and electronic payment services.

The Arab countries ranked second in the world in terms of the fastest economies in adopting the Internet during the period 2014-2018, and the rate of Internet penetration to the Arab Gulf countries was estimated at 21% during the same period, and these countries recorded a growth rate in digital payments estimated at 31%, which is higher than the average On the other hand, these companies arose in a framework of competition with banks that use digital technology to move to more customer-centric business models, and financial technology ranked first as the most invested industry before E-commerce with the number of deals estimated at 97 deals between 2018 and 2019, compared to 84 deals in e-commerce and 65 deals in transportation and delivery (mina fintech venture report, 2019, p. 7)

2- Global experiences in the impact of financial technology on promoting financial inclusion:

According to World Bank statistics, the experiences of the countries below show the impact of financial technology on financial inclusion (diniz, 2012, pp. 484-494):

- In Tanzania, the proportion of adults with transactional bank accounts more than doubled, from 17.3% in 2011 to 39.8% in 2014, thanks to electronic financial services.

- India's focus on digital identity cards was an influential factor in the addition of 200 million new bank accounts.

- In Brazil, electronic payment cards have reduced the cost of social transfers under the Family Portfolio CCT program to less than 3% of total payments.

- Ali Finance, a spin-off of Chinese e-commerce company Alibaba, serves tens of millions of customers, issues credit ratings, and decides on the spot whether to make microloans based on the digital fingerprints of applicants.

- Brazil, Mexico and Turkey are digitizing government-to-people payments (salaries, social benefits, etc.), while India has invested heavily in building critical digital infrastructure, including making digital national ID cards.

- The most prominent development in the field of financial technology at the global and Arab levels has taken place in the field of digital payments, but there is still much to be done in order to expand the scope and framework of digital financial services to include loans, savings, insurance and money transfer.

Governments of Arab countries should adopt a comprehensive strategy aimed at relying on digital payments and financial technology as a main tool to enhance financial inclusion and the transition to a cashless economy, by modernizing communications infrastructure, preparing a law to develop non-cash financial transactions under the umbrella of central banks, in addition to approving regulatory frameworks Achieving integration between information and communication technology and the financial sector.

IV. Conclusion:

Financial inclusion constitutes one of the important challenges that our country is keen to raise at the present time, in order to integrate low-income people and even marginalized and vulnerable groups into the digital banking system in the future, as experts believe that adopting financial inclusion resulting from digital financial services will inevitably give a strong impetus to growth The economic situation, and that the current conditions have become necessitated by this, considering that the world in the Corona crisis and the post-pandemic will be completely different from what it was before the emergence of the virus, and will even impose new mechanisms and methods in financial transactions, away from traditional or classical methods.

The Arab countries are considered countries that are open to the developments and innovations of the global financial environment, which has witnessed significant developments in recent years. Society.

In order to enhance the growth and development of financial inclusion in these countries, the study recommends the implementation of broader and deeper reforms in most of these countries, including upgrading the infrastructure, improving the quality of financial services provided, modernizing the financial system, in addition to maintaining a stable macroeconomic environment. The most important measures required can be clarified. Following them to expand the use of digital technology services, which will develop and enhance financial inclusion in these countries:

- Spreading a culture of digital technology at the level of individuals and companies at all levels;
- Supporting digital transformation to expand and include small and medium enterprises;

- Develop digital platforms to serve individuals, businesses, and government agencies in all sectors including healthcare, education, commerce and transportation;
- Creating innovative financial tools to deploy digital infrastructure in areas that suffer from a lack of technological financial services;
- Strengthening the legal and legislative framework related to the protection of funds, the fight against electronic crime and information security to protect the rights of all parties involved in the field of financial technology.

V. Bibliography List :

- world bank. (2014).

- *world bank*. (2018). Récupéré sur http://www.worldbank.org/en/topic/financial inclusion/overview.
- world bank. (2014). *financial inclusion.* global financial development, washington.
- Arab Monetary Fund. (october2019). *Arab Financial Stability Report.*
- Arab Monetary Fund . (2016). *financial inclusion.*
- chehade,n. (2017). t*o the future and back:financial inclusion in the arab world.* Consulté le 08 28, 2021, sur http://www.cgap.org/blog/future and-back-financial-inclusion-arab-world
- Dieme, m. (2020). *determinants de l'inclusion financiére dans l'UEMOA.* Consulté le 07 28, 2021, sur https://www.researchgate.net/publication
- diniz, e. b. (2012). triggers and barriers to financial inclusion: the use of ICT-based branchless banking in an amazon country. *electronic commerce research and applications , 11*.
- michael, m. a. (2019). *the rise of fintechin the middle east,an analysisof the emergence of bahrainand the united arab emirates*. milken institute.
- mina fintech venture report. (2019).
- ramji, m. (2009). financial inclusion in Gulbarga:finding usage in access. (i. f. research, Éd.) (26), p. 06.