



مبادرة الشمول المالي  
للمنطقة العربية  
FIARI | Financial Inclusion for  
the Arab Region Initiative

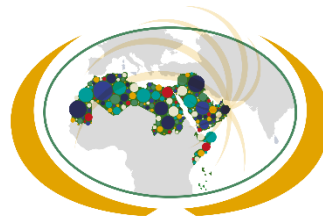
# Financial Inclusion for the Arab Region Initiative (FIARI)

## Annual Report 2020



**Annual Report 2020**

**Financial Inclusion for the Arab  
Region Initiative**



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## Preface

The publication of this report highlights the Financial Inclusion for the Arab Region Initiative (FIARI) for 2018 according to the strategy priorities and financial inclusion programs in the Arab region. The initiative has proven its effectiveness and its close connection with policymakers and legislative authorities in the Arab countries, in order to establish and build synergies and partnership with the public and private sectors, thereby enhancing financial inclusion in the region's sustainable economic development.

The Arab region is well positioned to take solid steps in terms of financial inclusion. Policymakers and regulatory authorities have embarked on a campaign of qualitative and important reforms to support financial inclusion, particularly access to and use of formal finance for 63% of citizens over the age of 15, as well as the corporate sector.

The initiative has fostered dialogue, coordination, and regional cooperation among the parties through the organization of forums where knowledge, learning programs, peer-to-peer experiences, capacity-building, and study methodologies are shared.

The involvement of Partners of the Financial Inclusion for the Arab Region Initiative and their participation in strategic areas, including data dissemination systems, financing micro, small and medium-sized enterprises, Fintechs, and other areas, has helped to enhance financial inclusion on a national and regional scale in line with the objectives of innovation, integrity, stability, and protection policies. Moreover, and to respond to COVID-19 crisis, the Initiative has intensified its efforts to support Arab Central Banks in overcoming the immediate impact of the crisis on small business and household. In this regard Starting from April 2020 and in light of the Covid-19 crisis, the Arab Monetary Fund (AMF), in cooperation with its partners in the Financial Inclusion for the Arab

Region Initiative (FIARI), organized a series of virtual meetings for the directors of financial inclusion, payment systems, financial infrastructure and financial consumer protection departments of Arab central banks and Monetary Authorities, covering the implications of Covid-19 on financial services and financial inclusion in the Arab countries, and the need to strengthen and accelerate the transition process for digital financial services.

These meetings provided an opportunity to exchange experiences and opinions on accelerating developments regarding the impact of the Covid-19 on financial inclusion and financial services, the safety and efficiency of payment and settlement systems and payment tools in the Arab countries and globally, and about related developments and their trends and appropriate current and future policies, and the

role of regulatory and supervisory authorities in mitigating risks. These consultations have concluded led to stress two main financial inclusion related priorities for the Arab region, namely, promoting an environment that support the availability of liquidity for financial institutions to continue funding small business and vulnerable families and accelerating the digital financial transformation, where a regional approach has been developed and endorsed.

The Arab Region is embracing initiatives that support financial inclusion, including the Fintech regional working group, women's financial inclusion initiative, responsible financing initiative for customer protection. These initiatives provide the program for work and the necessary requirements to ensure the consistency and complementarity of ongoing efforts. The Arab Central Banks and Monetary Authorities are making significant efforts to reach young people, women and low-income groups who do not have access to official financial services in the Arab region.



## 1. Financial Inclusion for the Arab Region Initiative

Arab countries have recognized Financial Inclusion as a key policy objective to stimulate socio-economic wellbeing, equality, and shared prosperity as well as to strengthen financial stability. Accessible, appropriate, and affordable financial services can enable the unbanked 63 percent of the region's population to enter the formal economy and contribute to and benefit from sustainable development in accordance with the UN Sustainable Development Goals (SDGs).



Multiple efforts have been undertaken by Arab financial regulators and the Arab

“FIARI is a key driver in promoting financial inclusion, translating the willingness of the Arab Monetary Fund to strengthen technical assistance and capacity development in support of member countries and their efforts in making financial services available to all Arab societies.”

**His Excellency Dr. Abdulrahman A. Al Hamidy**  
Director General Chairman of the Board of Arab Monetary Fund

Monetary Fund (AMF) to spearhead Financial Inclusion in the Arab region. The Council of Arab Central Bank and Monetary Authority Governors initiated the establishment of the regional Financial Inclusion Task Force (FITF) in 2012 as the main mechanism to support policymakers and regulators in addressing financial inclusion issues and in 2016 it endorsed the Arab Financial Inclusion Day taking place

annually on April 27.

The Arab Monetary Fund (AMF), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the German Ministry for Economic Cooperation and Development (BMZ), and the Alliance for Financial Inclusion (AFI) established under the auspice of the Council of Arab Central Banks and Monetary Authorities' Governors the Financial Inclusion for the Arab Region Initiative (FIARI). The World Bank joined as partner. The Initiative was launched

“As we show the will to join forces under FIARI and foster knowledge, we reinforce our commitment to financial inclusion and thus to addressing some of the region's most urgent challenges such as youth unemployment and women's economic exclusion.”

**Ms. Ute Klamert, GIZ's Head of Europe, Mediterranean and Central Asia**

“FIARI will enable us to engage in the region, to learn from one another on important issues such as financial inclusion for forcibly displaced persons, women's financial inclusion but also SMEs finance. These are important issues and regulators can make a difference.”

**Dr. Alfred Hannig, AFI Executive Director**

on September 14, 2017 during the AFI Global Policy Forum held in Sharm El Sheikh, Egypt in the presence of Arab Central Bank Governors.

FIARI supports financial inclusion policies for expanding the access to appropriate financial services for the underserved and

excluded citizens and businesses. The Initiative covers:

- Financial inclusion strategies and data
- Women's financial inclusion
- Financing of micro, small, and medium enterprises (MSMEs)
- Startup financing
- Financial Technology and Digital finance

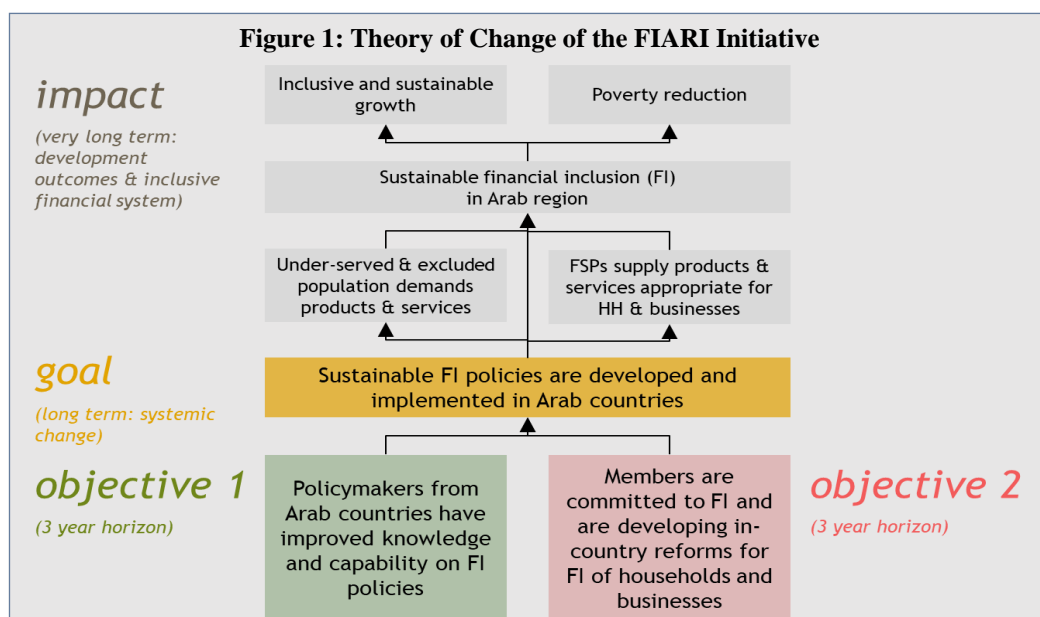
- Agricultural Finance
- Green finance
- Microfinance
- Financial market infrastructure
- Responsible finance, consumer protection, and financial education.

At the regional level, the Initiative bolsters peer-to-peer learning, training, and knowledge exchange among policymakers, regulators, and other sector stakeholders. At the national level, the Initiative supports country-specific programs, coordination, and technical assistance or advisory services.

“FIARI is important for accelerating knowledge about what works in financial inclusion and bringing together key partners in financial inclusion policymaking based on Arab countries’ needs. Financial inclusion is a catalyst for achieving the World Bank’s goals of ending extreme poverty and boosting shared prosperity. Universal financial access requires access to accounts for all adults by 2020.”

**Mr. Jean Pesme, Practice Manager, Finance Competitiveness and Innovation, World Bank.**

The Initiative’s long-term goal is that policies for sustainable financial inclusion of Arab societies are developed and implemented in view of contributing to inclusive, long-term growth and shared prosperity in the countries of the region in alignment with the SDGs. It aims at (1) improved knowledge and capability of financial inclusion policymakers and (2) committed members engaging in reforms (see Fig 1).



Financial policymakers and regulators in the Initiative:

- Share lessons from financial inclusion policy and regulatory reforms with peers from the region and beyond.
- Enhance implementation of national financial inclusion policies.
- Partake in high-level dialogue for guidance and coordinate development of financial inclusion policies for addressing regional challenges.

The Initiative has so far yielded a series of capacity building programmes, high-level policy conferences, peer-learning fora, in-country missions, the development of methods and tools, and knowledge products. Outcomes are based on demand of Arab policymakers and regulators who work at the forefront of financial inclusion.

The organizations behind FIARI are coordinating through an Executive Committee that sets the annual workplan in consultation with the FITF group, while day-to-day activities are managed with the support of the Technical Secretariat hosted at the AMF.

## **2. Financial Inclusion Strategies in the Arab Countries**

### **2.1 Workshop on “Building and Implementing National Financial Inclusion Strategies”**

On November 24, 2020, the AMF organized a "Remote" workshop on “Building and Implementing National Financial Inclusion Strategies” in the Arab countries in cooperation with the AFI, the World Bank and GIZ. Senior Professionals involved in the preparation and implementation of national financial inclusion strategies in Arab Central Banks and Monetary Authorities as well as other relevant national entities participated in the workshop.

The organization of this Workshop came in recognition of the increasing importance of strategies and programs to promote financial inclusion in light of the Corona pandemic and the need to accelerate digital financial transformation, with a view to helping Arab countries build their capacity to begin formulating and implementing national financial inclusion strategies. The Workshop covered the steps and stages of strategy preparation, aspects of coordination and follow-up, as well as implementation and evaluation mechanisms. The Workshop also included experiments and practical cases from Arab and foreign countries.

The Workshop focused on a number of important themes, including the preparation and planning of the strategy, the periodic preparation and implementation of national strategies for financial inclusion, coordination with relevant local bodies and institutions, as well as the follow-up and evaluation of national strategies for financial inclusion, the model for building the national strategy for financial inclusion, as well as reviewing the experiences of a number of Arab and foreign countries in this regard. Mechanisms and procedures for coordination and the involvement of various relevant parties in the formulation and implementation of national financial inclusion strategies were also addressed. The Workshop also covered monitoring and evaluation mechanisms for implementing national financial inclusion strategies, key considerations for designing a follow-up and assessment mechanism for national financial inclusion strategies, as well as the implementation of a follow-up and assessment mechanism for national financial inclusion strategies. The discussion also referred to the way to promote the use of Fintechs and accelerate the transition to digital financial services, and the access of young people, women and emerging enterprises to finance and financial services.

### **2.2 Technical Assistance to Implement the National Financial Inclusion Strategy in Jordan**

The World Bank provided support to the Central Bank of Jordan in the implementation of the National Financial Inclusion Strategy through a 1-million-dollar grant funded by the MENA Transition Fund. This project is implemented in coordination with the GIZ, the AMF and other donors active in promoting financial inclusion to take advantage of synergies between different donor-funded activities. The project supported conducting supply and demand side surveys and an updated diagnostic study to evaluate the National Financial Inclusion Strategy (2018-2020) to review the current status and assess progress in implementation of the National Financial Inclusion Strategy and formulate policies and actions to form for the next National Financial Inclusion Strategy. In addition, the project supported conducting the financial awareness and financial literacy campaigns. The project also supported the Central Bank of Jordan in establishing the FinTech Regulatory Sandbox from and the team is currently working on

providing advisory to the Central Bank of Jordan to support the Regulatory Sandbox through conducting capacity building sessions around core FinTech areas in line with the Fintech Regulatory Sandbox applicants and building the roster of experts for FinTech topics to engage with the various committees.

### **2.3 Technical Assistance to Develop the National Financial Inclusion Strategy in Iraq**

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

## **3. Awareness and Knowledge of Financial Inclusion**

### **3.1 Arab Day for Financial Inclusion**

The issue of enhancing access to finance and financial services in the Arab countries is of great interest to the Council of Arab Central Banks and Monetary Authorities' Governors, as it recognizes the potential and considerable opportunities that can be realized through strengthening financial inclusion to support comprehensive and sustainable economic development, address the challenges of unemployment and achieve social justice.

In 2016 the Council of Arab Central Banks and Monetary Authorities' Governors and in light of the growing need to sensitise all Arab actors to the importance of financial inclusion, endorsed in 2016 the 27th of April as the Arab Day for Financial Inclusion, celebrated this year under the theme of "Towards Building Financial Literacy that promotes Financial Inclusion." On this occasion, the Council affirms its support for the international community in enhancing financial inclusion, especially the efforts made by the G20 under the presidency of the Kingdom of Saudi Arabia (KSA). The financial inclusion topic was adopted by the G20 as one of the main aspects of the economic and financial development program, especially as it is closely related to achieving the objectives of sustainable development. The Council also reaffirms its support for the efforts and priorities of KSA in enhancing digital financial inclusion during its presidency of the G20. The Council pays special attention to supporting the access by young people, women and micro, small and medium enterprises (MSMEs) to financial services by tapping into the latest technologies, as well as awareness-raising and community education efforts which increase the chances of success of Arab countries' efforts and policies in this regard.



The Council also attaches importance to financial inclusion issues in the Arab world through its approach to launch a number of different activities and initiatives in cooperation with regional and international organisations. The Council welcomed the launch of the Financial Inclusion for the Arab Region Initiative (FIARI) by the AMF in cooperation with several regional and international organisations. FIARI aims to empower and enhance capacities and capabilities to overcome the obstacles hindering the advancement of financial inclusion



indicators in the Arab countries. In this regard, the Council values the comprehensive model of demand side surveys which detect the trends of demand on financial services in the Arab countries for both households and MSMEs. In view of that, the Council invites all Arab countries to put this model into force to help improve financial inclusion indicators and adopt appropriate policies and strategies in this respect. The Council also calls on FIARI's partners' organisations to further support the utilisation of new technologies in providing individuals, and MSMEs with access to financial services.

The Council further values the actions taken by the Arab countries to promote financial literacy, especially the digital financial literacy. It reaffirms the need to integrate all segments of society into the formal financial system, especially young people, women, entrepreneurs and the MSMEs sector. To this end, it is necessary to raise the awareness of those segments, protect their rights and improve their knowledge of financial issues so that they can make sound investment decisions. The Council also calls on all ministries of education, culture and higher education in the Arab countries to double their efforts in order to expand and increase financial education and awareness.

On the other hand, the Council values the role played by the Financial Inclusion Taskforce in enhancing financial inclusion in the Arab countries. This role is clear in developing policies and procedures related to financial inclusion in the Arab countries and considering studying ways to improve financial inclusion indicators in the Arab countries and help them implement the relevant international standards and principles. The role of the taskforce is also to strengthen cooperation between the various national institutions and entities concerned with financial inclusion issues in the Arab countries and the relevant international organisations.

The Council highlights the increasing importance of using new financial technologies in financial and banking sectors, and the significant accelerated growth witnessed by the financial services sector of such technologies and their related services world-wide. In addition, the great potentials offered by these technologies and services in terms of enhancing the efficiency of financial and banking operations, particularly in supporting the opportunities to access finance and financial services and encouraging entrepreneurship. In this connection, the Council calls for raising the awareness of all segments of society about the topics of Fintechs and taking the necessary measures to achieve this in coordination with the relevant official authorities. It also stresses the importance of the Regional Fintech Working Group launched by the AMF in sharing expertise and knowledge about Fintechs and crystallising different visions on the best way to regulate and put such technologies into effect in the Arab countries.

Furthermore, the Council looks forward to pursuing the improvement in financial inclusion indicators in the Arab countries, especially as the latest statistics reflect the efforts made by the Arab countries in enhancing access to financial services. Figures indicate that the percentage of the adult population in the Arab countries who have access to formal finance and financial services has risen, on average, to 37%, and soared to 265 for women, and to 28% among low-income segments. Although these figures draw a veil over the disparities in this regard among the Arab countries, they still indicate the great potential opportunities – especially for private financial and banking institutions – that can be tapped into to enhance access to financial services in the Arab communities.

Likewise, the Council values the efforts exerted by Arab central banks and monetary authorities, and commercial banks and official financial institutions in the past years in marking the Arab Day for Financial Inclusion and their related activities and events on this day. These

efforts have contributed to spreading awareness and financial education among all members of the community. Accordingly, the Council calls on all member states to celebrate the Arab Day of Financial Inclusion and encourage community participation (virtually) in marking the day through the implementation of awareness-raising activities and events to promote the importance of financial inclusion and its objectives. The Council hopes that the planned events of the Arab Day of Financial Inclusion will be successful, and their desired objectives are achieved.

It should be noted that the Partner Institutions in the Initiative have posted the statement issued by the Secretariat of the Board on their websites. The Institutions also agreed to commemorate the Day of the Arab Financial Inclusion with activities. The AMF organized a media conference on this occasion. The Initiative's Partner Institutions supported the efforts of the Central Banks and Arab Monetary Authorities by organizing events and activities during the week of the Arab Financial Inclusion Day 2020.

### **3.2 Series of COVID-19 Central Bank Financial Inclusion Response Calls**

Aware of the importance of dialogue and consultation on the repercussions of the Corona virus, the AMF organized starting April 2020, in cooperation with its Partners in the FIARI Initiative, a series of virtual “remote” meetings for Directors of Financial Inclusion Departments, Payment Systems, Financial Infrastructure and Financial Consumer Protection in Arab Central Banks and Monetary Authorities on the repercussions of the new Coronavirus on financial services and financial inclusion, as well as the need to enhance and accelerate the process of transition to digital financial services with the participation of a number of regional and international financial institutions.

These meetings offered an opportunity to exchange experiences and opinions on accelerating developments with regards to the impact of Coronavirus on financial inclusion, financial services, the safety and efficiency of payment and settlement systems, payment tools in Arab countries and worldwide. In addition to the related developments and their trends, appropriate current and future policies, the role of regulatory and supervisory authorities in mitigating the risks arising from the repercussions of the virus, as well as the support that FIARI Initiative can provide in light of the repercussions of this crisis. The discussions focused on additional pressure on basic financial services and the need to intensify efforts to enhance access to finance and financial services. It also clearly highlighted the importance of accelerating the transition to digital financial services and the urgent need to provide the necessary liquidity to enterprises and individuals to meet the basic obligations, such as the payment of employees’ salaries and covering operational expenses.

In parallel with the series of virtual meetings, the results of the work of the AMF and its partners in FIARI Initiative were presented. The design of a framework for digital financial transformation in the Arab countries shows the most important axes related to digital transformation, the drivers of this transformation. It outlines the important tools that help regulators encourage digital transformation specific to the reality of the Arab countries. This is concurrent to publications by the AMF, its Committees and Task Forces emanating from the Council of Arab Central Banks and Monetary Authorities, as well as by AMF's partnering international institutions.

The important role played by the World Bank, the GIZ and the AFI in helping the Fund to organize these meetings and in preparing research, studies and recommendations should be noted.

During these meetings, a number of issues, challenges, suggested solutions were discussed, and some Arab and international experiences were shared. Discussions focused on the following main topics:

- How to deal with the current crisis, mitigate its effects, and protect the economy, financial consumers and financial institutions from liquidity risks, as well as the risk of financial exclusion of local communities and micro, small, and medium-size enterprises (MSMEs).
- The role of digital financial services, including mobile money, financial technology (fintech) and national payment systems during lockdowns and confinements in facilitating the safe and timely delivery of financial assistance or salary payments from government agencies to beneficiaries, individuals and the private sector.
- The role of non-bank financial institutions, such as microfinance institutions, in providing liquidity crucial for the livelihoods of low-income segments and the local economy.
- Mechanisms to support small and medium-sized enterprises and ensure the provision of the necessary financing and financial services to help the economy recover, and the role of loan-guarantee programs in mitigating the risk from the fallout of the crisis as an instrument of financial inclusion.
- Major global developments and trends in Central Banks' digital currencies, the role of digital financial services, and the responsibility of regulators in facilitating their spread, growth, and the appropriate tools for that.
- Ways to accelerate the transition to digital financial services and electronic payment applications, and to enhance efforts in terms of individuals and companies' access to financial and banking products and services, which are positively reflected in the levels of financial inclusion in Arab countries.
- Requirements for post-crisis recovery, enhancing opportunities for digital financial transformation, supporting innovation in a way that promotes digital financial inclusion, in which new financial technologies enhance access to formal financial services.
- How to strengthen mechanisms for providing liquidity to finance productive sectors, especially micro-, small- and medium-sized enterprises, the importance of national definitions of SMEs, and the collection and analysis of data on women's participation in launching of such projects.
- How to promote community awareness in dealing with non-bank financial institutions and ways to enhance access to their services, through the development of innovative products that meet the needs of financial sector operators.
- Addressing the regulatory framework and technical requirements for the development of Takaful microinsurance products, touching on operational risk and collaboration between financial institutions and insurance companies to strengthen portfolios of insurance and access to insurance services, as well as the challenges of dealing with customers in microinsurance policies, and ways to facilitate and expedite recoveries and their transparency.

Discussions focused on the of Arab Central Banks and Monetary Authorities in limiting the implications of Covid-19 on local communities, MSME, and the economy in the short and medium terms as well as the recovery from this crisis. During these meetings, many measures and solutions were identified that can be broadly categorized into:

- Ensuring and providing the liquidity to the private sector.
- Promoting the digitalization of financial systems and scaling digital/fintech services

With regard to the first issue, the discussions dealt, on the one hand, with the capacities in debt repayment and, on the other hand, with prospects in obtaining new funding from banks and other financial institutions during the crisis: the main challenge of the private sector, especially MSMEs, to secure operational liquidity or of households to secure livelihoods. Approaches by countries and organizations were discussed, the most important of which are:

- Encouraging support programs or directly providing necessary liquidity facilities for the financial sector to continue lending to the private sector or households at low cost and in timely fashion.
- Ensuring that clients that fall short in servicing their debt during this temporary crisis period are not negatively affected in their credit assessment or blacklisted in credit registries (including through bounced checks) because of the pandemic-induced adverse economic effects for households and the private sector.
- Using alternative methods in credit risk assessment and providing new guarantee programs, especially since MSMEs are most affected due to this crisis and depend on continued financing to cover their operating expenses and pay salaries. MSMEs are the largest GDP and employment contributors in Arab world.
- Enhancing credit guarantee schemes in mitigating the economic risks arising from the health crisis and in safeguarding and expanding financial inclusion progress. To help secure lending to the private sector under the prevailing circumstances, the conditions of these programs need to be revisited and amended to better meet the needs of financial institutions and their MSME clients, for example: increasing the percentage of secured loans, reducing commissions and interest, lifting some requirements that are unrealistic in the current circumstance. Early industry experience helps to determine the between the benefits and costs of such programs under the new realities.

The exchange further highlighted a few international examples of policies adopted by governments and supervisory bodies in confronting the challenges of the microfinance sector. These include fiscal measures for liquidity as well as macroprudential measures for business continuity and contingency in financial service providers, loan moratoria, etc.

The discussions revealed the role of authorities in reducing the burden on banks and non-bank financial institutions, mainly microfinance institutions, in complying with usual requirements by temporarily relaxing, suspending or postponing some macroprudential and other regulatory rules such as for digital finance or reserve requirements to ensure continued operations. Overall, the financial policy objectives of the stability, inclusiveness, integrity and client protection of financial systems guided the deliberations of Central Banks

With regard to the second issue, it was agreed on the importance of utilizing the available technological and financial infrastructure (mobile and internet networks, payment systems, etc.) in Arab countries to deliver financial and banking services to beneficiaries in safe, fast and easy means. The meetings discussed the role of electronic payment systems and the developments of these systems, particularly in terms of government payments, small payments and bill payment services, and the need to rapidly digitize these services in light of the current crisis, which represents an opportunity to accelerate the transition to Fintechs in most Arab countries. In this regard, the experiences of some Arab countries were reviewed and the solutions that

have been put forward regionally and internationally aimed at reducing the use of cash and increasing the use of digital payments. Thereby including individuals and businesses into the formal financial system allows the provision of many services electronically during periods of lockdown and confinement.

In order to achieve this, it was agreed that it is important to focus on several issues, the most important of which are:

- Intensifying cooperation and coordination between the relevant regulatory, supervisory and government agencies on national level to develop and expand digital government services, digitize government payments, share information and databases between them, while ensuring the protection of confidentiality and data privacy.
- Providing an enabling and clear legislative and regulatory environment that helps banks and financial institutions in the process of digital transformation, especially when developing their systems and using modern digital solutions without the risk of non-compliance with the legislation.
- Adopting the digital identity, the electronic signature, adopting the electronic Know Your Customer (eKYC) rules, and using the risk-based approach, especially when opening accounts and providing some banking and financial services remotely.
- Achieving a balance between compliance with anti-money laundering and terrorist financing standards and efforts aimed at expanding the number of clients in the formal banking and financial system by adopting a risk-based approach.
- Reducing the cost of compliance with customer due diligence requirements by sharing information bases and other similar solutions, especially when registering clients and providing them with remote services.
- Stimulating the use of digital payment services, expanding the financial and technological infrastructure, and enhancing the quality of digital financial services.
- Ensuring consumer protection and data security, increasing the citizens' awareness about digital financial services and considering it one of the main priorities for both supervisory authorities and financial service providers. This reduces the possibility of clients being exposed to risks such as financial fraud and misuse of personal data.
- Encouraging interoperability between payment systems and financial service providers to reduce the cost and increase the spread of digital financial services.
- Opening payment systems for connectivity by all financial service providers without discrimination to stimulate competition and enable fintech companies to scale innovative digital solutions by allowing them to join those national payment systems. This promotes talent among the Arab youth, entrepreneurship, and investments

Some international and regional examples of microfinance policies and procedures applied by some governments and financial regulators to address the crisis have also been presented. The most important challenges in the microfinance sector were discussed, such as the need to provide liquidity, the importance of protecting small depositors, and ensuring business continuity. Some of the proposed solutions to ensure the stability of the national financial system have been addressed, by focusing on priorities and how to determine the recipients of support under the needs and specificities of each country.

The discussions also demonstrated the importance of the role of Arab Central Banks and Monetary Authorities in alleviating the consequences of the Corona pandemic on banks and

non-bank financial institutions, such as microfinance institutions, from the burden of complying with certain requirements and regulations that could be deferred during these special circumstances. In order to enable these institutions to cope with the crisis and to continue to provide services to all groups of society, including, for example, postponing the previously set deadlines to comply with certain regulatory rules and requirements that are considered to be non-urgent or unnecessary at this critical stage, and mitigating or even temporarily suspending certain regulatory requirements.

### **3.3 Workshop on “Responsible Digital Financial Inclusion: Financial Education and Consumer Protection in the Digital Age”**

With the accelerated digitalization in finance throughout the pandemic, elevated security risks for clients have been high on the agenda of Central Banks worldwide and in the Arab region.

On December 14, 2020, Arab Central Banks and Monetary Authorities convened to discuss and exchange latest insights and good practice in the digital financial inclusion. A total of 85 participants representing seventeen countries joined the workshop in view of making digital finance work for the resilience and recovery of their local communities and economies.

Technology and finance are perceived as both growth enablers and growth sectors for Arab economies. In the Arab region, access to financial services means a market potential of 63% of unbanked adults and an important part of MSME that face a combined funding gap of USD 200+ billion (World Bank and IFC, 2018). This translates into an estimated seven billion dollars of additional potential revenue for the private sector, let alone employment effects from financial inclusion (CGAP, 2019).

The primary obstacle limiting uptake of services is a stubbornly sticky preference for cash across the Maghreb, Levant and the Gulf (Wamda, 2016), owing reportedly to limited financial awareness, trust, and financial literacy among populations.

At the same time, clients, including first-time adopters of formal financial services with little experience or low literacy levels and hence vulnerable users, are exposed to new risks in the digital age in mature and emerging markets and developing economies alike. These risks, ranging from unfair treatment and data privacy breaches to cyber incidents, pose serious threats to the financial well-being of populations and the stability of financial systems with potentially long-lasting adverse effects on equality and growth.

These challenges and risks are emphasized during the 2020 pandemic. Digital finance offers ways in mitigating the impacts of Covid-19, stimulating the economy and maintaining social cohesion. However, bold policies are needed to strengthen ecosystems for safe digital finance; to enable financial service providers withstand operational, liquidity, solvency shocks; to empower populations in securing livelihoods and businesses in leading decent employment and growth.

The digital transformation in financial products and services in payments, lending, savings and investments, and more comes with the consequent need to enhance literacy levels and consumer protection frameworks in countries.

Supporting digital financial inclusion and the concurrent need for effective consumer protection as well as strengthened financial literacy, has been high on the G20 agenda – as testified by the 2020 GPMI themes – and a priority for Arab policymakers.

The Digital Financial Transformation approach for the Arab region, as endorsed by Arab Central Banks and Monetary Authorities' Governors, underscores the role of consumer protection and literacy in a digital financial ecosystem. This framework provides orientation for progressive policies in countries in order to shape the digital transformation in the financial systems pro-actively and sustainably.

This FIARI workshop organized by the AMF and GIZ on behalf of the BMZ with World Bank and AFI contributed to empowering key policymakers and regulators in moving ahead with important timely reforms for digital finance. The objectives of this workshop were:

- Awareness about guidance in balancing benefits in digital applications with risks to consumers.
- Understanding of good practice in support of responsible digital financial inclusion.
- Knowledge of consumer protection frameworks responding to transformations in digital finance and changes in the customer experience.

The workshop empowered the participants in addressing financial literacy and consumer protection in the digital era. One part of the workshop included country case studies delivered by experts from Central Banks across the region:

- Country Case Palestine: Experience with Consumer relation halls and how the Palestine Monetary Authority is regulating consumer protection in the digital space.
- Country Case Egypt: Experience with public awareness and education campaign for the Meeza national payment scheme and insights into Central Bank of Egypt's organizational development and market consultations for safe fintech developments.
- Country Case of Saudi Arabia: Rational, experience and outcomes from the G20 Techsprint for supervisory technology applications by regulatory authorities.
- Country Case Morocco: Bank Al-Maghreb experience in enabling safe digital financial services under the national financial inclusion strategy and Morocco's lessons with financial education and consumer protection.

Another part included global insights delivered by key international experts:

- AMF: Approach for Digital Financial Transformation in the Arab region
- GIZ: Responsible Finance in the Digital Age: Client risks and opportunities for policy makers, regulators and supervisors in the age of data-intensive digital financial services.
- World Bank: Consumer Risks and Mitigants in Fintech: New financial consumer risks and emerging regulatory practices across digital credit, crowdfunding, P2P lending.
- Bankable Frontier Associates (BFA): Propping Up Supervisory Solutions in the Digital Space: Next-gen tools in regulation and supervision of market conduct in the digital, data-driven age.

The workshop on responsible digital financial inclusion included peer exchange sessions with interactive polls. By the end of the workshop and following an evaluation, 9 out of 10 participants found the workshop very relevant for their work and 9 out of 10 found the exchange with their peers very useful for leading digital financial inclusion topics in their organization.

### **3.4 Accelerating the Transition to the Digital Economy**

The World Bank worked in many Arab countries to speed up transition to the digital economy by scaling up existing technical assistance and financial solutions to introduce transaction accounts, expand access points, improve financial literacy, drive scale and visibility through digitizing high-volume government and wage transfers, modernize legal and regulatory frameworks, support entrepreneurship development, and foster partnerships with global digital economy majors. Examples include the ID project in Morocco and in Saudi Arabia where the World Bank provided advisory services on the development of the overall framework of digital Fintech, including regulatory, policy and institutional dimension. The World Bank also worked with countries, such as Jordan and Morocco, to establish Fintech regulatory sandboxes, which allow regulators to observe innovations in a controlled live environment and better understand potential risks and opportunities, and to develop a comprehensive policy framework and suitably adapt legal and regulatory frameworks for Fintech. The World Bank also worked on digital payments in Palestine, Tunisia and Morocco, and on digital economy project in Lebanon.

Under Financial Inclusion Global Initiative in Egypt, and jointly with the Bill and Melinda Gates Foundation, the world bank provided technical assistance in consumer protection, digital payments, development of payments strategy. The FIGI Egypt ASA activities are aligned with the framework for Payments Aspects of Financial Inclusion (PAFI), a joint report by the Committee on Payments and Market Infrastructures (CPMI) and the World Bank, and is organized under four components which are: (i) Diversified Financial Services/ Use of Technology, (ii) Strengthening the National Payment System Governance, (iii) Complementarities with Social Transfer Programs, (iv) Financial Consumer Protection and Financial Literacy.

## **4. Capacity Building**

### **4.1 Financial Inclusion Data Lab – An Online Training Workshop on Demand-Side of Financial Services data**

The Financial Inclusion Data Lab was delivered as online training course during the week of July 12-16, 2020. As such, it was the first of its kind learning program that provided knowledge, tools, and techniques to apply to the complex challenges of designing and implementing data systems for financial inclusion strategy and policies. The workshop was organized and hosted by the AMF with support by the GIZ under the FIARI Initiative.

In this intensive and highly interactive week-long program, financial inclusion and data experts and practitioners shared their experience and proven approaches to the development of an effective data collection system for financial inclusion on a country level — best practices that set the standard for complex challenges in the dynamic financial inclusion environment.

The objectives of the program were to:

- Set clear and realistic goals for data collection for financial inclusion in your country
- Create a data system blueprint that can support the systematic data collection and analysis
- Establish measures and indicators that are relevant on a national level and comparable internationally
- Review the design of the survey tools for financial inclusion for individuals and MSMEs
- Collect and analyze the relevant data to assess financial inclusion situation



- Formulate recommendations for evidence-based financial inclusion policies
- Provide support for a national strategy for financial inclusion

The program consisted of five workshops which introduced the key concepts and provided substantive contribution to the design and implementation of data collection systems for financial inclusion:

- Establishing goals and objectives for financial inclusion data
- Creating a data collection system for financial inclusion
- Designing a financial inclusion survey of individuals and households
- Designing a financial inclusion survey of micro- and small business (MSMEs)
- Using data for financial inclusion strategy and policies

Each workshop provided a theoretical background and introduction to the topic based on the international best practices, followed by case studies drawn from the experience of the country members in implementing financial inclusion data surveys. Overall, there were 7 cases from 7 member countries which enriched the value of the workshop. The workshop also provided opportunities to ask questions, make comments and discuss with the peers the challenges involved in implementing data surveys for financial inclusion.

The digital workshop was enhanced with a comprehensive set of pre-course readings and a full set of demand-side survey tools for individuals and households and MSMEs jointly developed, in the framework of the FIARI Initiative by the AMF and GIZ in close concertation with the Arab Financial Inclusion Task Force, body established under the umbrella of the Council of Arab Central Banks and Monetary Authorities' Governors.

#### **4.2 Training Course on “Inclusive Growth”**

The AMF, in cooperation with the IMF Middle East Center for Economics and Finance, organized a "remote" training Course on “Inclusive Growth” from 7 to 17 December 2020. The recent developments related to the Corona pandemic have imposed a new economic reality on the Arab countries, necessitating the intervention of decision-makers with a package of macroeconomic policies aimed at stimulating domestic demand levels and increasing the levels of flexibility of these economies in the face of these developments. It has also pushed for the implementation of a number of fundamental structural reforms to achieve inclusive and sustainable growth in order to realize the aspirations and ambitions of the peoples of the region.

In the midst of unfavorable global developments, the Arab economies in their march to achieve economic stability and support inclusive and sustainable growth face several challenges, the most important of which is unemployment, especially among young people, university graduates and women as well as the challenges of raising the population's standard of living and the economic and social well-being. These are undoubtedly major issues that require redoubling efforts by governments, private sector and all institutions of society in a joint movement, along with promoting the search for solutions through the encouragement of creativity and innovation.

Designing policies and strategies for inclusive growth of the Arab countries is a great opportunity not only to overcome the current circumstances of the pandemic, but to achieve a long-term economic growth path, which requires careful analysis of the situation of each

country before reaching the optimal strategy. In addition to balancing short-term goals to meet pressing needs, and long-term sustainable growth goals.

To achieve inclusive and sustainable growth, strategies must be developed that take into account institutional capacities, transparency and accountability. It is also necessary to encourage efficient and sustainable decision-making by policy makers, consumers and the private sector, with greater importance given to both natural capital and human and material capital, to ensure effective economic management. Meeting capital needs is also crucial, as public finances remain limited, requiring the activation of the role of the private sector in investment, the promotion of public-private partnerships and the creation of innovative financing mechanisms and instruments.

The Course aimed to increase participants' awareness of the concepts of inclusive growth, and to introduce them to analytical and operational tools for assessing, measuring and following up on how macroeconomic policies affect economic growth, poverty, inequality and job creation, with particular emphasis on long-term sustainability issues, as well as understanding the design of inclusive growth strategies based on country case studies. The Course therefore focused on the following main axes:

- Indicators for measuring inclusive growth.
- Fiscal policy and inclusive growth.
- Designing inclusive growth strategies.
- Financial inclusion.
- Governance and inclusive growth.

#### **4.3 Fintech Innovation Lab on “Building Strategies for Digital Financial Transformation”**

The 2020 pandemic is putting unprecedented strain on governments, financial markets, firms and people, requiring distinct measures for human and economic relief. Digital finance offers ways in mitigating the economic impacts and maintaining social cohesion. Technology is expected to help financial institutions and markets to transform digitally and inclusive services to strengthen people and businesses in their resilience and economic capacity. Strategies are needed for creating the ecosystems and pro-innovation regulatory frameworks that will enable Fintech and drive this digital transformation of finance.

The 4-day Fintech Innovation Lab, jointly organized by the AMF and GIZ in the framework of FIARI initiative, provided regulators and supervisors with an understanding about key enablers for resilient, safe and inclusive Fintech and with guidance about devising strategies to put these enablers in place. It included both theoretical foundations and hands-on practice through a mix of pre-recorded expert webinars, live discussions, and pitches by innovation leaders. In assisted group exercises, learning by doing led to proposals for Fintech strategies.

Technology will help financial institutions and markets to transform digitally and ultimately bring forth such inclusive services which will sustainably strengthen people and businesses in their resilience and economic capacity. But if these expectations in financial technology are to be fulfilled, it will simply take more than knowledge sharing and awareness raising. Strategies are needed to create the ecosystems and innovation-friendly regulatory frameworks that enable fintech and drive digital transformation of finance.

The Fintech Innovation Lab was conducted as a 4-day digital workshop with highly interactive, creative, and productive sessions. Leading experts provided the foundations for key enablers of resilient and inclusive Fintech. Innovative professionals from financial authorities, such as from Central Bank of Egypt, shared and exchanged on good practice in building and promoting an enabling ecosystem for digital financial services to emerge.

All 80 members from 17 Arab countries engaged in breakout groups actively in hands-on exercises to pin down challenges for developing fintech markets and to work out priority actions for digitalizing their financial systems. The digital simplified customer on-boarding and eKYC, interoperable payments systems and open banking infrastructure, financial capabilities on demand side, and e-Government or Govtech emerged as the main common issues.

Through the mixture of pre-recorded expert webinars, live discussions, pitches by innovation leaders, and the discussion across institutions and countries, the foundation was gradually laid for the third day, the heart of the Fintech Innovation Lab. On the third day of the workshop the 17 country teams went to develop offline in groups fintech strategy proposals for strengthening ecosystems and regulatory approaches towards digital financial systems.

After three intense, insightful days, the highlight of the FIARI Fintech Innovation Lab 2020 followed on the fourth day: 17 country teams pitched their fintech strategy proposals for exercises purposes followed by a round of discussions on the valuable experience in the countries.

The evaluation reveals that the workshop was a success. The Fintech Innovation Lab programme was classified by the participants as “helpful” in all areas and the overall experience tended to be rated very good rather than good. Furthermore, most respondents (40 out of 42) are feeling very well positioned or good positioned to lead innovation topics in their organization and to drive digital financial transformation. In addition, respondents highlighted that they gained knowledge about the foundation of fintech strategies (33 out of 42) and innovative regulatory approaches (30 out of 42). Although the evaluation results also show that there is a demand for more in-depth measures on fintech innovation, 29 out of 42 respondents indicated that they have gained practice in developing a strategy to strengthen ecosystems and regulatory frameworks for fintech.

The Fintech Innovation Lab laid the foundations for key policymakers and regulators in spearheading more resilient, inclusive digital financial systems. The workshop also re-enforced the AMF’s intention in taking forward the key stakeholder consultations among Arab Central Banks and Monetary Authorities in developing guidelines for a regional approach to digital financial transformation, which were successfully endorsed by the Council of Governors in September 2020.

#### **4.4 Exchange of Expertise among Arab Financial Inclusion Task Force Members**

The main objective of the Task Force is to contribute to the ongoing efforts to enhance financial inclusion in the Arab countries, by assisting national authorities in strengthening their regulations and instruments to expand financial services coverage, enhance financial awareness in the Arab region, and support cooperation between supervisory authorities and relevant international institutions. The task force also serves as a platform for exchange of experiences between Arab Central Banks and encourages cooperation in areas related to financial inclusion, leading to the harmonization of Arab countries' views on financial inclusion issues that are being addressed globally.

The AMF is as a technical secretariat of the Regional Financial Inclusion Task Force. In addition, the AMF contributes to the preparation of working papers, research and studies in cooperation with the task force for submission to the Council of Arab Central Banks and Monetary Authorities' Governors at their annual meetings.

The task force is working to enhance collaboration opportunities with the World Bank, the GIZ, CGAP, AFI and the Islamic Development Bank. Representatives of these international institutions and bodies attend the task force meetings, along with representatives of the Union of Arab Banks, Union of Arab Securities Authorities, the Secretariat General of Cooperation Council for the Arab States of the Gulf, and the Middle East and North Africa Financial Action Task Force (MENAFATF). In addition, other international organizations such as the Bill & Melinda Gates Foundation (BMGF), the International Finance Corporation (IFC) and the IMF attend the meetings.

During its meetings in 2020, the task force discussed many topics, the most important of which are:

**The outcome of the G-20 Work on Financial Inclusion:** The task force discussed financial inclusion pathway and the Global Partnership for Financial Inclusion of the G-20 during the period of Saudi Arabia's Presidency of 2020. In this context, the priorities for strengthening financial inclusion and the focus on this issue have been addressed, especially with regard to youth, women and micro-, small- and medium-sized enterprises, as well as the importance of discussing financial inclusion issues in the Arab Financial Inclusion Day.

**The Arab States' experiences in collecting statistics and preparing studies:** Aware of the importance of statistics and studies in promoting financial inclusion, the task force discussed the experiences of some Arab countries in this field, where the steps taken to measure financial inclusion on the supply and demand sides and the stages of establishing the financial inclusion database were presented. The subsequent phases, which include the addition of all supply-side data from various financial service providers, were also addressed, as well as the preparation of wallcharts to review all financial inclusion indicators.

The Group discussed the latest developments at the level of statistical surveys on the demand-side for financial services, where some observations and visuals were reviewed in this regard:

- The need for national surveys to fit into the broader system of data collection and financial inclusion strategies.
- Demand-side surveys are the starting point in many countries rather than supply-side data collection.
- Preference for expanded surveys over focused surveys.
- Collecting most of the data on households, as the financial coverage of micro, small, and medium-sized enterprises is less well researched.
- Strong interest in understanding the informal sector and its implications for measuring financial inclusion.
- Limited efforts to assess pro-financial regulatory policies and procedures.
- Several technical questions concerning the design of surveys and statistical methods.
- The need to better translate data findings into information that can be understood by policymakers.

The task force also noted the need to take advantage of emerging good survey practices and to allow data sharing with the academic and research community to broaden and deepen insights.

**Digital financial transformation and its stages in Arab countries:** The task force emphasized that Arab countries are making great efforts to migrate to digital financial technologies as part of the efforts to enhance financial inclusion. In this context, many Arab countries are seeking to move to a digital payment system to integrate the largest number of individuals into the formal financial sector. Digital financial transformation has been introduced in some countries, with Arab governments beginning to take the most important steps in supporting digital transformation and increasing the dealers with the formal financial sector. The Group also stressed that digital transformation is directly contributing to the development of banking sector and financial inclusion to reach all segments of society through the digital transformation map followed by the Central Banks in Arab countries, which includes digital identity and digital signature, the Know Your Electronic Customer (KYC) model, the transformation into a local mobile electronics platform, mobile e-wallet and promoting digital culture...etc.

**Experiences of Arab countries in strengthening financial capabilities:** The task force discussed the general framework for policy development and building financial awareness and education strategies in the Arab world, where it dealt with the objectives of financial awareness and education, the reality of financial awareness and education in the Arab countries, financial education and awareness activities in the Arab countries, the importance of financial awareness and education. The relationship between financial literacy and financial inclusion, and the general framework for promoting awareness levels and financial culture were also discussed. It was also pointed out that there was a need to enact more stringent laws and legislation that required the banking and financial sector to be transparent and fair in their dealings with clients, among which was the absence of restrictions on the freedom of depositors to dispose of their assets and it is not permissible to violate them except by virtue of a judicial or administrative seizure. In addition, the confidentiality of clients' accounts should be maintained, and it is not permissible to allow access to them, disclose or give data about them to others without a judicial permission.

**The role of mobile phones in supporting transfers to the Arab region:** The task force discussed strategies for coping with the impact of the Corona pandemic and maintaining the flow of remittances, including the shift from informal to formal (digital) services, repatriation of funds in times of uncertainty, and compensation for income losses when the crisis occurs at a later time. In this context, digital technologies and mobile payment systems can be used to facilitate and reduce the cost of sending and receiving transfers. This is based on several principles, including 1) transparency and consumer protection: Increasing access to clear information about the costs of transmitting and receiving transfers, as well as supporting the immediate inclusion of households into financial and digital education programs. 2) Payment system infrastructure: Promotion of digital channels for transmitting and receiving transfers. 3) Legal and regulatory environment: Simplifying requirements in customer due diligence systems, facilitating the entry of new actors and business models into the transfer market, 4) Market structure and competition: Ensuring fair and transparent access standards to payment system infrastructure for non-bank remittance providers, and 5) Governance and risk management: Improve the availability of banking services for remittance providers with guidance from financial institutions on AML and CFT compliance requirements.

**Loan guarantee agencies and their role in promoting access to finance and financial services.** The task force emphasized the need to develop credit infrastructure and the role they play in the access of micro, small and medium-sized enterprises to finance. In this context, loan guarantee agencies and credit information systems are the most widely used in credit infrastructure and can help address information gaps in the medium term. Loan guarantee agencies provide partial loan guarantees to borrowers (women-owned, micro small and medium-sized enterprises) by covering a portion of the risk of non-payment for fees, and this measure is widely used in most developed and developing countries. More than 80 per cent of countries have established loan guarantee systems to reduce losses to banks in the event of a failure of borrowers, as well as to establish credit registries and/or bureaus to enable banks to conduct credit risk assessments for borrowers. Some guidelines have been indicated in order for loan guarantee agencies to be effective, including eligibility criteria, accreditation rules and procedures, coverage rates, fees, payment and supervision rules and procedures. From the point of view of regulatory authorities, it is important to ensure that loan guarantee agencies are designed and operated to connect and integrate in a financially sustainable manner.

**Digital financial services for SMEs:** The task force has addressed the importance of alternative finance in promoting financial inclusion, with alternative financing solutions growing rapidly and expanding in recent years, with crowdfunding expected to reach \$142 billion in 2022, according to the “Global Crowdfunding Market” report. This rapid rise in alternative financing is characterized by massive increases in access to the internet, and the ability of alternative lenders or investors to fill market gaps. The 2008 global financial crisis has also shaken confidence in traditional financial institutions due to the effects on individuals and institutions, and the development and enforcement of regulatory controls on the banking sector. Reference was made to the opportunities and challenges related to alternative financing, digital finance infrastructure, the role of digital culture in promoting alternative financing, as well as the role of credit-inquiry offices in promoting alternative financing.

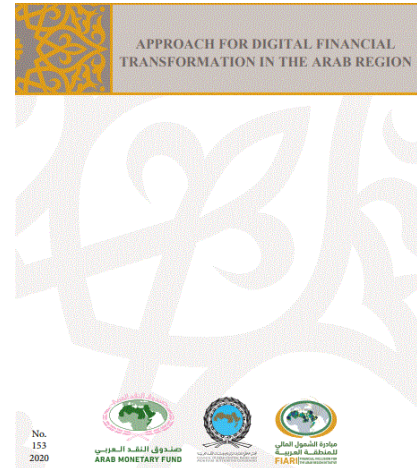
The task force touched on the challenges and risks of digital transformation for micro, small and medium-sized enterprises (MSMEs) represented in developing a robust digital infrastructure base, enhancing privacy protection and e-risk management, and building open and competitive markets in which partnerships are encouraged to accelerate responsible innovation. The Group also noted the challenge for Arab countries to obtain financing because of the lack of liquidity in most banking and financial sectors, and therefore the need to seek alternative financing, especially for micro, small and medium-sized enterprises. In this context, the Group noted the importance of digital technologies in supporting the business sector by offering credit solutions and services, providing more funding sources for micro, small and medium enterprises, and thus enhancing financial inclusion.

## 5. Knowledge Generation and Dissemination

### 5.1 Regional Approach for Digital Financial Transformation in the Arab Countries

Based on the outcomes from the series of exchange sessions and the workshop with Arab Central Banks and Monetary Authorities, the AMF led the development and proposal of a regional framework for digital financial transformation in the Arab countries, together with GIZ, AFI and World Bank. This regional framework outlines the key pillars of the digital transformation of financial systems and the policies that are needed to put those building blocks in place depending on the specific national context.

The presentation of the framework to Arab Central Banks and Monetary Authorities pointed to the tools that financial policymakers and regulators can use in this regard. The regional framework for digital financial transformation builds on and merges recommendations by several relevant inputs: global principles and frameworks by Standard Setting Bodies, guidelines by international organizations and platforms experience in Arab countries, and proceedings from regional committees with the AMF under the Council Central Banks and Monetary Authorities' Governors.



### 5.2 Smart Regulatory and Market Approaches to Financial Technology Innovation

The AMF, in cooperation with the GIZ issued the "Fintech Toolkit: Smart Regulatory and Market Approaches to Financial Technology Innovation " package, which sets out a number of regulatory frameworks and approaches for the future of Fintechs, by following sound international principles and practices. It contributes to building a supportive environmental system for balanced innovation between financial inclusion goals and financial stability requirements and the need to promote market integrity and consumer protection. This package of tools seeks to enrich the debate on emerging issues and to support financial policymakers, regulators, and development experts in identifying, formulating, and implementing policy responses, with a focus on high-potential markets in the Arab region.

Following the principles of good global practices, organizational methodologies in sequential stages can help create paths for innovative financial technology companies by:

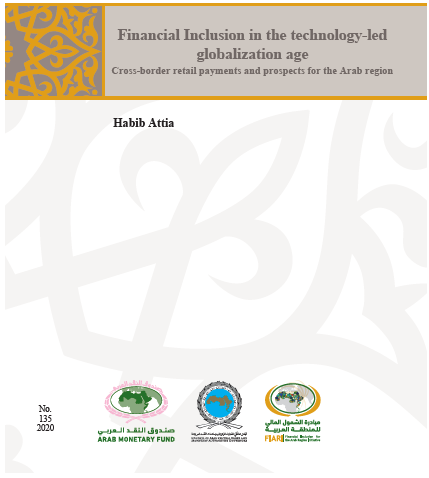
- Identify and update inappropriate regulations based on an assessment of the regulatory impact that determines whether old rules are still useful.
- Create supportive paths for new services, which include, in particular, non-bank financial services.
- Guide financial technology companies to provide valuable insights into market innovations.
- Create a precisely defined, secure space to grant eliminating specific regulatory requirements for eligible innovative companies.
- Develop the customer base of innovative companies and their financial and operational resources.
- Increased regulatory accuracy and costs, as well as the maturity of financial technology firms and their ability to deal with risk and compliance, while maintaining equal opportunities for licensed entities.

Sequential reforms based on global good practice, which respond to the local context and contribute to regionally consistent frameworks, are also the best option for policymakers to support the use of Fintechs, thereby enhancing financial inclusion, competition, and economic development in the Arab region.

### 5.3 Study on “Financial Inclusion in the Age of Technology-Based Globalization: Small Cross-Borders Payments and their Prospects in the Arab Countries”

On the occasion of the Arab Financial Inclusion Day 2020 and within the framework of Financial Inclusion for the Arab Region Initiative (FIARI), the AMF has released a study on Financial Inclusion in the technology-led globalization age: From cross-border retail payments standpoint and prospects for the Arab region, which takes place in the context of the launch of “Buna Platform”, an Arab Regional Payment, Clearing and Settlement System. This study aims to contribute to the existing dialogue at the regional and global levels on the importance of Cross-border retail payments and their impact on financial inclusion and provide food for thoughts for “Buna Platform” development going forward.

The importance of financial inclusion to development is nowadays widely recognized in the international development community and by policymakers in developed and developing economies. Globally, there is still an estimated of 1.7 billion adults do not have access to a transaction account that can be used to receive payments and make deposits. Given this fact, the Arab region's financial services industry and policymakers have taken over the past five years significant steps to recognize and address challenges to meaningful financial inclusion.



In the context of the Arab region refine the financial inclusion strategies and while the cross-border payments are becoming increasingly more prevalent in today’s global economy at a time where the dynamism digital innovation has brought new opportunities. This is also acute for cross-border retail payments as we may soon live in a world where not only large corporates, but also retailers, SMEs, and individuals use international payments regularly, using a range of solutions and providers through integrated commerce or trade interfaces. Particularly, the continued expansionary growth in remittances flows and e-Commerce further highlights the need for more attention to be placed on cross-border retail payment activities and how the ecosystem is evolving and finding efficiencies with which to facilitate such transactions.

In this regard, the need to diversify payments systems platforms and payment service providers to facilitate seamless cross-border payments at scale in the Arab region has never been greater, given that digitally enabled financial inclusion can help bring 63 percent of the Arab region’s individuals and MSMEs into the formal financial sector. Moreover, the region is home to a forecasted record-level of remittance flows of USD 60 billion in 2019, however, efforts to employ remittances in the formal financial system face several challenges, the most important of which is the high cost of sending and receiving remittances across the Arab region.

In addition, the economic and financial trends in the region point towards an acceleration of low-value payment flows, considering the growing international trade and labor & capital



mobility within the region. This trend is expected to continue due to the multi-lateral policy initiatives aimed at enhancing intra-Arab regional economic growth. In fact, the Arab region presents an attractive hub for low value payments which comprise 70 percent of total transactions received in 2018. Moreover, the low value payments also comprise an important share of total transactions within the region, estimated at 60 percent in 2018.

However, cross-border regional payments are facing increasing challenges and pressure. On the one hand, traditional channels and tools are facing increased stringency for compliance requirements, in addition to risks and also risks and challenges from fast-growing technology companies who have developed new business models that are attracting new customers and increasing their market share, especially in the context of the emergence of disruptive technologies, which is, from another hand, challenging Central Banks' ability to trace and oversee cross-border transactions. At the forefront of these challenges are high transaction fees, lengthy compliance processes and long end-to-end transfer times are the main pain points associated with the current cross-border payments models.

To address these challenges, new technology and regional arrangements may complement the traditional channels and provide a more inclusive and efficient gateway to payments and cross-border remittances for both individuals and businesses alike. In addition, technological infrastructure is developing, such as faster payment systems, along with the potential for more transparent and simpler product offerings enabled by richer data and lower-cost processing. These new building blocks may make a difference on their own and, more importantly, may be combined in powerful ways to bring end-to-end solutions to financial inclusion.

Although a single global payment area is not likely to emerge any time soon, parties should nonetheless be able to pay everywhere, despite varying standards and infrastructures. In this perspective, this study highlights some of the key channels through which cross-border retail payments are made, provides an overview of the various interactions and dimensions of cross-border retail payment in the Arab region, touches on developments in the industry and the ongoing efforts to promote cross-border funds transfer in the context of increasing role of regional cross-border payment and settlement platforms.

Moreover, the study explores various prospects and opportunities that “Buna Platform”, an Arab regional payment and settlement system, can provide in expanding access and usage of financial services.

Finally, the study provides some high-level recommendations on what would need to be implemented at both policymakers and market-players levels, including the development of mobile payment platforms as well as a regional digital settlement currency, all with ultimate objective of support to the financial inclusion agenda in the Arab region.

#### **5.4 Study on “The Effects of Financial Inclusion on Banks’ Profitability in the Arab Countries”**

The AMF issued a study on “The Effects of Financial Inclusion on Banks’ Profitability in the Arab Countries”. The Study highlights the determinants of the rate of return on assets as an important indicator of bank strength and soundness, as well as the attempt to establish the relationship between financial inclusion indicators and bank profitability. The Study also presented an analytical framework for Arab Central Banks and Monetary Authorities that contributes to strengthening credit risk management in the banking sector.

In this context, the Study examined factors affecting the rate of return on assets of eleven Arab countries during the period from 2013 to 2019. Based on past literature, variables that can affect banks' profitability have been measured by three sets of variables: Variables that are specific to the bank itself, variables that are specific to the banking industry and the macroeconomy, and variables that are specific to financial inclusion.

The results showed that the variables for the bank itself were the most effective on the rate of return on assets, in addition to the positive effect on the asset return rate for the previous year. There was a positive moral effect on the capital adequacy ratio, which suggests that higher capital adequacy may reflect the bank's management's efficiency in investing and generating profits, as well as risk aversion. The results also showed a positive relationship between the size of the bank and the rate of return on assets. This can be explained by the fact that large banks often have more efficient risk management. On the other hand, the Study showed that there is a positive relationship between the rate of credit growth and the rate of return on assets, which reflects the efficiency of the credit granting process and the effectiveness of the management of credit risk, as well as the accurate evaluation of the clients.

With regard to variables in the banking industry and monetary policy, although the Study did not show an effect on the interbank lending interest rate on banks' profitability, this result may indicate that changing the monetary policy instruments did not negatively affect banks' profitability. Higher interbank lending rates lead directly or indirectly to pressure on banks' profitability by increasing the cost to banks that turn to the interbank lending market.

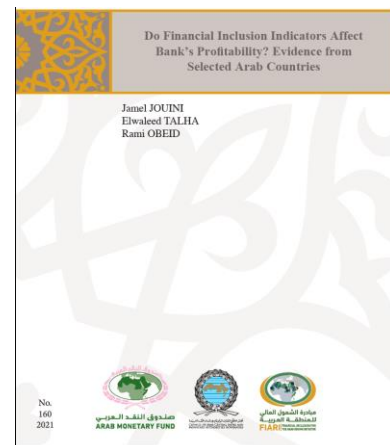
In terms of economic variables, the Study showed a positive effect on the rate of real GDP growth on the rate of return on assets, as improved economic activity may contribute to improved cash flows to individuals and companies, thereby enhancing their ability to repay their debts, reducing stumbling rates, and enhancing bank profitability. The results also showed a positive impact of inflation rates on the profitability of banks, as this can be explained by the fact that higher inflation rates reduce the disposable income of individuals, thus increasing their need to borrow.

On the other hand, the Study did not show evidence on the role of financial inclusion variables in enhancing bank profitability, as there is still a need to achieve a measured balance between branch distribution and the provision of electronic financial services in remote areas on the one hand and the operational cost on the other.

Finally, the Study recommended that the operational efficiency of the Arab banking sector should continue to be improved, which would positively affect the maintenance of bank solvency. It also stressed the importance of strengthening credit risk management and risk management in the banking sector. The Study also recommended the importance of strengthening financial awareness campaigns in remote and rural areas.

### 5.5 Study on “Bank Competition and Financial Inclusion”

The AMF has published a study on “Bank Competition and Financial Inclusion” The study is concerned with a number of issues related to banking competition in Arab countries, whether



regarding market structure determinants, banking market behavior represented in pricing decisions, or other determinants and their effects on the level of financial inclusion, based on the results of a questionnaire conducted by the AMF to monitor a set of data related to banking competition in Arab countries during the period (2010-2019).

The study showed the variation of evidence included in previous economic contributions on the role of banking competition in supporting financial inclusion. While some studies have found a correlation between bank competition and financial inclusion, others have suggested that rising competition may not necessarily lead to higher levels of financial inclusion, but to increased financial risk as financial institutions rush to high-risk lending. In contrast, faced with these trends, another set of studies sees the importance of a number of other factors that determine the nature of the relationship between banking competition and financial inclusion, for example, the level of financial infrastructure progress, financial development, the availability of credit information, financial education, and the evolution of business environments.

In light of the above, the Study concluded the following most important conclusions:

- The banking markets in the surveyed countries are monopolistic competition markets, as usual in the banking market, whether based on market structure indicators or market behavior indicators, which means that few banks compete with each other to gain a larger market share.
- The reforms adopted in Arab countries have contributed to a greater openness and an attraction to many domestic and foreign investors. The presence of Sharia-compliant banks alongside traditional banks has increased diversification of the banking sector's structure.
- Arab countries with the largest levels of diversification in the structure of the banking sector, measured by the largest representation of private and foreign banks that are Sharia-compliant, have achieved greater levels of access to finance for individuals and projects, led by Bahrain, Saudi Arabia, and Kuwait.
- Arab countries with lower levels of banking concentration (higher levels of bank competition) have higher levels of financial inclusion, led by Bahrain, which has the highest level of banking competition and the highest level of financial inclusion for individuals and enterprises, at 82.6% and 25.2%, respectively, according to the AMF's questionnaire.
- The relationship between banking competition and financial inclusion depends on a number of determinants, as the development of banking infrastructure, the availability and depth of credit information systems, and business environments play a role in strengthening the relationship between banking competition and financial inclusion in Bahrain, Saudi Arabia, Kuwait, and Lebanon.

Based on the above, the Study has made some recommendations at the policy-making level, including:

- Focusing of Arab supervisory authorities on adopting policies to increase levels of banking competition, so that these policies are one of the main pillars of financial inclusion strategies.
- Removing restrictions on banking by foreign investors and the private sector, privatizing the losing public banks to reduce bank dominance and extend more efficient provision of financial services.

- Adopting regulatory and supervisory requirements aimed at inducing banks to increase diversification of banking services and ensure fair pricing of banking services to minimize the negative effects of lower bank competition on financial inclusion.
- Providing an incubating environment to encourage Fintech's companies, one of the most important current approaches to increasing levels of banking competition and financial inclusion.
- Strengthening efforts in Arab countries to support banking competition and financial inclusion through the development of payment systems, credit inquiry, secured lending, movable asset registers, and bankruptcy systems.
- Requiring financial service providers to adopt measures to ensure interoperability of systems, both at the banking sector level and at the level of financial service providers from outside the sector, to deepen bank contribution and increase financial inclusion, particularly digital financial inclusion.

### 5.6 Policy Brief on “Digital Financial Inclusion”

The AMF released a policy brief on “Digital Financial Inclusion,” which points out that the significant development of online communications and new technologies within the framework of the Fourth Industrial Revolution, such as artificial intelligence, big data, and cloud computing has helped to enable financial institutions to expand access to their financial services to non-financially covered groups of individuals or micro, small and medium-sized enterprises, which has helped to reduce the cost of providing financial services and improve their efficiency levels.

The Policy Brief explained that the term Digital Financial Inclusion refers to digital access and use of official financial services by the financially uncovered population, so that these services are appropriate to the needs of customers, and provided in a responsible, sustainable and cost-effective manner within an appropriate legislative and legal framework. Digital financial inclusion enables less reliance on traditional financial methods and services and covers a wider geographical area, helping to provide financial services faster, more efficiently and at a lower cost, thereby increasing access to financial services for groups that are not financially included.

The Policy Brief indicated that according to international estimates, 1.7 billion adults worldwide do not have bank accounts, including 1.1 billion with mobile phones, which represents a special opportunity for developing countries to take advantage of expanded use of mobile phones in access to financial services. Studies also indicate the positive impact of digital financial inclusion on economic performance. For example, digital financial inclusion could help boost global GDP by 6% and generate gains totaling \$3.7 trillion by 2025. Each increase of 1 per cent in the number of people using mobile phones in their banking transactions is estimated to improve per capita income by about 0.3 per cent. At the geographical level, the continents of Africa and Asia are both leaders in the area of digital financial inclusion. In Africa, for example, Ghana, Kenya and Uganda are at the forefront of seeking to achieve digital financial inclusion in the continent, while the use of digital financial inclusion in the Middle East and North Africa, and Latin America, for example, still requires additional efforts compared to other continents.

The Policy Brief also indicated that there are many successful examples of a number of developing countries that had recently achieved a significant increase in levels of digital financial inclusion, particularly given the recognition by a number of developing countries of

the importance of financial inclusion in supporting sustainable economic development. Despite the different specificities and successes of each of these experiences, the Indian experience - according to many international institutions - is one of the most successful global experiences in increasing levels of digital financial inclusion. In this context, India has been able to build on the massive use of mobile phones, the development of financial technologies, and electronic payment systems, to become a country that is nearing full financial inclusion. The success of the Indian experiment is largely attributed to the 2009 Government's approach towards adopting the biometric identity project known as Aadhaar, the world's largest national identity project which, through biometric fingerprinting, provides unique and secure identification. It was used to open bank accounts and access digital financial services for all segments of the population.

At the level of Arab countries, the Policy Brief noted that the Arab countries rely on digital financial inclusion to facilitate access for 63 per cent of the adult population to financial services, particularly female, youth and micro, small and medium-sized enterprises. In view of the foregoing and in light of the growing global importance of Fintechs and their role in increasing financial inclusion, Arab governments are focusing on leveraging the opportunities that Fintechs offer to increase financial coverage through the expansion of online banking and financial services and mobile phone.

In view of the above, the Policy Brief concluded with a set of policy-making recommendations that would support digital financial inclusion in the Arab countries. Above all, the strengthening of digital and financial infrastructure, the integration of digital financial inclusion into national strategies and visions, and the adoption of a regulatory and supervisory framework that supports digital financial inclusion. In addition to adopting a supportive environment for digital financial service providers, focusing on increasing levels of financial literacy, and monitoring progress on digital financial inclusion.

## **6. FIARI Partners**

### **Arab Monetary Fund**

The AMF is a regional Arab financial institution, which was founded in 1976, and started operations in 1977, with the mission to lay the monetary foundation of Arab economic integration and to accelerate the process of economic development of its member countries, through training and capacity building on topics of interest, as well as financial and technical assistance to member countries to correct balance of payments disequilibria and implement structural reforms towards the modernization of their financial systems, and offering technical assistance to banking and monetary authorities in Arab countries with the objective of developing and strengthening their financial markets.

[www.amf.org.ae](http://www.amf.org.ae)

### **Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ)**

The Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) is a globally acting federal organization that supports the German Government in achieving its objectives in the field of international cooperation for sustainable development and international education. Most of GIZ's work is commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). GIZ also operates on behalf of other German ministries, as well as public and private sector customers in Germany and abroad. GIZ operates throughout Germany and in more than 130 countries worldwide. It offers demand-driven, tailor-made and effective services for sustainable development and takes account of political, economic, social

and ecological factors and supports partners at the local, regional, national and international level in designing strategies and meeting their policy goals.

[www.giz.de](http://www.giz.de)

### **Alliance for Financial Inclusion**

Member-owner and member based, AFI is an international organization of financial regulators and policy makers from 90 emerging and developing economies established under the International Organizations (Privileges and Immunities) Act of Chapter 485 of the Laws of Malaysia. AFI provides a platform for knowledge sharing and peer learning to its members to develop and implement evidence based, cutting-edge, financial inclusion policies with the ultimate goal of improving the access, usage, and quality of financial services to the unbanked and underbanked.

[www.afi-global.org](http://www.afi-global.org)

### **World Bank Group**

The World Bank Group's mission focuses on the ambitious goals of ending extreme poverty and promoting shared prosperity and a significant body of research and country-level experience has demonstrated the importance of access to financial services for their achievement. The central role of financial inclusion in development and new opportunities presented by technology for reaching poor and remote customers means that increasingly WBG operations in a variety of sectors, including education, health, public administration, infrastructure, agriculture, environmental and natural resource management, energy and private sector development, involve solutions that rely on access to formal digital financial services. Through the provision of financial products and services to governments, loans and equity investments to the private sector (via IFC operations) and innovative knowledge sharing, research, capacity building and technical assistance, the WBG brings a comprehensive set of tools to advance toward financial inclusion and meet the ambitious Universal Financial Access 2020 goal.

[www.worldbank.org](http://www.worldbank.org)

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### Initiative Partners



