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Nedjla Lemerini, Abdellatif Habi

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## The reality of financial inclusion in Algeria and the Arab world

 Lemerini Nedjla *	 Habi Abdellatif
Nedjla.lemerini@cumaghnia.dz	abdellatif.habi@univ-tlemcen.dz
Center university of maghnia-Algeria-	University of Tlemcen(Algeria)

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### Abstract:

The study aims to identify the reality of financial inclusion in Algeria and the Arab world by examining the concept of financial inclusion and its importance for economic development, and to address its indicators and the most important obstacles to the mainstreaming of financial services in the Arab world.

The study concluded that the Arab world continues to suffer from low levels of financial inclusion compared to the countries of the world, facing several challenges, which require the need to adopt an effective strategy to support and strengthen financial inclusion. As for Algeria, the ownership of the accounts at formal financial institutions have improved to an acceptable level, but borrowing from financial institutions is still very low.

**Keywords:** Financial inclusion; Financial education; The Arab world; Algeria.

**JEL Classification Codes:** G02, G20, I22.

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\* Corresponding author

## **Introduction :**

The concept of financial inclusion has gained great attention from international organizations and policymakers in various countries of the world, especially in the wake of the 2008 global crisis, which imposed on international financial institutions to increase interest in it as an important dimension in the sustainable development strategy because of its direct impact on improving growth levels. Achieving financial stability by disseminating financial and banking products and services to the largest number of individuals and institutions.

The Arab countries, like the rest of the world, have worked to adopt financial inclusion as one of the main axes in the economic development agenda by developing a strategy that includes all efforts and requirements, as this is the best way to achieve financial inclusion.

Algeria is one of the countries that has been interested in promoting financial inclusion, by developing some measures and strategies to overcome obstacles and reduce the proportion of financially excluded individuals.

The Arab world is witnessing a significant delay in the level of financial inclusion, which is reflected in the indicators in this context, as some Arab countries have sought to work to confront the shortcomings in the field of financial inclusion and adopt a strategy through which they try to pay attention to the financially excluded groups and make financial services accessible to all segments of society Based on the foregoing, the problem of the study centers on the following essential question:

**What is the extent of achieving levels of financial inclusion in Algeria and the Arab world as a basic pillar for achieving economic development?**

The hypotheses of the study were as follows :

- Financial inclusion is one of the pillars of achieving economic development.
- Arab countries have adopted several initiatives to promote financial inclusion, but they still suffer from its low levels.

The importance of the study lies in the importance of the topic, as financial inclusion is considered one of the important topics in the economic arena, as it is concerned with the delivery of financial services to all segments of society, promoting the creation of equal opportunities for individuals and facing economic and social problems.

The study aims to present concepts about financial inclusion and highlight its reality in Algeria and the Arab world, in addition to identifying the obstacles that prevent its realization.

To address the merits of the subject, we relied on two main approaches: the first is the descriptive-analytical approach to explain and clarify the theoretical aspects related to the concept of financial inclusion and its historical background, as well as its basic dimensions. It sheds light on the reality of financial inclusion in Algeria and the Arab world and analyzes the statistics related to indicators of financial inclusion. The second approach is the comparative approach when addressing the reality of financial inclusion in Algeria and some Arab countries.

### **1. Theoretical Framework for Financial Inclusion:**

Financial inclusion is one of the important issues that help the monetary and financial authorities in achieving economic stability for countries, by providing all means for financial services to reach all segments of society.

#### **1.1. Concept of Financial Inclusion:**

There are many definitions dealt with financial inclusion, but the most appropriate one is the definition set by the Center for Financial Inclusion in Washington, which states that “financial inclusion is the state in which all members of society are able to access a full range of quality financial services at reasonable prices and in a comfortable manner that preserves the dignity of customers” (Ajour, 2017, p10).

The World Bank (2016) defines financial inclusion as: “Companies and individuals’ access to available financial products and services that meet their needs such as:

transactions and payments, deposits, credit, savings, and their sustainable delivery to beneficiaries” (Aliwa, 2019, p. 02).

The Group of Twenty (G20) and the Global Alliance for Financial Inclusion (AFI) defined financial inclusion as: “The measures taken by regulatory bodies to enhance the access and use of financial services to all segments of society and to provide them in a fair and transparent manner and at reasonable costs” (Al-Qadi, 2018, p. 34).

The Organization for Economic Co-operation and Development (OECD) and the International Network for Financial Education (INFE) define financial inclusion as: “The process by which access to a wide range of formal and controlled financial services and products is enhanced at reasonable price and in an adequate form, and the use of these products is expanded by Prior to the different segments of society through the application of innovative approaches that include awareness and financial education, with the aim of promoting financial well-being and social and economic integration” (Booutalaa, Saed Bakhoush, and Bougherra, 2020, p. 146).

As defined by the Arab Monetary Fund (AMF) as: “Availability and use of all financial services for various groups of society, through official channels, including bank and savings accounts, payment and transfer services, insurance services, and financing and credit services, to avoid resorting to some To informal channels and means that are not subject to a minimum level of supervision and supervision and are relatively high prices, which leads to the misuse of their financial and banking services needs” (Al-Samarrai, 2018, pg. 11).

Financial inclusion means “the availability and use of all financial services and products for the various segments of society through official channels, in order to avoid the resorting of some to informal channels and means that are not subject to a minimum level of control and supervision and are relatively high prices, which leads to the misuse of the needs of those of financial services and products” (Esh, 2021, p. 09)

From the above-mentioned definitions, the following features of financial inclusion can be deduced: (Al-Samarrai, 2018, p. 12)

The ability of official financial institutions to deliver their services to all segments of society, especially the poor and marginalized;

- The ability of financial institutions to innovate financial products that enable all segments of society to use them;
- The ability of financial institutions to provide their banking services at reasonable prices and with high quality.

### **1.2. Dimensions and indicators of financial inclusion:**

At the 2012 Los Cabos Conference, members of the Global Association for Financial Inclusion and G20 leaders agreed on three main dimensions of financial inclusion:

- Ease of access to financial services;
- Effective use of financial services;
- Enhancing the quality of financial services.

Ease of access to financial services refers to the ability to use financial services from official institutions. Determining levels of access requires analyzing potential barriers to opening and using a bank account, such as cost and proximity to banking service points;

As for the effective use of financial services, it refers to: the extent to which customers use financial services provided by banking sector institutions, by determining the extent to which financial services are used, which requires data collection on the regularity and frequency of use over a certain period of time; (Shanbi and Ben Lakhdar, 2019, p. 109)

While the dimension of enhancing the quality of financial services indicates: the suitability of the financial service or product to the needs and lifestyle of the consumer (Aliwa, 2019, p. 11), as it is considered a measure that reflects the importance of financial

service for customers, and quality includes the opinions of customers' attitudes towards service request Provided Finance. (Falaq and Sharfi, 2020, p. 307)

The following table shows the most important indicators of financial inclusion according to international standards.

### **1.3. The role of financial inclusion in achieving economic development:**

The World Bank stressed the importance of financial inclusion, as it is considered a pillar of economic development, as it enables individuals to improve their living conditions and combat poverty. For example, in Kenya, poor sellers were provided with savings accounts to deposit their money in, and within a short period their savings rose, enabling them to expand their projects and businesses by 60%. The relationship between financial inclusion and economic development is a direct relationship, as the more financial systems meet the needs of individuals, the more sustainable development is achieved. (Al-Samarrai, 2018, pages 22-23).

Financial inclusion contributes to facilitating the free flow of funds from savers to borrowers, and creates liquidity in the sector that needs these funds. Expanding the scope of formal financial services also helps to formalize all economic activities and enables governments to track funds and simplify the procedures for collecting funds. Taxes and the prevention of tax evasion, and thus increase tax revenues, which enhances the ability of governments to spend on improving infrastructure and economic development initiatives, and this is evident from the experience of the Thai economy, as the expansion in providing individuals with access to financial services led to an increase in the growth rate The economy in Thailand is huge.

Financial inclusion also supports innovation and entrepreneurship, and contributes to providing job opportunities and reducing unemployment rates through financing self-employment and financing small and medium-sized enterprises that are characterized by labor intensity. (Ali, 2020, pp. 257-259).

## 2. The reality of financial inclusion in the Arab world

### 2.1. The Financial Inclusion Index in the Arab World:

The most important characteristic of Arab countries is that they are young societies, yet they still suffer from low levels of financial inclusion compared to other countries in the world. According to 2014 World Bank data, 82% of the population of Arab countries, which is equivalent to 182 million adults, do not have access to formal financial services (Shanbi and Ben Lakhdar, 2019, p. 120), meaning that only 18% of the population of Arab countries has an account. With financial institutions, as for the Gulf Cooperation Council countries, the matter is different in terms of the spread of banking services, where the percentage of the population with bank accounts is 82% in Bahrain and Qatar, 73% in Kuwait, 70% in Saudi Arabia and 84% in the UAE. As for the women's group, they suffer from a disparity in financial access from their male counterparts by more than 50%. (Bahouri, 2019, p. 172).

According to the Arab Monetary Fund (AMF), the Arab countries, with the exception of the Gulf states, are the most deprived of financial services and products in the world, as the percentage of financial inclusion in the Arab average did not exceed 21% - 29% in 2016, and it owned only about 30% of the adult population. Appropriate financial knowledge, and this percentage is less than the global average of 34%, while the gap in financial awareness ratios between men and women reaches 5% in the world, rising to 8% at the level of Arab countries. Statistics indicate that 93%

Of the young people aged between 15 and 24 years in the Arab region do not have bank accounts in any official financial institution, which is the lowest rate in the world. (Ben Guida and Bouafia, 2018, pg. 97).

The figures of the Financial Inclusion Index for the year 2017 indicate that only 37% of the population in the Arab world owns accounts in financial institutions, which is lower than the global average of 67% and less than the average of developing countries 61%, as

well as the average of middle-income countries 64% (Ben. Musa and Qomman, 2019, p. 05).

The following table shows the levels of the financial inclusion index in the Arab world for the year 2014

**Table 1: Financial inclusion index in some Arab countries.**

	Financial Inclusion Index %	Arab Rank			Financial Inclusion Index %	Arab Rank	Global Rank
Algeria	9.62	14	141	Saudi Arabia	24.34	9	103
Egypt	18.77	12	122	Sudan	5.74	15	157
Jordan	37.11	5	68	Syria	11.08	13	138
Kuwait	42.01	3	55	Tunisia	29.29	8	88
Lebanon	50.83	1	36	UAE	32.6	6	77
MOROCCO,West,sunset	30.86	7	82	Palestine	19.5	11	121
Amman	46,42	2	42	To whom	3.93	16	170
Qatar	40.60	4	57	Libya	22.59	10	109

Source: (Park & Mercado, 2015, pp. 6-7)

It is clear from the above table the weakness and decline of indicators of financial inclusion in the Arab countries as a group, but there is a disparity between these countries about the level of indicators of financial inclusion. Where Lebanon ranked first in the Arab world and thirty-sixth globally, with an estimated score of 50.83%. In general, the countries of the Arab world can be classified into three categories in terms of the degree of financial inclusion index:

The first category: Countries with high rates of financial inclusion: It includes the six Gulf Cooperation Council countries, which are countries with high rates of financial inclusion, where Oman ranked 42 globally, followed by Kuwait in 55th place, Qatar in 57th place, the UAE in 77th place, And Saudi Arabia ranked 103).

The second category: Countries with medium financial inclusion rates: It includes countries with financial inclusion rates ranging between (24% and 62%) and includes Jordan, Morocco and Tunisia, where the financial inclusion rates are, respectively: 37.11% - 30.86% - and 29.29%.

The third category: Countries with low rates of financial inclusion: It includes countries with rates of inclusion less than 24% and includes Libya, Palestine, Egypt, Syria, Algeria, Sudan and Yemen, where the rates of financial inclusion, respectively: 22.59%, 19.50 %, 18.77%, 11.08%, 9.62%, 5.74%, and 3.93%.

## **2.2. Comparison of financial inclusion between Algeria and some Arab countries (Guest, 2020, page 10)**

Despite the noticeable increase in account ownership in most Arab countries between 2011 and 2017, we find a large discrepancy between countries. In 2017, the percentage of account ownership was significantly high in the United Arab Emirates, Bahrain, and Kuwait at 88%, 83% and 80%, respectively, while this figure does not exceed 25% in Yemen, Djibouti, Sudan, Mauritania and Comoros. , Iraq, Syria, and we find Algeria occupied a good rank compared to its counterparts from the Arab countries, where we find this percentage during 2014 and it reached 50% and decreased in 2017 to reach 43% and this is due to the economic conditions that Algeria experienced (Table 3).

The United Arab Emirates recorded the largest increase in the percentage of financial inclusion in the Arab region, where account ownership increased from 59.7% in 2011 to 88.2% in 2017, followed by Saudi Arabia (from 46.4% in 2011 to 71.7% in 2017. In Egypt, which witnessed an increase in account ownership from 9.7% in 2012 to 32.8% in 2017. As for Iraq, the percentage of financial coverage reached 22.7% in 2017, compared to 10.6% in 2011, and the reasons for the improvement are due to the procedures Banks

represented by the development Its services include the localization of employee salaries and the granting of more loans, as well as the growing number of electronic payment companies.

**Table 03: Financial inclusion in the Arab countries - account ownership as a percentage of adults over the age of 15 years**

Countries	2011	2014	2017
United Arab Emirates	59,7	83,7	88,2
Bahrain	64,5	81,9	82,6
Kuwait	86,8	72,9	79,8
Saudi Arabia	46,4	69,4	71,7
Lebanon	37,0	46,9	44,8
Algeria	33,3	50,5	42,8
Jordan	25,5	24,6	42,5
Tunisia Nm	م.غ	27,4	36,9
Egypt	9,7	14,1	32,8
Palestine	19,4	24,4	25,0
Iraq	10,6	11,0	22,7
Mauritania	17,5	22,9	20,9

**Source: World Bank 2017**

The Arab countries have recorded a remarkable improvement in the rates of financial inclusion among women (Table 4), especially in Saudi Arabia, where account ownership among women increased significantly from 15.2% in 2011 to 58.2% in 2017, and in the UAE (from 47.2 % to 76.4%), in Bahrain (from 48.8% to 75.4%), in Egypt (from 6.5% to 27%), and in Algeria (from 20% in 2011 to 40% in 2014) but This percentage decreased to 29% in 2017. This is due to the aforementioned conditions on the other hand, women still suffer from financial exclusion in Yemen, Djibouti, Sudan, Mauritania, Palestine, Morocco and Iraq, where less than 20% of women own accounts in institutions In Yemen, this percentage drops to less than 2%, and the gender gap continues in the issue of financial inclusion as a result of males owning accounts almost twice as much as women own in most Arab countries, where Arab women still suffer in general from the difficulty of accessing financial channels more formal than men, as a result of structural barriers

(including This includes legal restrictions), regulatory obstacles (know your customer requirements), and thus lacks the basic financial tools needed for asset ownership and economic empowerment.

### **Conclusion:**

Financial inclusion is considered one of the modern issues that the international arena has known and is gaining increasing interest by countries and governments by seeking to develop strategies and solutions to address this problem. The international community has realized that financial inclusion is of great importance in achieving economic development through its contribution In facilitating the access of services and products to all segments of society, reducing poverty and improving the standard of living for individuals, reducing the rate of disparity in wealth and income, integrating the informal economy into the official economy circle of the state, and this study has shown several results that can be summarized in the following points :

### **Results:**

There are many definitions of financial inclusion, but its content is in one essence, as it refers to the extent to which companies and different groups of society and in different geographical areas can obtain financial services and products and the extent to which they can be used at a reasonable cost and in a timely manner.

Financial inclusion is based on the following dimensions: Ease of access to financial services granted by official financial institutions and the extent of their use by various groups of society and companies, in addition to the quality of financial services.

The Arab countries are characterized by weak financial inclusion. Despite the efforts and strategies adopted by these countries to enhance financial inclusion, they still suffer from low levels. This is confirmed by the statistics of the Arab Monetary Fund for the year 2016, which showed that the percentage of financial inclusion in the Arab average did not exceed (21%-29%).

The disparity among Arab countries in financial inclusion indicators, as the six Gulf Cooperation Council countries score relatively better rates compared to the rest of the countries.

- Arab countries face several obstacles to make financial services available to all segments of society, the most important of which are: poverty and high prices of financial services, disparity and inequality in income, lack of infrastructure for Arab financial sectors to the extent that ensures increased access to finance, lack of required documents, weakness The use of electronic payment systems and means, the low level of financial education, the religious beliefs of some, the concentration of banks in cities, the lack of security in some Arab countries such as Yemen and Libya, the lack of confidence in financial institutions, the dependence on the use of the account of a family member, and the belief of some No need for financial services.

- The ownership of accounts with the official Algerian financial institutions has improved to an acceptable level, but the percentage of borrowing from financial institutions is still very low.

### **Hypothesis testing:**

After presenting the results of the study, which aimed to clarify the reality and requirements of promoting financial inclusion in the Arab world, we conclude the following:

The first hypothesis: which states that: "financial inclusion is one of the pillars of achieving economic development", is proven and correct.

The second hypothesis: which states that: "The Arab countries have adopted several initiatives to promote financial inclusion, but they still suffer from its low levels," proven and correct.

Based on the results of the study, we suggest a number of recommendations, which are as follows:

- Providing a strong financial infrastructure that supports the geographical spread of banks and financial institutions and working on financial literacy by adopting financial education strategies in order to ensure access to financial services for all segments of society;
- The need to develop a legislative and legal environment that supports the dissemination and strengthening of financial inclusion in the Arab world;
- Designing and creating a variety of financial products that suit the needs of individuals, with transparency, fairness, and acceptable cost;
- Strengthening the partnership between the public and private sectors in order to contribute to facilitating access to financial services in the Arab world;

Improving the business climate in the Arab world and developing national strategies for financial inclusion;

Benefiting from successful international and Arab experiences in the field of financial inclusion.

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