



صندوق النقد العربي
ARAB MONETARY FUND

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**Statement by
Abdulrahman Al-Hamidy
Director General Chairman of the Board**

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On behalf of the Arab Monetary Fund, I would like to express my sincere thanks and gratitude to the G-24 Secretariat for the kind invitation to participate on our capacity as observer member in the G-24 Ministerial meeting, an important coordination platform for developing countries to discuss development issues.

The G-24 Ministerial meeting this year is of particular importance as it is taking place in the context of an increasing commitments of all Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs) towards the successful implementation of the Sustainable Development Goals (SDGs) by providing an important contribution to longer-term solution, including through safe and inclusive financial systems.

While the SDGs do not explicitly target financial inclusion, greater access to financial services is a key enabler for many of these goals. Empirical studies on the link between financial inclusion and development show where and how financial services can help achieve the SDGs and conclude by outlining opportunities for businesses and governments to expand financial inclusion specifically in emerging countries. Given the increasingly clear link between financial inclusion and development, more importantly the need of inclusiveness of growth, governments should continue to push for greater access to and use of financial services.

In this regard, allow me to emphasize that Arab countries have long recognized developing Arab financial sector is a corner stone in reviving economic activities, and increasing individuals and MSME's access to finance as a key opportunity to reduce poverty and boost economic growth.

Why financial inclusion is of particular importance in the Arab region?

It is now more deeply understood and widely acknowledged that Micro-Small and Medium Enterprises (MSME) play a key role in generating a pattern of economic growth that is labor-

intensive, pro-entrepreneurship and competitiveness. This helps contribute to broad-based development and reduce unemployment.

SMEs in the Arab region, as in the rest of the world, are a major source of employment and important drivers of growth. For instance, and according to IFC, formal SMEs account for 33 percent of GDP and generate about 20-40 percent of jobs. Yet they are generally facing different challenges, including access to markets, improve productivity, comply with administrative requirements, etc. However, gaining access to finance has often proved challenging for SMEs in the Arab region, especially entrepreneurs and young businesses. Today, it is estimated that more than 80 percent of MSMEs in the Arab region need a loan and don't have one, as opposed to less than 40 percent in Latin America and 20 percent in North America and Europe. Therefore, there is a great opportunity for banks and other financial institutions in the Arab region to increase lending to SMEs as the funding gap in the region needs 300 percent increase of the current credit outstanding portfolio to meet SMEs funding requirements. Moreover, the available financing for SMEs is almost working capital and there is a clear opportunity to increasing long term funding. Exploring capital markets as an alternative long term financing source for SMEs in the Arab region is one more and most looking forward option.

Moreover, enabled financial inclusion can help bring 71 percent of the region's individuals into the formal economy and offer them access to finance. When looking at gender gap, there is an even more opportunities as the weighted average of women adults that could be included into formal financial systems goes up to 78 percent.

Despite considerable and continuous efforts exerted by national financial regulators in the region, crowned by diversified financial reforms implemented over the past few years, further challenges are still to be tackled in order to reduce the cost of national and regional payments and provide full access to financial services. Digital Financial Services have emerged as a powerful and low-cost tool. Adopting and disseminating new technologies can help to address these specific challenges, increase individuals and MSME's access to finance and meet SDGs objectives.

Indeed, high levels of mobile phone penetration in the Arab region, reaching 84 percent of non-GCC Arab adults, make mobile money one of the effective tools for financial inclusion in the Arab countries. Mobile money services in conjunction with broadly distributed agents allows customers to access banking services without physically visiting a bank branch, with the potential to lower both transaction and financial delivery costs. It is particularly interesting for countries with vast rural populations lacking physical bank infrastructure. There is also significant interest in the Arab region in enlisting the participation of postal networks to help deliver mobile financial services by acting as agents. Progress made by some countries as diverse as countries in Africa and Asia in adopting mobile payments and banking is remarkable. We can draw upon the success stories of these good examples in leveraging technology to foster financial inclusion in our region.

However, financial institutions should not stop there. Providing financial services alone doesn't assure inclusion. Financial education is a must, because learning the basics of financial management and how to use financial assets is a critical part of helping people improve their lives.

Furthermore, financial inclusion should be accompanied by inclusion in other areas, including education, health, and public services, so people can prosper in all areas of their lives.

AMF's approach and operations

In the context stated above, multiple efforts have been undertaken by Arab financial regulators and the Arab Monetary Fund (AMF), in particular to spearhead the current trend and help to address Financial Inclusion challenges in the Arab region. In this regard, a regional Financial Inclusion Task Force has been established in 2012 under the umbrella of the Council of Arab Central Banks Governors and for which Arab Monetary Fund (AMF) acts as a Technical Secretariat. The task force meet on regular basis and aims at identifying ways to improve financial inclusion in the Arab World. Ongoing work streams includes, among others, (i) building National Financial Inclusion Strategies; (ii) promoting financial education; (iv) developing financial technology (Fintech); (v) improving Women access to financial services; (vi) Safeguarding financial services consumers; and (vii) Improving Financial inclusion measurement & build regional financial data and indicators.

In addition, a series of training, capacity development programmes and high-level financial inclusion policy events have been organized to spur peer-to-peer learning and knowledge exchange among Arab Central Banks and beyond, organized by the AMF in cooperation with several development partners such as AFI, GIZ, CGAP, World Bank, Bill and Melinda Gates Foundation. Moreover, the Council of Arab Central Banks Governor has approved recently April 27th as Arab Financial Inclusion Day. The effort exerted by the Arab Monetary Fund (AMF) in this regard is driven by its 2015 – 2020 Strategic Plan, aiming to help member countries to improve access to financial services by the underserved and to broaden and deepen the region's financial systems as well as by its role as the Secretariat of both the Council of Arab Central Banks Governors and the Council of Arab Ministers of Finance.

Moreover and to promote and enabling environment for SME to develop, the Arab Monetary Fund has established in 2016 an SME facility aiming to support and build a conducive environment for SMEs in AMF member countries by providing financial and technical assistance to meet the region needs in terms of developing SMEs sector.

Giving the growing need for more coordinated efforts among development partners involved in financial inclusion agenda in the Arab region, let me share with you an outline of our new regional initiative on Financial Inclusion, named Financial Inclusion in the Arab Region Initiative (FIARI), which is being established by the Arab Monetary Fund in partnership with AFI and GIZ. This initiative aims to support the above ongoing efforts and build on the regional momentum toward financial inclusion as a key opportunity to boost sustainable and inclusive growth in the Arab countries.

FIARI will be aligned with the G20 Agenda on Financial Inclusion, the Deauville Partnership supported by the G7, the Sustainable Development Goals (SDGs) by contributing, among others, to the reduction of poverty (SDG 1), promoting gender equality (SDG 5), and fostering decent work and economic growth (SDG 8), as well as the Addis Ababa Action Agenda (AAAA).

The scope of this initiative is to cover a wide range of relevant financial inclusion policy domains, including: (i) Financial inclusion data to support evidence-based policy making; (ii) Women's financial inclusion, employment and empowerment; (iii) Financial services for MSMEs including credit guarantee mechanisms; and (iv) Digital financial services and institutional innovation as means to expand alternative channels for financial system access and usage, among others.

Important components of FIARI will focus on developing a coordination mechanism, developing and establishing a monitoring and evaluation framework, supporting the implementation of national strategies for financial inclusion and developing country specific programs, through peer-to-peer learning, providing training, fostering knowledge exchange along with country specific programs and technical assistance/advisory services.

The Arab Monetary Fund (AMF) is therefore, not only committed but also well positioned, as a major partner in promoting financial inclusion in the Arab region to take the lead in facilitating a common endeavor between regional stakeholders and international development partners, aiming at exploring tangible ways of materializing synergies into increased opportunities for Financial Inclusion promotion and support. This may also be channeled and coordinated through platforms such as AMF Financial Inclusion Task Force in the Arab region, established under the umbrella of the Council of Arab Central Banks Governors.

I would like to take this opportunity to reiterate that the AMF continues intensifying its support to critical sectors for achieving high multiplier impacts on the economies of member countries in alignment with their development priorities. However, we are aware that tackling the diverse development needs of the 22 AMF's member countries is beyond the financial capability of one single institution. For this reason, the AMF has continued to forge strategic alliance with other development partners to leverage additional development assistance to its member countries.

Looking ahead, AMF will be pleased to welcome interested partners and stakeholders to reach out subsequently for further discussions on opportunities of collaboration and to join AMF's effort in promoting financial inclusion among AMF member countries, including in joining FIARI initiative.