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# Financial Inclusion: Strategic Directive for Financial and Social Stability

## Union of Arab Banks, Intercontinental Hotel, Aman, Jordan

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## Remarks by H.E Dr. Ziad Fariz, Governor, Central Bank of Jordan

**17 October 2016**

The recent international financial crisis has revealed a structural flaw in both the international financial and banking systems. Since the inception of the first bank in the world 700 years ago, we see that more than 50% of adults worldwide are still financially excluded and work outside the formal financial system!

Moreover, there is a big gap between developed and developing countries in terms of formal financial services usage; this gap is almost 50%. In fact, the level of financial inclusion is varies among the developing countries themselves. The Middle East and North Africa (MENA) and Africa in general, as well as Southern Sahara, have the highest rates of financial exclusion worldwide. The problem is even worse when it comes to gender, youth, and geographic distribution within the same country.

Why is the financial inclusion on top of international policy agendas?

Some studies and experiences illustrate a strong relationship between financial inclusion and achieving sustainable development growth. Financial inclusion helps in poverty reduction; whilst achieving socio-economic development and financial stability. We all know that financial services are strongly linked to the economic performance and assume a substantial role in the market efficiency for all sectors including individuals. Financial services contribute to Gross Domestic Product (GDP) and the creation of jobs.

Considering the growing volume of financial services, financial exclusion becomes a real hurdle for capturing income generation opportunities and achieving economic welfare especially for the unfortunate, women, youth, and migrants.

Today, let's go beyond the definition of financial inclusion, the hurdles from both supply and demand sides, and debate over legislative and regulatory barriers. Let's go beyond all this and ask ourselves: What is it we are trying to achieve?

Do we want better financial inclusion indicators to improve our ranking and position worldwide? Or, do we want to have the overarching benefits of financial inclusion flow all over our economies and reflect in better living standards and welfare for people in our countries?!

Today, we meet in your second country – Jordan: the country with heritage, dignity and pride; we gather as the Union of Arab Banks to discuss the strategic direction for socio-financial inclusion which can be realized via strengthened and well established financial inclusion policies and vision.

**First:** Let's have a look at the current situation in the Arab countries.

- Youth: Our countries are distinguished for being young communities as young people count for a high rate of these communities. This group, which represents the backbone of our future, are suffering from major impediments that prevent them from benefiting from financial and banking services. For instance, the youth under eighteen years old are deprived from formal financial services and cannot open and control their own savings even if they enter the informal labour market.

- Women: There is an obvious discrepancy in women's access to financial services compared to men. This discrepancy exceeds 50%. And it is exacerbated for the women who live in remote areas facing higher costs to reach formal financial services.

- Refugees: The most painful one is the tragic bloodshed and conflicts in our region resulting in waves of migrants and refugees seeking refuge in countries where their Arab brothers live. This group suffers from forced financial exclusion due to the lack of official documents required for accessing conventional financial services.

- SMEs: In our countries, SMEs and micro-enterprises suffer from lack of access to finance with reasonable cost. Information asymmetry is still a major impediment for some people and small enterprises which prevents them from having access to credit.

**Second:** Let's have a look at the Sustainable Development Goals (SDGs) for 2030 announced by the UN General Assembly a year ago on the 25$^{th}$ of September 2015 and approved by 193 countries worldwide.

The SDG's include 17 ambitious goals. Although they do not explicitly address financial inclusion, it is a major enabler to achieve these goals.

The first goal encompasses fighting abject poverty. Empirical evidence reveals that the increasing income gap between the poor and the rich will contribute to information asymmetry, markets deficiencies, and lack of access to formal financial services. This results in 'Poverty Traps' which keep people in abject poverty for a long time.

In this context, financial services including savings, help the poor to save and face challenges that arise from economic shocks, manage consumption. Access to finance also helps the poor to improve their living standards and face hardships.

Sustainable Development Goals (SDGs) related to health and education, for instance, can be targeted via automated payments and transfers such as G2P transfers and other type of payments. Automation saves time, production costs, and transportation expenses for the poor. Savings on the other hand can be used to improve education and health status for the poor. On the government side, savings in applying digital payments and transfers could be directed to enhance education and health systems for the poor.

Moreover, the World Food Programs fight against hunger is strongly linked to financial services and financial inclusion. Financial services play a significant role in improving food crops and fulfilling rapid demand increase for food worldwide. Insurance of agricultural crops enhance agricultural activity and food production. Saving and credit accounts provide farmers with investment potentials and tools to enhance their agricultural and food production activities.

Gender Equality is another international goal and priority for our Arab countries. Enabling women to have access to formal financial services will help enhancing equality and allow them to benefit from business opportunities. Many women in the Arab countries either do not work or they work from home; which impedes them from having access to credit. They cannot even have saving accounts at formal institutions; which increases the gender gap.

**Third:** As Arab banking and financial institutions assume major responsibilities in this field, we need to ask: Is it possible to reach financial stability whilst more than 50% of adults in our communities are financially excluded? Is it possible for us to achieve this whilst SMEs are unable to have access to credit? Our economies are largely dependent on SMEs which have become a major player in Arab economies.

Going back again to the international financial crisis, we must ask: Is financial stability in our countries real and sustainable or is it artificial and does not reflect facts on ground? Is it sustainable or volatile?

In this respect, we take on a major responsibility that requires us, altogether, to introduce policies for the whole Arab World to enhancing financial inclusion and improve social welfare and financial stability levels.

In this respect, we need to put in place policies for less costly and efficient money transfers amongst Arab countries. Other policies must be focused on establishing financial education for all groups of society regardless of their whereabouts, ages, and gender.

Regarding the youth in the age group 15 – 24 years; regulations and legislation need to be modified to provide the youth with tailored financial services whilst maintaining a risk management for these financial products. This should help the youth to build a credit history, mobilize their savings for the future, and do their payments digitally.

Tailored policies must be developed to utilize technology and digital financial services to serve innovation businesses which will help youth entrepreneurs to overcome access barriers to financial services.

Governments assume a very important role in terms of introducing sound regulatory frameworks, create demand, and enhance financial education. Governments should digitize payments and provide tax incentives to further enhance financial inclusion in addition to reducing the costs of processes and facilitate financial transfers to be faster and safer.

**Fourth:** It is my pleasure to present to you the achievements we accomplished in Jordan in terms of enhancing and deepening financial inclusion in the Kingdom.

**Digital Financial Services**: The Central Bank of Jordan established the national mobile payment switch in order to provide digital platform for savings, transfers, and financial processes by outreaching remote areas to provide with access to financial services upon at low cost; thus providing (cost-benefit) processes.

The Central Bank launched the Electronic Bill Presentment and Payment System to present and pay bills online. This ensures better collection rate for government institutions, utilities and other businesses.

At present, the Central Bank of Jordan is in the last stages of implementing full interoperability in all payment and settlement systems on one hand and via the mobile phone on the other hand.

**Financial Education:** In cooperation with its strategic partners, the Central Bank of Jordan launched the financial education program last year. This program starts with students in the seventh grade; further steps will be made to expand the scope of this program within the curriculum up to the twelfth grade by 2021.

The Central Bank of Jordan expanded its supervisory and oversight scope to include microfinance enterprises and empower this financial sector with an eye on enhancing its role in serving the targeted groups, as well as providing the finance they require. At present, MFI's are adopting the mobile payment systems to digitize their operations.

The SMEs and micro enterprises possess a high degree of interest for the Central Bank and Jordanian banks. The Fund for Governorates' Development was founded with a capital of JD 150 million, about USD 440 million were collected for the SMEs sector with reasonable interest rates. In the same domain, the Jordanian Company for Loan Guarantee was restructured, and a private company was established to finance entrepreneur projects in addition to the foundation of funds to support certain sectors and activities.

In November 2015, the Central Bank of Jordan launched the process for drafting the national strategy for financial inclusion with assistance and support of GIZ. The working groups started researching and surveying the market and setting a strategic plan. In November this year, the Conference to Enhance Financial Inclusion for Women will be held in Jordan to set Inter-Arab vision for women's financial inclusion.

In fact, the Central Bank of Jordan has recently joined the Alliance for Financial Inclusion (AFI) and announced its commitments under the Maya Declaration.

In closing, I would also like to commend the efforts of the Union of Arab Banks – both members and management and call them to direct all efforts to encourage innovation and creativity to tailor financial products in line with the needs of the excluded groups.

The Arab banks need to assume more comprehensive role to serve the Arab communities whether directly within their social responsibility programs or via enhancing innovative financial services, in addition to providing financial tools and services that meet the needs of the poor, women, and excluded groups.

Thank you.