

report

ADVANCING YOUTH FINANCIAL INCLUSION TO BOOST JOB CREATION AND GROWTH IN THE MEDITERRANEAN REGION

REPORT No. 30

June 2021

www.iemed.org

In collaboration with



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Webinar, 10 June 2021

Introduction

Young people (15-24 years old) are making up a significant share of the population in the Southern and Eastern Mediterranean countries where the median age is under 30 years old. This young population, despite having access to education, is facing a dire shortage of economic opportunities. This situation has been considerably aggravated by the COVID-19 pandemic, with the curtail of socioeconomic activities affecting primarily youth, especially within the informal economy. Consequences for them include lower incomes and the inability to achieve their own autonomy, while the impacts on the socio-economic development of Southern and Eastern Mediterranean societies are dramatically negative.

When transitioning to adulthood, access to finance plays a key role. Whether it be for accessing higher studies and training, receiving state social allowances, housing, launching a business, or saving for the future, **financial services are a crucial enabler for the empowerment, well-being and sustainable livelihood of the youth.** Yet, youth are often excluded from access to formal financial services. This is particularly true in Southern and Eastern Mediterranean countries where rates of financial inclusion of the youth are the lowest worldwide.

Against this background, the **MED Confederation**, the alliance of Euro-Mediterranean institutions and organisations promoting socio-economic cooperation in the Mediterranean region, dedicated a second webinar to the topic of financial inclusion, focusing on youth as an under-served segment, yet crucial for the socioeconomic development of the countries of the region.

Organised by the General Secretariat of the MED Confederation, the **European Institute of the Mediterranean (IEMed)**, in collaboration with the **Financial Inclusion for the Arab Region Initiative (FIARI) of the Arab Monetary Fund**, this event aimed at shedding light on the specific obstacles that the youth is facing to access finance, notably considering the impacts of the COVID-19 pandemic, while devising priority actions, and policies that can lead to improvements in the context of the Mediterranean region.

In the framework of this webinar, the MED Confederation invited experts and policymakers from international financial institutions, the European Union, representatives of commercial banks and public financial institutions, and scholars, to debate ways to advance the financial inclusion of youth as a booster for job creation and growth in the Southern and Eastern Mediterranean countries. **Chris de Noose**, President of the MED Confederation and Managing Director of the World Savings and Retail Banking Institute and the European Savings and Retail Banking Group (WSBI-ESBG), introduced the webinar, which was moderated by **Habib Attia**, Senior Advisor at the Arab Monetary Fund (AMF). Speakers from different backgrounds shared their own perspectives to give a comprehensive picture of the situation of youth financial inclusion in the region while providing examples of best practices and recommendations. Initiatives from the European Commission were highlighted by **Ingrid Schwaiger**, Deputy Head of Unit at the Directorate-General for Neighbourhood and Enlargement Negotiations, followed by a presentation by **Wissam Fattouh**, Secretary General of the Union of Arab Banks who gave the point of view of the private banking sector. **Fatima Zahra Aziz**, Executive Director of the Moroccan Foundation for Financial Education (FMEF) put a special emphasis on financial literacy as a fundamental prerequisite to achieving a real financial inclusion of the youth, highlighting the role of the institution she represents in this endeavour. Finally, **Mais Shaban**, Research Fellow at the Euro-Mediterranean Economists Association, completed previous presentations from an academic point of view and provided useful recommendations to advance youth financial inclusion in the region.

Why youth financial inclusion matters

Over the last decade, the topic of financial inclusion has been gaining considerable attention. At the G20 Summit in Seoul in 2010, financial inclusion was recognised as one of the main pillars of the global development agenda and a concrete G20 Financial Inclusion Action Plan was endorsed by the leaders of the G20 countries. Indeed, as highlighted by a participant, financial inclusion is a critical enabler for at least eight of the 17 sustainable development goals (SDGs). Enhancing access to finance contributes to improving the living conditions of the most vulnerable and underprivileged categories of the population, including the youth and women, while protecting them from financial hardships. Research has shown that financial inclusion is also a key element to fight income inequalities, reduce poverty, increase poor households' savings, enhance women's empowerment, and has a decisive role to foster education, food security, nutrition, and well-being. In the long-term, enabling individuals and businesses to access useful and affordable financial services and products meeting their needs in a sustainable way is essential to achieve inclusive economic growth, capital accumulation, and increased productivity, thus benefitting the whole of the economy and the society.

When it comes to young people, financial inclusion plays a crucial role in enlarging the scope of opportunities that this category of the population can seize to improve their current and future lives. By accessing formal financial services, the youth can invest in their own education to improve their employability and future professional perspectives. It enables them to gain their own autonomy in society (access to housing, planning their future) and become active socio-economic actors of their country. In addition, accessing financial services and products give young people the opportunity to launch their entrepreneurship initiatives and make their own contribution to job creation.

In Southern and Eastern Mediterranean countries, speakers recalled that young people (under 30-year-old) account for nearly half of the population.

In socio-economic terms, this situation will translate into 14 million new labour market entrants by 2030 – a 27% increase. As pointed out by a speaker, this is an enormous challenge for economies that have been struggling to create jobs. Against this background, it seems paramount to make access to finance a pillar of the development model of these countries to boost job creation for and by young people.

State of play of the financial inclusion of the youth in the MENA region

Nowadays, the high percentage of financially excluded individuals and businesses in Southern and Eastern Mediterranean countries is preventing finance to fully play its role as an enabler of economic development. As highlighted throughout the event, the Middle East and North Africa (MENA) region has the lowest rate of financial inclusion worldwide. According to the Global Findex 2017 and which was referred to by the speakers, only about 37% of adults in the MENA region own a bank account. Of course, this rate hides significant differences between countries of the region: Gulf countries such as the United Arab Emirates, Bahrain, and Kuwait feature rates of financial inclusion close to 80% while they do not exceed 25% in Yemen, Djibouti, Sudan, Mauritania, and Syria.

The situation is not much better for the youth of the MENA region: with only 32% of the young adults (15–24-year-old) financially included, the region is well under the global average standing at 68%. As pointed out by a speaker, the age gap within countries of the region is also significant and confirms that the youth is a particularly under-served segment of the population. In Morocco, for example, 33% of the adults own a formal bank account, compared to 16% of the 15-24-year-old people.

However, research has shown that the youth population is a very heterogeneous category with significant intra-category gaps in access to financial services. Women, the least educated, low-income young people, and those living in rural areas are the most excluded from access to formal financial services within the category of youth. Although more research and data are

needed to understand the youth financial exclusion in all aspects, participants stressed the large gender gap in the general population regarding access to finance: only 25% of women in the MENA region owned a bank account in 2017, compared to 48% of men. Territorial imbalances are also very significant with only 27,8% of rural areas inhabitants owning a bank account. Finally, it was also underlined that credit facilities extended to MSMEs – often run by the youth -, account for only 9% of the total banking credit facilities.

The participants agreed that this situation should be addressed as a matter of priority. The unemployment rate of young people in the MENA region of 26%, which is doubling the world average, speaks for itself. In addition, the COVID-19, which has especially impacted the youth and their socio-economic prospects, has made access to finance more crucial than ever to go through these difficult times.

Barriers and challenges for a greater financial inclusion of the youth in the MENA region

In order to efficiently address the issue of youth financial exclusion, factors that hinder young people's access to finance should be clearly identified to devise policies that make real impacts and achieve tangible results. Drawing on their own professional experiences, feedbacks from the field, and scientific research and studies, the speakers gave a clear picture of the barriers that prevent or deter young people from accessing and using formal financial services and products.

As evidenced by the research, high costs are the first factor discouraging young people to open an account or make use of financial services. This includes commissions and fees, high interest rates, or penalties for the non-maintenance of minimum balance, which are deterring young people with low incomes from accessing formal banking services.

The youth also suffer from negative stereotypes that associate them with higher risks linked to irregular income flows, small deposits and savings,

barring them from accessing basic financial services. As a consequence, they are often ignored as potential customers, and no adequate or accessible financial products are developed to address their specific needs.

The legal and regulatory environment is also identified as an obstacle to youth financial inclusion, with age and identification requirements colliding with the realities of large-scale informal employment among the youth in countries of the East and South of the Mediterranean region. It was for instance stressed that, although young Moroccans do save money, they massively resort to informal financial services due to the restrictive regulations that surround the opening of a bank account.

Although not specific to the youth, distance is a common barrier that hampers access to finance, notably in rural areas where bank coverage is little or absent. According to a survey mentioned by a panellist, 54% of the financially excluded Tunisians state that distance is the main reason preventing them to access formal financial services.

Cultural norms, especially regarding gender issues, religion, and dependence on family members, were also put forward to explain the low rates of financial inclusion. For instance, in Jordan, 18% of the financially excluded mention religious reasons to explain their lack of bank account, thus making it necessary to further develop Islamic banking. Finally, young people usually lack the necessary knowledge and capabilities to make sound financial decisions, thus calling for stepping up initiatives that promote financial literacy.

The contribution of digital financial services in narrowing the inclusion gap in the Mediterranean

The MENA region has not remained on the sidelines of the digital transition that affects the financial sector, which has been illustrated by the fast development of fintech solutions. Indeed, according to a participant citing the Consultative Group to Assist the Poor (CGAP), more than 330 fintech

solutions have been operating across 22 Arab countries. Driven by the well-educated and tech-savvy young population of the region, as well as the record levels of cross-border remittances in the region, start-ups have blossomed up and are making their way in the financial sector by incorporating the latest technological innovations into commercial banking services.

As stressed by the participants who welcomed this development, the fintech sector has successfully managed to offer a variety of financial services that include payment digital currencies, money transfers, lending, crowdfunding, wealth management, and insurance services. In their opinion, digital financial services represent a revolution that disrupts the traditional financial landscape with faster, cheaper, simpler, and more easily accessible services and products. They have therefore the potential to help overcome barriers related to costs, distance, or compliance requirements. They also provide alternative resources of financing for MSMEs, which have been faced with high costs, required collateral, and guarantees as major obstacles to their access to the formal financial system. Consequently, the speakers highlighted the key role played by digital finance services in financial inclusion and inclusive growth, which is also stressed by the 2016 G20 global partnership for financial inclusion, which introduced the new high principle of promoting digital financial inclusion.

The panellists stressed that there is a tremendous potential for growth as regards fintech start-ups in the MENA region: according to the figures mentioned during the webinar, 48% of the adults have access to a mobile phone with an internet connection, but only 7% of them have a mobile banking account. Moreover, the products designed by these youth-led companies are particularly appealing for a population that is considered "digital native". Finally, the COVID-19 has been playing an important role in the development of digital financial services. The latter have been strengthened as one of the important factors that helped to mitigate the impact of the COVID-19 pandemic. They have facilitated access to banking services that were impacted by the restrictions of movements, as well as

remote access to state social assistance. While investments in digital finance have soared in the last years, the pandemic has highlighted the dependence on digital technologies, resulting in more investments in digitalisation and stimulated the use of digital finance in new areas. Both public and private sectors have encouraged the use of digital financial services, leading to significant growth in the subscription and use of digital wallets, especially in countries such as Jordan and Tunisia.

Finally, it was also remarked that digital financial services can also help to reach other marginalised populations, such as refugees, a great share of which are young people, through digital accounts, wallet and mobile banking. Initiatives have been developed in this regarding in Lebanon, Jordan, and Turkey, involving donors, development agencies, commercial banks and telecom companies.

Digital financial services have been recognised as a key pillar of the strategies to fight financial exclusion, especially when targeting young populations. However, the speakers stressed that a number of challenges need to be addressed to enable digital financial services to produce both economic and social impacts. Among these are the need to create robust infrastructures (including electricity networks) that reach each corner of the countries, foster access to technology, adapt current regulations, ensure the protection of the consumers, develop a safe digital environment, and address the risks of reinforcing digital divides notably through education.

The public sector, especially central banks, has therefore a crucial role to play in supporting the digital transformation to ensure that digital financial services really contribute to enhance financial inclusion of all currently underserved segments and leave no one behind.

Strengthening Public-Private cooperation to improve youth financial inclusion

It was acknowledged by the participants that the responsibility of putting forward the financial inclusion agenda of the youth in Eastern and Southern

Mediterranean countries lies with the public authorities. Commercial banks, which are profit-making actors can, at first sight, appear far from being concerned by the issue of financial inclusion, although they may develop corporate social responsibility initiatives that address it. However, they would clearly benefit in the long-term from the inclusion of more individuals and businesses into the financial system. This is why participants called for stronger public-private partnerships to develop coherent policies that achieve tangible results.

The role of central banks, as financial regulators, was considered key in this regard. Panellists insisted that they are in the position to issue binding rules that oblige commercial banks to do their part in fighting financial exclusion. For instance, in the Sultanate of Oman, the central bank has enacted rules that compel commercial banks to reserve at least 5% of their lending to MSMEs.

When it comes to youth financial inclusion, it was argued that the regulators should put forward a youth-friendly regulatory environment, while private banks should be incentivised to lower the costs associated to the opening and use of a bank account for young people (e.g., waiving fees for this age group) and develop dedicated and adapted products and services to this age group.

It was also made clear that there is a need, in the MENA region, to facilitate access to liquidity for all consumers, by expanding the basis of the financial service providers with access to common financial infrastructure while reducing the fragmentation of the banking sector.

A panellist made the point that political and economic stability are essential to boost financial inclusion. However, it is not the case in all the countries of the region. The example of Lebanon, where a political, economic, and financial crisis has prompted the Lebanese people to resort non-formal financial resources with a large-scale shift to a cash-based economy, was highlighted in this regard.

Public support for youth financial inclusion is also a matter of international cooperation. The European Union has been active in this regard, putting forward both financial inclusion and the youth as pillars of its development strategy towards its Southern Neighbourhood. Its policies have been focusing especially on support to Micro, Small and Medium-sized Enterprises as the backbone of Southern Mediterranean economies and which have the potential to create jobs for the youth. This is why they have been working towards better access to finance for MSMEs, especially through blending with financial institutions to provide liquidities under the Neighbourhood Investment Platform. Up to date, these EU initiatives have achieved to leverage 1.2 million euros funding to reach more than 200,000 MSMEs in the region. Youth and women are also primary targets of the EU initiatives in the field of microfinance, with funds directed towards commercial banks provided that they fulfil certain percentages for young people and women.

Therefore, one of the main messages conveyed by the panellists was that public policy dialogue involving regulators, international financial institutions, federations, and associations of the commercial sector, as well as new actors of the fintech, is essential to find coherent, targeted, and impactful approaches to address the lack of financial inclusion of the youth in the Southern and Eastern Mediterranean region.

Financial literacy as a fundamental prerequisite for financial inclusion

An essential driver and complement of financial inclusion, financial education has seen its importance being growingly recognised within the global development agenda. As mentioned by a panellist, both the G20 and the Organisation for Economic Cooperation and Development (OECD) have emphasised that financial literacy is an essential life skill that can make a critical difference in people lives, opportunities and successes, while being a cornerstone of well-being, entrepreneurship, social mobility, and inclusive growth.

Improving financial literacy is a critical prerequisite to developing financial inclusion in the MENA region. Morocco is one of the countries that well

understood its importance and tackle financial illiteracy head-on. Faced with a weak level of financial inclusion, explained somehow by a significant illiteracy rate, the country is implementing since 2019 its first national strategy of financial education targeting first and foremost the youth, women, rural populations, and MSMEs, without compartmentalisation. Although the youth is the fundamental target, it is a dynamic life-long learning process that should be adapted to the needs of each category of population and to the fast-paced evolution of the financial sector. The Moroccan Foundation for Financial Education (FMEF), placed under the Bank al-Maghrib, has been successfully coordinating and connecting public and private initiatives with ministries and representatives of the commercial banking sector to create synergies. The foundation also works together with the fintech industry to accompany innovative mobile payment services with the necessary information in terms of financial education. The foundation is an example of how it connects the public and private actors for the common good.

The Moroccan example shows how important and decisive is the integration of financial inclusion modules in the school curricula, vocational training institutes (handicrafts, agriculture), universities, and literacy programmes. The FMEF also accompanies young entrepreneurs with special programmes designed to help them develop their financial skills with regard to their business plans or treasury management. Also, it has deployed its presence on social media and has made available a platform of e-learning to target connected youth.

More and more public and private actors are investing in financial education across the MENA region. This is also the case of the Arab Union of Banks, which has put forward an initiative dedicated to improving youth financial education by organising seminars and awareness training on financial literacy. Because education starts indeed with awareness, participants highlighted the importance of the Arab Day for Financial Inclusion (27 April), launched in 2017 by the Council of Central Bank governors, and which provides the occasion for financial and educational institutions to join forces to put the issue in the

focus of attention. They invited the public to seize this opportunity to showcase their success stories in terms of financial education and inclusion.

Conclusions

Throughout the webinar, participants have shown that the Southern and Eastern Mediterranean region has been witnessing lots of efforts and initiatives to address the issue of financial inclusion, targeting under-served segments of the population that are nevertheless crucial to achieving inclusive and sustainable development. Yet, panellists have underlined that the region still lags behind compared to the other regions of the world and this calls for more coordinated and decisive action in the years to come. They have stressed that the COVID-19 has made it even more crucial and urgent, as unemployment amongst the youth has worsened in the countries of the region.

The youth is essential to achieve sustainable development in the Southern and Eastern Mediterranean countries where they account for half of the population. Putting them in the focus of financial inclusion strategies is therefore of utmost importance. Financial inclusion is indeed giving them the means to play their full role as the engine of inclusive development. Efforts must be replicated and multiplied while learning from each other experiences to accelerate the efforts to achieve better rates of financial inclusion in the region. This is necessary to strengthen the resilience of the youth category that has been disproportionately impacted by the COVID-19 crisis.

The MED Confederation is supported by

