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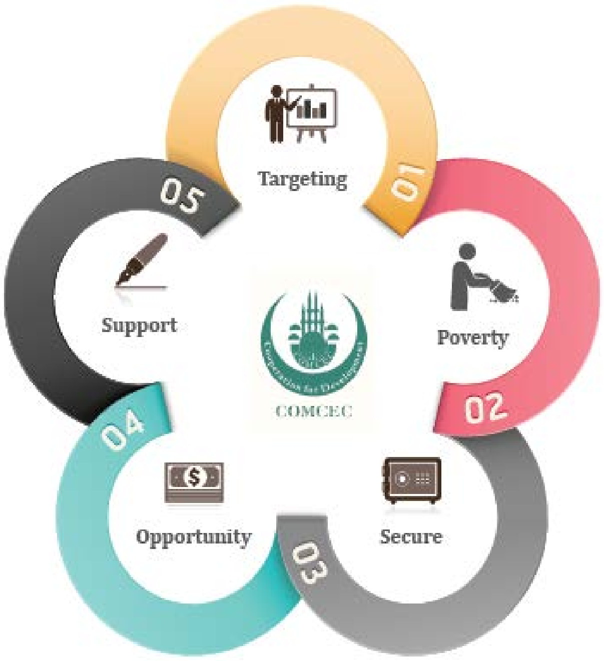
COMCEC

Financial Inclusion in the COMCEC Region: Institutional Framework, Main Barriers and Policy Recommendations



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Ankara

Outline

«Enhancing Financial Inclusion in the COMCEC Countries» Report

The COMCEC Country Clustering Methodology

Barriers to Financial inclusion in the COMCEC Countries

Policy Alternatives and Initiatives for all the COMCEC Countries

The COMCEC Financial Inclusion Framework

Ease of Implementation in the COMCEC Countries

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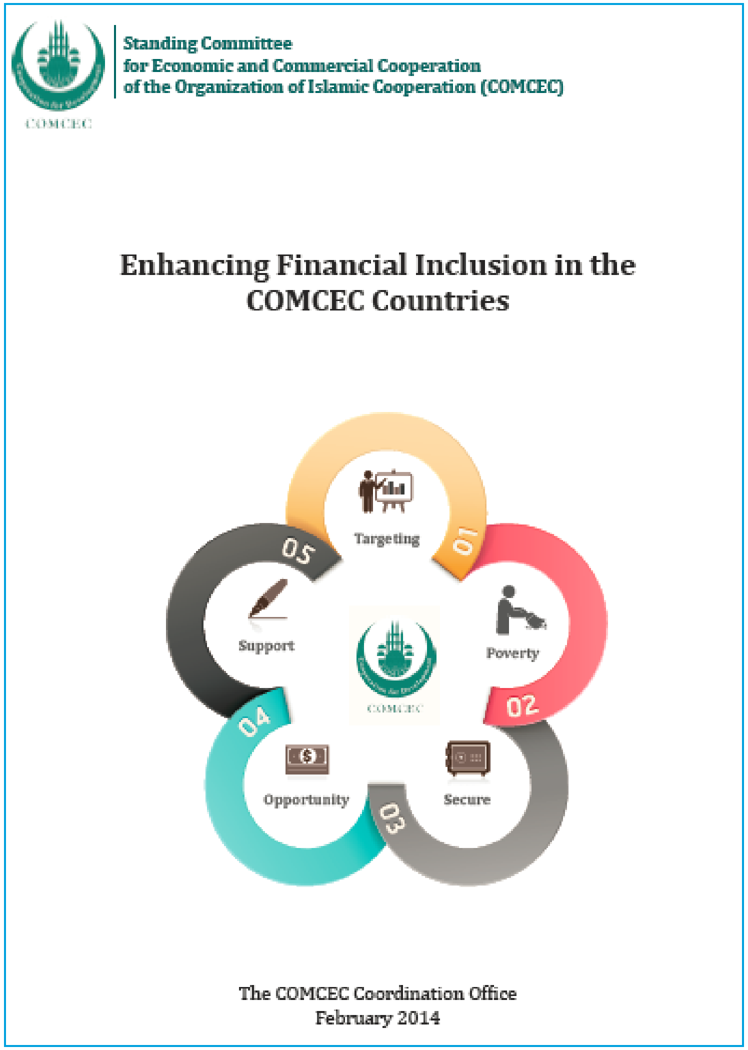
Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

Enhancing Financial Inclusion in the
COMCEC Countries

The COMCEC Coordination Office
February 2014

- The COMCEC Office & Deloitte Consulting
- Aimed to Define Alternative Ways to Enhance Financial Inclusion
- Desktop Research, Literature Review, Subject Matter Experts (SMEs) and Deloitte Analysis
- Report's Outline:
    - Conceptual Framework for Financial Inclusion and Recent Developments in the International Agenda
    - A Snapshot of financial inclusion at a Glance in the COMCEC Countries
    - Reviewing Institutional Framework for Financial Inclusion in/among the COMCEC Countries
    - Identifying Barriers on Enhancing Financial Inclusion and Introducing Measures for Reducing Financially Excluded Population in the COMCEC Countries
    - Conclusion and Recommendations

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The COMCEC Country Clustering Methodology

Although majorly located in the MENA (Middle East and North Africa) region, rather than geographical characteristics, below hypothesises have been considered as a base for the clustering methodology:

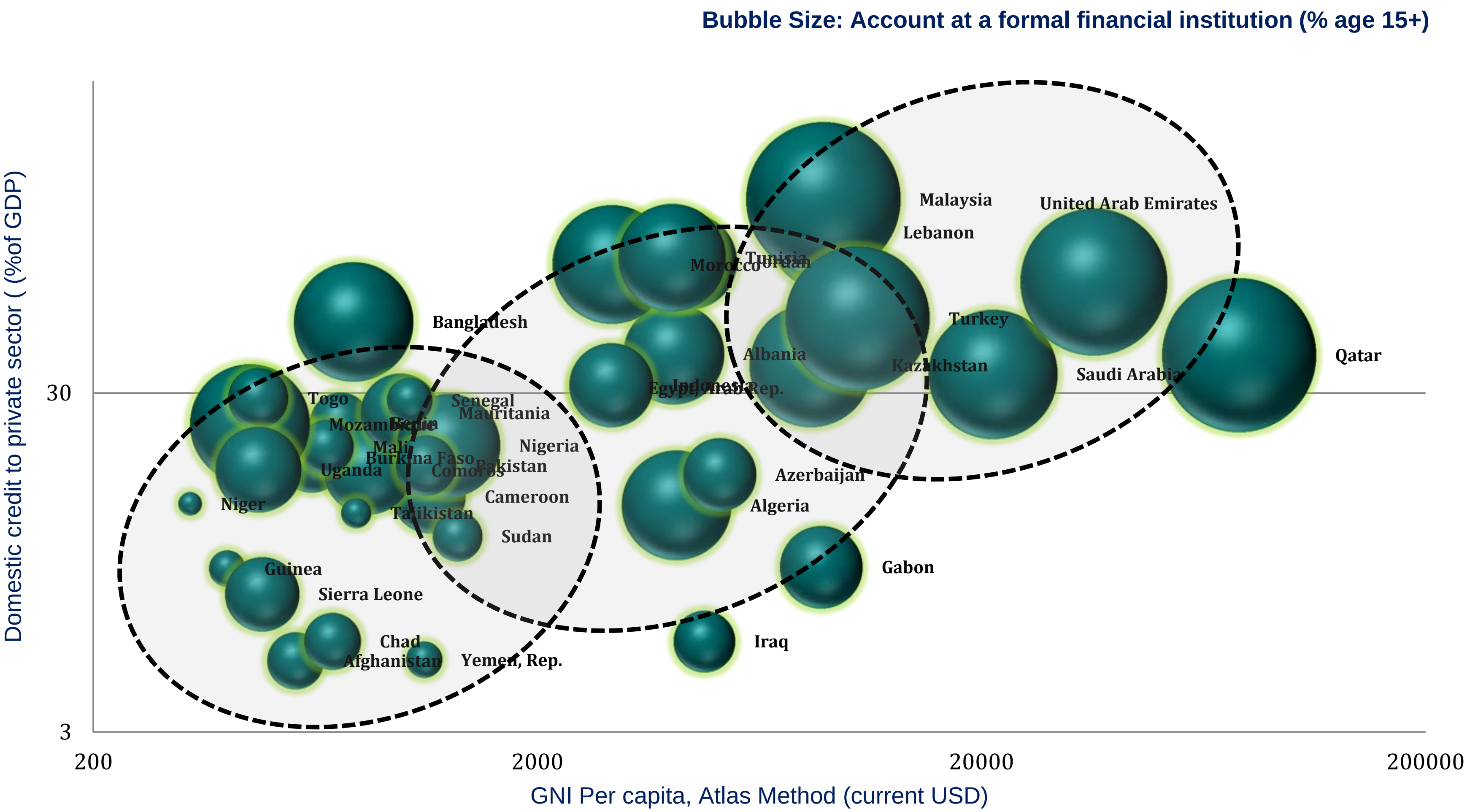
- The COMCEC member states may be experiencing different levels on their financial inclusion and/or,
- The COMCEC member states may face different barriers against financial inclusion and/or,
- The COMCEC member states may need different financial inclusion frameworks and strategies

The clustering methodology is structured on a “roadmap/framework-to-address a particular financial inclusion barrier” approach. The clustered countries may have different financial inclusion barriers per-se, however the methodology allow us understand at what “stage” the particular country is in its financial inclusion framework.

Clustered countries only involve the COMCEC countries; therefore the comparison should be made on a “relativity” point of view. In other words, not all Cluster 3 countries should not be considered as “developed” countries but relatively developed in comparison with Cluster 1 and 2 countries.

Source: Deloitte Resources

The COMCEC Country Clustering (1/3)



Source: Deloitte Resources

The COMCEC Country Clustering (2/3)

The breakdown of parameters per clusters is illustrated below:

	GNI per capita, Atlas Method (current USD)	Domestic credit to private sector (%GDP)
Cluster 1	0- $1.300	Low Size
Cluster 2	$1.301 - $8.200	Average Size
Cluster 3	$8.201 >	Average to High Size

Source: Deloitte Resources

The COMCEC Country Clustering (3/3)

Cluster	1	2	3
Financial Inclusion Stage	Birth: Learning Stage	Youth: Investing/ Consuming Stage	Maturity: Saving Stage
Countries	Afghanistan Bangladesh Benin Burkina Faso Chad Comoros Côte d'Ivoire Gambia Guinea Guinea-Bissau Guyana Kyrgyz Republic Maldives Mali Mozambique Niger Palestine Sierra Leone Somalia Suriname Tajikistan Togo Uganda Uzbekistan	Albania Algeria Brunei Darussalam Cameroon Djibouti Egypt Gabon Indonesia Iran Iraq Jordan Libya Mauritania Morocco Nigeria Pakistan Senegal Sudan Tunisia Turkmenistan Yemen	Azerbaijan Bahrain Kazakhstan Kuwait Lebanon Malaysia Oman Qatar Saudi Arabia Turkey United Arab Emirates
General Characteristics based on Clustering Criteria	• Relatively low credit penetration • Relatively low account penetration • Low income level	• Low-to-medium credit penetration • Medium level account penetration • Low-to-medium income level	• Relatively high credit penetration • Relatively higher foreign players in the financial markets • Relatively high account penetration • Adequate income level • Existence of natural resources • Developing private sector with financing needs • Balance of repayments remain deficit • High trade economy

Source: Deloitte Resources

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Barriers to Financial inclusion in the COMCEC Countries

Question: What are the most important barriers against financial inclusion particular to your country?

Barriers to Financial inclusion in the COMCEC Countries

Major Barriers

Cluster 1 Countries

1. Low, unpredictable and irregular income level
2. Weak private sector
3. Lack of collateral for lending
4. Inadequate (physical) access to financial sector providers
5. Low financial literacy& awareness
6. Low need for a financial product or service
7. Poor financial and legal infrastructure
8. Non-profitable financial market (inadequate business case) for the local and global suppliers
9. Existence of shadow economy

Cluster 2 Countries

1. Inadequate lending/financing strategies, lack of suitable products
2. Inadequate access to financial system
3. Mild competition in the financial markets
4. Cost concerns
5. Inadequate qualified personnel for the financial sector
6. Improvement needs for financial infrastructure

Cluster 3 Countries

1. Voluntarily excluded segments (cultural and religious)
2. Involuntarily excluded segments (women, young population, immigrants)
3. Improvement needs for financial infrastructure

Source: Deloitte Resources

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Policy Alternatives and Initiatives for all the COMCEC Countries

1. **Establishment of National Financial Inclusion Strategies**
2. **Increasing Financial Literacy**
3. **Realization of Financial Consumer Protection**
4. **Utilization of Mobile Financial Services**
5. **Microfinance and Microcredits**
6. **Agent Banking**
7. **Islamic Finance**

Common Strategies for Financial Inclusion

It is important to note that ***not all of the policy alternatives are applicable to all of the COMCEC member states, and there is no single strategy that could be applicable to all of them***. ***Therefore, there is no single recipe for increasing financial inclusion levels.***

Source: Deloitte Resources

Question 2

Question: What should be the primary steps towards financial inclusion particular to your country?

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THE COMCEC FINANCIAL INCLUSION FRAMEWORK

Major Barriers	Roadmap

Financial Inclusion Stage 0
Cluster 1 Countries

Major Barriers

1. Low, unpredictable and irregular income level
2. Weak private sector
3. Lack of collateral for lending
4. Inadequate (physical) access to financial sector providers
5. Low financial literacy& awareness
6. Low need for a financial product or service
7. Poor financial and legal infrastructure
8. Non-profitable financial market (inadequate business case) for the local and global suppliers
9. Existence of shadow economy

Roadmap

1. Position financial inclusion as part of the local government's agenda
2. Increase financial literacy through government-led programmes
3. Replace cash with non-cash methods
4. Invest in legal and financial infrastructure
5. Promote microfinance to introduce "lending" culture
6. Ease Documentation Requirements

Financial Inclusion Stage 1/ Priority: Corporate Clients
Cluster 2 Countries

Major Barriers

1. Inadequate lending/financing strategies, lack of suitable products
2. Inadequate access to financial system
3. Mild competition in the financial markets
4. Cost concerns
5. Inadequate qualified personnel for the financial sector
6. Improvement needs for financial infrastructure

Roadmap

1. Increase financial education
2. Improve lending strategies
3. More SME finance/advisory through government-led programmes
4. Promote cost-effective financial services
5. Boost the competition in the financial markets

Financial Inclusion Stage 2 / Priority: Corporate + Individual Clients
Cluster 3 Countries

Major Barriers

1. Voluntarily excluded segments (cultural and religious)
2. Involuntarily excluded segments (women, young population, immigrants)
3. Improvement needs for financial infrastructure

Roadmap

1. Increase financial capabilities
2. Improve saving strategies
3. Strengthen Islamic Finance
4. Promote affluent, private banking and wealth management strategies
5. Promote policies towards financially excluded segments
6. Promote advanced lending products
7. Decrease barriers to market entry

Source: Deloitte Resources

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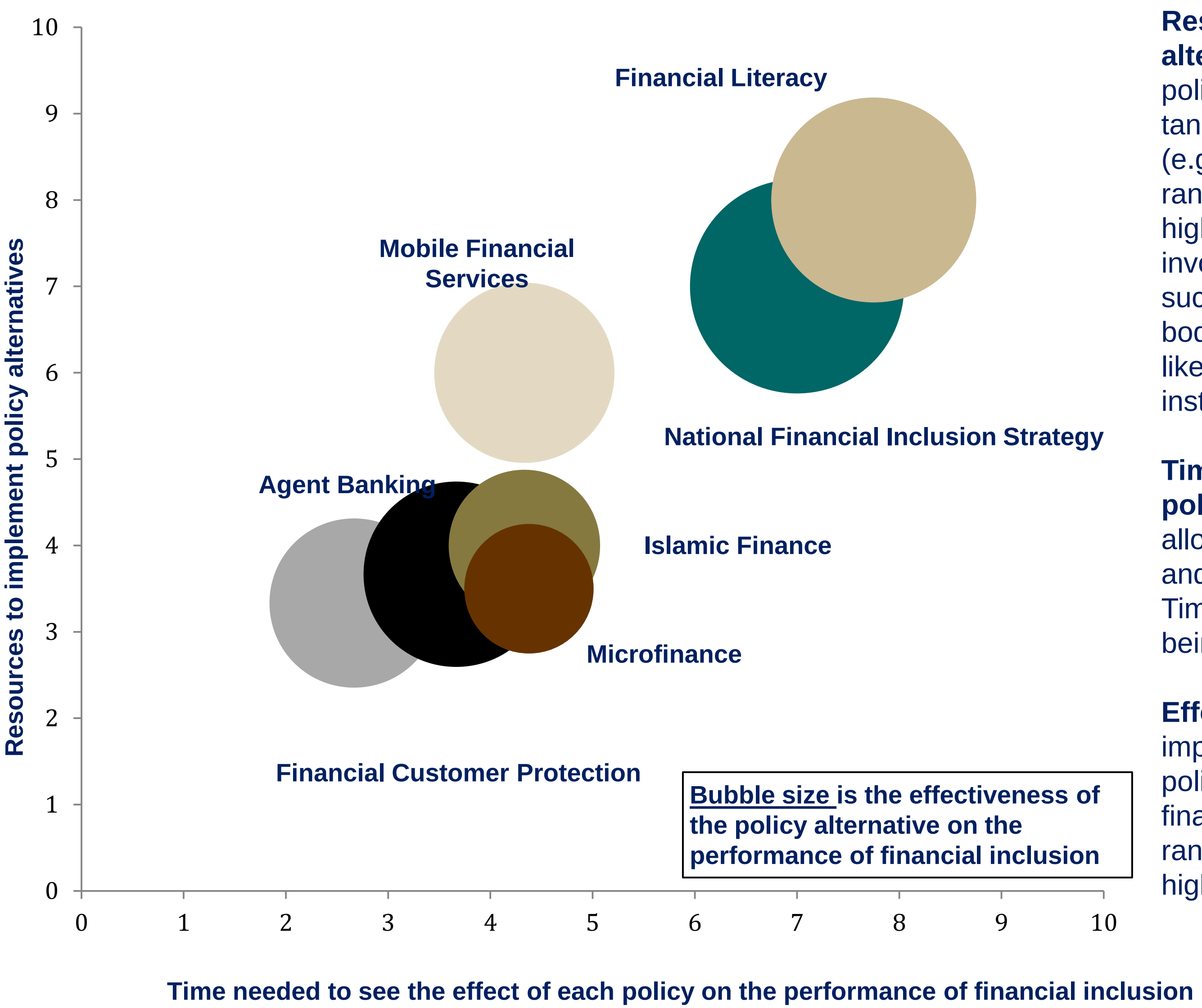

Resources to implement policy alternatives: Costs attained to each policy alternative which comprises tangible costs associated with resource (e.g. capital, human resource, etc.) are ranked on a scale of 1 to 10-10 being the highest. This item also considers involvement from different shareholders such as government, governmental bodies, non-governmental organization like financial institutions, non-financial institutions and NGOs.

Time needed to see the effect of each policy: Total time that should be allocated in terms of both development and implementation of a particular policy. Time is ranked on a scale of 1 to 10-10 being the longest.

Effectiveness of the policy: Total impact and effectiveness of a particular policy alternative on the performance of financial inclusion. Effectiveness is ranked on a scale of 1 to 10-10 being the highest.

Source: Deloitte Resources

Concluding Remarks

Not all of the policy alternatives are applicable to all of the COMCEC member states, and there is no single strategy that could be applicable to all of them. Therefore, there is no single recipe for increasing financial inclusion levels.

However, depending on the past performance and maturity levels of the financial markets in each country, the COMCEC countries would be advised to develop a strategic roadmap and feasibility towards increasing financial inclusion, with a prioritization of these policy alternatives. Such a decision would be meaningless unless member states see the cost – benefit equation of the policy alternatives.

Source: Deloitte Resources