



Financial Inclusion In Palestine

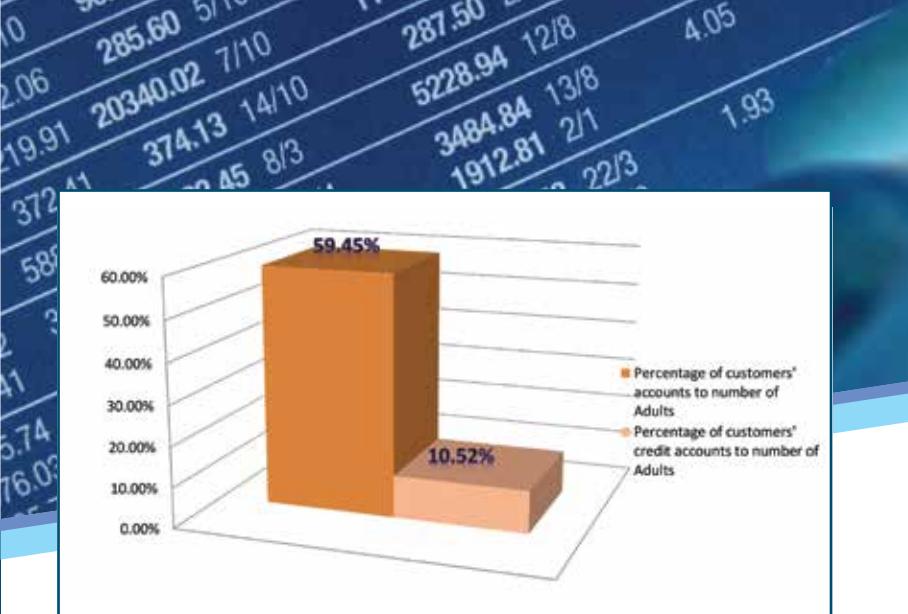
By Dr. Jihad Al-Wazir



In the aftermath of the 2008 global financial crisis, financial inclusion has gained increasing prominence in international arenas. A worldwide interest in international financial institutions, central banks, and monetary institutions is evident, in addition to an emerging interest in other equally important topics like the promotion of small and medium enterprises (SMEs), the establishment of credit bureaus, and the exchange of information about investors and borrowers across borders in order to protect national economies.

Financial inclusion is defined as the measures taken to "promote access to and usage of appropriate financial products and services needed by all social groups including vulnerable and low-income groups in a fair and transparent manner and at an affordable cost." The importance of financial inclusion comes from its interconnected relationship with financial stability and financial integrity. The procedures set up to bring about financial inclusion and financial integrity, in turn, create higher levels of financial stability. As a result, interrelated policies and procedures are needed to support all three complementary components. These policies and procedures will eventually improve economic conditions and promote economic growth rates, and thereby contribute to social welfare and social stability.

For the above-mentioned reasons, the Palestine Monetary Authority (PMA), in partnership with the Palestine Capital Market Authority (PCMA), and other related parties, have given great attention to putting in place a national strategy for financial inclusion. Basic financial inclusion indicators in Palestine have revealed a large gap between



the access to and the usage of financial products. While the percentage of adults with bank accounts has reached 60 percent, the percentage of adults using credit products remains at about 10 percent. Aside from political and economic factors, this large gap may be attributed to a number of other key reasons: poor financial awareness and literacy, inappropriate products and services on offer with respect to the needs of the community, high cost of services and products, lack of both transparency and the disclosure of product terms and conditions, and the absence of basic consumer protection policies. These are all key reasons responsible for the significant lack of usage of financial products.

Worldwide interest in financial inclusion intensified during the G20 Summit recently held in Brisbane, Australia, in which the participants confirmed the need to help the economies of developing countries attain better economic growth rates by encouraging their business sectors to develop competencies, maximize domestic revenues, create new employment opportunities for women and youth, invest in financial infrastructure, and

help their citizens access and better utilize sources of financing in order to improve their living conditions.

In Palestine, despite the harsh circumstances and environment in which the PMA operates, and despite the scarcity of resources and capabilities, the PMA has managed, through firm determination and industrious work, to secure a pioneering position in the Arab world in several areas. At the forefront of these is financial inclusion. The PMA started to work with the Alliance for Financial Inclusion (AFI) in 2009. It was then that the PMA proclaimed its commitment to the principles of the Maya Declaration, which was endorsed in 2012 in South Africa for the purpose of promoting and developing the Palestinian community's ability to utilize financial products to improve their livelihoods.

The PMA's efforts culminated in the signing of a declaration of principles with the Palestine Capital Market Authority (PCMA) for the formulation of the National Strategy on Financial Inclusion in Palestine, which was followed by the creation of a steering committee assigned to implement the strategy. The committee consists

of representatives from relevant ministries, the private sector, and civil society institutions. Before the end of 2015, the committee is scheduled to ask the government to endorse and support the strategy.

During the past few years, the PMA faced clear challenges. Nevertheless, the PMA succeeded in maintaining the stability and soundness of Palestine's banking system by employing macro-prudential tools for crisis management and safeguarding the development of the financial system infrastructure. It has also carried out several large-scale projects, despite financial and administrative resource scarcity. These projects include the Palestine National Payment System, the Large-Value Payment System, the Credit Registry System, the Credit Scoring System, the Bounced Checks System, the International Banking Account Number (IBAN) system, the Public Key Infrastructure (PKI), and, recently, the Automated Clearing System. The PMA has recently launched the National Switch System, which will promote the culture of bank cards, particularly

the 194 National ATM card, in order to reduce the use of banknotes and facilitate liquidity, for establishments and individuals alike, through ATMs and point-of-sale terminals anywhere in the country, and at any time.

Further achievements include the development of the legal environment for the operation of banks and specialized lending institutions. Also, the PMA has become known for its excellent execution of financial awareness campaigns, particularly with regards to the Child and Youth Banking Week, for which it received the 2013 Global Money Week Award for organizing the best financial and banking awareness-raising event in the Middle East. In 2012, the PMA launched a campaign encouraging every citizen to open a basic account (the Basic Account Campaign), which culminated in 80,000 new bank accounts opened, including among low-income beneficiaries.

Moreover, the PMA sustained its efforts to support and empower SMEs through the establishment of a specialized committee and the



launch of a database to serve this vital sector. All the aforesaid pursuits and accomplishments constitute fundamental activities that reinforce the concept and objectives of financial inclusion, which the PMA seeks to achieve via a two-stage plan. Over the coming eight years, the strategic plan aims, during the first stage, to advance Palestinian citizens and foster their steadfast commitment to Palestine, as well as promoting a sovereign state with Jerusalem as its capital.

The PMA aspires to maintain financial stability in Palestine by promoting financial inclusion, since the outcome of the implementation of the national strategy for financial inclusion will culminate in the maintenance of a reasonable balance between the asset and liability sides of financial institutions.

The stronger the financial inclusion indicators are, the higher the levels of financial stability in Palestine. Furthermore, financial inclusion, represented by the expansion of those using financial services and

products, especially among individuals, SMEs and marginalized groups, will mitigate many risks; such as credit risk, operational risks, fairness risks, disclosure risks, etc. The same goes for expanding the number of depositors, which will create necessary liquidity, and allow financial services providers to finance investment and government projects. That is not all. The national strategy aims to educate and raise the financial awareness of the population. This will help citizens to knowingly and judiciously make use of financial products and services in a manner that corresponds to their needs and financial capacity, thereby improving the lives of targeted social groups. Such an outcome will contribute to economic growth in Palestine.

Dr. Jihad Khalil Al Wazir has been the governor and chairman of the board of directors of the Palestine Monetary Authority since 2008. He is the founder and chairman of the Palestine Insurance Deposit Corporation, as well as the founder of the Palestinian domain (.ps) and the Palestine Trade Center.

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“... Since we’re practically building a nation from scratch, banks in this country have an obligation towards the small- and medium-sized business owners. More people need opportunities to thrive, and I hope that our banks are meeting this obligation”. — Sari Sakakini (Ramallah, 33)