G7 DEAUVILLE PARTNERSHIP HIGH-LEVEL CONFERENCE:
Responsible Financial Inclusion for Social Inclusion and Stability

Berlin, 28 April 2015

Conference Summary

Introduction

On 28 April, more than 100 high-level policymakers and practitioners met at the German Federal Ministry of Finance (BMF) Headquarters in Berlin to launch the Deauville Partnership Action Plan for Financial Inclusion, the first step of a coordinated effort across the Middle East and North Africa (MENA) region to pursue lasting and inclusive economic growth. The Action Plan was the outcome of a one-day conference hosted by the BMF and German Federal Ministry for Economic Cooperation and Development (BMZ), in collaboration with the Alliance for Financial Inclusion (AFI). The conference was part of the G7 Deauville Partnership and focused on the unique challenges and opportunities for financial inclusion in MENA.

The objective of the Deauville Partnership Action Plan for Financial Inclusion is to support Egypt, Jordan, Libya, Morocco, Tunisia and Yemen in comprehensive reforms to bring more of their citizens into the formal financial system and drive sustainable economic growth. The Plan is in line with Germany's priority for the G7 Presidency, which is to foster sustainable and inclusive growth and job creation in the region through financial inclusion, financial literacy and responsible finance.

Steffen Kampeter, Parliamentary State Secretary of the Federal Ministry of Finance (BMF), and Thomas Silberhorn, Parliamentary State Secretary of the Federal Ministry for Economic Cooperation and Development (BMZ), delivered the opening remarks of the conference. This was followed by three technical sessions on digital financial services, responsible finance and SME finance, and finally a wrap-up session that discussed the future work of the Deauville Partnership.

Session 1: Leveraging Digital Technology for Financial Inclusion

Discussions focused on how digital technology could be used to enable banks and non-bank institutions, promote public-private dialogue, encourage the development of interoperable platforms while enhancing distribution channels, ensure secure transactions and protect customer privacy. Participants agreed mobile financial services would be an essential part of sustainable and successful financial inclusion in the region.

Central bank representatives from Jordan, Yemen and Egypt all highlighted the opportunity to advance financial inclusion through mobile—a ubiquitous channel in a region where traditional bank outlets can have limited reach. One of the best examples of the mobile opportunity is in Kenya, where almost 80% of the adult population uses the mobile money service M-Pesa. M-Pesa's provider, Safaricom, has also seen rapid uptake with M-Shwari, an innovative savings based credit product offered in cooperation with the Commercial Bank of Africa (CBA). Launched less than two years ago, M-Shwari already has 10 million users. In this session, participants explored what would be required to replicate successes like these in countries of the MENA region.

The Central Bank of Egypt (CBE) has put financial inclusion at the top of its agenda for the near future. Mobile payments were regulated in 2013 and e-banking regulations were issued in 2014. **Aymen Hussein, Head of Payment Systems & Business Technology Sector at CBE**, said his vision is to have mobile financial products customized to the needs of the client, interoperability for mobile wallets, and more service offerings. Implementing proportionate KYC requirements that satisfy AML/CFT concerns will be an important part of these efforts.

Mansour Abdul-Karim Rageh, Deputy Manager for Islamic and Specialist Bank, Central Bank of Yemen (CBY) described how about two years ago, CBY issued mobile money regulations with support from the AFI Network. The regulations require MNOs to collaborate with banks on the provision of mobile money services. Banks have a contractual relationship with the financial services client, while the MNO provides the system, agents and service directly to the customer on the front end. This has helped to increase financial inclusion in Yemen in spite of the current crisis, especially in remote areas of the country.

Maha Bahou, Executive Manager, Domestic Payments & Banking Operations, Central Bank of Jordan (CBJ), noted that just a quarter the Jordanian population is financially included while mobile penetration is 160 percent and rising. The CBJ decided to take advantage of this opportunity. Its legal framework allows MNOs to establish subsidiaries of financial institutions to provide mobile money services, and it designed and built a fully interoperable and completely open national payment switch (JoMoPay Switch) that can be used by banks, MNOs and any payment scheme. Customers can conduct a variety of payment transactions from mobile wallets to bank accounts, as well as between mobile wallets. An ATM switch will also be integrated, enabling people to cash out money on their mobile wallets at ATMs. The switch not only operates transactions; it also conducts clearing for all payments through same-day settlements and allows data to be collected to facilitate credit scoring by credit bureaus. For now the switch is operated by the Central Bank of Jordan but will eventually be privatized.

Nihal Zaki, Director of Consumer Business Unit, Vodafone Egypt, explained that success has come from customer convenience, product distribution and customer education. In Egypt, reducing registration time from 15 to five minutes helped double their customer base within six months. Building strong distribution channels have been time-consuming but essential, and educating customers has created awareness of mobile financial services and helped them understand the value of product offerings.

For **Mohammed Qadadeh, Vice President - Government Services, Middle East and Africa, MasterCard MENA Division,** financial inclusion requires a new economic and business model. One market player can only have a small impact on financial inclusion, so an open system including all market participants is essential. In Egypt, Jordan and the UAE, the central banks have been driving efforts to build such countrywide solutions that allow building an ecosystem for a variety of market players.

The discussion that followed focused largely on how to regulate interoperability between a variety of service providers. Although participants agreed they ultimately wanted interoperability in their countries, there were diverging views about when to mandate it. This debate is ongoing in Egypt, while in Jordan no operator is allowed to provide a mobile service unless it is certified interoperable.

Session 2: Strengthening the Ground for Responsible Finance

This session explored participants' experiences with financial education, consumer protection, setting up credit bureaus, promoting transparency and competition among market players and enforcing regulations. Having appropriate policies aimed at women was identified as crucially important.

In his opening speech, **Abdellatif Jouahri, Governor of Bank Al-Maghrib,** shared the main elements of financial inclusion initiatives in Morocco, where about two-thirds of the population participate in the formal financial system. This has been achieved through a range of interventions, for example, leveraging Morocco's network of post offices to provide financial services, which was particularly successful in rural areas. Other successful initiatives included lowering the cost of remittances for Moroccans living abroad, and three national education campaigns that encouraged SMEs to practice more transparent accounting for banking and tax purposes. These campaigns, along with more credit bureau services and accounts receivable financing for SMEs, have all helped to increase lending to SMEs.

Consumer empowerment has also been a strong area of focus for Bank Al-Maghrib. Thanks to the Bank's efforts to promote financial literacy, it has been successfully integrated into school curricula. Consumer protection activities include requiring banks to be transparent in their terms and pricing, introducing a system for complaints, mediation and redress, and rules that allow customers to change banks without undue complication. As in the rest of the MENA region, microcredit and microfinance play an important role in Morocco. The goal is to triple the national microcredit portfolio by 2020, especially for rural residents and women in particular. The Governor closed by saying Morocco was using AFI indicators to measure access and uptake of formal financial services, and the G7 Deauville Partnership Conference and its outcomes would influence their strategic plan for 2014–2017.

Muhammad Ibrahim, Deputy Governor of Bank Negara Malaysia (BNM), described the main features of the Central Bank's consumer protection and business conduct framework. Financial inclusion and protecting the rights and interests of consumers are official mandates of the BNM, and involving and empowering consumers is a key part of this framework. The BNM has a supervision department that focuses exclusively on consumer protection and there is a complex and comprehensive redress mechanism in place, including an entity to handle customer complaints, a dispute resolution unit and a credit reference system based on national IDs. Another key part of the framework is facilitating industry-driven efforts to protect and empower consumers. The BNM approves the appointments of boards of directors of commercial banks, which involves assessing their consumer protection efforts. Other important initiatives include requiring the use of easily understandable legal documents, establishing customer call centers and collaborating with other regulators in the country to avoid regulatory gaps in the framework.

"One thing we know is that women in Malaysia are better borrowers and buy more insurance. A financial inclusion initiative should always include a focus on them."

Deputy Governor Ibrahim, Bank Negara Malaysia

Jihad Alwazir, Governor of the Palestine Monetary Authority (PMA), explained that the country's model for financial inclusion was inspired by peers in Malaysia and Morocco, and he thanked AFI for its support in facilitating peer learning. The PMA's credit bureau includes not only banks, but also mobile operators and microfinance institutions, which has helped ease the flow of credit. There is a basic account available to everyone, which has been especially helpful in Gaza. Like the BNM, the PMA established a market conduct department and this has had a huge impact. There is also an arbitration mechanism and PMA is taking the lead on financial literacy, which is now included in the education system.

Flore-Anne Messy, Deputy Head of the Financial Affairs Division, Organisation for Economic Cooperation and Development (OECD) introduced the G20-OECD Task Force on Financial Consumer Protection, which includes G20 countries and global Standard-Setting Bodies (SSBs). The Task Force has endorsed and now supports the implementation of the G20 High-Level Principles on Financial Consumer Protection: legal, regulatory and supervisory framework; role of oversight bodies; equitable and fair treatment of consumers; disclosure and transparency; financial education and awareness; responsible business conduct of financial services providers and authorized agents; protection of consumer assets against fraud and misuse; protection of consumer data and privacy; complaints handling and redress; and competition.

Sahar Tieby, Executive Director of SANABEL, represented the voice of the microfinance industry in the region. The growing investment in financial literacy in recent years has increased consumer awareness in the MENA region, she said, but most initiatives focus on consumer protection for credit and there is a need to balance and broaden the focus of financial inclusion efforts.

In the discussion that followed, participants agreed it was necessary to engage the private sector, encourage public input and debate, cooperate with other agencies, and learn from the market. The conversation also touched on the importance of central banks having the necessary resources to conduct consumer protection and market conduct activities. "It is essential to have a clear mandate and appropriate resources to be able to work on responsible financial inclusion. This includes the involvement of the private sector," said Deputy Governor Ibrahim. The discussion wrapped up with a briefing on OECD's work to collect evidence of the impact of financial inclusion programs and initiatives in this thematic area.

Session 3: Advancing Financial Inclusion for SMEs in the MENA Region

This session highlighted policy and market approaches to support the financial needs of SMEs in the MENA region. Successful financial inclusion initiatives have involved banks as well as microfinance institutions, offered a broad range of financial products beyond credit, hybrid loan products (versus traditional bank and asset-based lending), moveable asset registries and sharia-compliant products with regulations appropriate to the diverse needs of SMEs.

Stefan Kapferer, Deputy Secretary General of the OECD, began by saying that access to finance was a critical issue for SMEs in the MENA region, where macroeconomic uncertainties pose serious challenges. If macroeconomic indicators are volatile/unpredictable then SME's don't thrive, even if they may have access to finance. Financial education, financial literacy and more consumer rights were also identified as are necessary elements to improving financial inclusion. He introduced the OECD Scoreboard on Financing SMEs and Entrepreneurs and recommended expanding the range of instruments to finance SMEs because traditional lending was not enough. Hybrid financing instruments, he said, may be a promising option.

SMEs drive economies and raise standards of living, said **Dr. Abdelrahman Elzahi Saaid of the Islamic Development Bank (IsDB)**, and governments need to provide appropriate financial infrastructure for SMEs, continually assess how to draft effective regulations, create policies that promote gender equality, and collaborate with banks. The private sector, on the other hand, needs to understand customer diversity and segment the market to serve customers' unique needs. Finally, involving Islamic microfinance institutions is particularly important in the MENA region.

Nasser Alkahtani of the **Arab Gulf Programme for Development (AGFUND)** said microfinance institutions, not banks, are the ones really advancing financial inclusion. Not everyone on the panel shared this view, particularly **Qamar Saleem**, **Senior SME Banking Specialist MENA, International Finance Corporation (IFC),** who argued that banks have actually played a very big role in the SME finance sector. SME clients require flexible financial service providers that offer more complex solutions as their business becomes more complex, Mr. Saleem said, and MFIs have to focus their business model on SMEs to be effective. Credit scorecards are important, but they have to be diversified to accurately predict default.

Wolfgang Reuss of Kreditanstalt fur Wiederaufbau (KfW) united these opposing views, saying that banks mattered as much as microfinance institutions. The real issue, he said, was financial intermediation. He emphasized the importance of regulation and mentioned Tunisia, which has a new microfinance law, and Palestine, where microfinance institutions can now become microfinance banks.

Mahmoud Montassar Mansour, Director General of Tunisia's Microfinance Regulatory Authority, described how, after the revolution, the new government promoted microfinance as a tool to fight poverty and integrate younger people in the financial system. It has since adopted a law for microfinance institutions, which established microfinance activity in the country for the first time and was the starting point for the Microfinance Regulatory Authority. Almost two years after the revolution, four microfinance institutions have been licensed. The Microfinance Regulatory Authority is currently conducting a risk analysis to help the sector develop and avoid the risk of over-indebtedness. The demand for microfinance in Tunisia is significant, he said, and banks need to be given incentives to serve low-income customers. He also noted that consumer protection is a crucial issue in the country and was included in the recent law.

Further discussion was triggered by a question from the audience about hybrid models. Representatives from the OECD and IFC both stated that hybrid models have significant potential, and the IFC actually advises banks to consider them.

Session 4: Moving Towards a Collaboration Framework

This session provided a space to reflect on the theme and outcomes of the conference. Moderated by Alfred Hannig, AFI's Executive Director, the session featured Dr. Christiane Bogemann-Hagedorn of BMZ, Eric Meyer of the US Treasury, Maha Bahou of the Central Bank of Jordan, Ali Arslan of the Republic of Turkey Prime Ministry Undersecretariat of Treasury and Jaseem Ahmed of the Islamic Financial Services Board (IFSB).

One of the main takeaways of the conference was that microfinance is still working, even in difficult contexts like Yemen and Gaza.

The conversation began with a reflection on the main recommendations of the Deauville Partnership Action Plan for Financial Inclusion and major outcomes of the conference. **Ms. Bogemann-Hagedorn, Director for North Africa; Middle East; South-Eastern and Eastern Europe; Latin America, Federal Ministry for Economic Cooperation and Development (BMZ),** suggested the Deauville Partnership keep the conversation on financial inclusion going and said BMZ would keep this issue on its agenda and try to maintain funding for it.

Eric Meyer Deputy Assistant Secretary for Africa and the Middle East, US Treasury, appreciated that economic growth was discussed in the keynote speech and at other times during the event. He acknowledged the discourse had changed a lot in the last 10 years, moving from microcredit to financial inclusion. "This is a journey for the private and the public sector to [take] together."

Ali Arslan, Republic of Turkey Prime Ministry Undersecretariat of Treasury, remarked, "We are talking not just about financial inclusion but responsible financial inclusion for social inclusion. We need this for a peaceful country." As chair of the G20, he highlighted the three principles of Turkey's Presidency and their importance to financial inclusion: inclusiveness, implementation and investment.

The discussion then turned to the main drivers of financial inclusion in the MENA region and the role of Islamic financial services. **Jaseem Ahmed, Secretary-General, Islamic Financial Services Board (IFSB)** stressed the importance of financial inclusion: "To Islamic finance, financial inclusion is not an additional topic but its central objective." There is huge scope in the MENA region to promote financial inclusion through Islamic finance, he said, and it would be a mistake not to do so, especially in rural areas. However, the issue of Islamic finance brought out some opposing views. Some participants suggested there was not enough evidence to show there was significant unmet demand for Islamic financial products among the financially excluded, and more research was needed to draw policy conclusions.

The final round of questions focused on participants' expectations of the Action Plan. **Maha Bahou, Executive Manager, Domestic Payments & Banking Operations, Central Bank of Jordan**, said it would be important to have a platform to share experiences and keep learning from each other, particularly regulators. She encouraged more cooperation, collaboration, and public-private partnerships. "When the target is to serve the poor it is not about a competition." She concluded by saying a regional approach would be a great way to start, but would ultimately need to be enriched by knowledge from countries in other regions. Greater regional and international peer learning resonated with the majority of panelists, who supported not only sharing what works but also what has not. The audience then suggested additional topics for the Action Plan, such as increasing low savings levels in the MENA region and supporting infrastructure for SME finance, the region's informal economy, employment as a financial inclusion goal and the important role of gender in financial inclusion initiatives.

Closing Remarks

Closing remarks were delivered by **Susanne Dorasil, Head of Division of the Sustainable Economic Policy Financial Sector, Ministry for Economic Cooperation and Development (BMZ)**. She pointed out that although financial inclusion is a challenge, it is critical for income generation and employment creation. Discussions on innovation and gender, she said, are as important as establishing proper financial market infrastructure and creating effective credit bureaus, collaterals and movable assets registries to serve MSMEs. Official mandates for financial inclusion will be necessary for institutions to take the lead on these efforts. She highlighted the need to balance innovation with consumer protection and to address interoperability, implement effective regulation that enables non-bank institutions, and promote cooperation between regulators. Finally, she emphasized the importance of responsible finance and supporting financial education and consumer protection.