

Financial Inclusion in Palestine



By Bashar Abu Zarour

Finding ways to promote financial inclusion in Palestine and enhance the interest in and understanding of financial services among Palestinians has become a focus of inquiry in recent years. In efforts led by the Palestine Capital Market Authority (PCMA) and the Palestine Monetary Authority (PMA) in coordination with major governmental institutions, NGOs, the private sector, and other stakeholders, the National Financial Inclusion Strategy 2018–2025 (NFIS) was developed and has been implemented by the Palestinian Council of Ministers since 2018. It aims to achieve “a developed financial sector that fully meets the financial needs of all segments of Palestinian society to improve their welfare.” The Council of Ministers also formed a National Committee for Financial Inclusion, headed by the PCMA and PMA, to steer the strategy’s implementation. At the heart of its work is the explicit recognition that ensuring financial inclusion is vital in efforts that strive to alleviate poverty, ensure economic growth, and promote financial stability. This endeavor also requires clear leadership from the top-level decision makers.

Ensuring financial inclusion is a local Palestinian effort that has become a role model regionally. As financial inclusion – in simple words – is the status when all individuals have the equal opportunity to access formal financial services, ensuring that this goal is defined realistically in the Palestinian context has been a challenging task. For the purpose of the NFIS, the effort to achieve financial inclusion was defined as aiming to “[e]nhanc[e] access to, and use of, financial products and

services by all segments of the society via formal channels, while meeting their needs in a timely and affordable manner, protecting their rights and promoting their financial knowledge to enable them to make well-informed financial decisions.” This definition was approved by the National Committee for Financial Inclusion and incorporated into the NFIS based on three major pillars, namely access, usage, and quality of financial services. By quality, we mean the quality and affordability of financial services and the protection of consumers’ rights.

As Palestine was one of the first Arab countries to launch a national strategy for financial inclusion, it is considered a pioneer in this field. This strategy has a well-tailored Action Plan 2018–2025 that revolves around four main goals: improving the level of financial capability for the targeted segments, increasing access to and usage of formal financial products and services, strengthening and protecting the right of consumers, and bolstering the role of information and communication technology to expand access to and usage of formal financial services. The societal segments targeted for financial inclusion in the Palestinian context are citizens who suffer from low levels of financial inclusion, which includes women and youth as well as micro, small, and medium enterprises (MSMEs).

Simultaneously with launching the NFIS, the Council of Ministers approved the entities that will be responsible for the implementation of the strategy and its action plan. Headed jointly by the PCMA and PMA, the National Committee of

The overarching goal of the National Financial Inclusion Strategy (NFIS) is to increase financial inclusion from the 2016 level of 36.4 percent of adults to at least 50 percent of adults by the end of 2025.

Financial Inclusion is entrusted with overseeing the entire process of implementation, setting policies to facilitate the financial inclusion operations, mentoring the technical committee that is responsible for monitoring and evaluation, and guiding the thematic working groups that specialize in various financial and social aspects.

Promoting financial inclusion in Palestine is urgently needed. While efforts to promote financial inclusion started long before the national strategy was launched, these efforts were fragmented initiatives that had to be aligned under a national vision. Today there are inclusive efforts towards enhancing financial inclusion in Palestine. Much has been done so far, despite the challenges in the implementation process both locally and internationally. Locally, the Israeli occupation policies hinder financial inclusion initiatives and continually create more challenging situations, as was the case during the two tax clearing crises that took place in 2019 and 2020. Internationally, the ramifications of the COVID-19 pandemic spread

هيئة سوق رأس المال
Capital Market Authority



to almost all economies, presenting challenges as well to the financial inclusion efforts in Palestine. Thus, despite the mentioned efforts, Palestine still suffers from high levels of unemployment and poverty. The financial inclusion initiative attempts to tackle them.

The strategy targets the underserved/unserved segments of the Palestinian population, particularly women and youth. A comprehensive study of financial inclusion, carried out in 2016, including an in-depth demand survey, assessed financial inclusion strands in Palestine. A set of indicators was developed by the technical committee to assess the different development levels in efforts to increase the main parameters of financial inclusion regarding access, usage, and quality. The study found that there is a noticeable gender gap in the access to and usage of financial services. With a 21 percent gap in financial education levels in favor of male adults, it is worth mentioning that males' financial education level did not exceed 55 percent of the total population of adult males in Palestine. This study then formed the basis on which the NFIS was built. Indeed, recent indicators show a slight improvement, which provides hope that recovering from the two clearing tax crises that have been exacerbated by the COVID-19 pandemic may be a faster process than originally feared.

There are other drivers that promote financial inclusion in Palestine. Despite all challenges that the strategy's implementation has faced, the PCMA along with its partners initially focused on financial awareness programs, and significant efforts were made to identify the obstacles that hinder access to and usage of available financial services. Subsequent efforts were focused on developing usage methods via technology. In this regard, the PCMA has

employed all related resources and means to enhance financial inclusion. Thus, in 2019, the PCMA devised an intervention framework to illustrate its regulatory role toward financial technology (fintech) in Palestine and show how it can contribute to promoting financial inclusion by increasing access to and usage of nonbanking financial services and products. Creating the enabling environment required the development of consumer-centric products that target the underserved/unserved segments of society with services such as agro-insurance, micro-insurance, crowdfunding, and Islamic finance tools. These endeavors currently constitute the core effort of the PCMA in improving the financial sector.

The PCMA is keen to respond to all developments and tries to secure the sustainability of the financial sectors. Healthy financial sectors mean that the supply side is in a position of complete willingness to contribute to financial inclusion efforts by providing customer-centric financial products. Thus, it has taken advantage of the current developments in financial technology by launching its regulatory innovation hub Ebtaker that deals with fintech ideas and innovations,

providing the needed regulatory guidance to help mature these innovations. The PMA, on the other hand, has introduced the Regulatory Sandbox that serves as a testing environment for fintech innovations in the banking sector.

Taking into consideration the time frame of the strategy that ends in 2025, implementation of a comprehensive midterm evaluation on financial inclusion to assess the progress of implementation activities was planned in the monitoring and evaluation activities, and the latest crises increased the need for such assessment. An in-depth field study was launched in 2022 to measure the progress made towards achieving the strategy's objectives, identify the challenges, obstacles, and gaps that prevent reaching higher levels of financial inclusion, and assess what benefits have been gained from technological developments in the financial sector in fields such as fintech and InsurTech. Accordingly, this assessment aims to provide a comprehensive diagnosis of the status and level of financial inclusion in Palestine in terms of the available supply, current demand, and status of the ecosystem, which includes measuring the impact of the COVID-19 pandemic on financial inclusion indicators. The assessment also aims to analyze whether digital financial services are able to increase financial inclusion in Palestine, determine the extent to which the gender gap in the financial sector in Palestine is reduced, and identify and suggest urgent and necessary recommendations and interventions to achieve the goals of the financial inclusion strategy in the planned time frame. The results of this assessment will be compared to the results of the previous field assessment that was implemented in

Financial inclusion is a means to an end, not an end in itself. The ongoing financial inclusion initiative responds to the urgent need to increase awareness and capabilities among all segments of Palestinian society, enabling everyone to use the available financial services and meet their financial needs.

2016 in order to measure the extent of development of financial inclusion in Palestine. The outcome of this assessment is also expected to form the main pillar in the practical directions for implementing the NFIS and for developing and updating the strategy's action plan with all new developments. As financial inclusion is a continuous process, evaluation is a key to ensure that financial inclusion goals are achieved smartly.

With a PhD in the Capital Market and Investment Portfolio, obtained in 2007, Dr. Bashar Abu Zarour is a certified expert in financial inclusion policy. He currently serves as general manager of the Digital Financial Services and Innovations Directorate at Palestine Capital Market Authority and heads its Technical Team for Financial Inclusion.

SCAN
TO SHARE

