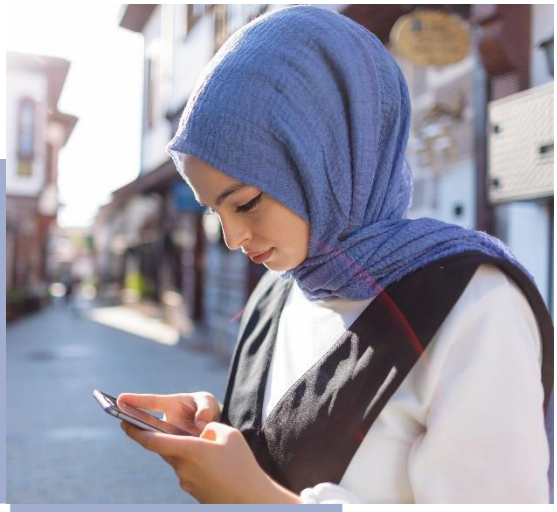
SHOPS PLUS

Digital Financial Services in the MENA Region



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About SHOPS Plus: Sustaining Health Outcomes through the Private Sector (SHOPS) Plus is USAID's flagship initiative in private sector health. The project seeks to harness the full potential of the private sector and catalyze public-private engagement to improve health outcomes in family planning, HIV/AIDS, maternal and child health, and other health areas. SHOPS Plus supports the achievement of US government health priorities and improves the equity and quality of the total health system.

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Digital Financial Services in the MENA Region

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Acronyms

AFI	Alliance for Financial Inclusion
ATM	Automated Teller Machine
CGAP	Consultative Group to Assist the Poor
COVID-19	Coronavirus Disease 2019
DFS	Digital Financial Services
FIARI	Financial Inclusion for the Arab Region Initiative
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIZ	German Agency for International Development
GSMA	Global System for Mobile Communications Association
ICT	Information and Communications Technology
ISC	International Smart Card
KYC	Know-Your-Customer
MENA	Middle East and North Africa
MFMR	Microfinance Sector in the MENA Region
MFI	Microfinance Institution
MM4R	The Mobile Money for Resilience project
MoU	Memorandum of Understanding
PMA	Palestine Monetary Authority
SDL	Syria Digital Lab
SHOPS Plus	Sustaining Health Outcomes through the Private Sector
UHC	Universal Health Coverage
UNHCR	United Nations High Commissioner for Refugees
USAID	United States Agency for International Development
VSLA	Village Savings and Loans Association

Executive Summary

More than half the population living in the Middle East and North Africa (MENA) region are "unbanked," with no secure means of storing, saving, borrowing, or making payments (Demirgüç-Kunt et al. 2018). Fueled by the explosive growth of mobile phones, digital financial services (DFS) leverage technology to offer new forms of financial accounts that provide secure options for storing, transferring, and accumulating money. DFS thus have the potential to expand access to financial services in the region, thereby increasing financial inclusion. Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses. The concept of financial inclusion recognizes that increasing access to formal financial services can improve economic security and spur economic growth. By expanding access to financial services, DFS can contribute to solutions for many challenges in the region including high youth unemployment, undiversified economies, large income disparities, and limited access to finance for small and medium enterprises.

As the United States Agency for International Development (USAID) partners with countries in their journey to self-reliance, it is guided by a policy for private sector engagement that recognizes the central role of market-based approaches to achieve sustainable development outcomes. As commercial services, DFS are market-driven applications that grow the financial services sector as well as support economic and social development indicators. There is thus a strong rationale for promoting the DFS market in USAID's regional activities.

USAID's Sustaining Health Outcomes through the Private Sector (SHOPS) Plus project aims to harness the full potential of the private sector to improve the equity and quality of the total health system. By making financial services more affordable and equitable, DFS provide promising opportunities for expanding access to health information, products, and services, and making progress toward universal health coverage (UHC). Both financial protection and financial inclusion strategies target the same demographic: low-income and underserved populations. Improving access to banking can contribute to better health, and improving access to health can contribute to financial well-being.

Purpose and methodology

Under the guidance of the USAID Bureau for the Middle East, SHOPS Plus conducted a landscape analysis of the status, trends, enablers of, and barriers to DFS use in 11 focus countries in the MENA region: Algeria, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, West Bank and Gaza, and Yemen. To our knowledge, this is the first overview of DFS in the MENA region with a particular focus on opportunities for the health sector. Our analysis describes how DFS can contribute to financial protection for vulnerable populations through private sector engagement; provides the status of DFS regulation and use in the 11 focus countries; and provides recommendations for advancing DFS through engagement with industry, governments, and donor partners. We conducted a comprehensive literature search and interviewed a dozen informants to validate our findings. We were unable to locate up-to-date regulations in many countries and relied on press reports or project summaries.

Terminology: The term financial inclusion is synonymous with ownership of a financial account. Financial accounts include traditional bank accounts and new forms of banking made possible by digital technology. DFS is an umbrella term that includes the provision of financial services through digital channels (e.g., debit cards, mobile phone accounts, internet) that are used to store, transfer, and track funds. The financial services sector has come up with many categories

of DFS applications that do not have standard definitions including mobile money, mobile banking, m-wallets, e-wallets, e-payments, and e-banking. In this report, DFS refers to this universe of financial services supported through digital channels.

Regional findings

- A majority of the population in the MENA region do not own a financial account and thus are unable to access formal financial services.
- On average, more than two-thirds of the population have a mobile phone subscription, which paves the way for DFS.
- To date, the uptake of DFS in the 11 focus countries is low. Barriers include gender disparities, low consumer trust in financial institutions, and lack of awareness of the benefits of financial services.

Findings by topic

- **Technical assistance from donors has catalyzed DFS initiatives in the region.** The Alliance for Financial Inclusion (AFI) and other partners have provided support to the Central Banks of Egypt, Jordan, Lebanon, Morocco, and West Bank and Gaza to promote DFS market growth for the past several years.

- **Regulatory reform is the critical enabler of DFS**. Key pillars include high-level political commitment; DFS infrastructure and authorizing legislation; risk-based "Know-Your-Customer" (KYC) rules to lower barriers to account ownership; and regulatory flexibility through waivers and innovation hubs. Jordan, Egypt, and Morocco have made the most comprehensive reforms across all four pillars. Tunisia, West Bank and Gaza, and Algeria have made progress on most pillars. Lebanon has made less progress in reforming its DFS policies. We found limited information on current regulations in Yemen, Libya, Iraq, and Syria.

- **DFS are available in every country, but many services have launched within the past year, with uncertain traction in the market**. DFS supply is hampered by an insufficient number of distribution points accessible to low-income populations in many locations. New policies mandating e-payments for government services are likely to catalyze broader uptake of DFS.

- **Potential ways to stimulate growth of DFS are under investigation, including refugee cash transfers, microfinance institution (MFI) loans, and international remittances.** Humanitarian agencies have introduced DFS applications to distribute funds to refugees, but fears of surveillance and poorly implemented services have been barriers to use. MFI use of DFS is low, reflecting limited digitization of MFI processes in the region. To date, DFS are not yet widely used for international remittances, which rely mainly on traditional money transfer organizations such as MoneyGram and Western Union.

- **Use of DFS in the health system is very limited, reflecting the nascent state of DFS.** Many health record-keeping functions in the region are still paper-based, but efforts to digitize are underway in most countries. Digital IDs are being introduced across the region, with the potential to facilitate coordination among government agencies and lower barriers for vulnerable populations to access services. DFS have the potential to make health insurance more accessible and affordable, but there has been limited investment.

Implications and recommendations

There is evidence globally that DFS can improve financial inclusion, and financial inclusion can improve financial protection against the costs of health care. The more mature the DFS market, the greater the opportunity for health applications. Since the evolution of DFS in the MENA region is early stage, countries need to first help increase financial inclusion.

The research and synthesis for this report was conducted in 2019 and early 2020, prior to the coronavirus disease 2019 (COVID-19) pandemic. DFS are a potentially powerful tool to help mitigate negative effects of the crisis. At the same time, the momentum for DFS expansion could be slowed as economies retrench during the protracted lockdown. The COVID-19 pandemic is thus both a barrier to and an opportunity for DFS to meet the financial needs of underserved populations.

To support the dual objectives of financial inclusion and financial protection, we have organized our recommendations into two categories: recommendations to advance DFS in the region and recommendations focused on the health sector. A third set of recommendations is tailored to the COVID-19 response. These recommendations are intended to support private sector engagement with DFS stakeholders in support of national efforts toward self-reliance.

Recommendations to strengthen financial inclusion

- **Support DFS regulatory reform through cross-border exchanges and technical assistance:** The Central Banks of Egypt, Jordan, and Morocco have updated their banking regulations to encourage innovative applications to lower barriers to access. USAID should promote peer learning for regulators grappling with similar reforms in countries such as Tunisia, Algeria, and Lebanon through study tours, regional working groups, or online communities of practice. Consultants with expertise can share best practices and model language on particular topics such as cross-border remittances, biometric IDs, and consumer dispute resolution.

- **Invest in consumer education for improved financial literacy:** To improve knowledge about DFS benefits and build demand for financial services, USAID should support financial literacy campaigns and skill-building courses. The need to increase awareness and technology skills for underserved populations exists across the region. USAID can leverage its initiatives in other sectors to engage local leaders, project teams, and community partners in financial education efforts through rural public service points such as schools or agriculture extension offices.

- **Engage with DFS initiatives to enhance targeting of the most vulnerable:** USAID should partner with DFS providers such as Morocco's M-Wallet or Egypt's Fawry to incentivize introduction of products that meet the needs of the poorest. Research on market opportunities to serve underserved populations can persuade companies to broaden their customer base and design services that better meet the needs of the poor. Costs to extend agent networks to new areas where customers need more cash-out points can be shared through public-private partnerships. USAID should steer qualified providers to apply for seed funding from existing innovation funds such as its Development Innovation Ventures.

- **Close the gender gap**: USAID should identify, broker, and nurture DFS partners who commit to co-designing services specifically designed to meet the needs of women. Egypt has prioritized financial inclusion for women in its national financial inclusion strategy and can serve as a test bed for gender experts to develop DFS marketing strategies tailored for women. Country-specific research can identify gaps and solutions such as bundling DFS with other high-demand products to increase account ownership.

Recommendations to expand DFS within the health system

- **Build awareness among health sector stakeholders about financial inclusion:** DFS provide benefits and opportunities for patients, clinics, and program managers, but these opportunities are not well recognized within the health sector. As a substantial portion of a country's gross domestic product (GDP), the health sector has significant payment flows and could help normalize the use of digital payments. Through its relationships with health ministries, private provider associations, health research facilities, pharmacies, and other institutions, USAID can help build demand for digital services in the health sector. At a minimum, USAID should promote and enforce the use of e-payments in its regional health contracts, grants, and cooperative agreements as required by USAID procurement guidance (USAID 2014).

- **Promote inclusion of health system actors in DFS initiatives:** USAID should establish an inter-agency process with interested country partners to coordinate and structure inputs for health-specific initiatives for DFS. Central banks throughout the region want to advance the uptake of DFS. Health system stakeholders want to improve the efficiency and responsiveness of health services. Bringing together DFS stakeholders with representatives from the ministry of health, national health insurance providers, trade associations of clinical providers, large hospitals, and pharmacy chains can identify promising opportunities for collaboration.

- **Organize cross-regional learning opportunities for expanding health insurance through DFS:** Sub-Saharan African and Asian countries such as Kenya, Ghana and India are pioneering new DFS to serve excluded populations with simple low-cost mobile-enabled insurance products through public and private insurance providers. USAID should bring together stakeholders from the MENA region to meet with insurance regulators, implementers, and innovators to learn how they are using DFS to reach informal economy households.

- **Evaluate DFS use cases in health:** The potential for DFS to promote UHC would be strengthened with more evidence on how and under what conditions DFS affects health system performance. As public and private health facilities adopt DFS in the MENA region, USAID should fund research to measure the impact of DFS on health system quality, responsiveness, and efficiency. Formal or academic research is also needed on the role of DFS such as mobile-enabled health insurance, savings, and remittances in reducing out-of-pocket spending.

Recommendations tailored to COVID-19 response

- **Co-fund campaigns to promote the use of DFS in the public and private sectors as a tool to prevent transmission of the novel coronavirus and to promote economic activity:** Remote transactions and contactless payments reinforce social-distancing

requirements, limiting the need to visit banks, utilities, and service providers. Campaigns should also highlight the use of DFS as a means of keeping local businesses open during lockdown or quarantines. DFS transactions reduce interpersonal contact and risk for exposure to COVID-19, which helps control the spread of the virus and can mitigate negative health, economic, and social effects.

- **Assist central banks in designing incentives for merchants and consumers to use DFS during the pandemic:** Options include temporary waivers of transaction fees on payments or transfers, which might otherwise create a financial barrier for new users. Other regulatory waivers could raise the limits on transaction amounts to promote more use. USAID could host technical advisors from AFI and from outside the MENA region to share lessons learned from other countries and regions on expanding DFS as part of the COVID-19 response.

Background

Introduction

Globally, more than 1.7 billion people, or 31 percent of the world's adult population, do not have access to formal financial services such as bank accounts (Demirgüç-Kunt et al. 2018). Fueled by the explosive growth of mobile phones, digital financial services (DFS) leverage technology to offer new forms of financial accounts that provide secure options for storing, transferring, and accumulating money. Through reforms in banking regulation, countries are lowering barriers to financial account ownership and licensing new forms of savings, credit, and insurance services for underserved populations.

More than half the population living in the Middle East and North Africa (MENA) region are "unbanked," with no secure means of storing, saving, borrowing, or making payments (Demirgüç-Kunt et al. 2018). Mobile phone services are widespread; there are more people with mobile phone accounts than with bank accounts (GSMA 2019c). DFS thus have the potential to expand access to financial services in the region. The concept of financial inclusion recognizes that increasing access to formal financial services can improve economic security and spur economic growth. DFS can contribute to solutions for many challenges in the region including high youth employment, undiversified economies, large income disparities, and limited access to finance for small and medium enterprises.

As the United States Agency for International Development (USAID) partners with countries in their journey to self-reliance, it is guided by a policy for private sector engagement that recognizes the central role of market-based approaches to achieve sustainable development outcomes. As commercial services, DFS are market-driven applications that grow the financial services sector as well as support economic and social development indicators. There is thus a strong rationale for promoting the DFS market in USAID's regional activities.

USAID's Sustaining Health Outcomes through the Private Sector (SHOPS) Plus project aims to harness the full potential of the private sector to improve the equity and quality of the total health system. By making financial services more affordable and equitable, DFS provide promising opportunities for expanding access to health information, products, and services, and making progress toward universal health coverage (UHC). UHC aspires to improve access, utilization, equity, and financial protection for individuals in need of health services and to strengthen efficiency and quality of health system performance. DFS can contribute to progress toward UHC by helping people save or borrow for health costs and helping improve financial management of health service delivery. Both UHC and financial inclusion strategies target the same demographic: low-income and underserved populations. Improving access to banking can contribute to better health, and improving access to health can contribute to financial well-being.

Objectives

Under the guidance of the USAID Bureau for the Middle East, SHOPS Plus conducted a landscape of the status, trends, enablers of, and barriers to DFS use in 11 focus countries in the MENA region: Algeria, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, West Bank and Gaza, and Yemen. To our knowledge, this is the first overview of DFS in the MENA region with a particular focus on opportunities for the health sector.

Our analysis describes how DFS can contribute to UHC; provides the status of DFS regulation and use in the 11 countries; and provides recommendations for advancing DFS through engagement with industry, government, and donor partners.

This DFS assessment builds on a 2018 SHOPS Plus review of health financing and the private health sector in 11 focus countries (SHOPS Plus and HFG 2018). That review found that the private health sector is an important and growing source of care, which results in high out-of-pocket expenditures for health. At a seminar in 2019 on the private health sector in the MENA region, organized by the World Bank and USAID, the topic of digital payments was raised as a potential private sector solution to support MENA countries in reaching UHC. To learn more about potential opportunities of DFS to expand financial protection and engage with the private sector, the USAID Bureau for the Middle East invited SHOPS Plus to conduct this assessment.

The objectives of this DFS landscape are

- To document the status, trends, use cases, opportunities, and barriers to DFS among 11 focus countries in the MENA region, with a particular focus on use in the health sector
- To make recommendations to guide future investments with the potential to increase financial protection for vulnerable populations through the private sector.

Methodology

This assessment relied primarily on desk research of published project reports, government policy documents, research studies, newspaper articles, company websites, and resources compiled by global financial inclusion stakeholders. Data on mobile and internet use came from industry databases compiled by the Global Mobile Operator Association (GSMA). Data on the percent of unbanked individuals came from the World Bank's Global Findex, a database on how adults save, borrow, make payments, and manage risk. Contextual background for the country profiles came from World Bank country overviews.

Findings from desk research were supplemented with key informant telephone interviews with a dozen informants in the region representing DFS companies, funders, researchers, microfinance institutions (MFIs), and humanitarian agencies. Qualitative information from interviews provided context and nuance to validate our findings and inform our recommendations.

Limitations: Research for this report was limited by the lack of any in-country data collection due to security and travel constraints. Online access to primary government documents was extremely limited in most countries, resulting in reliance on news reports and other secondary sources. Our aim was to synthesize key messages identified in the literature and interviews rather than conduct an exhaustive catalogue of DFS activity in any given country.

Glossary of terms

Digital financial services: Any financial services accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance.

E-banking/mobile banking: The provision of banking transactions through electronic channels such as mobile phones or the internet.

E-wallet/m-wallets/mobile wallet: An account for storing money, accessed through a mobile phone service or the internet, that requires money to be loaded prior to any transaction.

Financial inclusion: A term to describe access to useful and affordable financial products and services for individuals and businesses

Fintech: A combination of the words financial technology, used to describe technology that seeks to improve and automate delivery and use of financial services.

Mobile money: A type of digital financial service that lets users deposit, withdraw, and transact funds in an account associated with a mobile phone SIM card. Account holders need not have bank accounts.

National payment switch: A payment infrastructure that assists in communication between various providers and performs a payment and settlement process. It enables payment transactions to be routed from one payment system participant to another, whether within the same network or between different networks or schemes.

Global context

What is DFS?

DFS are financial services accessed and delivered through digital channels. Digital channels include the internet, mobile phones, ATMs, point-of-sale terminals, electronically enabled cards, and biometric devices. DFS models are diverse, and can be implemented by banks, mobile phone companies, MFIs, fintech companies, and others.

DFS encompass a range of financial services, including deposits, transfers, credit, savings, payments, remittances, and insurance (AFI 2016). Within this broad range of categories, the foundational DFS application is the ability to make digital payments, to transfer "virtual" funds between individuals or through bulk payments. Second generation DFS can be built on top of the foundational payment infrastructure, to offer more sophisticated services such as interest-bearing accounts, credit ratings, automated deductions, or currency exchange conversions.

What is financial inclusion?

Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses. Those who rely solely on cash or informal channels such as from friends or unregulated money lenders are classified as "unbanked." Throughout this report, we equate financial account ownership as a measure of financial inclusion.

Why DFS matters

When individuals have greater access to finance, they are better able to sustain livelihoods, invest in their education, plan for future needs, and mitigate risks that can lead to greater impoverishment. These risks include health care costs due to chronic disease or catastrophic health events. DFS can improve lives by extending the reach of financial services, especially for traditionally underserved populations. For governments, digital transactions can lower the costs of public services, increase efficiency, and strengthen accountability.

Replacing cash transactions with DFS makes visible the financial lives of previously excluded populations. Expanded access to savings, credit, and insurance can protect individuals from

financial shocks and increase income and security. Financial inclusion is recognized as an engine that helps improve individual well-being and fuel economic growth.

Secure and accessible saving accounts enable individuals to smooth expenditures, cover costs of unexpected emergencies, and avoid debt. Low-income households face many barriers to saving. Costs of daily living often leave them with nothing to set aside, they are more prone to financial hardship, and they have limited options to protect savings from theft or loss. Financial incentives in the form of interest payments or matching savings can encourage savings.

To address the needs of those without access to formal financial services, countries around the world have explored the potential of digital technology to close the gap. Fintech allows leapfrogging of traditional brick-and-mortar banking services. Kenya led the way in 2007 with the introduction of mPesa, which was built upon the Safaricom network, the dominant mobile phone company in the country, in partnership with national banks. Safaricom subscribers can use their phone numbers to access accounts for depositing, transferring, or withdrawing funds through Safaricom agents. Today more than 83 percent of Kenyan adults have access to formal financial services (Finaccess 2019).

Access to DFS has the ability to power economic growth and economies. A McKinsey report shows that widespread adoption and use of digital finance could increase the gross domestic products (GDPs) of all emerging economies by 6 percent, or a total of $3.7 trillion, by 2025 (Manyika et al. 2016). The World Bank's 2017 Global Findex shows that in the last three years, DFS and access to financial accounts have grown significantly: between 2010 and 2017, 515 million adults acquired a financial account, and 1.2 billion people opened an account with a formal institution or a DFS provider (Demirgüç-Kunt et al. 2018). Most of these new account holders live in developing countries or emerging markets. DFS have been launched in at least 80 countries (World Bank 2014). As a result, millions of formerly excluded and underserved customers are moving from cash-based transactions to formal financial services using a mobile phone or other digital technology to access these services. While there has been a dramatic increase in account openings, only one-third of registered mobile money users worldwide are active (McKee, Kaffenberger, and Zimmerman 2015).

Global initiatives to promote financial inclusion

A number of global institutions and alliances have been established to promote financial inclusion and increase access to financial services for the poor.

- In 2012, USAID co-founded the Better Than Cash Alliance, hosted by the United Nations, to spark efforts to accelerate the growth of electronic payments and broader DFS. The Better than Cash Alliance partnership of 75 member governments, companies, and international organizations aims to accelerate the transition from cash to digital payments to grow emerging economies through research, peer learning, and advocacy.
- The Alliance for Financial Inclusion (AFI) is an independent network of national financial regulators from 90 countries aimed at strengthening the technical capacity of its members to develop and implement financial inclusion policies. Activities include an annual policy forum, working groups to facilitate peer engagement, and grant-making.
- The Consultative Group to Assist the Poor (CGAP), hosted by the World Bank, is an independent think tank dedicated to financial inclusion. CGAP conducts practical research and tests innovative solutions to empower the poor through financial services.

These organizations are helping partner governments create the foundational elements to enroll and serve new account holders from the ranks of the unbanked. Through cross-disciplinary efforts, they address the complex technical, financial, and regulatory challenges that governments face in making digital payments widely available.

Foundational regulations

DFS require (1) a regulatory framework to protect the integrity of the financial system and protect consumer welfare, (2) licensing rules to establish who can provide DFS under what conditions, (3) a national settlement system or payment "switch" to track the movement of money among institutions, and (4) a distribution network where people can access DFS such as through ATMs, DFS agents, point-of-sale systems, or mobile phones. These supply-side factors may take different forms in different country contexts, and will be influenced by broader legal and economic frameworks.

Effective national policies and regulations provide the essential foundation for DFS. DFS will not thrive unless there are coherent, well-communicated ground rules, and resources to implement and enforce those rules. Regulation needs to strike a balance between encouraging innovation and investment to allow new models to flourish and mitigating risks of fraud, money laundering, and insolvency. Governments seek to maintain stability of the financial sector by ensuring the market's trustworthiness while protecting consumers and expanding access to financial services.

The following categories of regulations enable DFS, and are guided by principles adopted by the G20 Global Partnership for Financial Inclusion (Pearce et al. 2017):

- A **national strategy to expand financial inclusion** by prioritizing digital finance as a means
- Authorizing legislation that **clarifies which institutions can hold deposits**, carry out payment services, offer loans, or issue electronic money, and under what conditions
- Infrastructure mechanisms that provide a **process for settlements** among DFS providers
- **Interoperability requirements** that allow customers to transfer money between accounts from different providers and other financial system players
- **Privacy and data security protection** to address systemic and consumer risks that can arise from innovative distribution models
- **Consumer protection laws** for insuring deposits and providing consumer recourse
- Risk-based **KYC rules** such as minimum identification requirements and mechanisms for verifying identification to avoid excessive burdens from compliance
- **Establishing transaction limits**, both floor and ceiling, that can limit the number of transactions, transaction values, or total balance to guard against money laundering
- **Agent oversight regulations** that establish agent authorization, liability for agent actions, and geographic limitations

Regional Findings

This section of the report provides an overview of how the 11 focus countries compare with one another and the rest of the world on several important measures related to DFS. The first is the percent of the population with no financial account. This measure is relevant to the goal of financial inclusion, in which individuals and businesses have access to a range of financial services to meet their needs. The second measure is the percent of the population with a mobile phone subscription. DFS make use of mobile technology to deliver financial services, and mobile penetration is a driver of financial inclusion. The third measure, the percent of the population making digital payments, reflects DFS demand.

Key takeaways:

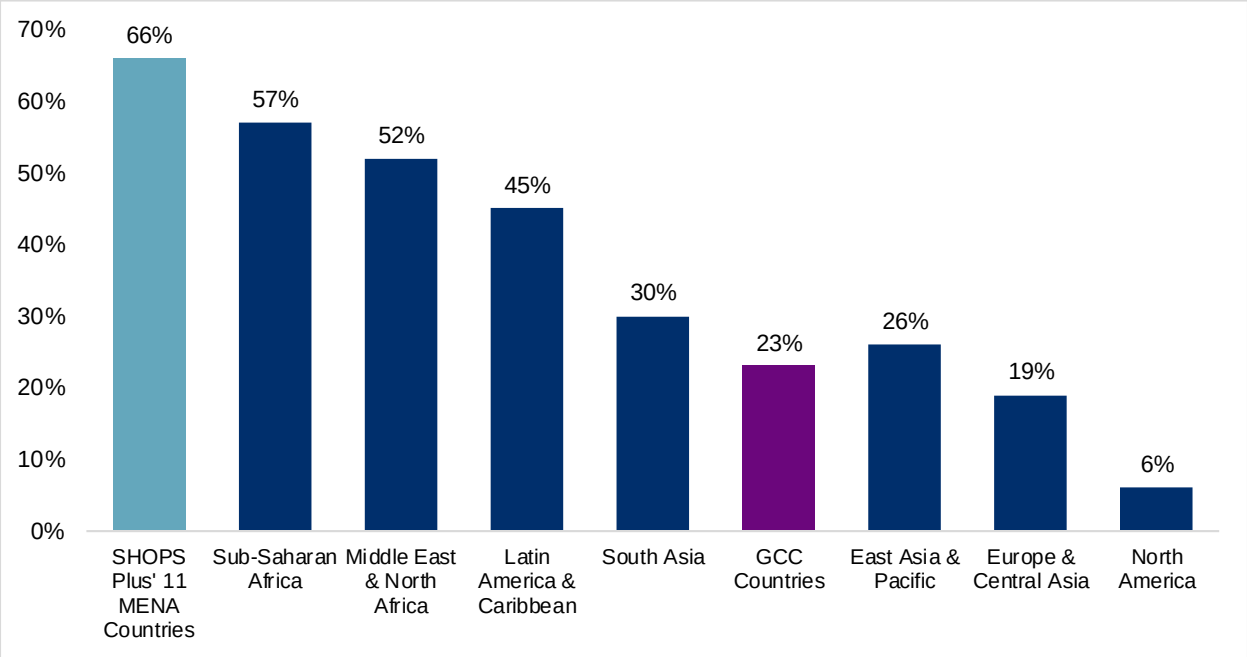
- A majority of the population in the MENA region do not own a financial account, and thus are unable to access formal financial services.
- On average, more than two-thirds of the population have a mobile phone subscription, which paves the way for DFS.
- To date, the uptake of DFS in the 11 focus countries is low. Barriers include gender disparities, low consumer trust in financial institutions, and lack of awareness of the benefits of financial services.

Financial account ownership

Large portions of the population in the MENA region lack access to a financial account. The MENA region as a whole lags behind other regions in the world in financial inclusion as measured by ownership of a financial account. The World Bank defines account ownership as adults who reported having an account (by themselves or jointly with someone else) at (1) a regulated financial institution such as a bank, a MFI, a credit union, a cooperative, or the post office, or with (2) a mobile money service provider such as a mobile network operator (Demirgüç-Kunt et al. 2018).

Minus the Gulf Cooperation Council (GCC), 52 percent of the adult population in the remaining MENA countries do not have a financial account (Figure 1). Among the 11 focus countries for this report, the percentage of those without a financial account is 66 percent, higher than that of sub-Saharan Africa. This means that two out of every three individuals rely primarily on cash transactions and informal sources of funding.

Figure 1: Percent of adult population (ages 15+) that does not own a financial account by region, 2017

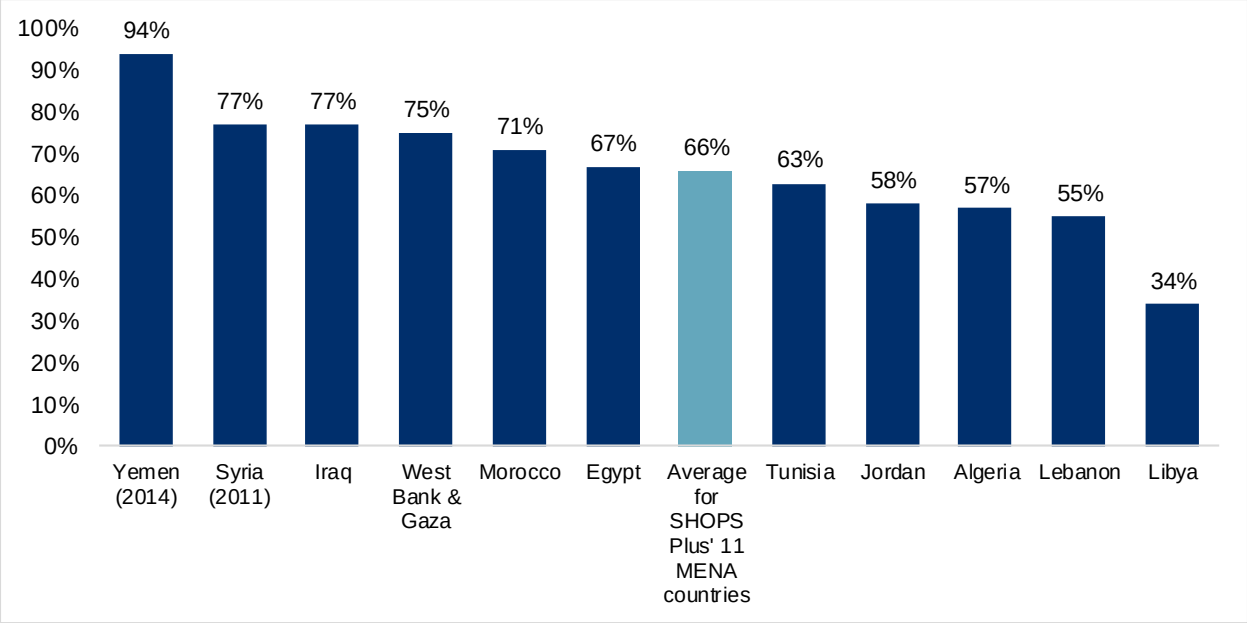


Source: The Global Findex Database 2017.

Note: Countries in the MENA region include Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank & Gaza, and Yemen. The wealthier GCC countries, Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman, affect the regional averages.

As shown in Figure 2, a large percentage of the population in each of the 11 focus countries lack ownership of financial accounts. Financial account ownership ranges from just 6 percent in Yemen to 66 percent in Libya, which are both outliers. As of 2017, the last time the World Bank updated its database on account ownership, between 55 and 77 percent of the population in nine of the 11 focus countries did not own a financial account.

Figure 2: Percent of adult population (ages 15+) that does not own a financial account by country, 2017



Source: The Global Findex Database 2017.

Mobile subscribers

Mobile phone services provide a critical channel for the delivery of DFS, bringing banking services to populations located long distances from bank branches or other service points. The market for DFS depends on access to a mobile service, which can be measured in a number of ways. See the text box for explanations of mobile industry terminology. Mobile phone subscribers need not own a mobile phone to access services as many families share a single phone among members with their own SIM cards (unique mobile subscriptions).

- **Mobile phone coverage is high in the MENA region**. In most countries, mobile phone service is available to over 90 percent of the population, with some gaps in very remote areas (GSMA, n.d.). There are at least two licensed mobile network operators in each of the 11 focus countries. The potential for access to mobile phone services provides a catalyst for DFS delivered via mobile phone accounts.

Terminology

Mobile subscribers: The number of unique persons who subscribe to a mobile account as a percent of the total population. Because many people have multiple SIM cards (mobile accounts), there are more mobile connections than unique subscribers.

Mobile connections: The number of active accounts (on any device, e.g., phones, tablets, routers) as a percent of the total population. Globally, and in many countries, the ratio of mobile connections to the total population (also called mobile penetration) exceeds 100 percent.

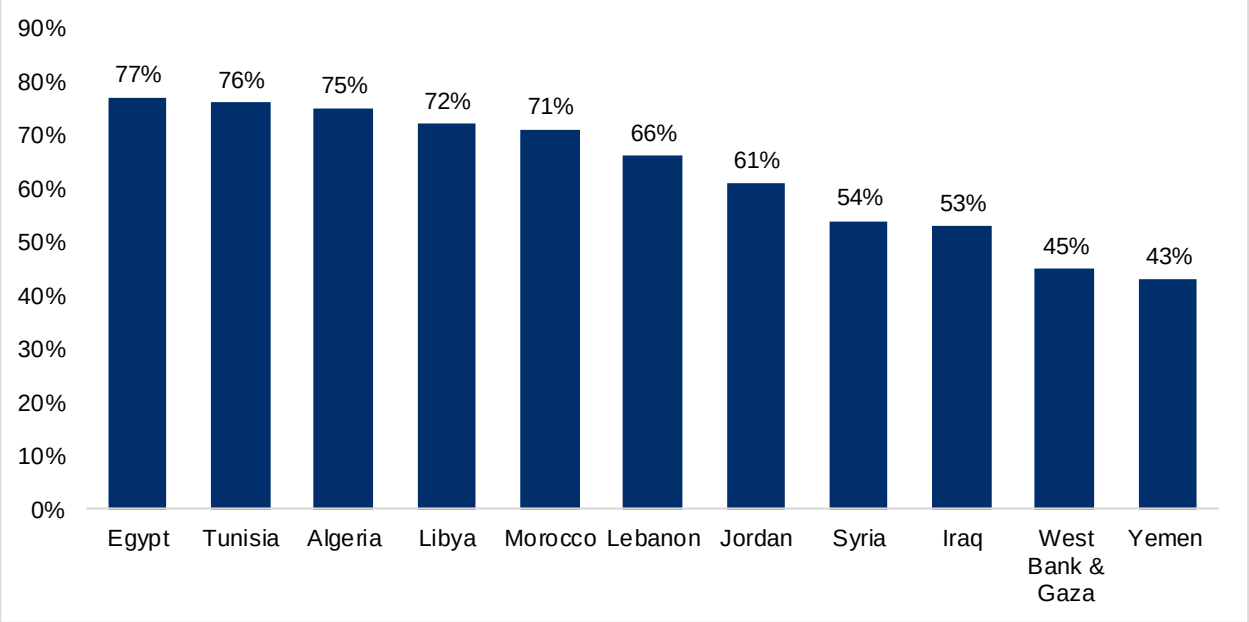
Mobile coverage: The number of persons living in areas within signal range of a mobile service as a percent of the total population. Individuals able to access services may not be subscribers or use mobile services due to financial or other barriers.

- **The MENA region lags behind other regions in terms of mobile subscribers, but the subscription rate is rising each year**. Figure

3 shows that mobile subscriptions in 2018 ranged from a low of 43 percent in Yemen to a high of 77 percent in Egypt. Both Lebanon and Yemen saw a 10 percent increase in mobile subscribers from the previous year (GSMA 2019c). Algeria, Egypt, Jordan, Libya, Morocco, and Tunisia all have mobile connection rates above 100 percent, indicating that many unique subscribers have multiple subscriptions to mobile accounts to take advantage of discounts and rate packages.

- **Access to the internet through mobile phones is rapidly increasing, as the adoption of smart phones accelerates**. GSMA estimates that mobile internet rates increased from 29 percent to 40 percent across the MENA region between 2014 and 2018 (GSMA 2019c). Internet-based services offer more sophisticated options for managing financial accounts but are not necessary for basic financial transactions including deposits, transfers, and payments.

Figure 3: Percent of population with mobile phone subscriptions, 2018

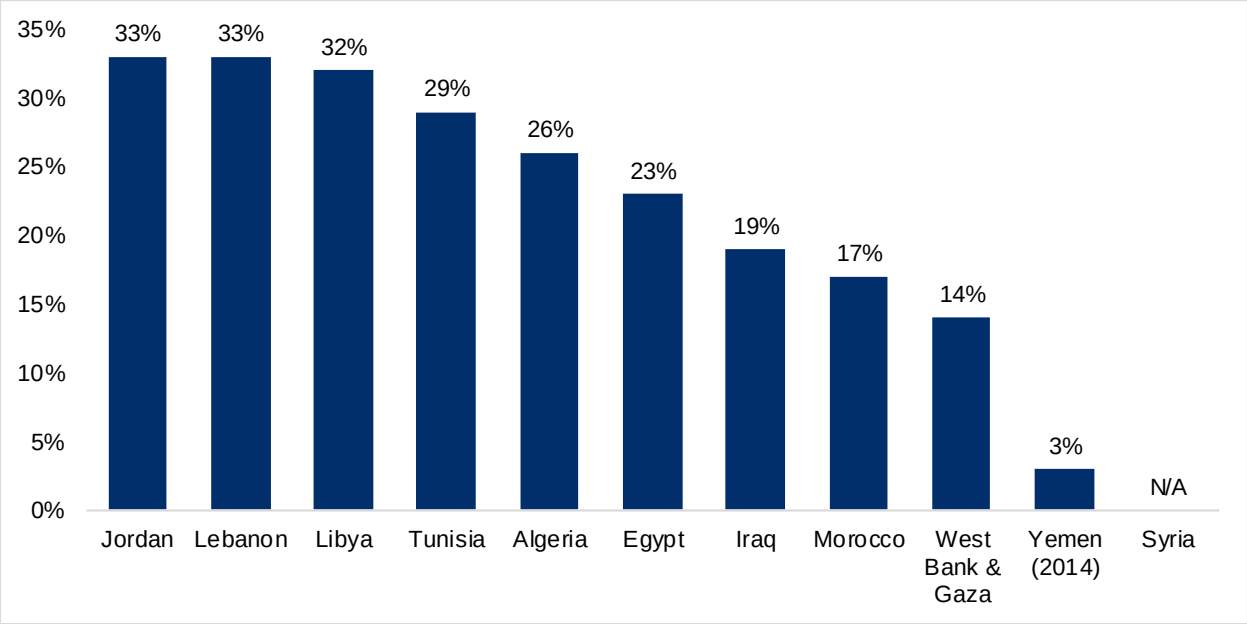


Source: GSMA Intelligence 2018.

Use of DFS

With a high unmet need for access to financial services and widespread access to mobile phones, DFS offer an important opportunity to serve the unbanked. Enrollment in a DFS account is not enough, however, as many accounts are inactive, i.e., subscribers may have a financial account but never use it due to poor understanding, avoidance of transaction fees, or other reasons. As shown in Figure 4, use of digital payments (one example of DFS) is very low in the 11 focus countries, ranging from just 3 percent in Yemen to 33 percent in Jordan. By way of contrast, 84 percent of the population in United Arab Emirates made received digital payments during the same time period.

Figure 4: Percent of the adult population (ages 15+) who made or received digital payments in the past year, 2017



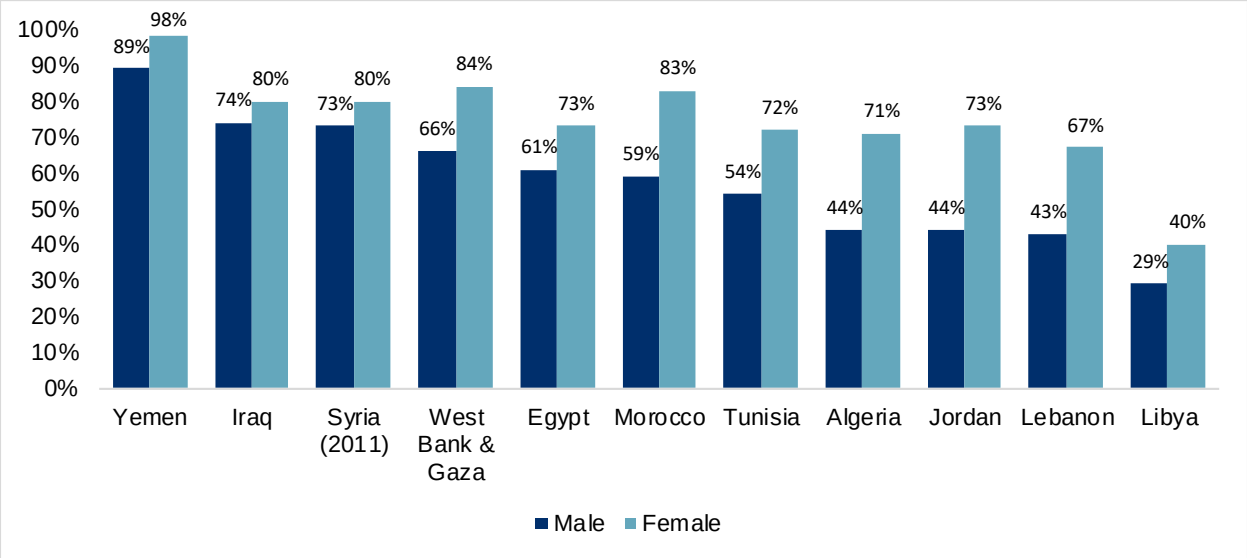
Source: The Global Findex Database 2017.

In the rest of this section we look at barriers contributing to low use of DFS: gender barriers, widespread mistrust of financial institutions, and a lack of perceived value of DFS.

Gender disparity

Globally, there is a 7 percentage point gap in financial inclusion between men and women (Demirgüç-Kunt et al. 2018). The MENA region shows even wider disparity. In the 11 focus countries, women are on average 17 percentage points less likely to have a financial account than men (Figure 5). The gender gaps are largest in Jordan (29 percentage points), Algeria (27 percentage points), Lebanon (24 percentage points), and Morocco (24 percentage points).

Figure 5: Percent of adult population (ages 15+) without a financial account by gender, 2017



Source: The Global Findex Database 2017.

Several factors contribute to the gender disparity in financial inclusion. One is that women in the MENA region are 9 percent less likely than men to have a mobile account. This translates into 25 million fewer women than men owning a mobile phone (Rowntree 2019). Barriers to phone ownership include affordability and lack of digital skills. Lower levels of phone ownership can compound gender inequalities, limiting economic opportunities for women. Women are also less likely on average to use mobile internet (Rowntree 2019).

Cultural and economic norms also contribute to the gap in financial account ownership. In 2017, the rate of women's participation in the labor force in the MENA region was only 22 percent, reflecting traditional roles for men as breadwinners in the family (Rachidi 2019). Women also face gender-specific barriers accessing loans from banks due to property laws that affect their use of collateral and discrimination from bank officials (Vital Voices 2012). Many women in the Arab region lack freedom to move outside the home, limiting their ability to sign up for accounts or visit agents to conduct transactions (GIZ 2017). Additional barriers to account ownership include women's lower levels of education, with a gender gap in literacy of 14 percentage in the MENA region (Wahdwa 2019).

Egyptian policy makers are taking steps to increase financial account ownership by women. Egypt's Vision 2030 sets women's financial inclusion and economic empowerment at the "heart of the national development reform agenda" (CBE and AFI 2019). Compared with men, women are 10 percentage points less likely in Egypt to have a financial account (Demirgüç-Kunt et al. 2018). To address the gender gap, the Central Bank of Egypt has developed a roadmap for women's financial inclusion. Priority areas include: obtaining accurate gender-disaggregated data from banks, expanding the reach of DFS, and encouraging the use of e-payments (CBE and AFI 2019). The Central Bank and the National Council for Women signed a Memorandum of Understanding (MoU) to cooperate in empowering Egyptian women economically and financially, and accelerating women's entrepreneurship (ALEXBANK 2017).

Consumer mistrust

High consumer mistrust in governments, banks, and other institutions is a primary reason for low demand for digital money in the MENA region. A study on consumer knowledge and attitudes toward DFS in Jordan revealed negative perceptions about formal financial products (Hawkins and Wilson 2017). Cash is dominant among the informal work force because it is familiar, flexible, convenient, unmonitored, and anonymous. Alternative forms for saving and borrowing from known local money exchange agents or community savings groups are perceived as safer choices.

Data privacy is a large concern. In a survey of consumers in the MENA region, 85 percent reported concern with regard to how online data are collected and safe-guarded, resulting in fewer online purchases (Ipsos Public Affairs 2019). Fears of surveillance are especially high among displaced populations, refugees, and minorities (Robson, Isaacs, and Boakye-Adjei 2017). Digital platforms enable the tracking of everyday economic activity, and marginalized populations are skeptical that laws will protect their information from misuse.

Weak consumer protection frameworks undermine confidence in DFS (Ozili 2018). In an analysis of consumer protection laws in Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia, and Palestine, the United Nations Conference on Trade and Development (UNCTAD) noted that consumer protection acts can be vague, and terms and conditions for financial services not easily understood (Simpson et al. 2017).

Lack of perceived value

Consumer awareness of financial services is low in the MENA region. Educational campaigns are needed to improve financial literacy and build awareness of the benefits of digital accounts for managing money (Coye Benson et al. 2017). Resistance to formal savings accounts is attributed to fears that it will be inconvenient to access funds when needed compared with cash stored at home (Chehade 2017). This is especially true for women with limited mobility (Arab Women's Enterprise Fund, n.d.).

Poverty is also a major barrier to uptake of DFS. One of the main reasons people cite for not having a financial account is that they do not have enough money to open one (Chehade, Navarro, and Sobol 2017). In Tunisia, researchers found that many financial accounts are inactive, with limited use by consumers who cite lack of funds as the key barrier (Suedekum and Berthaud 2014).

Products designed to reach the poor must be tailored to their needs. Even small fees on low-value transactions will deter use. Digital financial products are often ill-suited for low-income populations with limited digital experience. Digital transactions are perceived as complicated, involving too many steps, especially among the illiterate. A mobile wallet company in Libya, Floos-E, failed to scale up due to high transaction fees, the need for both the sender and receiver to have Floos-E accounts, and the need for digital skills to execute transactions (Ramali 2019).

Findings by topic

Technical assistance from global partners

There are a number of global initiatives focused on the MENA region to expand financial inclusion and support design of pro-poor financial services. These initiatives have supported policy changes, launched pilots to test innovative approaches, and invested in demand creation activities to increase digital literacy.

Key takeaway:

- The global donor community has provided technical assistance to the Central Banks of Egypt, Jordan, Morocco, West Bank and Gaza, and Lebanon, resulting in a number of regulatory reforms and research studies that identify gaps and opportunities.

Through sharing of international best practices and seed funding for new products, these stakeholder initiatives are facilitating national efforts to expand DFS growth.

- **Financial Inclusion for the Arab Region Initiative (FIARI):** FIARI is an alliance of donor partners providing technical assistance to government partners since 2017 in Egypt, Jordan, Morocco, Palestine, Syria, Tunisia, West Bank and Gaza, and Yemen (AFI 2020). Led by the AFI, FIARI supports implementation of national financial inclusion policies with a focus on policy and coordination. FIARI creates opportunities for cross-border learning and sharing of data on financial inclusion, tailored to country contexts. FIARI's successes include supporting the development of Palestine's national financial inclusion strategy, and providing trainings in Morocco and Jordan on fintech innovations to promote financial inclusion.

- **Financial Inclusion Global Initiative (FIGI):** FIGI is a multi-year partnership of the World Bank, the International Telecommunications Union (ITU), and the Gates Foundation, is supporting Egypt's transition to financial inclusion through research and regulatory guidance (ITUNews 2019). Egypt is seen as having the most potential for bringing significant numbers of people into the formal financial sector, with its large population, high percentage of unbanked relative to other stable states in the region, and high mobile phone penetration. The Central Bank of Egypt has been an active member of AFI since 2013 and received AFI technical assistance in areas including strengthening central payment-processing systems and customer due diligence requirements (AFI 2018a).

- **Financial Inclusion in the MENA Region (FIMENA):** FIMENA is a program carried out in Egypt, Tunisia, Jordan, and the Palestinian territories by the German Agency for International Development (GIZ), with funding from the European Union and the German Federal Ministry for Economic Cooperation and Development. In partnership with the Central Bank of Jordan from 2015 to 2019, the Digi#ances Project aimed to improve Jordan's digital payments system through support for an expanded DFS agent network, regulatory changes, and a financial literacy campaign (GIZ 2018). Among other objectives, the Digi#ances Project sought to lower the costs of remittances, relied on by many refugees and low-income Jordanians.

- **The Mobile Money for Resilience (MM4R):** The MM4R project funded by the Gates Foundation is also focused on improving effectiveness of cash transfers for refugees and low-income populations through improvements to the DFS ecosystem in Jordan (Central Bank of Jordan 2018).

- **The Japan International Cooperation Agency (JICA):** A bilateral project in Egypt from JICA provided opportunities for a study tour for Egyptian insurance regulators to the Philippines. These efforts helped to shape Egypt's new law to legalize digital insurance products (Adam et al. 2019).

DFS regulatory reform

Regulation of DFS in the MENA region has been a barrier to DFS, with a conservative banking culture that has been slow to embrace new models of financial services. There is significant change underway, most very recent, and wide diversity in the pace of regulatory change. Many laws are in need of updating to provide more legal certainty for DFS providers (Lukonga 2018).

Key takeaways

- Egypt, Jordan, and Morocco have the most comprehensive regulatory frameworks for DFS.
- Political commitment to financial inclusion is evident throughout the region.
- Authorization of e-payments is underway in all countries, but implementing regulations have not been finalized in many countries.

Table 1 (DFS regulatory status by topic) and Table 2 (DFS regulatory status by country) present the same information in different ways. Table 1 highlights four key pillars that promote financial inclusion and investment in DFS. The placement of countries in a particular status from "most comprehensive" to "limited progress" is a subjective judgment of the authors based upon available resources from central banks, news reports, and published assessments. Table 2 provide the same information to highlight country progress.

Table 1: DFS regulatory status by topic

	Most comprehensive	Making progress	Limited progress; no information
Political commitment	Presidential proclamation; set specific targets to increase financial inclusion **Egypt, Jordan, Morocco, W. Bank and Gaza**	Central Bank has issued strategies to promote financial inclusion, regulatory reform is planned **Algeria, Iraq, Lebanon, Libya, Syria, Tunisia, Yemen**	
DFS authorization	DFS licenses have been awarded, including to non-bank partners; interoperability among providers is mandated **Egypt, Jordan, Morocco, Tunisia**	DFS licensing is recently underway **Algeria, Iraq, Libya, Syria**	No information found **West Bank & Gaza, Yemen** No non-bank authorizations **Lebanon**

KYC rules	Proportionate (tiered) ID requirements to open accounts, conduct low-value transactions **Egypt, Jordan, Morocco**	KYC rules undergoing revision **Algeria, Tunisia, West Bank and Gaza**	Limited progress or no information found **Iraq, Lebanon, Libya, Syria, Yemen**
Regulatory flexibility to test innovations	Has regulatory "sandbox" to test new banking models under regulatory waivers **Jordan, Egypt**	Innovation hubs, social impact funds available for fintech innovators **Lebanon, Syria, Tunisia, West Bank & Gaza**	No information found **Algeria, Iraq, Libya, Morocco, Yemen**

Table 2: DFS regulatory status by country

	Jordan	Egypt	Morocco	Tunisia	WB&G	Algeria	Syria	Lebanon	Iraq	Libya	Yemen
Pol commit											
DFS auth											
KYC rules											
Reg flexibility											

Key: **Most comprehensive** **Making progress** **Limited progress, information N/A**

Political commitment

High-level political commitment is a critical pillar needed to promote financial inclusion for those without access to formal financial services. Modernizing financial systems is complex and requires high-level political leadership with the ability to align public and private sector stakeholders across legal, fiscal, and operational domains.

- **Egypt, Jordan, Morocco, and West Bank and Gaza have issued Presidential proclamations supporting financial inclusion.** The high level of political endorsement has facilitated broader regulatory reform through bodies such as Egypt's National Council for Payments, chaired by President el-Sisi. These countries have each signed commitments to achieve specific and ambitious targets under the Maya Declaration, a global initiative to establish measurable standards for financial inclusion (AFI 2017).

- **The Central Banks in all 11 focus countries have endorsed strategies to expand access to financial services.**

e-Payment authorization and infrastructure

This category comprises several elements. Guidelines are needed to ensure that banks have the infrastructure to support account transactions via mobile or internet channels. Non-banks such as mobile network operators and fintech companies need authorization and oversight to provide financial services such as peer-to-peer transfer, merchant payments, and basic deposits and withdrawals.

DFS thrive under conditions in which users of one service can transact with users of another service in real time, known as interoperability of payment systems. This requires a national settlement system in place, or payment "switch" to track the movement of money among licensed providers.

- **All 11 countries have authorized DFS such as e-payments, including licensing of non-banks**. These authorizations require traditional banks to be the core partners required to hold deposits on behalf of non-bank service providers. Interoperability among services is mandated in Egypt, Jordan, Morocco, and Tunisia. This means that providers must connect with other platforms under mandatory interoperability requirements.

- **Many regulatory efforts are very recent, and there is uncertainty about how they will be interpreted and enforced**. Countries in the MENA region have been slower to implement reforms due to a conservative banking culture with a low tolerance for risk. Expanding the financial system to new players and models creates new vectors for cybercrime attacks and malicious forms of hacking. In the aftermath of 9/11, restrictions on financial transactions increased as vigilance was needed to combat the financing of terrorism. Central banks are proceeding with caution to enable new financial service models, while retaining their roles as gatekeepers of the integrity of the financial system (Hawkins and Wilson 2017). The banking systems in many MENA countries have weak regulatory frameworks and are undercapitalized, which increases risks for banks.

- **Spotlight Morocco**: The launch of a new mobile payment system is attempting to invigorate DFS in Morocco. Morocco's earlier efforts to promote DFS beginning in 2010 failed to gain traction in the market, with very low use of bank-led products such as MobiCash (Women's World Banking 2017). Facilitated by the 2015 banking rule changes, Morocco's Central Bank Al-Maghrib and the National Telecommunications Regulatory Agency launched a national mobile payments platform called M-Wallet in late 2018. Developed in coordination with Morocco's banks, payment processors, and mobile operators, the platform is intended to reduce the use of physical cash and will support peer-to-peer transfer, merchant payments, and basic deposits and withdrawals at participating agents (OBG 2019b). Providers must connect with other platforms under mandatory interoperability requirements.

Know-your-customer rules

Documentation requirements to open DFS accounts can pose barriers to displaced and low-income populations. Government policies to prevent money laundering and financing of criminal activities are essential to safeguard financial systems. Financial service providers must be able to establish the identity of account holders but pragmatic approaches can expand access and mitigate risks by allowing customers to open accounts for low-value services with minimum identification. Tiered rules, which encourage service providers to offer small transactions at frequent intervals with low transaction fees can generate demand and promote savings. Simplified due diligence procedures associated with opening accounts include eliminating minimum balance requirements and allowing electronic identity checks without requiring that customers be physically present.

- **Both Jordan and Egypt have reduced identity documentation needed for financial transactions in order to promote financial inclusion.** Egypt adopted a two-tier KYC approach in 2013. The simplified KYC, for transactions of less than EGP 10,000, requires only a national ID. For transactions above that amount, customers must provide proof of

address and proof of salary (AFI 2019). Jordan amended its rules in 2017 to allow anyone to open an e-wallet account with only a national identity card or, for refugees, a Ministry of Interior card (AFI 2019).

- **New regulations to loosen restrictions on documentation for opening digital accounts are needed in Egypt**. The Central Bank of Egypt is currently considering changes to the regulations to allow electronic identity checks. This would make it possible for accounts to be opened without the customer present and to allow mobile money transfers from abroad without requiring users to open a bank account in Egypt (Fintech News Middle East 2019). Jordan and Morocco, by comparison, have already implemented mechanisms to establish identity via mobile enrollment.

Regulatory "sandbox" to test new approaches

A regulatory sandbox is a framework that permits piloting of innovations by firms in a controlled environment. This approach can reduce the time and cost of bringing new, consumer-friendly ideas to market and ensure that appropriate consumer protection and security safeguards are built into new financial products and services (Duff 2017).

- **Egypt and Jordan permit fintech companies to test new services under waivers of banking regulations in a risk-controlled environment**. These regulatory testbeds provide important opportunities for regulators and DFS innovators to engage in continuous dialogue.

- **The Palestinian Monetary Authority is creating a fintech sandbox to nurture its fintech industry.** The purpose is to allow early-stage companies to benefit from a mix of technical support and lighter regulation. Sandboxes have been used by regulators in other countries including Kuwait, Bahrain, and the United Arab Emirates (MAGNiTT 2019).

- **Social impact funds dedicated to digital innovations are also prevalent in the region**.

    - The Central Bank of Egypt has created a fund available to private companies seeking to scale up fintech products (MAGNiTT 2019).

    - In Tunisia, the World Bank has provided a loan to fund innovative start-ups seeking to expand access to finance (World Bank 2019f).

    - Donors in Syria have created a digital innovation fund to spur entrepreneurial investments in social development. This approach is intended to help Syria grow entrepreneurial enterprises with the objective of expanding employment among small and medium businesses while also promoting access to financial services. The start-up scene is promising, with entrepreneurs creating "workarounds" amid political and economic problems (Syria Digital Lab 2020).

DFS supply

The regulatory environment sets the grounds rules for DFS but other factors also contribute to its availability in a market. Authorizations for service must be issued, demand created through

services that meet consumer needs, and access points established for consumers to sign up for and use financial accounts.

Key takeaways

- DFS have been licensed throughout the 11 focus countries, but many services have launched within the past year, with uncertain traction in the market.
- E-payments for government services, one example of DFS, are positioned to catalyze the broader uptake of DFS.
- DFS supply is hampered by an insufficient number of distribution points accessible to low-income populations.
- Merchants have resisted installing DFS systems due to current low consumer demand.

DFS provision

This section looks at the current availability of DFS in the focus countries. DFS includes any financial service accessed and delivered through digital channels, including ATMs, credit and debit cards, mobile phone accounts, and online payment services.

- **DFS are available in all 11 of the focus countries**. Authorized DFS typically include peer-to-peer transfers, merchant payments, and basic deposits and withdrawals. Account owners can make purchases online, pay utility bills and school fees, buy airtime top-ups, and build savings. Examples of licensed DFS providers include:
    - Fawry, one of the largest DFS companies in Egypt, enables phone-based transactions such as bill paying, charitable donations, and mobile top-ups without the need for a bank account (Nabil 2019). Fawry also allows merchants to pay their suppliers, helping merchants to build a credit history (IFC 2018).
    - Jordan has more than 30 banks and financial institutions that offer e-payment services, such as low-cost purchases and bill payment transactions. The Central Bank of Jordan reports that as of July 2018, bill payments done electronically amounted to more than 7.5 billion Jordanian dollars (Nzebile and Denadi 2019).
    - In the West Bank, the first mobile money service offered by Jawwal was launched in 2019, providing competition to the bank-led service PalPay (Abumaria 2019).
- **DFS are newly launched in Yemen and Syria.** Yemen's National Wallet Company announced in January 2020 that it will soon launch Yemen's first mobile money platform (Telepin Software 2020). Syria is also piloting this year its first online payment system for electronic bill paying (Enab Baladi 2019).
- **The North African countries have promoted account ownership for decades through the postal service.** Because postal branches are much more prevalent than bank branches in rural areas, postal accounts have long been authorized to expand access to financial services in Algeria (OBG 2016), Morocco (Apolitical 2017), Tunisia (Suedekum and Berthaud 2014), and Egypt (World Bank 2005). These postal accounts offer basic checking accounts and money transfer services. Through partnerships with fintech companies, these postal networks are evolving to include mobile platforms, making it easier for account holders to make transactions without leaving their homes.

Government applications

In parallel with policies to promote financial inclusion, countries are also launching strategies to modernize government services to increase their efficiency and responsiveness by moving to online delivery. This transition to e-government services includes the ability for citizens to make e-payments for taxes and fees as well as for governments to distribute payments for salaries and social benefits. Government use of DFS is a key driver of wider DFS acceptance.

- **In 2019, Egypt became the first country in the MENA region to mandate the use of cashless payments by public agencies for government-to-person (G2P) transactions**. This covers payments to government (e.g., fees and taxes) above a certain level and the payment of salaries and social welfare transfers (Ismail 2020). This builds upon the government's Meeza national payment scheme for pensioners, civil servants, and subsidy recipients. As of December 2019, Meeza had enrolled 4 million subscribers.

- **Iraq has streamlined its public sector payments through biometric debit cards**. Approximately 7 million Iraqis receive salaries and welfare benefits through their Qi cards, deployed through International Smart Card's (ISC's) e-payment system (Shbaikat, Dehmej, and Hegazy 2019).

- **The Tunisian Ministry of Finance launched new digital services that allow users to pay fines or taxes through electronic methods**. Adopted in May 2019, the new platform was launched to improve tax collection. Users can pay via the internet or SMS (Ecofin Agency 2019).

DFS access points

DFS require customers to be enrolled in services and access points where they can cash in/cash out or make payments. Access points include brick-and-mortar bank branches or post offices, ATMs, DFS agents, retail outlets, and online services such as mobile apps.

DFS agents are generally responsible for verifying a customer's identity, onboarding them in the DFS system, and providing cash-in/cash-out services. As the "face" of the service, well-trained and trustworthy agents are key to ensuring good user experiences. Ideally, customers will keep funds in digital form but most seek to cash out funds received in digital form. This makes a reliable agent network of key importance to the success of DFS.

Once a customer is enrolled in a service, use of DFS will be driven both by the availability of convenient access points and by the number of businesses accepting DFS transactions. This is a chicken-and-egg problem. If merchants accept only cash, there is no motivation for consumers to enroll in DFS. If consumer demand for DFS is low, there is little incentive for merchants to invest in DFS systems (Hawkins and Wilson 2017). The following points look at DFS access in the MENA region.

- **Egypt has the most extensive network of DFS distribution points in the region.** In an analysis of DFS strengths and weaknesses in 55 countries, the Economist Intelligence Unit ranked Egypt top in reach of financial outlets including DFS agents, participating merchants and electronic channels (EIU 2019). As of March 2018, there were 11,582 ATMs and 70,509 point-of-sale terminals, and more than 15.9 million debit cards, 10.6 million pre-paid cards, and 4.8 million credit cards were in circulation (AFI 2018a).

- **DFS are not available where they are most needed in Jordan**. Bank branches are concentrated in Amman with limited distribution in the governorates (Hauser, Pavelesku, and Vacarciuc 2017). Service providers have not yet developed substantial agent networks, which require substantial resources to manage (Nzebile and Denadi 2019; Robson, Isaacs, and Boakye-Adjei 2017). A review of three DFS providers in Jordan found that many accounts were inactive due to weak support for agents who lacked motivation and adequate liquidity to complete transactions, dampening demand (Funke and Sindlinger 2019).

- **Algeria adopted rules requiring businesses to use e-payments but shopkeepers have resisted** (OBG 2019a). Following the launch of e-payments in 2016 in Algeria, the e-banking entity distributed 16,000 electronic payment terminals to supermarkets, restaurants, and shops. Algeria adopted rules in 2018 making installation of electronic payment terminals mandatory for all businesses. However, demand for card payments is low among consumers, and there is weak enforcement (OBG 2019a).

- **Most financial transactions in Lebanon are conducted at financial access points such as ATMs and bank branches, which are widespread**. Mobile banking has evolved in recent years, but its regulation needs updating. Reports indicate that many users doubt the security of mobile transactions, contributing to the prevailing preference for branch and ATM use (Clark and Iradian 2016).

DFS applications

This section reviews the status of three applications with the potential to drive DFS uptake: fund transfer services for refugees, MFI processes for loans and loan repayment, and options for sending and receiving international remittances.

Key takeaways

- Humanitarian agencies have introduced DFS applications to distribute funds to refugees, but fears of electronic surveillance and poorly implemented services have been barriers to use.
- MFI use of DFS is low, reflecting limited digitization of MFI processes in the region.
- DFS is not yet widely used for international remittances, which rely mainly on traditional money transfer organizations such as MoneyGram and Western Union.

DFS and refugees

The MENA region is coping with a refugee crisis, straining the capacity of host countries and humanitarian organizations to adequately meet the refugees' needs. There are an estimated 5.6 million Syrian refugees residing in neighboring countries (UNCHR 2019). Lebanon has the highest number of Syrian refugees per capita, with an estimated 1.5 million. Second to Lebanon is Jordan, hosting an estimated 656,512 Syrian refugees and an additional 90,550 refugees from other countries. Other countries in the region, including Iraq, Syria, Libya, and Yemen, have large numbers of internally displaced persons due to prolonged conflicts.

The UN High Commission on Refugees (UNHCR) has taken a lead role with other humanitarian agencies to coordinate services for Syrian refugees in the MENA region. To cope with the

complex and urgent needs, UNHCR and its partners continually seek ways to improve the efficiency and impact of refugee aid through digital technology.

Refugee populations have unique needs, including lack of documentation and limited livelihood opportunities. They face urgent needs for food and resources. Humanitarian aid has shifted from direct delivery of food and resources to cash assistance. For beneficiaries, digital accounts can offer greater privacy, dignity, and opportunities for additional services. Electronic voucher programs for refugees can stimulate adoption of digital transactions among merchants serving refugee communities. For implementing agencies, transfers to refugee mobile accounts provide agencies with improved security, record keeping, and cost efficiency compared with cash distribution.

- **Mobile phone use among refugees is high**. It is estimated that 90 percent of refugees in the Middle East own a phone, and 58 percent of adults in refugee camps own a smart phone (Casswell and Wilson 2018).

- **Widespread uptake and active use of DFS by refugees has been slow**. Due to a number of barriers documented in research studies, refugees introduced to DFS have not embraced services at scale (Funke and Sindlinger 2019). Refugees fear that mobile wallets facilitate surveillance. They report reluctance to store funds that may be transparent to aid organizations (Hawkins and Wilson 2017). DFS are perceived by refugees as difficult to use, with too few agents available for cashing out (Collins et al. 2018).

- **Jordan's National Financial Inclusion Strategy has set express targets to provide refugees with access to DFS**. Financial account ownership is very low, at just 10 percent, with lower use of formal savings, credit, or insurance than Jordanian citizens (Central Bank of Jordan 2020). UNHCR partners such as Mercy Corps have piloted digital cash assistance using mobile wallet services available in Jordan through the JoMoPay platform. JoMoPay enables customers to register with an UNHCR ID number. In one study, refugees reported high satisfaction with digital cash delivered to their mobile wallets and the intention to use their mobile wallets for savings, especially among younger populations. Female refugees used the mobile payments to pay bills online from their home, increasing their sense of personal safety (Mercy Corps 2018).

- **Use of biometric IDs, led by UNHCR, have addressed barriers refugee face without documentation needed to open accounts**.

    - In partnership with the Cairo Amman Bank in 2017, UNHCR has been using iris-scanning technology by IrisGuard to register refugees in Egypt. UNHCR sends a text message to refugees to let them know that funds have been deposited into their accounts. Refugees then go to an iris-scanning ATM of the Cairo Amman Bank to withdraw the funds without the need for a bank card.

    - In Iraq, mobile money provider Zain Cash and IrisGuard have partnered with UNHCR to improve the efficiency and security of refugee assistance to approximately 30,000 refugee families (Burt 2019).

    - UNHCR Jordan was also an early adopter of iris-scanning technology. As of February 2018, approximately 93 percent of Syrian refugees in Jordan were registered using this biometric technology (Casswell 2019). A study by CGAP found

that 22 percent of Syrian refugees in Jordan were obtaining cash from ATMs that incorporate the UNHCR iris-scanning technology (Chehade, Navarro, and Sobol 2017).

DFS and microfinance institutions

As frontline providers of financial services for the poor, MFIs can expose new populations to DFS. MFIs provide loans and other financial support to small enterprises and individuals who may be unable to meet requirements of banks. There is high demand for microcredit services in the MENA region, especially in rural areas that receive little to no financial assistance from governments (Chamberlain 2015).

Some MFIs bundle insurance with loans, often starting with life insurance and expanding to include benefits for funerals, disability, and health care for the borrower and possibly household members. MFIs may make insurance mandatory for a loan, in order to mitigate risks of default due to client incapacitation. Credit-linked insurance can serve as a client's first exposure to insurance and its protective benefits, and thus help build a culture of insurance. Clients may also resist loans requiring health insurance that increase loan fees (Banerjee, Duflo, and Hornbeck 2014).

Sanabel, the Microfinance Network of Arab Countries, was established in 2002 and provides advocacy, strategic advice, regulatory support, and trainings to its members (Sanabel Network 2020). Sanabel currently has 90 MFI members from 13 countries (Bahrain, Egypt, Iraq, Jordan, Lebanon, Morocco, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, and Yemen), serving a total of 2.8 million clients. With support of external donors, countries have also established umbrella network organizations for MFIs, such as the Lebanon Microfinance Association, Sharakeh in Palestine, and Tanmeyah in Jordan.

MFIs in the MENA region face limited investment and growth attributed to economic and political instability. Regulations, including prohibitions on deposit taking, have also inhibited MFI development, requiring MFIs to seek capital from local and international parties (Boudiba 2018). Syria and Yemen are the only countries in the region to permit MFIs to hold deposits from their client savings or remittances (Barnieh et al. 2017). Capital shortages limit operations and growth (Biallas, Qutob, and Malamud 2014).

Digitization of MFI transactions can improve MFI efficiency and reduce fraud. Electronic transfers make it easier to track cross-borrowing with other financial institutions and build data analytics for improved risk assessments, lowering loan delinquency ratios and improving profitability (Sanz et al. 2012). By transitioning loan clients to digital payments, MFIs can increase use of DFS and support financial inclusion. Clients can make routine re-payments via digital channels, building a transportable credit history.

- **Digitization of MFI transactions in the MENA region is low**. A survey by the Center for Financial Inclusion in 2017 found that just 4 percent of MFIs in the MENA region were actively assessing technology and new business models involving digital payments (Bolze 2017).

- **Low uptake of DFS by MFIs reflects the fact that in many countries, MFIs' client base are not current users of DFS**. Unless DFS use is already established, MFIs risk excluding eligible clients with services that do not meet their needs. There are also risks to clients due to poorly regulated DFS with potential for breaches in data security, hidden prices and fees, and inadequate mechanisms for complaint resolution (Arenaza 2014).

- **Jordan's MFIs are making the most progress**. Seven of Jordan's nine MFIs are now integrated with Jordan's electronic payment system eFAWATEER for loan re-payments (Nzebile and Denadi 2019). The nonprofit Making Cents reports a new digital ID solution in development in Jordan, in partnership with Kiva, the International Rescue Committee, and the Dutch Development Bank. Its aim is to provide a globally interoperable identity for MFIs to verify the identity of clients. This is intended to help refugees establish a verifiable credit history that can follow them when they return to their home country (Making Cents International 2018).

- **Egypt has liberalized its microfinance laws**. New initiatives are underway to digitize MFI operations in companies such as SANDAH, an internationally backed MFI start-up (Software Group 2018). Supported by the Central Bank of Egypt, Egypt's Village Savings and Loans Association (VSLA) is digitizing its processes to stimulate household savings, improve record keeping and make on-boarding of new clients more efficient. VSLA seeks to use the digital channel for customer education to promote savings habits.

- **Data on MFI lending for health were not available**. To explore the linkages between MFIs and health, we looked for data related to MFI lending to clinics, drug shops, or other health enterprises but were unable to obtain data on the breakdown of MFI clients in the health sector. In most cases, loans for businesses are classified as general trade. In an interview in October 2019, the CEO of Vitas Group indicated that in some markets, health enterprises constituted up to 25 percent of business lending. We also did not find data breaking out MFI loans to individuals who borrow to pay for health care.

DFS and remittances

Globally remittance volumes to low- and middle-income countries are three to four times larger than official development assistance and more stable than direct foreign investment (Knomad n.d.).

The business of sending of money across borders is complex. International remittances must comply with trade and tax rules, facilitate currency exchange, meet bank settlement processes, and mitigate risks of illegal activities. Well-established "exchange houses" such as Western Union and MoneyGram manage these processes, enabling senders to pay cash and recipients to pick up cash at service points. These services are expensive, charging transaction fees as high as 20 percent.

Remittances using DFS can lower these transaction costs, allowing users to retain a greater proportion of their scarce funds. Phone-based transmission of funds provides convenience, reaching recipients where they are. Domestic remittances were a key driver of DFS in Kenya, where the unprecedented growth of the mobile money service mPesa is attributed to the demand for an alternative way to send funds to remote family members and friends. Traditionally, cash has been sent with bus drivers or others traveling to destination villages, a slow and insecure method. Remittances can catalyze use of DFS, providing the value proposition for transitioning from cash.

- **Remittances provide a significant opportunity for expanding DFS use**. Remittances constitute 11 percent of GDP in Jordan, 15 percent in Lebanon, and 16 percent in West Bank and Gaza (Knomad n.d.). Remittance income is frequently used for basic and emergency needs. One study found that 13 percent of remittances were used for health care (Robson, Isaacs, and Boakye-Adjei 2017).

- **Compared with other regions, use of DFS for international remittances in the MENA region has been limited**. In a scan of 330 fintech companies in 22 MENA countries, fintech investment in international remittances constitutes less than 1 percent (Chehade 2019). This limited progress integrating DFS with international financial systems reflects the fact that many MENA countries are still establishing frameworks for interoperable payment platforms. Licensing terms have not been approved for non-bank financial service providers to handle international remittances.

- **Jordan's relatively advanced DFS ecosystem provides the most promising opportunity to expand options for remittance payments through mobile platforms**. The Digi#ances Project in Jordan sought to improve cross-border remittances for refugees and low-income Jordanian citizens. Refugees are heavy users of exchange houses, with more than half having sent or received money through formal remittance channels in 2016 (Central Bank of Jordan 2020). In an evaluation of DFS use among target populations, CGAP identified two barriers: very low transaction limits on person-to-person payments and the fact that DFS providers had not secured agreements with exchange houses, as required by Jordanian law (Robson, Isaacs, and Boakye-Adjei 2017).

- **Remittances into Syria have not been well tracked, and official World Bank statistics on remittances have stagnated since 2011** (Aron 2017). In areas not held by the Syrian regime, there is anecdotal evidence that the *hawala* trade is booming (Hogan 2016). The centuries-old hawala system consists of a network of informal traders who transfer funds across borders, with high risks that the funds will not reach their intended recipients (Aron 2017).

DFS in the health sector

In this section, we look at use of DFS in the health sector, starting with the degree of digitization in the delivery and management of health services. Unique patient IDs enable efficient tracking of patient care and can facilitate integration of health with financial and other services. The vast majority of the population in the MENA region has no health insurance, and mobile-enabled insurance services have the potential to close the gap.

Key takeaways:

- Many health record-keeping functions in the region are still paper-based, but efforts to digitize are underway in most countries. Telemedicine initiatives are nascent but accelerating as a result of the COVID-19 pandemic.
- Digital IDs are being introduced across the region, with the potential to facilitate coordination among government agencies, and lower barriers for vulnerable populations to access services.
- Use of DFS in the health sector is very limited, reflecting the nascent state of DFS.
- DFS have the potential to make health insurance more accessible and affordable, but progress in digitizing insurance products has been limited.

Digital health

Strengthening economic development and social services including health is key to long-term stability. UHC aspires to improve access, utilization, equity, and financial protection for

individuals in need of health services and to strengthen efficiency and quality of health system performance. Advances in digital technology have created opportunities to make progress toward UHC.

Digital health is an umbrella term referring to the use of digital technologies for health (WHO 2019). The WHO has developed a taxonomy of digital health interventions, including health financing as a distinct functional area (WHO 2018). Other functional areas in digital health include the collection of health data into the health information system; digital tools to train, supervise, or support health workers; educational content delivered via mobile phones to families and individuals; and the digitization of medical records to improve tracking, referrals, and medical records. Digitization of records, communications, and management functions give staff experience with digital applications and can create demand for automated payment technologies and related DFS applications.

- **We found limited evidence on digitization within health services in the MENA region**. Databases such as the WHO's Digital Health Atlas did not have comprehensive or up-to-date documentation on digital health strategies for any of the 11 countries (WHO n.d.).

- **Recent efforts to implement and strengthen integration and use of health information through DHIS2 are underway in Syria, Lebanon, Algeria, and Iraq** (WHO n.d.). Health management information systems are an essential building block for the effective oversight, management, and provision of health care. DHIS2 is a standardized software platform to aggregate routine reporting from health facilities at all levels.

- **Interventions to improve case management have been launched recently in several countries**.

    - In 2019, Egypt's Ministry of Health and development partners transitioned work performed by community health workers in case management, registration, and reporting to digital processes in five districts. This is the first phase of a plan to procure 2,800 mobile tablets for community health workers to capture real-time performance data and automate their communications with supervisors and community members (World Bank 2018c).

    - In February 2019, Iraq announced plans to launch an e-health system in hospitals to improve tracking and referral of patients (Baghdad Post 2019).

    - Jordan's Hakeem electronic health record system, which aims to connect all hospitals and health centers in a shared digital system, is among the most advanced efforts to digitize case management. However, Hakeem has struggled with low use in facilities due to inadequate training, obsolete technology, and lack of funding (Klaib and Nuser 2019).

- **Telemedicine initiatives,[1] which allow health workers to diagnose and treat patients remotely, are in early stages and are accelerating in the wake of COVID-19.**

    - Testing of telemedicine approaches have been launched Algeria, Jordan, and Morocco (WHO, n.d.; JAseHN 2018).

[1] This study does not examine the current increase in telemedicine.

- Egypt also offers telemedicine and online training for providers through the Ain Shams University Virtual Hospital (Elbokl, Emara, and Wahba 2019).

Digital IDs

More than one billion people globally lack legal identification, and digital ID interventions hold promise for expanding access to services (USAID 2019). Digitizing IDs can lower administrative burdens and reduce barriers that exclude vulnerable populations from acquiring documentation, such as proof of a fixed address. Biometric technologies such as sensors for face recognition, iris scans, finger prints, palm prints, and machine-learning algorithms using data from photos are able to validate a person's identity on the spot. Digital IDs enable governments to reduce fraud and waste and streamline data collection and analysis.

In health care, unique patient identifiers enable providers to access relevant health records and administrators to aggregate data to improve management of resources. Insurers need documentation to enroll people in health insurance and adjudicate claims. Globally, functional IDs for specific purposes such as health care are giving way to foundational IDs in which individuals have one form of identification for multiple purposes, improving the ability to coordinate public services (World Bank 2018d).

- **North African countries Morocco, Tunisia, and Algeria are transitioning from paper to digital health cards for all citizens**. Digitization of health cards is an important step in integrating health with other government services.

- **Biometric IDs are being introduced to promote inclusion in social services.**

  - In November 2019, Morocco announced the award of a contract for a biometric ID card for all Moroccans, designed to increase consumer confidence and make transactions more secure (Business Wire 2019).

  - The introduction of Algeria's digital biometric ID card in 2016 enables access to e-government services like voter registration, tax collection, and passport issuance (GSMA 2019b), and can be leveraged to facilitate DFS (Maranis 2019).

  - Iraq uses biometric data such as iris scans to identify users of the Qi card for government welfare benefits (Cornish 2019).

- **Some private ID applications are in development to link patients to health services**. A private Libyan company, Medicate Int., launched a pilot in 2019 of an electronic health card, a portable digital patient records system, and an electronic directory to search providers within the Medicate network for discounted services and medicines (Medicate Int., n.d.).

Digital finance in health

DFS can strengthen health systems by improving equity, affordability, and responsiveness in service delivery. Digitizing payments can improve health system performance by increasing the efficiency of record keeping, strengthening oversight and transparency of financial management, reducing leakage and fraud, and improving the quality of care (Galdava, M'Bale, and Rohatgi 2019). DFS can support health workers by facilitating more timely remuneration of

payments for stipends, incentives, and salaries. On the demand side, DFS can provide financial protection from out-of-pocket costs through savings, insurance, and credit applications (Galdava, M'Bale, and Rohatgi 2019).

One example of DFS as a lever for achieving UHC from other regions is M-TIBA in Kenya, a country with the largest percentage of DFS users in the African continent. M-TIBA is a mobile service that allows subscribers to save and spend funds specifically for health care, with incentives to use savings for medical services. Through partnerships, such as with Kenya's National Hospital Insurance Fund, M-TIBA connects payers, providers, and patients with data to track health outcomes for beneficiaries and increase utilization of care.

- **We found limited use of DFS in the health sector.** This reflects the still nascent status of DFS in the 11 focus countries. Even in countries where DFS is gaining acceptance, such as Jordan, informants from health sector programs reported no knowledge of use of digital payment services within health facilities.

- **As countries such as Egypt and Tunisia transition government services to e-payments, use of DFS in public sector clinics is expected to increase**.

DFS and health insurance

One of the core functions of health financing is risk pooling through mechanisms such as health insurance. Health insurance helps remove financial barriers to health services, improve access to health services, and provide financial risk protection. As documented in an earlier SHOPS Plus report, the 11 focus MENA countries have some of the lowest levels of public expenditure on health in the world, with large uninsured populations (SHOPS Plus and HFG 2018). Health insurance may be provided through government-sponsored programs or through private ones. With the exception of Tunisia, the MENA region has low levels of government-sponsored insurance programs such as through mandatory contributions from formal sector wages and charges to employers (SHOPS Plus and HFG 2018). This translates into high levels of out-of-pocket household spending for health. Additionally, consumer awareness and understanding of health insurance is low.

Private health insurance programs complement government programs, but they generally target higher-income households. Digitizing processes within the insurance sector can lower costs and expand the reach of insurance. Typical insurance processes involve face-to-face meetings with insurance agents, extensive vetting of benefits and exclusions, and document-heavy claims processing. DFS applications for the insurance sector, referred to as insurtech, include technology innovations that improve the efficiency of insurance programs. Digital applications can support the entire insurance value chain, including product development, sales, enrollment, premium collection, marketing, policy administration, claims, and analytics. For example, subscribers to a mobile phone service offering health insurance can use airtime to make small, frequent premium payments that reflect the needs of households with low or irregular incomes.

- **Reforms to strengthen national health insurance emphasize the need for digital solutions**. Policy makers in Egypt, Tunisia, and Morocco are seeking to modernize and expand their public health insurance programs. Tunisia's Digital Tunisia 2020 framework plans to expand options for payment of health insurance contributions through digital health cards (World Bank 2019f). Egypt's Comprehensive Health Insurance Law, passed in 2017, prioritizes strengthening accreditation and oversight of providers through automation of administrative processes (World Bank 2018c).

- **Egypt is legalizing digital distribution of insurance**. With technical assistance from international donors, Egypt's Financial Regulatory Authority drafted an insurance law aimed at expanding insurance coverage for low-income households (Adam et al. 2019; OBG 2019c). A survey of low-income households identified that disease and injury are the top risks they face that could trigger severe financial hardship. The law provides incentives for the private sector to expand non-banking financial services including health insurance. Insurers are encouraged to increase use of technology to market insurance products, issue policies electronically, collect premiums, and expedite claims processing (Middle East Insurance Review 2019).

- **Fintech companies launching services across the MENA region have made few investments in insurance**. Even in Gulf Countries, where digital finance is booming, there have been very few insurance-focused products. Consistent with global trends, most fintech solutions are aimed at payments (Chehade 2019). One exception is Democrance, a technology start-up committed to delivering health insurance to previously uninsured individuals. See the Democrance Case Study in the following section for more information.

- **Aligned with global trends, insurance is being bundled with other services to reach new customers.** Careem is the most popular ride-hailing app in the Middle East, recently acquired by Uber. Careem provides its drivers and passengers with in-ride insurance in the case of an accident (Careem n.d.). The policy covers accidental death, disability due to an accident, ambulance services, and medical expenses incurred as a result of an incident. In Egypt, Careem's largest market, the policy covers rides in cars, bikes, and tuk-tuks. The Careem digital app provides a simple process for users to submit claims. This service introduces individuals to the benefits of insurance and helps build demand for additional products.

Case study in Egypt: Democrance democratizes access to life and health insurance

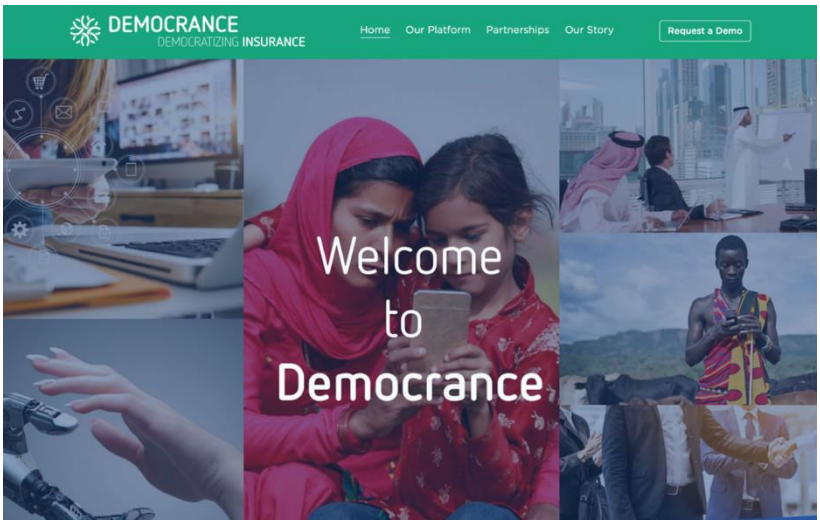


Photo credit: Democrance

DFS start-ups are introducing applications to expand access to financial services. In November 2019, SHOPS Plus interviewed Michele Grosso, CEO of Democrance for this report about the Democrance model for democratizing access to life and health insurance.

About Democrance: Democrance (Democrance 2020) is a Software as a Service technology company that seeks to make insurance accessible and affordable to underserved populations via digital technology. Its goal is to create social value for populations previously excluded from the protection insurance can provide. Founded in 2015, Democrance currently works in 11 countries worldwide: Bahrain, Cambodia, Egypt, Jordan, Kuwait, Lebanon, Mexico, Oman, Qatar, Thailand, and United Arab Emirates. The insureTech firm wants to bring affordable, accessible insurance to 15 million low-income people in the MENA region by the end of 2020.

How It Works: Democrance serves as a technology enabler, linking insurance providers with payment platforms and distribution partners such as mobile phone companies, money transfer operators, digital wallets, MFIs, r/e-tailers, and superapps. Customers with mobile phone accounts receive complementary life insurance. Additionally, they have the option to purchase simple health insurance for themselves and family members that helps pay for costs associated with major health events, and promotes financial protection.

Similarly, Democrance partners with MFIs to bundle insurance products with loans. For example, Democrance works with some of the largest MFIs in Egypt. In partnership with AXA Emerging Customers and the Lead Foundation, it offers credit life insurance, which pays the outstanding amount owed by a borrower on a loan in the event of his or her death, and hospital cash products designed to offset incidental costs (e.g., transportation or lodging) associated with a hospitalization. It currently serves hundreds of thousands of customers, for example, low-income women entrepreneurs with a microfinance loan for their business.

Democrance also targets lower-income, uninsured migrants who typically send money home to their family. Customers of remittance houses can purchase and include easy-to-use insurance products with their remittance to insure family members in other locations.

Why It Works: Currently in a growth phase, Democrance partners with multinational insurance companies around the world such as AXA, AIG, and MetLife by offering them a turnkey option to reach new market segments and increase digital sales. Democrance uses digital channels to link insurance companies to customers of mobile operators and remittance houses, and reduce marketing, customer acquisition, and administrative costs. This in turn enables insurers to offer lower cost products to large numbers of people unable to pay higher premiums associated with traditional insurance products. Democrance leverages familiar brands to introduce consumers to unfamiliar concepts about insurance. For mobile network operators and remittance houses, insurance offers a way to increase customer loyalty, differentiate their services, and contribute to the economic development of societies. The insurance products are designed to be simple to understand and use with limited (or no) exclusions typical of many insurance services.

Enablers: Democrance's entry into Egypt was a direct result of new, enabling regulation that liberalized the market. For example, Egypt's sustainable development strategy, Vision 2030, makes financial inclusion a national priority. Previously, more restrictive rules required insurance sales to be conducted by licensed agents through contracts with written signatures. Multinational insurance companies such as AXA, AIG, MetLife, and Allianz, eager to expand in emerging markets, are drawn to Egypt's large middle class and relative economic stability.

Looking ahead: Democrance aims to scale up by expanding partnerships with insurers and strengthening the value proposition of digitally enabled health insurance. Democrance is currently working in Egypt mostly with MFIs, but plans to expand to other insurers and distribution partners (AXA Magazine 2020), drawing from its experience working in ten other countries, including the United Arab Emirates. It will continue efforts to help customers understand the benefits and limitations of insurance, build trust and comfort in DFS, and offer products with valued benefits.

Country Profiles

This section consists of short profiles of the 11 focus countries and the status of their DFS activities. For each country, we highlight in graphic form key statistics on mobile subscription rates, internet penetration, ownership of financial accounts, and percent of individuals who received or made digital payments within the past year. Definitions and sources for these statistics are as follow:

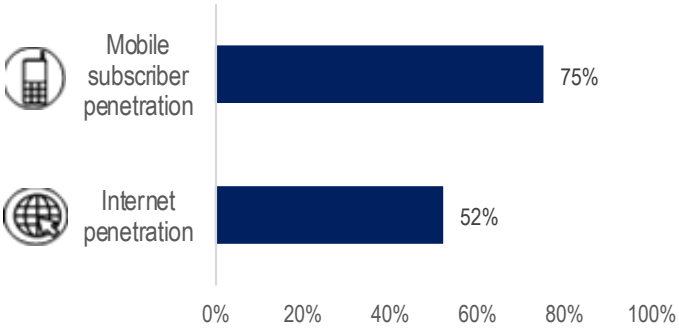
- Mobile subscriber penetration: The number of unique persons who subscribe to a mobile account as a percent of the total population of a country (Source: GSMA 2018).
- Internet penetration: The number of internet users as a percent of the total population of a country (Source: Hootsuite and We Are Social 2019).
- Account ownership: Number of adults who reported having an account (by themselves or together with someone else) at a financial institution or using a mobile money service (Source: World Bank FIndex, Demirgüç-Kunt et al. 2018).
- Made digital payments: Number of individuals who made or received digital payments (Source: World Bank FIndex, Demirgüç-Kunt et al. 2018).

These statistics are from 2017, which is the most recent year the World Bank data were collected. Three years is a long time when measuring diffusion of digital technology. As the country snapshots highlight, many countries have implemented major DFS policy changes within the past two years, and most countries have seen a sharp increase in new service providers entering the DFS market. We do not have more up-to-date, comprehensive data on use of DFS in 2020, but, based on the major efforts underway, we expect that use is accelerating. The statistics should be viewed as a reliable baseline for measuring the market opportunity for DFS.

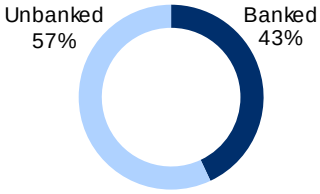
Algeria

Key takeaway: Despite advances to introduce e-payment services in Algeria, uptake has been slow due to consumer distrust and weak enforcement. The political transition is likely to delay attention to DFS.

Total Population: 42.2 million (2018)
Rural Population: 27%



Account Ownership (2017)



Digital Payments Received or Made in the Last Year (2017) **26%**

Algeria is an oil-rich nation with relative socioeconomic stability. It is one of the few countries that have achieved a 20 percent poverty reduction in the past two decades. Algeria has experienced recent political turmoil and economic crises due to falling oil prices and the need for structural reforms (World Bank 2019d). In 2019, protests forced the exit of Algeria's President, who had ruled for 20 years.

Health Sector Overview

Algeria's health system comprises the private sector, quasi-public sector, and a largely dominant public sector. Private health facilities are mostly for-profit, with private providers supplying mostly curative care. Public and private sector interaction is fairly uncommon, aside from government-provided contracts with the private sector in areas where there are health care shortcomings, such as a shortage of specialists. The quasi-public sector consists of large public firms that provide health care for their employees. All three sectors have grown rapidly in the past two decades: between 2000 and 2012, the number of medical practitioners nearly doubled, and the pharmaceutical market grew from $500 million in 2000 to $7 billion in 2016. Although the Algerian government formally recognizes the right to free health care services in the public sector, access to and utilization of public sector services varies across the population. Public sources cover approximately 75 percent of health expenditures, and out-of-pocket health expenditures are high (SHOPS Plus and HFG 2018).

Digital Financial Services

Algeria initiated early-stage financial inclusion efforts through its national postal service. While Algeria's postal service is not a postal bank, it has offered basic checking accounts and

money transfer services for years, subsequently expanding financial services (OBG 2016). Between 2011 and 2017, the proportion of Algerian adults with a financial account increased from 33 percent to 43 percent (Demirgüç-Kunt et al. 2018). The postal service continues to evolve and launched a new money transfer service in 2019 (Saci 2020).

Algeria issued an Information and Communications Technology (ICT) Action Plan 2015-2019 that promoted use of e-payments (Ministry of Post and Telecommunications 2016). In 2016, Algeria created an organizing e-banking entity, Filiale Intervancaire Monetique (FIB) to increase collaboration, facilitate change, and encourage businesses to adopt e-payment services and introduced its first e-payment service. The e-payment service included 11 banks and nine companies, which accumulated approximately 930,000 subscribers by the end of 2016 (OBG 2017). Additional stakeholders, including state-owned utility and transportation companies, have since joined the service. Following the launch of e-payments in 2016, the e-banking entity distributed 16,000 electronic payment terminals to supermarkets, restaurants, and shops, for use by customers who have bank accounts.

In 2018, the Central Bank of Algeria encouraged financial inclusion, but roll-out of DFS has stalled (OBG 2017). The 2018 policies referenced previous laws that opened the banking sector to new actors and emphasized the rights of all Algerians to a bank account. The rules made installation of electronic payment terminals mandatory for all businesses. However, shopkeepers have resisted. Demand for card payments is low, and there is weak enforcement (OBG 2019a). Although DFS are available in Algeria, adoption has not been widespread and the number of e-wallet options available is limited.

Recent regulatory reforms to improve the business climate may spur DFS investment. A new legal framework for the protection of personal data was adopted in May 2018 (OBG 2017). Algeria introduced a biometric ID card in 2016 that enables access to e-government services like voter registration, tax collection, and passport issuance, and can be leveraged to facilitate DFS (GSMA 2019a). A key gap remains in the area of consumer protection laws, which are weak (Maranis 2019).

Compared with other countries in the region, Algeria's use of mobile phones is largely for talking and texting. MENA countries generally have a more engaged consumer profile than Algeria in regard to mobile phones, where smart phone penetration is less than the regional average. Algeria has lower use of phones for social networking, e-commerce, or financial services (GSMA 2019b).

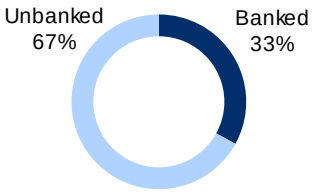
Due to its current political transition and social unrest, policies to promote financial inclusion may not receive attention. There have been persistent widespread protests and demonstrations as the government installs new leadership and economic conditions worsen (Al Jazeera 2020).

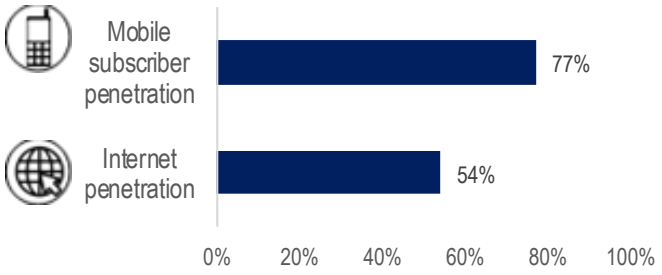
Egypt

Key takeaway: Egypt has the most dynamic DFS environment in the region, enabled by political leadership on financial inclusion. New policies mandating public sector use of e-payments and easing documentation requirements to open accounts are spurring investments in e-payment platforms. DFS is currently seeing an annual growth of 30 percent.

Total Population: 98.7 million (2018)
Rural Population: 57%

Account Ownership (2017)





Digital Payments Received or Made in the Last Year (2017) **23%**

Egypt is a stable state following a revolution in 2011 and military coup in 2012. The current president has been in power since 2014. The country has one of the largest and most diversified economies in the region, but an estimated 32 percent of its citizens live below the national poverty line, with higher rates in rural areas (World Bank 2020a). There is a large informal workforce, constituting 40 percent of GDP. The government has implemented an economic reform program to stabilize the economy and has prioritized improving its business environment and the efficiency of government services.

Health Sector Overview

Egypt's health system is fragmented and includes a variety of health management and health service delivery entities belonging to the public, private, and quasi-public sectors. The public health sector consists mostly of primary care units and hospital networks, in addition to university hospital centers. The majority of hospitals, primary health care clinics, and pharmacies in Egypt operate in the private sector, both for-profit and nonprofit.

While Egypt's private health sector has grown significantly in the past several decades and policies aimed at facilitating cross-sectoral communication between public and private health sectors exist, the Government of Egypt's partnership with the private health sector has been limited. The quasi-public health sector is mostly supported by the country's largest health insurance provider, although often larger government institutions and larger companies opt out of this scheme in exchange for independent insurance providers and health services. Fee-for-service is the dominant method of payment. Health insurance schemes, both public and private, cover only part of the population and remain modest in terms of benefit packages (SHOPS Plus and HFG 2018).

Digital Financial Services

Egypt's sustainable development strategy, Vision 2030, makes financial inclusion a national priority. Led by the Central Bank of Egypt, the country is promoting e-money as a critical pathway to financial inclusion. To establish itself as a leader of financial inclusion in the region, Egypt has focused its efforts on coordination between regulators and financial service providers and increasing confidence in DFS (Khalil 2018). Due to its large population, high percentage of the unbanked relative to other stable states in the region, and a mobile phone penetration rate of 109 percent, a number of international partners have recognized the potential for Egypt to bring significant numbers of people into the formal financial sector. The World Bank's Financial Inclusion Global Initiative and AFI are both providing technical assistance through multi-year activities aimed at introducing international best practices, advancing research, and accelerating financial inclusion.

Comprehensive policy reform to promote DFS is underway. Egypt's efforts to spur economic development through financial inclusion include the establishment of a National Council for Payments in 2017, chaired by President El-Sisi. Under leadership of the Central Bank of Egypt, the Egyptian government announced in April 2018 the launch of the National Strategy for Non-Banking Financial Activities (2018-2022), which aims to enhance the ability of non-banking financial institutions to be partners in serving the national economy (Adam et al. 2019).

The Central Bank has mandated service interoperability, which ensures users of one service can transact with users of another service. Mobile banking providers are required to link to one another through a shared network known as Ta7weel. Ta7weel is jointly managed by the Central Bank of Egypt, the Ministry of Finance, and national and commercial banks (Ismail 2020). Payments must be executed by licensed financial service providers, with technology providers facilitating interaction with the customer, but these terms are under review (Amereller 2018).

Tiered KYC requirements reduce the burden of producing extensive documentation for small account holders. New Customer Due Diligence procedures for mobile payments have been designed to balance the risks of fraud and money laundering with the benefits of expanding access. Additional changes are under consideration to allow electronic identity checks so that accounts could be opened without the customer present, and to allow mobile money transfers from abroad without requiring users to open a bank account in Egypt (CBE and AFI 2019).

Mandatory adoption of e-payments is a first for the MENA region. Egyptian Decree No. 18 passed in 2019 requires public institutions and private companies to make all payments of salaries, suppliers, insurance, subsidies, and leases in electronic form. These provisions are to be enforced by fines. The government is in the process of installing point-of-sale machines at 22,000 government offices (Ismail 2020).

Egypt approved a regulatory sandbox to encourage innovators to test new products under waivers. In 2019, the Central Bank of Egypt established a $58 million fund to invest in fintech start-ups. The first pilot cohort gained access to the sandbox in June 2019 and has been focusing on digital KYC applications (Fintech News Middle East 2019).

Growth of DFS is driven by the government e-payment system. Use of mobile payments grew 30 percent between 2017 and 2018, with 56 percent of adults making or receiving a digital payment (CBE and AFI 2019). One of the levers for this growth is the government's Meeza scheme, the Egyptian National Payment Scheme for pensioners, civil servants, and subsidy

recipients (Mounir 2019). Meeza payments can be made through phone or digitized cards, with 19 banks licensed to issue Meeza cards. Meeza subscribers can receive electronic government payments, transfer funds, and shop online using Meeza's payment gateway, PayFort. As of December 2019, 4 million Meeza cards have been issued (Egypt Today 2019).

The number of DFS providers is growing. The government signed MoUs with both Visa and Mastercard to extend digital services to Egyptians without bank accounts (ALEXBANK 2017). One of the largest payment-processing companies in Egypt is Fawry, established in 2009. Fawry enables phone-based transactions such as bill paying, charitable donations, government services, and mobile top-ups without the need for a bank account. Fawry currently services 20 million customers who conduct transactions through more than 100,000 locations (Nabil 2019). All four mobile network operators offer DFS products to their subscribers.

Many barriers remain for reaching the most marginalized with useful services. DFS may include transaction fees that the poor cannot afford, deterring use. Many people simply lack money to open accounts (Rashdan and Eissa 2019). High commission rates charged by banks and payment gateways are particularly problematic for small payments such as for transport, scratch cards, or items from kiosks. Both merchants and consumers need incentives to encourage their participation in the formal economy (Khalil 2018).

Egypt is taking steps to address the gender gap in use of DFS. Compared with men, 10 percent fewer women in Egypt have ever used financial accounts (Demirgüç-Kunt et al. 2018). Egypt's Vision 2030 sets women's financial inclusion and economic empowerment at the "heart of the national development reform agenda" (CBE and AFI 2019). Priority areas include: obtaining accurate gender-disaggregated data from banks, expanding the reach of DFS, and encouraging the use of e-payments. The Central Bank of Egypt and the National Council for Women signed a MoU to cooperate in empowering Egyptian women economically and financially, and accelerating women's entrepreneurship (ALEXBANK 2017).

Egypt's efforts to promote women's empowerment are supported by a joint program of AFI, the Arab Monetary Fund, and GIZ called the Promotion of the Microfinance Sector in the MENA Region (MFMR). MFMR launched FIARI to formulate a regional action plan to close the gender gap. The strategy set targets for women's financial inclusion, established a mentorship program to promote women leaders, and identified rural women facilitators to raise awareness around financial education (GIZ n.d.).

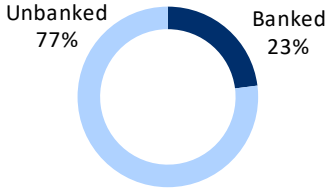
Awareness of DFS options and economics remains low, with gaps in understanding how electronic money would be beneficial. Consumers mistrust DFS, fearing fraud, loss of privacy, and other risks using digital payment channels. The government has launched social behavior change campaigns to increase consumer interest, motivation, and confidence, urging everyone to enroll in financial accounts to benefit their own financial standing as well as the country's economy (Nabil 2019). Additional efforts are needed to build financial and digital literacy. Challenges also exist due to Egypt's expansive geography, with large areas where there are no DFS agents or points of service.

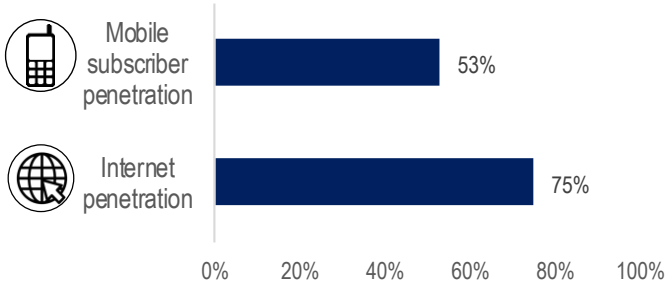
Iraq

Key takeaway: Iraq remains one of the Middle East region's most underbanked countries and access to financial services is underdeveloped. The Central Bank of Iraq is taking positive steps but ongoing conflict and political upheaval make it unlikely that substantial reforms will take place in the near future.

Total Population: 38.4 million (2018)
Rural Population: 30%

Account Ownership (2017)





Digital Payments Received or Made in the Last Year (2017) 19%

Iraq has been devastated by cycles of war, violence, terrorism, and massive population displacement. It faces an economic contraction stemming from the collapse of international oil prices, compounded by its political and social turmoil. Oil resources sustain the economy, and institutions are state-run. Mass demonstrations began in October 2019 over socioeconomic grievances including high unemployment and lack of basic services such as electricity and clean water (Shbaikat, Dehmej, and Hegazy 2019). The Prime Minister resigned in December 2019, although as of early 2020 he remains in a caretaker role. The workforce is largely public sector, and many salaries are paid in cash.

Health Sector Overview

Iraq's health care system is fragile as a result of decades of conflicts in the country. Persistent issues include lack of access to health services, especially for rural populations, medicine shortages, damaged infrastructure, inadequate funding, and a loss of health workers. The public sector dominates the health care system, but private entities provide a significant portion of care in urban areas. The Government of Iraq has laid out national health policies and strategies to improve the country's health system but regulation, standardization, and implementation have not been operationalized. Aside from provider referrals, coordination and interaction between public and private sectors is uncommon. Significant socioeconomic disparities exist regarding private sector service uptake: Iraqis belonging to a higher socioeconomic status are much more likely than poorer populations to seek health care from private facilities. Health insurance for the general population is non-existent and out-of-pocket expenditures are high (SHOPS Plus and HFG 2018).

Digital Financial Services

While Iraq does not have a formal strategy for financial inclusion, the Central Bank of Iraq has launched schemes to promote it. The Central Bank's efforts include steps to modernize payment systems, promote electronic payments, and encourage banks to open more branches (Shbaikat, Dehmej, and Hegazy 2019). The Central Bank aims to improve regulations and strengthen supervision, including taking steps to address money laundering and the financing of terrorism. The Bank is engaged in efforts to improve the architecture of the financial sector such as developing a deposit insurance scheme. The Central Bank signed a MoU with Mastercard in 2018 to foster Iraq's "emerging digital payments ecosystem" (Mastercard 2017). While these are positive steps, Iraq's financial sector is underdeveloped compared with other MENA countries and further reforms are needed (Shbaikat Dehmej, and Hegazy 2019).

Iraq has successfully deployed large-scale DFS to streamline public sector payments. Approximately 7 million Iraqis – about one-sixth of the population – now receives public sector salaries and welfare benefits through biometric debit cards called Qi cards, deployed through the ISC's electronic payment system (Cornish 2019). The ISC is a company jointly owned by private investors (70 percent) and state banks (30 percent). Its Qi cards use biometric data such as iris scans to identify users.

Prior to implementation of the cards, public sector employees received their salaries in cash, and recipients of pensions and welfare benefits collected the payments from public bank branches on one designated day every two months – a substantial inconvenience. With the Qi cards, the recipients obtain payments electronically each month. Moreover, ISC created a network of local agents to convey benefit payments to people who are physically unable to travel to a branch. As noted by the company's chief executive, "We had salary-to-home delivery when at that time pizza delivery was not available in Baghdad" (Cornish 2019).

The impact of the Qi cards is significant. ISC's technology helped to eliminate thousands of fraudulent beneficiaries. The company expanded to providing access to loans: in 2018, it facilitated $2 billion in loans from Iraq's largest bank to Qi cards. Sixty percent of the borrowers used their loans to launch small businesses. Currently, ISC is looking to expand to other MENA countries such as the West Bank and Gaza and Libya (Cornish 2019).

Beyond the Qi cards, three digital wallets have launched in recent years. Taif eWallet was established in 2016, the product of a partnership between Taif Money Transfer, Iraq's largest remittance company, and Ideal Payments, an electronic payment provider (Finextra Research 2016). The entrepreneurs, who have experience with Goldman Sachs and the Trade Bank of Iraq, aim to create a solution for the unbanked that allows them to receive their salaries in the app, pay for fees, and send money to friends and family. Two other digital wallets, ZainCash and Asia Hawala, were launched in 2015 (Fintech News Middle East 2018). Their impact is not yet clear.

Iraq's prolonged conflict and political crises have dramatically affected its telecommunications infrastructure. Iraq's telecommunications market is one of the least developed in the MENA region due to the country's fragility. The mobile sector comprises three major operators that are all associated with foreign companies: Zain Iraq, Asiacell, and Korek Telecom (BuddeComm 2020). The operators have been struggling to maintain their networks and have not invested significantly in infrastructure. In 2018, the International Finance Corporation provided $269 million to Zain Iraq to help the company improve the capacity and quality of its 3G network, expand coverage to underserved areas, upgrade its networks in northern Iraq, and stimulate economic growth (ReliefWeb 2018). Restoration of networks

damaged by war has contributed to some growth in mobile data usage and revenue (BuddeComm 2020).

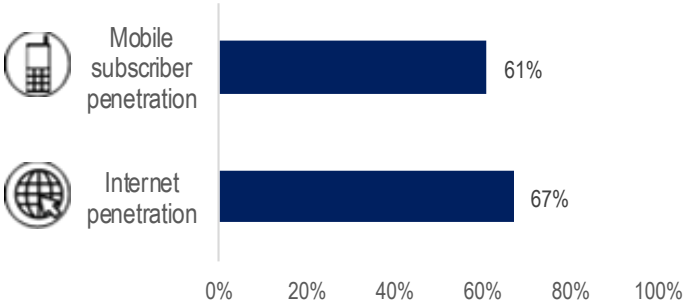
Iraq's banking system needs restructuring due to a low deposit base and low capitalization. Needed reforms include improved cybersecurity and reduced costs for users (Shbaikat, Dehmej, and Hegazy 2019). The International Monetary Fund recommends policies to promote stronger competition from private banks in order to promote innovation and diversification of financial products, especially for small businesses.

Consumer trust in banks is very low due to years of corruption and weak governance. Public banks lack independence from government officials. The lack of comprehensive published audits and an operational deposit insurance scheme undermines confidence in the financial system (Shbaikat, Dehmej, and Hegazy 2019). There is no framework for consumer protection in financial services (Saleh and Yeon 2018).

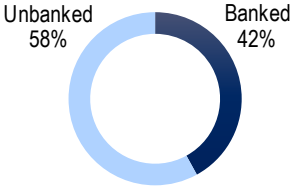
Jordan

Key takeaway: Financial inclusion is a high priority in Jordan. DFS access is improving, bolstered by international partnerships and a strong ICT infrastructure, but access is concentrated in urban areas. Foundational regulations have been implemented, but there are key gaps. Programs are in place to help strengthen digital literacy.

Total Population: 9.9 million (2018)
Rural Population: 9%



Account Ownership (2017)



Digital Payments Received or Made in the Last Year (2017) 33%

Jordan is a politically stable country that has taken in more than 670,000 registered Syrians (IRC, n.d.). Unregistered refugee numbers are estimated to be higher. Slowed economic growth and rising public debt have contributed to Jordan's 18.7 percent unemployment rate (World Bank 2019e). Due to the availability and quality of jobs and the higher wages in the GCC, many Jordanian workers have migrated (Mryyan 2012). An estimated 14 percent of the population lives below the national poverty line (World Bank 2019e). Having few natural resources, Jordan has developed a strong ICT ecosystem that is supported by a highly educated workforce (Statham 2019).

Health Sector Overview

The Jordanian health sector is relatively well developed and provides a range of both advanced medical services and basic primary care to most citizens at low cost. Jordan's health system is diverse and fragmented with multiple public, semi-public, and private programs both financing and delivering care. The public sector is dominated by the Ministry of Health; the Royal Medical Services, which serves the armed forces; and the university hospitals, Jordan University Hospital and King Abdullah University Hospital. The Jordanian Association of Manufacturers of Pharmaceuticals works with the Jordanian Food and Drug Administration and Ministry of Health to develop and enforce pharmaceutical legislation and guidelines. Though the public sector is dominant, the private sector, both for-profit and nonprofit, plays an important role in service delivery. A 2017-2018 Population and Family Health Survey indicates that 58 percent of women and 50 percent of men age 15-49 have some type of health insurance coverage, most with the Ministry of Health or the Royal Military (SHOPS Plus and HFG 2018).

Digital Financial Services

In 2015, Jordan introduced the National Financial Inclusion Strategy, the first in the Arab region. Supported by AFI and GIZ, Jordanian policy makers developed a roadmap and governance structure in 2017 to enable DFS (GIZ 2019). The Strategy included targets for

digitizing government payments, enhancing the regulatory oversight of agents, expanding cross-border remittances, automating dispute resolution, and publishing comprehensive rules (GIZ 2017).

In 2019, the Central Band of Jordan mandated that no bank can refuse any customer the ability to open a basic bank account. The new rules include simplified due diligence procedures associated with opening accounts and no minimum balance requirement. This new measure is intended to improve the culture of saving, contribute to improving living standards, and boost economic development (The Jordan Times 2019).

Jordan has a high level of interconnectivity among service providers. JoMoPay is the national mobile payment switch infrastructure that enables low-cost purchases and bill payment transactions, as well as other transaction types. Five Payment Service Providers comprise Jordan's e-wallet sector, and all must interface with JoMoPay. Al Holool, with its products branded Mahfazti, Dinarak, and Zain Cash, has the largest number of registered subscribers. Aya Pay and Middle East Payment Services are nascent (Nzebile and Denadi 2019). Thirty banks and financial institutions now offer e-payment services through eFAWATEERcom, an online bill payment service (The Jordan Times 2018).

Refugees applications are a major focus of innovation in DFS. The large population of Syrian refugees in Jordan receives support from UNHCR and its partners. Several initiatives are addressing refugees' urgent need for financial services with research and partnerships. The GIZ-funded Digi#ances project is focused on improving access to cross-border transfers with a focus on refugees in Jordan (Funke and Sindlinger 2019). The MM4R project, funded by the Gates Foundation, is also aimed at expanding refugee access to DFS.

Regulatory gaps inhibit growth of DFS. In a comprehensive report by USAID's LENS project in 2019, a number of regulatory gaps were identified: low cash-in/cash-out limits, which limits use of DFS for remittances, the lack of clarity on tax requirements, the lack of authorization for electronic signatures, restrictions on MFIs taking deposits, a low commission structure for DFS providers, and the lack of an approved standard for card-based technologies (Nzebile and Denadi 2019).

Barriers to DFS use include low financial literacy and a cultural preference for cash, similar to other countries in the region. For those with mobile wallet accounts, only an estimated 20 percent are active (Nzebile and Denadi 2019). Consumers are unclear on how to use mobile wallets and the role of JoMoPay, which is an enabling backbone payment system rather than a customer-facing service. Customers also are constrained by low cash-in/cash-out limits (Statham 2019). Consumer awareness campaigns are needed to educate consumers about the simplified rules for opening an account and resolving potential disputes. To address this gap, Jordan's DFS Council launched the DFS Financial Literacy Strategy that is developing standardized communication plans and materials. The Ministry of Education has instituted a mandatory Financial Literacy Program on money management and saving for students in grades 7 through 12 (Nzebile and Denadi 2019).

DFS are not available where they are most needed. Bank branches are concentrated in Amman (60 percent). MFI branches are more well-distributed across governorates than banks, with 34 percent of MFI branches in Amman (Hauser et al. 2017). Service providers have not yet developed substantial agent networks, which require substantial resources to manage (Nzebile and Denadi 2019). Efforts to address these gaps are underway. The MM4R project is collaborating with the Jordan Post Company to use its branches as DFS agents for all mobile payment providers (JoPACC 2019). Jordan Islamic Bank is prioritizing inclusion of woman and

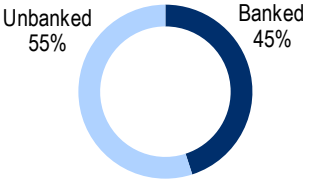
rural populations in its services. The bank currently serves 177,000 customers, and helps build awareness through workshops and seminars (World Finance 2019).

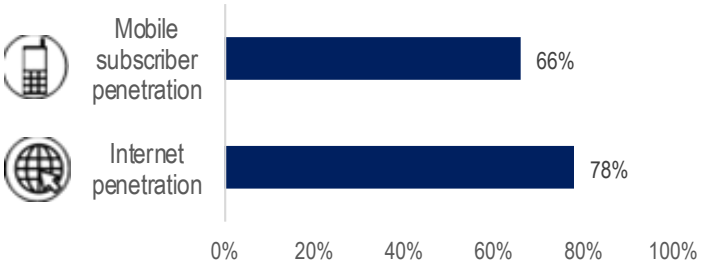
Lebanon

Key takeaway: Lebanon has made some progress toward financial inclusion, but non-banks have not yet been authorized to provide DFS, limiting innovation. Lebanon faces serious challenges to the expansion of DFS, foremost an economic crisis and high-cost mobile services.

Total Population: 6.8 million (2018)
Rural Population: 11%

Account Ownership (2017)





Digital Payments Received or Made in the Last Year (2017) **45%**

Lebanon has been in a state of economic emergency since September 2019. Until the past few years, the banking sector was a strong pillar of the Lebanese economy despite political and security instability. Lebanon has historically received substantial remittances from the expansive Lebanese diaspora (Haboush 2019). Lebanese workers in the Gulf contributed about one-fifth of Lebanon's GDP and between 43 and 60 percent of remittances in 2015. However, remittances have been declining in the past few years, largely due to tensions between Lebanon and Saudi Arabia. Remittances to Lebanon decreased by 7 percent in 2017 and are expected to stagnate or fall (Alami 2018). As the government accumulated debt, the banking sector expanded to 425 percent of the country's GDP (Haboush 2019). Lebanon's other main revenue-generating sectors, real estate and tourism, are also not faring well (Alami 2018). These declines, combined with decades of waste and poor governance in the public sector as well as tremendous debt and diminishing trust in the banking sector have led to a financial crisis, street protests, and the resignation of the Prime Minister in October 2019.

Health Sector Overview

In Lebanon, for-profit and nonprofit private health entities dominate the health care system. Primary, secondary, and tertiary care, including specialized and general medical services, are available through the private health sector. Most providers who practice in Lebanon and over 90 percent of laboratories and pharmacies are part of the private health sector. However, regulation of both private and public services through the Lebanese government is limited. The Ministry of Public Health plays a significant role in health care with contracting through both government and private facilities. Slightly under half of Lebanese citizens are covered by health insurance schemes, with the remaining uninsured citizens able to use services provided by the Ministry of Public Health. The dominant sources of health financing in Lebanon are out-of-pocket expenditures and private health insurance (SHOPS Plus and HFG 2018).

Digital Financial Services

Lebanon lacks a national strategy for financial inclusion. Political instability has hampered efforts to pass enabling legislation related to promotion of financial literacy, and data privacy and security. Bank account ownership is relatively high for the region, but low for rural low-income populations (Holtmeier 2019). Most financial transactions are conducted at financial access points such as ATMs and bank branches (Clark and Iradian 2016).

Non-banks are not authorized to offer financial services. In June 2019, the Central Bank of Lebanon issued a statement indicating its intention to license and supervise fintech companies, but no progress has been made (Holtmeier 2019). The regulatory framework limits opportunities for innovation and DFS growth. Electronic signatures are not allowed, creating transaction burdens (Clark and Iradian 2016).

In 2018, Lebanon launched its first digital strategy, a four-year roadmap that places digital transformation at the center of public service reform. The strategy includes the development of a payment platform that individuals and businesses can use to pay for all manner of government services. The government strategy is inward-focused and does not advance DFS development outside of government activities (Republic of Lebanon Office of the Minister of State for Administrative Reform 2018).

Several bank-led digital services have been developed. PinPay, the Lebanese market's first mobile payment app, was launched in 2011. PinPay users must have a bank account with one of PinPay's partners in order to use the app – it does not target the unbanked (IDAL 2018). While the application has established itself as the national leader, anecdotal evidence suggests it may be largely inactive or underused. Other bank-led DFS have been created including Bank Audi's Tap2Pay, Fransabank, and a mobile payment option by the CSC Group, a financial institution regulated by the Bank of Lebanon (Farhat 2014). Banks continue to develop new services; in 2019, the commercial Bank of Beirut launched the mobile payment app DiGi (AMEInfo 2019).

Lebanon is launching its first fintech hub, StartechEUS FinHub, at the Beirut Digital District. The role of the "Levant home of fintech" is to accelerate and incubate fintech start-ups developing solutions in mobile applications, blockchain, and artificial intelligence. Working with the Central Bank of Lebanon, the hub provides financial support to promising fintech players and operates a learning center (Consultancy-me 2019). However, recent start-ups Anachron and Juno report that they are unable to locate bank partners and have exited Lebanon due to regulatory uncertainty (Holtmeier 2019).

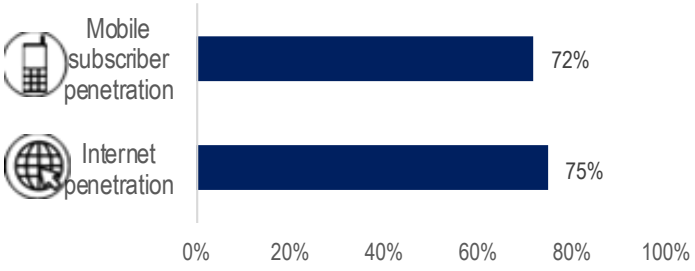
The development of DFS is constrained by weak ICT infrastructure and high costs. The telecommunications industry is largely state owned and strictly governed. The state-owned company, Ogero, owns the infrastructure for phone and internet connections, and two state-run mobile phone companies dominate the market (Hodali 2019). Costs for cellular data are high, and internet services are slow (Clark and Iradian 2016).

Lebanon is host to a large number of Syrian refugees, creating pressure on public sector support. Lebanon's refugee populations are receiving financial benefits from humanitarian organizations through pre-paid ATM cards, which serve as an entry point for DFS expansion. Around 33,000 refugee families receive multi-purpose cash transfers from UNHCR digitally, and this number is expected to rise significantly (UNHCR Lebanon 2019).

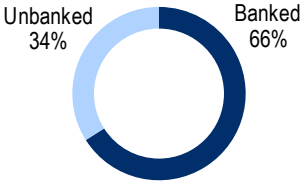
Libya

Key takeaway: Regulatory reform is needed to catalyze widespread adoption of DFS. Libya's economic and political instability make progress on financial inclusion unlikely in the near term.

Total Population: 6.7 million (2018)
Rural Population: 20%



Account Ownership (2017)



Digital Payments Received or Made in the Last Year (2017) 32%

Libya is an unstable state in its ninth year of civil war and political unrest, with two rival factions vying for power. Its economic and security crises have facilitated the proliferation of non-state armed militias and weakened government institutions. Local institutions are largely unable to provide protection and basic services, especially for those already affected by the conflict. The financial system has faced a protracted liquidity crisis leading to long lines at banks and mistrust of financial institutions (Kırıkçıoğlu 2019). Health care has deteriorated as the humanitarian crisis continues, with decreasing medical supplies and a struggling health care system (Valle Ribeiro 2017).

Health Sector Overview

Due to the civil conflicts, Libya's health care system faces severe regulatory and service provision shortages. Of the few health facilities that are functioning in Libya, many face issues with resource availability and overwhelming numbers of patients. A significant number of health facilities no longer exist due to destruction or electricity or water shortages. Approximately 1.9 million people in Libya are in need of humanitarian aid because in-country health care services have essentially collapsed. Before 2014, the Libyan health care system was fairly functional but relied significantly on assistance from foreign health staff and the private sector was noted as "emerging." The private health sector has suffered severely since then, and the social and political conflict has been significantly detrimental to its presence in Libya. The Libyan government discussed plans for national health insurance coverage through social health insurance schemes, private insurance, and welfare funds in 2009, but these plans were never implemented. Before Libya's major conflict years, service delivery funding sources for the private sector were primarily households, out-of-pocket expenditures (fee-for-service), and government contracting (SHOPS Plus and HFG 2018).

Digital Financial Services

Libya aspires to introduce DFS, which could help address its dual challenges of a liquidity crisis and a thriving black market for currency. The Central Bank of Libya adopted regulations in 2018, but critical reforms needed to improve the macroeconomic situation have not been possible under dual political authorities. A major reason for the liquidity crisis is the lack of infrastructure for electronic payments and deposit or credit card usage, leading to long lines at banks (Kırıkçıoğlu 2019).

Libya has one of the highest rates of mobile phone subscriptions in the region, but service is unreliable. In spite of infrastructure damaged during the conflict, Libya's mobile penetration is reported at 170 percent. This provides a strong basis for better leveraging technology to transition away from cash-based transactions. Investment in mobile broadband has been slow, contributing to uneven internet access (Justice.gov 2019).

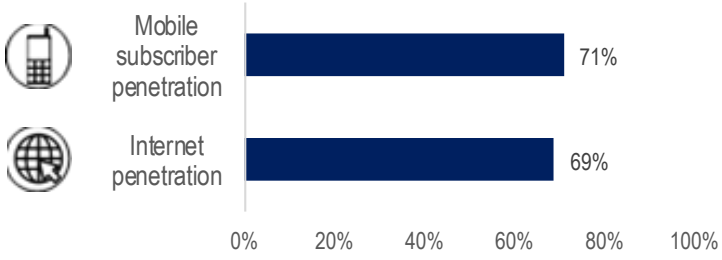
The majority of banks and telecommunications companies are state-owned, reducing incentives for innovation. Card-based services, a form of DFS, are offered by the major banks, but use of credit cards and debit cards is limited. In 2017, there were just 12 ATMs per 100,000 people, but point-of-sale terminals have been proliferating in shops and businesses in urban areas (Mercy Corps 2017). Two mobile operators and several banks offer electronic payment services, but there has been limited traction in the market.

DFS initiatives launched by private companies are in early stages. A mobile wallet introduced by MIZA, a fintech company, has enrolled 300,000 users since 2017 (Hinchberger 2019). Medicate, launched in 2019, is the first Libyan company to issue health cards including options to receive discounts and make payments (Medicate Int., n.d.). Earlier start-ups such as mobile wallet provider Floos-E exited the market due to poor consumer response (Ramali 2019).

Libya's preference for cash-based transactions is attributed to weak regulatory oversight and mistrust in the banks. A revised telecommunications regulatory framework drafted in 2014 has not been approved (Mercy Corps 2017). A consumer protection law drafted in 2010 have still not been adopted (Justice.gov 2019).Bank resources were drained following the revolution in 2011, and many financial transactions take place on the black market due to low confidence in ability of banks to safeguard deposits (Kırıkçıoğlu 2019).

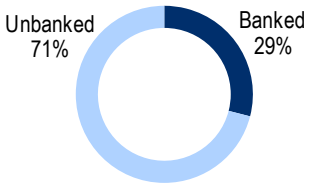
Morocco

Key takeaway: The Moroccan government has demonstrated its commitment to financial inclusion. The liberalization of banking laws in 2015 paved the way for new entrants to provide DFS, including the introduction of the national DFS platform, M-Wallet, in 2018. More than a dozen licenses have been issued, but the market is still emerging.



Total Population: 36.0 million (2018)
Rural Population: 38%

Account Ownership (2017)



Digital Payments Received or Made in the Last Year (2017) **17%**

Morocco enjoys political stability and is one of the MENA region's most financially developed countries. Financial inclusion and the expansion of the country's banking sector has been a national priority in Morocco for nearly a decade, and the government continues to roll out pro-poor reforms (World Bank 2020b). Morocco has a mature mobile market and a mobile penetration rate which is among the highest in the region. Smart phones account for about 80 percent of all mobile phones in use (Bombourg 2020).

Health Sector Overview

Morocco's health system comprises both private and public sectors. The Ministry of Health provides a significant proportion of services to the population such as public health programs and other basic services, and is also responsible for regulating such services. All citizens of Morocco are eligible for health care in ministry facilities, although the quality of these services has come into question. Issues with health facilities often include staff shortages and disparities in accessibility to health services due to geographic location. The private health care sector in Morocco is substantial, provides both specialized and general care, and employs almost all pharmacists, approximately half of doctors, and about 10% of paramedics in Morocco. A quasi-public health sector consists of clinics and health centers and is managed by the health insurance associations. As of 2017, the country's two public health insurance schemes coupled with private health insurance plans covered approximately 62 percent of the population of Morocco. In the private sector, most patients pay out of pocket on a fee-for-service basis (SHOPS Plus and HFG 2018).

Digital Financial Services

Morocco maintains an active agenda for the development of DFS. As a long-time member of AFI, Morocco's central bank, Bank Al-Mahgrib, is recognized for its commitment to financial inclusion. Morocco laid out an ambitious digital strategy in 2016 called "Maroc Digital 2020,"

which aimed to “combat the digital divide,” expand the digital market, and expand access to the internet (Foch and Rossotto 2016). Morocco’s National Financial Inclusion Strategy is sustained through a collaboration between the Ministry of Economy and Finance and Bank Al-Mahgrib, and is still in the strategy stage (EIU 2019). The strategy includes eight levers, with a particular focus on the most excluded populations (unemployed women in rural areas, youth, and small businesses).

Morocco expanded access to banking in 2010 through postal service accounts. This initiative created a subsidiary banking institution, Al-Barid Bank, which targeted low-income populations and made significant strides in the number of adults with bank accounts, adding approximately 400,000 to 500,000 accounts per year (Apolitical 2017).

In 2015, a new banking law laid the foundation for the expansion of the financial sector to non-banking stakeholders (OBG 2019b). Morocco’s earlier efforts to promote DFS beginning in 2010 failed to gain traction in the market, with very low use of bank-led products such as MobiCash (Women’s World Banking 2017). Under the new law, fintech companies, mobile operators, and others are able to apply for a payment license to provide financial services or issue e-money (Women’s World Banking 2017). More than a dozen licenses have been issued, including both mobile money providers (Maroc Telecom Cash, Orange Money, inwi money) and mobile banking options (BMCE’s Pocket Bank, Attijariwafa’s Wafa Cash, ABB’s Barid Pay) (Ecofin Agency 2018).

Morocco’s Central Bank Al-Maghrib and the National Telecommunications Regulatory Agency launched a national mobile payments platform called M-Wallet in late 2018. The platform is intended to reduce the use of physical cash, and will support peer-to-peer transfer, merchant payments, and basic deposits and withdrawals at participating agents (OBG 2019b). Providers must connect with other platforms under mandatory interoperability requirements.

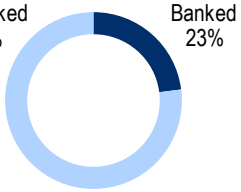
In November 2019, Morocco announced the award of a contract for a biometric ID card for all Moroccans, designed to make online transactions more secure and increase consumer confidence (Business Wire 2019).

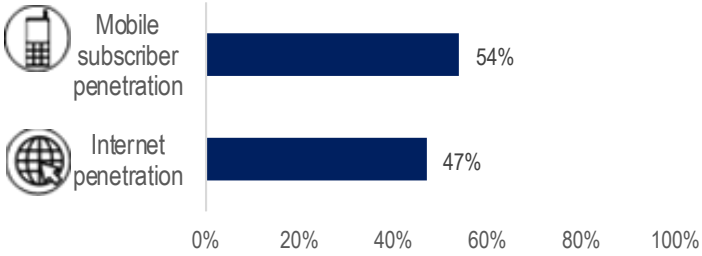
Syria

Key takeaway: Government plans to digitize basic services and transactions have not progressed. News stories report high reliance on informal money traders to get money into the country. For regime-controlled areas, there are recent efforts to transition to online payments for some government services.

Total Population: 16.9 million (2018)
Rural Population: 36%

Account Ownership (2017)





Digital Payments Received or Made in the Last Year (2017) N/A

Syria's ongoing civil war has harmful ramifications on all aspects of society, including the country's economy, infrastructure, demography, and health. While the war may be near to a close, there is no clear path to restoration. The economy is one-third of its pre-war size, and the value of the Syrian pound halved over the past year (Cornish and al-Omar 2020; Rosenberg 2020). More than 80 percent of people live below the poverty line (Makki 2018), and two-thirds of the population are refugees or internally displaced (Rosenberg 2020). Outside of areas held by the Syrian regime, formal banking services have long been shut down (Hogan 2016).

Health Sector Overview

Prior to the severe conflict in Syria, the country's Ministry of Health was the central provider of health care, although the private sector was also well established. The public sector provided care to Syrian citizens at no cost and was overseen by the ministries of Health, of Higher Education, of Defense, and of Social Affairs and Labor. Approximately 95 percent of the rural population had access to health care services. Health care financing came mostly from government spending and out-of-pocket payments from Syrian citizens. Dual practice between the private and public sectors was common.

Syria currently faces immense challenges in its health sector due to its humanitarian crisis. Approximately half of hospitals and community health centers are closed or not functioning at full capacity. Provider and staffing shortages are a main challenge, as many trained personnel have fled the country. Other effects of long-term high-intensity conflict have permeated the Syrian health care system in the past several years and led to its deterioration including lack of funding, infrastructure challenges, and basic resource shortages (SHOPS Plus and HFG 2018).

Digital Financial Services

There is limited information on Syria that is reliable and up-to-date. The Central Bank of Syria is a member of the coordinating body FIARI but has not been an active participant. Recent news stories report that the government of Syria is rolling out an online payment system in 2020 (Enab Baladi 2019). This is led by the Syrian Electronic Payments Company, a company aligned with the Syrian Central Bank and other regime entities. The company is working on two payment channels: one for Syrians with existing bank accounts and the other "the internet bank." The details regarding the latter are unclear. A pilot is underway with communication, transportation, and water services in two provinces to allow for electronic bill paying.

Government plans to digitize basic services and transactions have not progressed. There are currently no government services online (Abdelnour, Darwish, Hafezi 2020).

A new innovation lab is encouraging Syrian entrepreneurs to tackle pressing challenges and help rebuild the country through digital innovation. The Syria Digital Lab is a tech incubator founded in 2018 to support Syrian digital innovations. Its mission is to link Syrian tech developers, entrepreneurs, donors, civil society, and the private sector in order to help address the country's challenges (Seraj 2019; Syria Digital Lab 2020). The initiative is inclusive and aimed at all of Syrian society, within the country and abroad, with a focus on youth (Seraj 2019). Funded by the European Union and GIZ, the Syria Digital Lab offers funding, mentorship, and training. In its first start-up competition, the organization sought applications in education, health, and youth engagement. DFS may be generated through this community.

The war has taken a heavy toll on Syria's telecommunications infrastructure. The regime-controlled capital, Damascus, has fared relatively well while rural and remote areas bore the "brunt of the destruction" (BuddeComm 2019). Telecommunications are decentralized. Urban areas use the ("highly regulated") government-owned Syrian Telecommunications Establishment's network. Some remote areas are reliant on expensive satellite communications.

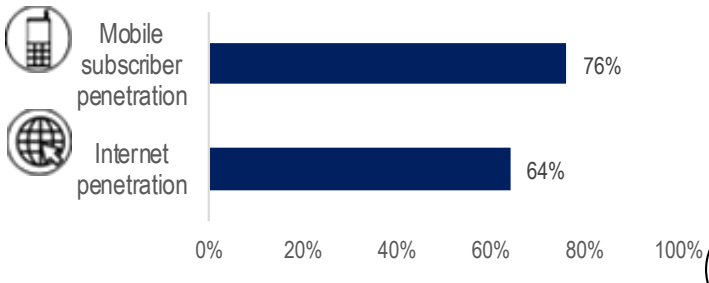
Digital surveillance by the regime is widespread, and digital systems are not trusted. The civil war has a digital dimension, with dissidents targeted with cyberattacks and hacking of accounts and websites. Network monitoring systems filter and censor communications (Al Khatib and Xynou 2015).

Since the use of remittances has become extremely difficult amid the war, many Syrians are using in-person networks to transfer money across borders. Remittances are a lifeline, but channeling them into the country is extremely challenging due to international financial restrictions and sanctions and the unstable environment (Aron 2017). Many people rely on the hawala system, which is a network of informal traders who transfer funds across border, engendering risks. While there is anecdotal evidence that the hawala trade is booming (Hogan 2016), remittances into Syria have not been well tracked since the war began (Aron 2017).

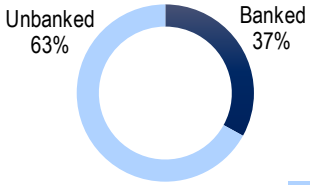
Tunisia

Key takeaway: Tunisia was an early adopter of DFS through its postal network and has made recent investments in a national digital payment platform. New services are just entering the market, several targeting the unbanked.

Total Population: 11.5 million (2018)
Rural Population: 31%



Account Ownership (2017)



Digital Payments Received or Made in the Last Year (2017)

29%

Tunisia witnessed a national revolution in 2011, which resulted in widespread protest and violence, but it has transitioned to a democratic political system. Conflicts in neighboring Libya have affected Tunisia's economy. The banking sector has been challenged by high debt, weak governance, and limited liquidity (The Conversation 2017). The country has experienced intermittent political unrest, persistent economic challenges, and lack of employment, particularly for women and youth.

Health Sector Overview

Tunisia operates in a mixed public-private health system, which is mainly managed by the Ministry of Health and regional directorates. Health care is primarily provided by public facilities, which account for 87 percent of all hospital beds (Arfa and Algazzar 2013). Tunisia has a para-public sector, which provides care for people covered by the country's social health insurance scheme, as well as the semi-public medical services provided by national firms and the private sector. Overall, Tunisia's health system has adequate levels of infrastructure, health professionals, and general medical equipment; however, the system suffers from insufficiently skilled personnel (particularly nonmedical), poor equipment maintenance, and limited regulatory and information system capacities (SHOPS Plus and HFG 2018).

Digital Financial Services

The Tunisian Post has long been a driver of financial inclusion. Bank branches are concentrated mainly in urban areas, and the Tunisian Post network provides financial services to rural populations thus reducing geographic disparities in financial access. Tunisia's first electronic payment service, e-DINAR, was offered via the internet in 2000. In 2008, the Tunisian

Post established e-DINAR SMART cards, which provided virtual account accessibility through the use of smart card technology. In 2010, the Tunisian Post introduced MobiDinar, which allows Tunisians to pay bills, make transfers, and manage electronic wallets (e-DINAR) through their mobile phones (Suedekum and Berthaud 2014).

The Tunisian Post continues to introduce new digital platforms, several in partnership with telecom operators. The Tunisian Post is the most extensive financial institution in the country (Clotteau, Avsec and Grin 2016; Suedekum and Berthaud 2014). As of 2014, approximately half of the banked adult population in Tunisia held financial accounts with the Tunisian Post (Hyunh 2014).

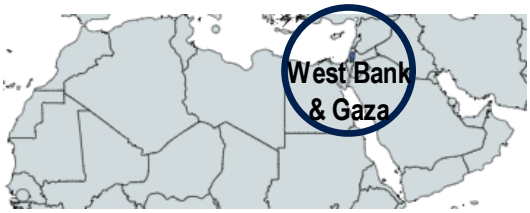
In 2018, the Ministry of Finance introduced the National Financial Inclusion Strategy for 2018-22, which is to be implemented by a multi-stakeholder National Financial Inclusion Council (African Development Bank 2019). In 2018, Tunisie Telecom launched Telecomoney, which enables account holders to transact with subscribers to other electronic payment services, a key goal of the government strategy (Donkin 2018).

New DFS service are proliferating, introduced by telecom operators, government institutions, and tech companies. MobiFlouss was introduced in 2019 by the Tunisian telecom company. In May 2019, the Tunisian Ministry of Finance launched new digital services, which allow users to pay fines or taxes through electronic methods (Ecofin Agency 2019). The Arab Banking Corporation opened a 24-hour digital bank specifically in Tunisia to encourage a national shift toward digital banking (Adouni 2019). Paymee was launched in June 2018 and allows users to make mobile transactions without a formal bank account. A Tunisian start-up called Kaoun recently introduced a mobile application called Flouci, a mobile application, which allows users to create free bank accounts (Jackson 2019). Another product, MobiPoste, specifically targets the financial inclusion of students, youth, and other individuals who may not be typically enrolled in banking services (Mastercard 2016).

In spite of growing numbers of accounts, many are inactive and consumer use has been limited. The transition from a cash-based culture will take time as the service providers improve and adapt their products. Lessons shared by telecom partners launching new services include the need to establish clear roles and responsibilities for the bank and non-bank partners, and the need to invest in strong marketing (Coye Benson et al. 2017).

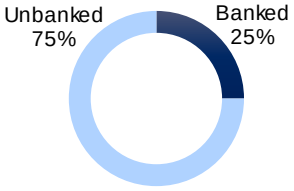
West Bank and Gaza

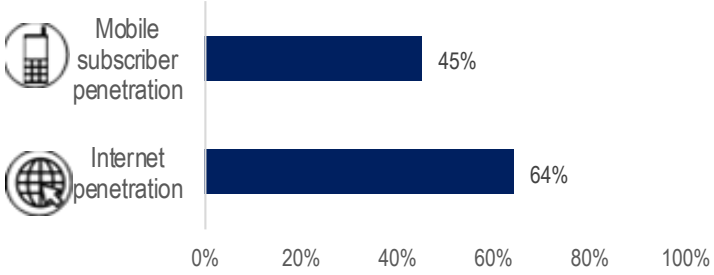
Key takeaway: Major policy reforms are in development, supported by international assistance. Structural economic challenges stemming from the Israeli-Palestinian conflict remain obstacles to the advancement of financial inclusion.



Total Population: 4.5 million (2018)
Rural Population: 24%

Account Ownership (2017)





Digital Payments Received or Made in the Last Year (2017) **14%**

The Israeli-Palestinian conflict has ramifications for all aspects of Palestinian life. The Palestinian economy is structurally dependent on Israel, which limits the Palestinian Authority's autonomy in managing its economy. Conflict in Gaza, movement and access restrictions in the West Bank and Gaza, and falling donor aid limit economic growth. Prolonged negotiations with Israel regarding distribution of tax revenues in 2019 exacerbated existing economic challenges, triggering a deeper financial crisis and unstable public funding (Bar'el 2019).

Health Sector Overview

The West Bank's public health sector is generally overseen by the Ministry of Health and the Military Medical Service under the Ministry of Interior, which serves a significant portion of the population's security forces and their families. The public health sector is highly reliant on external assistance and foreign contributions for its funding. The private sector in the West Bank and Gaza includes both nonprofit and for-profit entities and NGOs, with the United Nations Relief Work Agency (UNRWA) as the largest nonprofit private provider serving Palestinian refugees. Dual practice between private and public sectors is legal and common. Referrals are an integral part of the West Bank and Gaza health care system. Insurance coverage is generally high at around 82 percent. Health financing sources in West Bank and Gaza include taxes, premiums from public sector employees, donors, and out-of-pocket payments.

Digital Financial Services

The West Bank and Gaza have adopted a financial inclusion strategy. The development of the National Financial Inclusion Strategy in 2018 was led by the Palestine Monetary Authority (PMA), the territories' central bank, and the Palestinian Capital Market Authority (PCMA), which regulates non-banking financial institutions, with support from AFI. Hailed by AFI's Executive Director as "smart, realistic, and relevant," the strategy is focused on empowering consumers through stronger protection and education; improving access to quality, relevant financial

services; and closing the gender gap. It aims to increase financial inclusion in terms of current account, bank credit, and insurance holders from 36.4 percent of adults to 50 percent or more by 2025 (Rahn and Kaiser-Yuecel 2019).

Through international support, the PMA is promoting electronic payments. To operationalize the financial inclusion strategy, the PMA has implemented several initiatives over the past decade to lower transaction costs, promote development of the West Bank and Gaza's financial sector, and foster its transition toward a cashless economy (Lukonga 2018). In 2018, the Palestinian Authority approved a national plan to cultivate the use of electronic payment methods, which includes developing the legal environment and strengthening the regulatory framework for service providers (Abu Amer 2018). The GIZ-funded Financial Inclusion in the MENA Region program and a regional impact investment fund are assisting the PMA to create a comprehensive fintech strategy, which was to have been completed by the end of 2019.

The DFS landscape in the West Bank and Gaza is underdeveloped and use is low, but policy changes are beginning to bear fruit. The leading mobile network operator Jawwal launched in 2019 the first mobile money service, Jawwal Pay (Abumaria 2019). This will provide competition to PalPay, a bank-led services established in 2010 by the Bank of Palestine and PCNC IT Solutions. PalPay has a large network, consisting of more than 6,000 points of sale. Its agent network can now transact on behalf of unbanked citizens, taking cash or credit card payment to electronically pay bills, send university fees, or top-up mobile accounts (PalPay, n.d.).

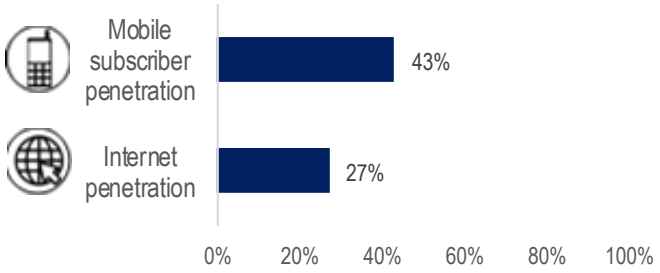
Some preconditions for DFS growth and uptake – especially social factors – are promising. Mobile penetration in the West Bank and Gaza is high, its youth population is the second highest in the 11 MENA countries surveyed, and the society is generally tech-savvy (Rahn and Kaiser-Yuecel 2019). The West Bank and Gaza is one of the largest recipients of remittances relative to GDP. DFS could facilitate connectivity between the physically separated territories of the West Bank and Gaza (Rahn and Kaiser-Yuecel 2019). All of these factors signal promise for DFS adoption, given a conducive political environment and strong legal and regulatory frameworks.

Cyptocurrencies such as bitcoin have "become a lifeline" for an increasing number of Palestinians. With the lack of a national currency and dependence of the financial sector on Israel, access to the global economy is constrained for Palestinians, and especially for Gazans, as banks do not deal with Hamas, the Palestinian Islamist political organization and militant group that is the de facto authority in Gaza (Taskin 2019). Lack of access to digital services such as PalPay render it difficult for Palestinian businesses to engage in international business (AlAboudi 2018). In this environment, the use of cryptocurrencies such as bitcoin, is growing, as bitcoin cannot be vetoed by an intermediary (Cuen 2018). Use of bitcoin has especially surged in Gaza (Taskin 2019). The PMA has been considering introducing a digital currency, but it is not permitted to do so per the 1994 Paris Protocol (Jones 2017). There is disagreement as to whether cryptocurrencies offer a sustainable solution to the West Bank and Gaza's financial challenges, including economic concerns and the fact that Gazans regularly face electricity blackouts of 20 to 22 hours a day (UNOCHA 2019).

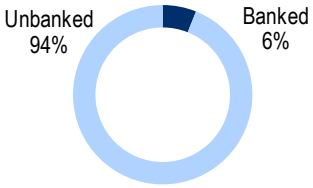
Yemen

Key takeaway: Yemen's devastating civil war has created a humanitarian crisis, and economic prospects are uncertain. An ambitious partnership among Yemen's 11 banks and private companies have announced plans for its first mobile banking platform. The new service is seeking to connect more than 100,000 retailers.

Total Population: 24.5 million (2018)
Rural Population: 63%



Account Ownership (2017)



Digital Payments Received or Made in the Last Year (2017) **3%**

Yemen's civil war has resulted in an economic and humanitarian crisis and a decimated health system. An estimated 75 percent of the population lives below the poverty line. If fighting continues through 2022, Yemen will rank as the poorest country in the world (UNDP 2019). While the Central Bank of Yemen has been deeply affected by the civil war, the economy began to show signs of stabilization in 2018 (World Bank 2019g). However, economic prospects are uncertain and depend on the political and security situation. Both electricity and internet are unreliable.

Heath Sector Overview

Yemen's already fragile health system has come under additional strain as armed conflicts have continued. In 2019, the WHO indicated that the emergency health care needs of the population have become so great that health workers are struggling to provide essential health care, and that international and Yemeni health workers are focusing on emergency health provision. Access to health services is deteriorating due to intense fighting, which has resulted in the destruction of health clinics, and increased demand due to internal displacement. Children are especially at risk as 2 million children under the age of 5 are classified as acutely malnourished and living in near-famine conditions (International Medical Corps 2020). In addition to the fragile public sector, international state and non-state stakeholders, including the International Committee of the Red Cross, WHO, Doctors Without Borders, International Medical Corps, and others, are providing assistance and supplementary health sector support.

Digital Financial Services

The Central Bank of Yemen first authorized mobile banking licenses in 2014, with the aim of expanding banking services. Service growth was slow, due to a bank-led model that requires nonbanks such as mobile network operators to operate through banks (Lukonga 2018).

This model limits competition and scope for innovators to reach unbanked populations (GSMA 2015). Mobile banking services were supported by less stringent KYC rules for reaching new population, developed in partnership with USAID, the World Bank, and GIZ (Owens 2015).

In January 2020, ONE, the go-to-market brand by the National Wallet Company, announced it will soon launch Yemen's first mobile money platform. The investors are the fintech investment vehicle Murooj, which holds a majority interest in the Yemen Financial Services Company, and the Hayel Saeed Anam Group. The Yemen Financial Services Company is owned by 11 banks and operates Yemen's National Switch interbank network. The National Wallet Company intends to integrate banks, private sector, telecoms, and government institutions for financial transactions. The ONE platform is accessible via basic mobile phones or smart phones and does not require internet access. ONE's key partners are some of Yemen's largest private companies, which have committed their network of more than 100,000 direct and indirect retailers and distributors in Yemen to support this initiative. Yemen's 11 major banks also support the initiative and will ensure the widest possible reach across the country, including more remote communities (Telepin Software 2020).

Yemen operates a large-scale Government to People program and an emergency cash transfer project. Cash transfers include social transfers, and wage and pension payments. Emergency cash transfers are typically used for food, schooling, and medicine and are supported by international donors including the World Bank, UNICEF, and the US State Department (World Bank 2018b). Yemen's emergency cash payments could be an opportunity to leverage the newly introduced e-wallet from the National Wallet Company to facilitate access to medicine or health services.

Implications and Recommendations

The DFS market is still in formative stages in the MENA region. Egypt, Jordan, and Morocco are the most advanced markets, with the most comprehensive regulatory frameworks, stable e-payment infrastructure, and growing number of authorized DFS providers. However, use is still low in all countries. Barriers to growth include low awareness and demand for DFS among underserved populations and a supply side that serves mainly wealthier urban customers. The fragile states of Yemen, Syria, Libya, and Iraq are coping with severe humanitarian emergencies and active conflicts that prevent progress on financial inclusion, but some DFS efforts are proceeding with UN partners. Recent political crises in Lebanon, Tunisia, Algeria, and West Bank and Gaza create uncertainty regarding whether earlier efforts to improve access to financial services will remain a priority.

We conducted this landscape in order to identify opportunities to leverage private sector initiatives in DFS and make progress toward UHC. Once DFS is widely integrated into a country's economy, it can contribute to financial protection from health costs through enhanced options for savings, credit, and insurance. The more mature the DFS market, the more opportunities there are for health applications. In the early stages of DFS adoption, as exists in the MENA region, efforts are needed first to help increase financial inclusion. In this market-building phase, the health sector can serve as an anchor partner, to help move health clients from cash to e-payments. Due to the relatively nascent status of DFS in the MENA region, SHOPS Plus found no information on health facility experience with digital payments and few examples of consumer applications designed for health needs.

The impact of COVID-19. The research and synthesis for this report was conducted in 2019 and early 2020, prior to the coronavirus pandemic. We recognize that we are now in a new world, as the virus has dramatically spread its way across the globe and triggered an unparalleled economic and health crisis. COVID-19 has exposed social inequalities and has heavily impacted the informal economy and small and medium-sized businesses. The pandemic and economic lockdown has disproportionately affected the livelihoods and incomes of vulnerable groups, including the economically disadvantaged, women, small business owners, and forcibly displaced persons.

The role of digital technology in all aspect of the response to COVID-19 is undeniable. DFS are a potentially powerful tool to help mitigate negative effects of the crisis by promoting contactless payments and reducing contamination through bank notes and coins; bolstering the resilience of payments infrastructure to enable seamless remote payments during the pandemic; enhancing consumer protection for vulnerable groups; and digitizing stimulus packages for micro, small, and medium-sized enterprises, which are among the worst-hit by the pandemic (AFI 2020).

At the same time, the momentum for DFS expansion could be slowed if economies continue to retrench during the protracted lockdown. Urgent priorities to mobilize new resources for testing, tracking, treatment, and prevention among already strained health systems have side-tracked many important initiatives. Central bankers may simply lack the time and motivation to focus on digitizing transactions in the face of unprecedented financial pressures due to liquidity crises and declines in loan repayments. DFS providers may see a fall-off in customers and exit the market in the face of disrupted supply chains and lower consumer spending. The COVID-19 pandemic is thus both a barrier and an opportunity for meeting the financial needs of the poor.

To support the dual objectives of financial inclusion and financial protection, we have organized our recommendations into two categories: recommendations to advance DFS in the region, and recommendations focused on the health sector. We have added a third set of recommendations relevant to the pandemic, to help position COVID-19 as a catalyst for greater use of DFS.

Recommendations to strengthen financial inclusion

- **Support DFS regulatory reform through cross-border exchanges and technical assistance:** The Central Banks of Egypt, Jordan, and Morocco have updated their banking regulations to encourage innovative applications to lower barriers to access. USAID should promote peer learning for regulators grappling with similar reforms in countries such as Tunisia, Algeria, and Lebanon through study tours, regional working groups, or online communities of practice. Consultants with expertise can share best practices and model language on particular topics such as cross-border remittances, biometric IDs, and consumer dispute resolution.

- **Invest in consumer education for improved financial literacy:** To improve knowledge about DFS benefits and build demand for financial services, USAID should support financial literacy campaigns and skill-building courses. The need to increase awareness and technology skills for underserved populations exists across the region. USAID can leverage its initiatives in other sectors to engage local leaders, project teams, and community partners in financial education efforts through rural public service points such as schools or agriculture extension offices.

- **Engage with DFS initiatives to enhance targeting of the most vulnerable:** USAID should partner with DFS providers such as Morocco's M-Wallet or Egypt's Fawry to incentivize introduction of products that meet the needs of the poorest. Research on market opportunities to serve underserved populations can persuade companies to broaden their customer base and design services that better meet the needs of the poor. Costs to extend agent networks to new areas where customers need more cash-out points can be shared through public-private partnerships. USAID should steer qualified providers to apply for seed funding from existing innovation funds such as its Development Innovation Ventures.

- **Close the gender gap**: USAID should identify, broker, and nurture DFS partners who commit to co-designing services specifically designed to meet the needs of women. Egypt has prioritized financial inclusion for women in its national financial inclusion strategy and can serve as a test bed for gender experts to develop DFS marketing strategies tailored for women. Country-specific research can identify gaps and solutions such as bundling DFS with other high-demand products to increase account ownership.

Recommendations to expand DFS within the health system

- **Build awareness among health sector stakeholders about financial inclusion:** DFS provides benefits and opportunities for patients, clinics, and program managers, but these opportunities are not well recognized within the health sector. As a substantial portion of a country's GDP, the health sector has significant payment flows and could help normalize the use of digital payments. Through its relationships with health ministries, private provider associations, health research facilities, pharmacies, and other institutions, USAID can help build demand for digital services in the health sector. At a minimum, USAID

should promote and enforce the use of e-payments in its regional health contracts, grants, and cooperative agreements as required by USAID procurement guidance (USAID 2014).

- **Promote inclusion of health system actors in DFS initiatives:** USAID should establish an inter-agency process with interested country partners to coordinate and structure inputs for health-specific initiatives for DFS. Central banks throughout the region want to advance the uptake of DFS. Health system stakeholders want to improve the efficiency and responsiveness of health services. Bringing together DFS stakeholders with representatives from the ministry of health, national health insurance providers, trade associations of clinical providers, large hospitals, and pharmacy chains can identify promising opportunities for collaboration.

- **Organize cross-regional learning opportunities for expanding health insurance through DFS:** Sub-Saharan African and Asian countries such as Kenya, Ghana and India are pioneering new DFS to serve excluded populations with simple low-cost mobile-enabled insurance products through public and private insurance providers. USAID should bring together stakeholders from the MENA region to meet with insurance regulators, implementers, and innovators to learn how they are using DFS to reach informal economy households.

- **Evaluate DFS use cases in health:** The potential for DFS to promote UHC would be strengthened with more evidence on how and under what conditions DFS affects health system performance. As public and private health facilities adopt DFS in the MENA region, USAID should fund research to measure the impact of DFS on health system quality, responsiveness, and efficiency. Formal or academic research is also needed on the role of DFS such as mobile-enabled health insurance, savings, and remittances in reducing out-of-pocket spending.

Recommendations tailored to COVID-19 response

- **Co-fund campaigns to promote the use of DFS in the public and private sectors as a tool to prevent transmission of the novel coronavirus and to promote economic activity:** Remote transactions and contactless payments reinforce social-distancing requirements, limiting the need to visit banks, utilities, and service providers. Campaigns should also highlight the use of DFS as a means of keeping local businesses open during lockdown or quarantines. DFS transactions reduce interpersonal contact and risk for exposure to COVID-19, which helps control the spread of the virus and can mitigate negative health, economic, and social effects.

- **Assist central banks in designing incentives for merchants and consumers to use DFS during the pandemic:** Options include temporary waivers of transaction fees on payments or transfers, which might otherwise create a financial barrier for new users. Other regulatory waivers could raise the limits on transaction amounts to promote more use. USAID could host technical advisors from AFI and from outside the MENA region to share lessons learned from other countries and regions on expanding DFS as part of the COVID-19 response.

Conclusion

The MENA region is primed to move from a cash-based culture to one in which all adults have access to secure and useful financial accounts. Mobile phone use is prevalent and growing, providing new opportunities to offer convenient and low-cost financial services for underserved populations. There is momentum among policy makers and product developers to address barriers around consumer awareness and trust. Key enablers such as government e-payments for social welfare benefits may be the turning point for enrolling the most vulnerable into the formal financial system at mass scale.

The urgency for USAID operating units to work with the private sector to solve development challenges has never been greater. DFS have the potential to link public and private sector stakeholders in addressing urgent regional priorities including job creation, gender equality, and refugee support. DFS provides significant opportunities to collaborate in the design and evaluation of pro-poor services with mass market potential to further the Agency's goals for market-driven approaches.

As financial account ownership increases, there will be more opportunities for improving financial protection from out-of-pocket costs for health care. DFS can improve the resilience of the health system by streamlining financial processes, extending the reach of risk-pooling schemes, and enhancing the ability to track and analyze service utilization. The coronavirus pandemic amplifies the benefits of DFS and should spur enhanced efforts to accelerate the progress underway in financial inclusion across the region.

Annex: List of Key Informants

Organization	Contact
Abt Associates	Dr. Sabry, Chief of Party, Health Service Delivery Jordan
CGAP	Nadine Chehade, Senior Researcher
Democrance	Michele Grosso, Founder
GIZ	Attila Kaiser-Yuecel, Financial Inclusion MENA
International Rescue Committee	Ahmed Abbadi, Regional Manager, Technology for Programs, Jordan
Kiva	Lev Plavas, Senior Investment Manager, Refugees
Lebanon Microfinance Association	Ilda Nahas, General Manager
Making Cents	Tim Nourse, President
Souktel	Gina Assaf, Digital Design Lead
Vitas Group	Elissa McCarter-Laborde, CEO
World Bank	Leora Klapper, Lead Economist in the Finance and Private Sector Research Team

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