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What is Holding Back Youth Financial Inclusion in MENA Countries? [1]

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1. Executive Summary

In Middle East and North Africa (MENA) countries, almost one quarter of the population is aged 15-29. At the same time, youth unemployment is among the highest worldwide, while female labour force participation remains among the lowest. MENA youth suffer from lack of financial inclusion with respect to account holding and the use of financial services, both traditional and digital (fintech). This policy brief addresses the following issue: What is holding back youth financial inclusion in MENA countries? It addresses the causes of financial exclusion and whether financial inclusion patterns are similar or distinct, according to age, gender, and workforce, both before and during the COVID-19 pandemic.

The determinants of financial inclusion, including age, gender and workforce are analysed, using a representative sample from five countries out of the eight South Mediterranean countries (SMCs) belonging to Euro Med region: Egypt, Jordan, Lebanon, Palestine and Tunisia. To the best of our knowledge, no paper has addressed the topic of financial inclusion, regarding youth and gender in these five countries from a dynamic perspective, namely before and during the pandemic. Four pooled samples are drawn from the Global Findex Database (2011, 2014, 2017 and 2021), covering more than 20,000 households over a decade from 2011 to 2021. A series of probit regressions test four hypotheses regarding the relationship between age (H_1), gender (H_2), and financial inclusion, on the one hand, and factors driving financial exclusion , on both the demand side (H_3 endogenous self-selection) and the supply side (H_4, exogenous discrimination).

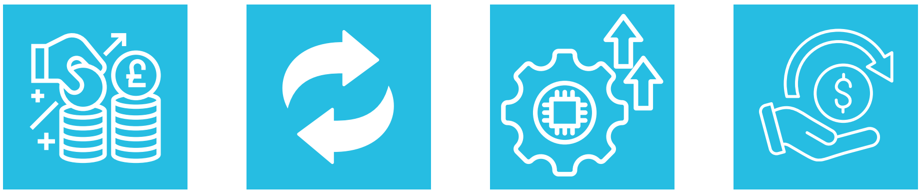
Four main results are noteworthy: (i) There is an age gap prior the pandemic, in terms of account holding and the use of traditional financial services, while fintech use increased during the pandemic. (ii) The gender gap in financial inclusion widened during the pandemic. Although fintech use improves with age among young women, they remain overall less financially included. (iii) Endogenous factors (self-selection) predominate over exogenous factors (discrimination) fuelling financial exclusion; and (iv)Being part of the workforce is conducive to financial inclusion.

Policy efforts should build on existing achievements by combining demand- and supply-side measures, including disaggregated data collection (as started in Egypt,) digital and financial literacy programmes, inclusive regulatory frameworks (as sketched in Tunisia) , and youth- and gender-tailored financial services. This should go hand in hand with reducing structural barriers such as documentation costs and limited access points. Financial inclusion alone is not sufficient and must be complemented by inclusive labour-market policies and stable income which remains a key driver of participation in formal financial systems.

Keywords: Financial inclusion; Fintech; Gender; MENA countries; Probit regressions; Workforce; Youth.

2. Introduction

One major aspect of youth empowerment in a monetary economy is financial inclusion. Addressing youth empowerment regarding financial inclusion requires a set of criteria. First, age matters, and the focus is on young adults (15-34 years old). Youth is a diverse category can be divided into three segments. (1) Those who are out of the labour force because they are in education; (2) those who are not in employment (i.e., belonging to the labour force), education or **training (NEET)**.[1] (3) those who participate in the labour force, either as employees or self-employed.



The first two segments are generally less concerned with financial inclusion insofar as they typically do not a regular income. The last segmen earns income and is therefore more directly affected. Second, gender matters. NEET rates among young women are higher than for their male counterparts due to their weak labour force participation, which is three times lower than that of men, and to their unemployment rate, which is almost twice higher than that of male's rate (ILO, 2024). Last, workforce status matters and we emphasize the case for young workers of segment (iii), who earn an income. Noteworthy is that the share of informal employment in total employment including agriculture amounts to half in Jordan to two thirds in Egypt (ILO, 2024). The share is higher for youth. In some MENA countries, such as Palestine, Egypt and Tunisia, four out of five workers aged 15-29 were in informal jobs (ILO, 2023). Financial inclusion, starting first with account holding, is key to sustaining decent jobs for both employees and self-employed youths (Adair Ed., 2023). Account ownership differs by age and income group (Elmasmari & Amaghouss, 2024) as well as by gender across MENA developing economies (Cicchiello et al., 2021; Demirgüç-Kunt et al., 2022; Kazemikhasragh et al., 2022).

[1] Youths aged 15-24 who were NEET in 2020 accounted for 35% in Jordan and Palestine, down to 28% in Egypt, with Tunisia (26%) and Lebanon (25%) standing in between (Selwaness 2023). Youth unemployment records the highest rate worldwide in MENA countries, such as Jordan (40%) and Tunisia (37%) in 2021 (ILOSTAT).

The MENA region has the lowest proportion of adults holding a financial account: 48% of adults in the region, excluding high-income economies. Only 39% adults in MENA countries who are out of the labour force in MENA have an account, the lowest percentage worldwide. Hence, it is important to detect the patterns of people who are less financially included, in order for policy-makers, to implement a comprehensive strategy that promotes access to tailored financial services within an appropriate regulatory framework.

Our research questions are threefold as follows:

- Is there an age gap with regard to financial inclusion affecting youths in MENA countries?
- Is there a gender gap with respect to financial inclusion affecting (young) women in particular?
- What are the main factors, endogenous vs. exogenous, holding back financial inclusion for youths and for females?

3. Mediterranean Context

We address the financial inclusion (account holding and use of financial services) of youths (aged 15-34) prior and during the pandemic. We first model account holding and use of financial services, both traditional and digital with a decision tree (See Figure 1).

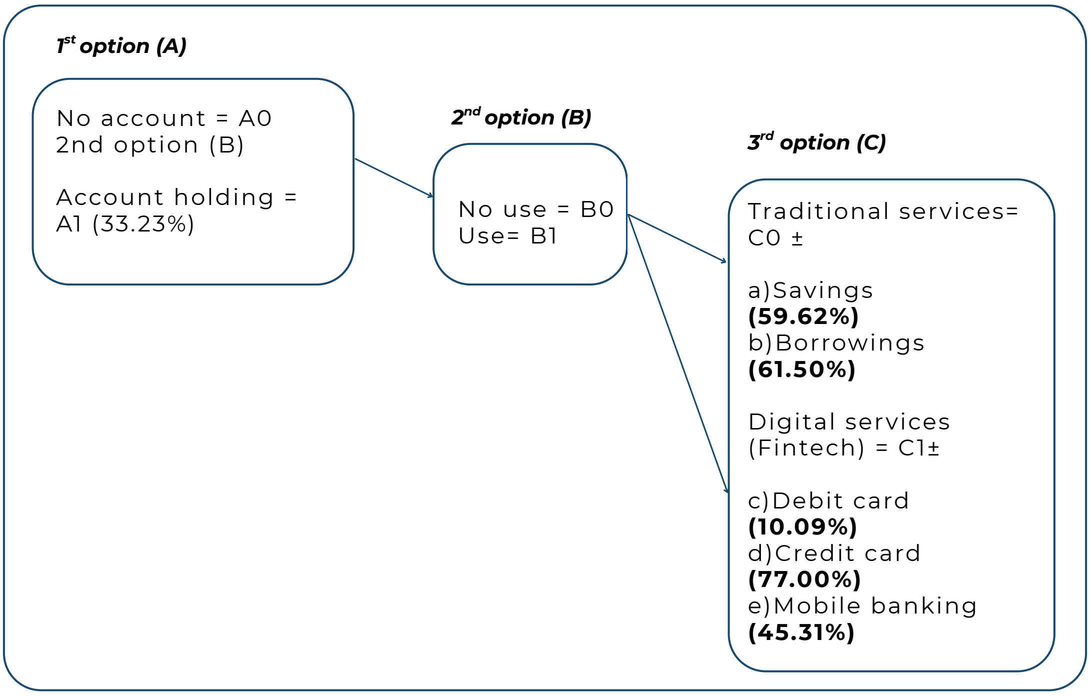


Figure 1. Decision tree: The sequential financial inclusion scheme in 2021 for the selected MENA sample.

Note: ±. The use (B1) of several financial services (C0 and/or C1) can combine for account holding people (A1). The percentages of services that are used (C0 and C1) are calculated on the basis of use (B1), which stands below the share (33.23%) of account holding (A1). **Source:** Authors' design from the Global Findex database

Distinct factors explain why MENA people do not hold an account at a financial institution. These factors are drawn from the Global Findex data base [2] and can be categorised as belonging to the supply side (depending on financial institutions) versus on the demand side (depending on households). On the supply side, exogenous factors lead to discrimination or exclusion for various reasons; financial institutions are too far geographically; absence of available and accessible infrastructure (such as an ATM, cash distributor or a branch); required documentation unavailable; a main factor, the cost for financial services are too high (2017 and 2021) and the constraints in opening an account (in 2014).

[2] In most low and middle-income economies, Global Findex data were collected through face-to-face interviews, using an area frame design for interviewing. All factors mentioned in the paragraph are included as reasons suggested in the survey questionnaire. The distinction between exogenous and endogenous factors is ours.

From the demand side, endogenous factors drive self-selection, including a perceived absence of need for financial services or reliance on a family member already who already holds an account, distrust towards financial institutions or religious considerations. The most prominent reason, however, is the lack of income among youth.

Overall, financial exclusion appears to be driven more by rather endogenous (roughly nine out of ten) than exogenous (roughly two out of five and twice as less important) whatever the period. One third of youths do not hold bank accounts due to both endogenous and exogenous factors.

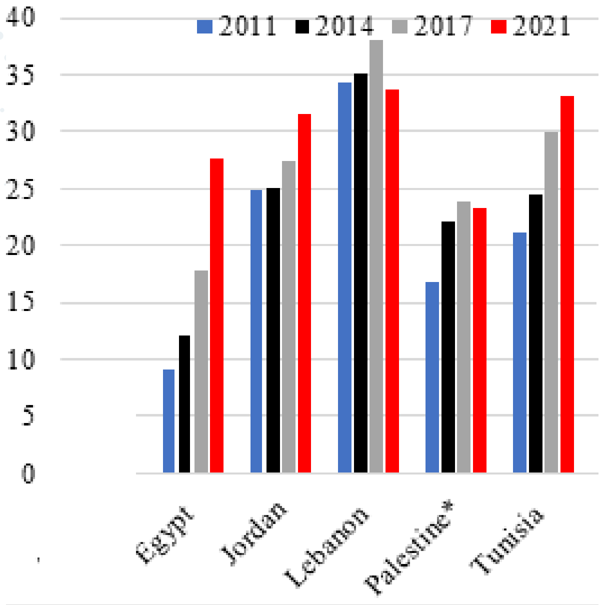
Year	2011	%	2017	%	2017	%	2021	%
Financial traditional services from Financial institution[a]								
Savings or/and Loans	272	100	324	100	458	100	202	100
Financial Digital services by financial institution[b]								
Credit or/and debit card	148	76.68	251	94.72	155	78.28	204	60.7
Mobile banking	71	36.78	34	12.83	96	48.48	277	82.44
Total	193	100	265	100	198	100	336	100
Financial digital services from financial institution and/or mobile money service providers								
Withdrawals, check account. pay bills, send or receive money, wages, public or private transfers and other fintech	222	100	296	100	272	100	456	100
Savings or/and Loans via mobile money								14.69
Total	222	100	296	100	272	100	100	100

Table 1. Factors of absence of account holding at a financial institution among youths (15-34).

Note: [a] The percentage of each reason for exclusion is calculated according to the number of those not holding a account at a financial institution, because the household may have more than one reason for exclusion.
[b] Individuals who are financially excluded due to both endogenous and exogenous factors
Source: Authors from the Global Findex database (2011, 2014, 2017 and 2021).

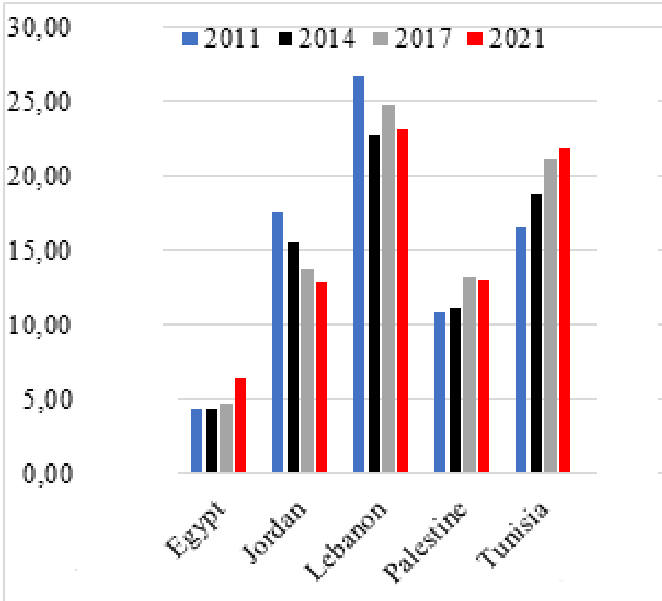
Regarding supply-side factors, the density of ATMs has been rising throughout the period, although it is slowing down in 2021 (Figure 2). The density of bank branches uncovers a S-curve: dropping in 2014, rising in 2017, it stalled in 2021 (Figure 3). As for demand-side factors, account ownership increased from 2014 to 2017, dropping in 2021 (Figure 4). Mobile cellular subscriptions declined throughout the survey period (Figure 5).

Figure 2. Banking infrastructure: ATMs



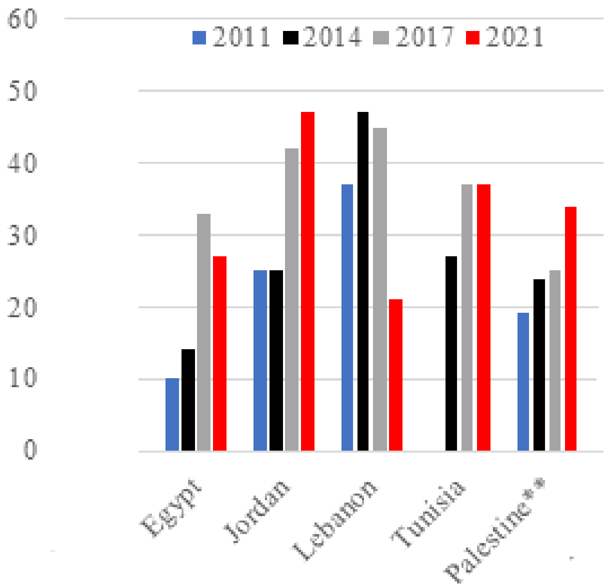
Note: Automated Teller Machines per 100,000 adults.
* West Bank and Gaza.
Source: Authors from World Bank Development Indicators.

Figure 3. Banking infrastructure: Bank branches



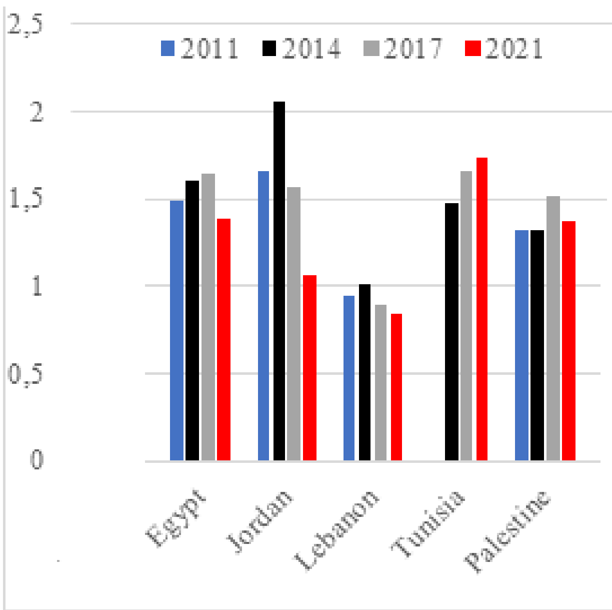
Commercial branches per 100,000 adults

*Figure 4. Account ownership in MENA countries**



Note:* % population aged 15+. ** West Bank and Gaza.
Source: Authors from World Bank Development Indicators.

Figure 5. Mobile cellular subscriptions



Ratio subscriptions / Adult population (aged 15+)

4. Approach and Results

4.1. Methodology

With regard to the literature review, our paper brings in some original insights. First, we expand the size of the overall sample with a period of observation from 2011 to 2021, including the COVID-19 shock. Second, we make a distinction between supply side factors that can be related to discrimination, and demand-side factors that are linked to self-selection (Berguiga & Adair, 2024). Third, we take into account all dimensions of financial inclusion, including fintech. We design four hypotheses testing financial inclusion in MENA countries (see Box 1).

Box 1. Hypotheses

H_1 hypothesis testing the age gap is stated as follows: Youths are less financially included.

H_2 hypothesis testing the gender gap is stated as follows: Women are less financially included.

H_3 hypothesis is the following: Youth financial inclusion depends on exogenous factors (discrimination) according to gender and workforce

H_4 hypothesis is the following: Youth financial inclusion depends on endogenous factors (self-selection) according to gender and workforce

Noteworthy is that H_3 and H_4 were not tackled elsewhere and bring in original insights. We investigate pooled household samples in five MENA countries: Egypt, Tunisia, Jordan, Lebanon and Palestine, (one thousand households for each country), drawn from the Global Findex Database (in 2011, 2014, 2017 and 2021), amounting to 20,000 households.[3]

[3] Morocco was not included due to biased oversampling ; Israel was withdrawn because its classification among high income countries would bring in another bias.

4.2. Results

Youth hold less accounts from banks or from mobile money service providers, throughout the 2011-2021 decade. It confirms hypothesis H_1, according to which there is a persistent age gap as regards account holding. The probability of holding an account is significant and positive regarding Self-employed over 2011-2021, as well as for Employee but only during the pandemic (2021). Employees and Self-employed are the main users of traditional services, a use that rises for Employees during the pandemic. The use of these services is very limited for poor or middle-income people[4]. There is no age gap and no gender gap in this respect.

Regarding the third dimension of financial inclusion, i.e., the use of digital services (Fintech), Age and Employee are significant and positive, over 2011-2021: Being both a youth and an employee reinforces the use of Fintech during the pandemic. The non-significance of Gender during the pandemic does not validate hypothesis H_2, whereby there is a gender gap. In addition, there is no age gap for Fintech, thus H_1 is not validated in this respect.

[4] The quintile income distribution extends from Q1 poorest 20% (bottom quintile) up to Q5 richest 20% (top quintile). The middle income stands between Q2 and Q4 quintiles.

5. Conclusion

The estimation of probit regression models on the four full pooled samples allowed to test four hypotheses on the role of age, gender, and job status, with respect to financial inclusion (access and uses), throughout 2011-2021. Age gap persists over 2011-2021 in terms of account ownership, although young people are using more digital services during the pandemic. To some extent, mobile banking became a substitute to bank account ownership during the pandemic.

The pandemic worsened the gender gap as for account ownership, without impacting the use of traditional services and digital services. Job status (employee or self-employed) promotes financial inclusion whatever its dimension and the period. An estimation of financial inclusion on two subsamples of youth and females allows an in-depth check of the robustness of H_1, H_2, H_3 and H_4 hypotheses (See Box 1). Young women hold less accounts during the pandemic. Hence, we confirm hypotheses H_1 and H_2 for account holding, with respect to age and gender. Being Youth exerts a negative impact on the use by women of traditional and a positive impact on their use of digital services during the pandemic. Hence, we cannot confirm hypothesis H_1 and H_2 for all dimensions of financial inclusion, but younger women are less financially included with respect to account holding and use of traditional services. According to Özşuca (2019), gender differences in youth age groups explain a substantial share of the gap between account ownership and formal saving. The gender gap in financial inclusion may result from distinct youth unemployment rates.

The 2016 Sahwa youth survey covering 3,027 active individuals aged 15–29 from four MENA countries (Algeria, Morocco, Tunisia and Egypt) provides evidence on gender gaps. Despite an even gender distribution, participation rate a is more than twice as high for males (54.5%) as it is for females (23.1%). One quarter of the labour force is unemployed, including a disproportionate share of women. Two in three men and one in three women are employed as informal workers. Gender pay gap is over 20% among both formal workers and informal workers (Gherbi & Adair, 2020). The younger employees and entrepreneurs are, the more likely they own accounts and use traditional services. As for female employees who own accounts, their use of traditional or digital services is unknown. The use of Fintech services by self-employed during the pandemic (actually, only farmers were surveyed in 2021), is limited and it does not depend on their gender.

Having a high level of education and earning a large income reinforces the use of Fintech whatever the period, which remains limited in the sample, possibly due to a lack of literacy. Income does not suggest that Fintech proves instrumental in mitigating inequalities that can overcome pervasive social norms stemming from patriarchy.

The lack of financial inclusion may be due to exogenous factors on the supply side (discrimination from financial institutions) and to endogenous factors on the demand side (self-selection) especially for women, consistent with the result of Damra et al. (2023). However, the positive impact of Exogenous factors is not robust, because it changes according to the dimension of financial inclusion and the year of the survey. Hypothesis H_3 is partially validated. Endogenous factors are insignificant for all financial inclusion models and hypothesis H_4 is thus rejected.

6. Policy Recommendations & Implications

OECD Recommendations for Youth Financial Inclusion

OECD (2020) advocates an evidence-based approach, based on the collection and use of anonymised youth-specific financial inclusion data on the demand side. On the supply side, it emphasizes interoperable digital financial ecosystems, securing friendly digital identity systems and leverage technology to promote financial and digital literacy of young people.

EU-GIZ Support for SMEs and Young Entrepreneurs in Egypt

GIZ implemented the project Promotion of Access to Financial Services for Small and Medium Enterprises on behalf of the European Union, aiming to improve access to financial services for small and medium-sized enterprises (SMEs) as well as young entrepreneurs in Egypt. Although this initiative is good news for formal enterprises, it does not address the informal sector, which encapsulates most micro and small enterprises (Adair Ed., 2023).

World Bank Support for Women's Financial Inclusion

World Bank (2023) supported financial inclusion on the supply-side, by working mostly upstream through regulators, public agencies, and service providers. One rare example is an advisory project in Egypt that aimed at enhancing women's economic participation by strengthening legislation prohibiting gender-based discrimination in access to finance. In this respect, Egypt stands as a benchmark that should be duplicated in other MENA countries in order to overcome conservative cultural norms (Perrin & Hyland, 2023).

Gaps in Downstream Financial Inclusion Policies

Downstream, the implemented policies targeted micro, small, and medium enterprises and very limited attention given to women or other financially excluded groups of individuals. Although Egypt was among the field-based case study countries, methodology was unfortunately based upon interviews with stakeholders -government, banks and enterprises, and not upon focus groups, whereas outcomes were not quantified.

Egypt's Performance in Global Findex Indicators

On the demand side Global Findex Achievement Variability displays medium and low improvement respectively for access and use, strong and medium improvement respectively for gender equality and digital transactions in Egypt.

Encouraging Formal Borrowing Through Better Access to Loans

On the supply side, financial institutions, including the Central Banks, and policymakers should encourage formal borrowings by removing the hurdles that refrain households on the demand side from obtaining loans. Such hurdles are the burdensome loan documentation requirement and the lengthy loan application process. In order to mitigate the risk associated to money lending, a loan guarantee (pooling) mechanism should be designed and monitored by the Central Bank.

Strengthening Savings and Expanding Financial Infrastructure

Financial institutions could slightly increase the interest rate on savings to attract formal savers and promote debit or credit card ownership by reducing fees. Financial institutions should also increase the supply of ATMs and Point of Sales (POS) terminals. They should also foster digitalisation as a complimentary rather than a substitute to fixed financial access points.

However, financial inclusion is no panacea and cannot substitute for inclusive labour market policies, in as much as income is the main condition fostering financial inclusion.

Promoting Financial Literacy and Fair Banking Practices

Policymakers should foster financial literacy programs that highlight the benefits of account ownership. Banks and MicroFinance Institutions would be very instrumental in this respect. Central Bank should collect supply-side disaggregated data (Alonso & Dezso, 2024) focusing on average banking conditions, in order to detect discrimination according to age and gender.

Expanding Youth Financial Inclusion Through Tailored Services

Policies should target underserved youth categories to broaden financial inclusion, a role which is often assumed by microfinance institutions. Tailored digital or traditional financial services should adapt to youth and gender needs, including a full payment system, enhanced infrastructure, appropriate regulations and efficient user protection safeguards.

Financial Inclusion for Sustainable Entrepreneurship

Making entrepreneurship more sustainable, thanks to financial inclusion depends on: Facilitating start-up business creation and sustainable enterprises. This calls for the design and the provision of appropriate assistance for funding and financial instruments, including microfinance. Reducing collateral requirements, increasing loan amount and lowering loan interest rates require a Guarantee scheme designed by the Euro-Mediterranean Guarantee Network (EMGN) and the European Investment Bank (EIB).

Current Initiatives in Jordan and Egypt

Initiatives conducive to economic growth are currently taking place in Jordan (Central Bank over 2021-2024) and Egypt (Credit Guarantee Company involving two agreements with the European Investment Bank in 2020 and 2021), wherein microenterprises are not targeted.

EU Support for the Social and Solidarity Economy in MENA

European Union Support to the MENA Region: Foster the growth of the Social & Solidarity Economy (SSE). Support from EU Directorate to shape a legal framework for SSE, including fiscal incentives, providing training assistance for upscaling businesses and fostering interfaces between SSE and lenders (e.g., business model design and standard accounting practices). Enabling financial institutions to address the needs of the SSE, with an emphasis on cooperatives, especially for female entrepreneurs.

Better Data and Impact Assessment for Inclusive Policies

Policies promoting financial inclusion for youth and aiming at closing the gender gap require both supply-side and demand-side disaggregated data collection, as well as focus group and experiment-based investigations to assess impacts.

Financial Inclusion Is Not a Substitute for Labour Market Reform

However, financial inclusion is no panacea and cannot substitute for inclusive labour market policies, in as much as income is the main condition fostering financial inclusion.

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