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Research Article

Financial Inclusion as a Mechanism for Achieving Economic Growth in Algeria: Reality and Prospects

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ABSTRACT
This paper aims to analyze the reality of financial inclusion in the Algerian economy and its extent in activating economic growth, and to clarify the various advantages that can be achieved if financial services are accessible to all segments of society. Including vulnerable groups, women and entrepreneurs to achieve local financial sustainability.
The study found that Algeria is still far from the desired levels of financial inclusion indicators, and therefore it is imperative to diversify financial services to include vulnerable groups in particular. These are the points that have been focused on in the reports of international bodies, and the study recommended that the government should target financial inclusion as a strategic goal to achieve sustainable development and growth.

Keywords: Finance, financial inclusion, economic growth.

I. Introduction:

Economic diversification has recently emerged as a contemporary topic that many strive to study, as it is seen as one of the solutions to overcome oil dependency. Algeria, like other countries seeking to diversify their economies, recognizes the importance of economic diversification in bringing about structural changes in the economic, social, and political structures to achieve prosperity and diversify new sources of income.
Financial inclusion is a modern concept that refers to the ability of individuals from all segments of society to access financial services at low costs with the expansion of services, even in developing countries. This is due to innovative banking technologies. Financial inclusion has gained the attention of many international organizations and political and economic decision-makers to extend financial services to all segments of society, including low-income earners, and to reduce the cost of these services to make access to them easy for all segments of society. Financial inclusion is one of the things that contributes significantly to achieving financial and economic stability and financial integrity, which aims primarily to protect the consumer. Therefore, this approach has been adopted by all countries of the world, even Arab countries. Many Arab countries have achieved high levels of financial inclusion, such as the United Arab Emirates and many Gulf countries. However, we find that there are some countries in the world where financial inclusion rates are still low. Algeria, when compared to Gulf countries, is very far behind, so there is a need to adopt a sophisticated strategy to enhance financial inclusion and innovate new banking service technologies to attract customers. Financial inclusion contributes to poverty reduction and economic growth. Hence, we raise the following problem:

Problem Statement:

"What is the reality of financial inclusion in Algeria and what is its relationship to economic growth?"

Sub-questions:

- What is the reality of financial inclusion in Algeria?
- What role does financial inclusion play in achieving economic growth in Algeria?

Hypotheses:

- Algeria is one of the most backward countries in terms of financial inclusion levels.

- Financial inclusion does not play the role it should play in achieving economic growth in Algeria.

Importance of the Study:

This study addresses an important topic of analyzing the reality of financial inclusion and its role in achieving economic growth in Algeria. Its importance lies in its contribution to building economic decisions.

Previous Studies:

- **Ayman Abdel Moneim Ragab Mohamed Abdullah Abu Al-Ezz, et al. (2019):** This study aimed to measure the development of economic development indicators in China, as well as the development of the impact of financial inclusion on economic growth in China. The researchers relied on a number of statistics to address the topic, using the simple linear regression method, as well as the multiple linear and stepwise regression method. The study concluded that the economic development indicators in China during the period 1990-2014 were unstable, and the correlation matrix showed a positive significant correlation between the study indicators.
- **Nahla Abu Al-Ezz (2021):** The study aimed to test the effect of applying digital financial technology in a number of African countries, which numbered 15 countries. The researcher applied the panal time series analysis method. The study concluded that there is a significant positive effect of using ATMs and mobile money on financial inclusion.
- **Cyn-young, park; Rogelio V, Mercadom, (2018):** In this study, a new index of financial inclusion for 151 economies was analyzed, and it also sought to assess the impact of financial inclusion on poverty and income inequality. The study concluded that high-income and middle-income economies with high financial inclusion have less poverty, while this relationship does not exist for middle-income and low-income economies.
- **Us, Thathsarani (2021):** The study aimed to address the gap in secondary data in eight South Asian countries, during the period from 2004 to 2018, by studying how financial inclusion affects economic growth and human development. The study concluded that economic growth is not associated with financial inclusion in the long term, but has a relationship in the short term, in addition to a positive impact between the study variables.

II. Theoretical Literature on Financial Inclusion

1. Theoretical Concepts of Financial Inclusion

Financial inclusion has been defined in various ways by many scholars. Some of these definitions are as follows:

- **The World Bank defines financial inclusion as:** "Access to a range of useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – and are delivered in a responsible and sustainable manner." (Assia and Mahjubi, 2018, p. 747)
- **The OECD and its International Network on Financial Education define it as:** "The process by which access to a wide range of formal and regulated financial services and products is promoted, at a reasonable time and price and in sufficient quantity, and the expansion of the use of these services and products by different segments of society, through the application of innovative approaches that include financial awareness and education, with the aim of promoting financial well-being and social and economic inclusion." (Ayman and Wafaa, 2021, p. 74)
- **Financial inclusion is defined as:** "Providing and using all financial services by all segments of society, especially the marginalized and low-income, whether individuals or institutions. Financial inclusion is measured in any society based on the range of financial services provided (supply side), the quality of those services, and their availability to all segments of society." (Hanan Alaa El Din, 2020, p. 494)

2. Importance and Objectives of Financial Inclusion:

Financial inclusion has become a focus of many governments and supervisory authorities, with central banks at the forefront. It has been established that there is a close relationship between financial inclusion on the one hand, and financial stability and economic growth on the other. It is difficult to imagine sustainable financial stability while a large proportion of the population or institutions remain financially excluded from the economic system. In addition, financial inclusion promotes competition among financial institutions by encouraging them to diversify their products and focus on their quality to attract the largest number of customers and transactions, thereby formalizing informal channels.

On the other hand, financial inclusion also affects the social side by focusing on low-income earners on the one hand, on limited groups on the other, and on specific groups such as women and youth on the other hand, in addition to focusing on reaching small, medium and micro enterprises and integrating them into the formal financial sector by providing them with appropriate financial services. In addition to the aforementioned positive reflections on improving financial inclusion indicators on issues of creating new job opportunities, which serve to achieve economic and social growth, thus reducing unemployment and poverty rates, improving income distribution, and raising the standard of living. (IMF, 2017, p. 6)

3. Dimensions of Financial Inclusion

Financial inclusion has four main dimensions, which can be summarized as follows: (Sourya and Al-Saeed, 2018, pp. 109-110)

3.1 Access to Financial Services:

Access to financial services refers to the ability to use financial services from formal institutions. Determining levels of access requires identifying and analyzing potential barriers to opening and using a bank account, such as cost and proximity to service points. Indicators for measuring the dimension of access to financial services include:

- The number of access points per 10,000 adults at the national level, disaggregated by type of administrative unit;
- The number of ATMs per 1,000 square kilometers;
- Electronic money accounts;
- The degree of interconnection between service delivery points;
- The percentage of the total population living in administrative units with at least one access point.

3.2 Use of Financial Services:

The dimension of financial services usage refers to the extent to which customers use advanced financial services provided by bank sector institutions. This requires determining the extent of financial services usage, which involves collecting data on the regularity and frequency of usage over a given period of time. Its indicators include:

- The percentage of adults with at least one regular savings account;
- The percentage of adults with at least one regular credit account;
- The number of insurance policyholders per 1,000 adults;
- The number of non-cash retail transactions per person;
- The number of mobile payment transactions;
- The percentage of adults receiving domestic or international remittances;
- The number of medium-sized or small enterprises with formal financial accounts;
- The number of small and medium-sized enterprises with deposit accounts;
- The number of small and medium-sized enterprises with outstanding loans.

3.3 Quality of Financial Services:

Developing indicators to measure the quality dimension is a challenge in itself. Over the past few years, the concept of financial inclusion has moved to the agenda of developing countries, where it was necessary to improve access to financial services. Lack of access to financial services remains a problem and varies by country and type of financial service. However, efforts continue to ensure the quality of financial services, which is a challenge that requires stakeholders to study, measure, compare, and take evidence-based actions with regard to the quality of advanced financial services.

4. Objectives of Financial Inclusion:

Given the global interest in expanding financial inclusion and creating alliances between international financial bodies and institutions to coordinate and work within common and unified mechanisms, the benefits of financial inclusion do not contradict each other. The Consultative Group to Assist the Poor (CGAP)/World Bank believes that building an inclusive financial system is the only way to reach the poor and low-income, and therefore the objectives of financial inclusion are as follows: (Ajjour, 2017, pp. 19-20)

- **Enhance access to financial services and products for all segments of society:** To educate citizens about the importance of financial services, how to obtain them, and how to benefit from them to improve their social and economic conditions.
- **Facilitate access to financing:** To improve the living conditions of citizens, especially the poor among them.
- **Promote self-employment projects and economic growth:** To empower micro-enterprises to invest and expand.
- **Reduce poverty levels and achieve social prosperity and well-being:** (Alfred & Stefan, 2010, p. 259)

III. Economic Growth

Economic growth is one of the most important macroeconomic variables, recognized for its importance as an indicator within the magic square framework, which seeks to achieve balance between the four indicators to reach a state of financial and economic stability.

It is defined as an increase in total national income, which achieves an increase in the average per capita share of real income (Naseef, 2008, p. 333). John Revoir defines it as "the gradual transformation of the economy through an increase in production or well-being so that the state to which the economy reaches is in a one-way direction towards an increase in the latter" (Abdul-Raouf and Shaaban, 2014, pp. 79-80).

From the previous definitions, it can be concluded that economic growth is: the annual increase recorded as a percentage of real GDP.
The types of economic growth are three:

- **Automatic (natural) growth:** This is growth that occurs spontaneously without following any planning or practical policy at the national level; (Omri, p. 6)
- **Transient growth:** This is growth that is characterized by impermanence and instability as a result of external factors that cause it and quickly disappear, accompanied by the disappearance of growth. We see it especially in developing countries and Arab oil-producing countries whose investments rise with rising oil prices and fall with their decline; (Areeqat, 2013, p. 134)
- **Planned growth:** This is growth that occurs as a result of the planning process and state intervention to push economic variables towards growth at a rapid rate. (Qandara, 2018, p. 20)

In order for economic growth to be achieved in any country, three basic components must be available: (Wa'il, 2014, p. 10)

- **Capital accumulation:** This element includes new investments in land, physical equipment, and human resources. Saving is considered the best way to provide the capital financed for different types of investments;
- **Population growth:** The positive impact of population growth on economic growth is linked to the increase in the labor force, which leads to increased production on the one hand, and an increase in the size of markets and the ease of stimulating consumer demand leading to stimulating investment demand on the other hand. However, this factor has a negative impact on economic growth in the event of a surplus in the labor supply and through limited income;
- **Technological advancement:** It is defined as the speed of development and application of knowledge, in order to raise the standard of living for the population.

In addition to the above elements, there are other elements that have a significant impact on economic growth, the most important of which are: the financial system, property rights, political stability, the public sector, and inflation.

V. Financial Inclusion in Algeria in Light of the Global Findex 2011-2017

1. The Reality of Financial Inclusion in Algeria

According to the International Monetary Fund, the Arab region still records one of the lowest levels in the world in terms of financial inclusion, as only 18% of the population in the Arab region owned accounts with financial institutions in 2014, which is the latest data until 2018, compared to 43% in developing countries in general and 24% in Sub-Saharan African countries. This percentage drops to 13% for women. The figures of the Global Financial Inclusion Index for the year 2014 on the Arab region, with the exception of the Gulf countries, indicate the highest percentage of adults deprived of financial services, as 80% of the population do not have a bank account. The financial inclusion rate in the Arab world ranged between 21% and 26% in 2016, and only about 30% of adults have adequate financial literacy, which is lower than the global average of 34%.
As for Algeria, the financial inclusion data published by specialized bodies, the World Bank, indicate that Algeria occupies the 141st place globally in the financial inclusion index, lagging behind Lebanon, Oman, Kuwait, and Qatar, which occupy good positions in this index. There has also been a disparity in most indicators in Algeria during the past decade, as the percentage of bank account holders as a percentage of adults over 15 reached 50.5%, and over 25 years of age, 57.5%. The percentage of adults who borrowed from informal sources, especially 1.5%, and the percentage of borrowing from family and friends 13.2%, this last indicator indicates a large percentage of Algerians prefer to borrow from informal sources (1.5%), which may be due to the logic of focusing a large number of banks on lending to certain segments of society without others. (Bashar Daif, 2020)

2. Ranking of the Global Financial Inclusion Index in Algeria among Arab Countries

Algeria's position among Arab countries in terms of the Global Inclusion Index can be identified through the data shown in the following table:

Table (01): Global Financial Inclusion Index in Arab Countries during the years (2011-2014-2017)

	Financial Inclusion Index		
Country	2017	2014	2011
United Arab Emirates	87.4	82.2	59.7
Bahrain	82.9	81.9	64.5
Kuwait	79.8	72.9	86.8
Saudi Arabia	71.7	69.4	46.4
Algeria	42.8	50.5	33.3

Lebanon	44.8	46.9	37.0
Morocco	28.4	/	39.1
Tunisia	36.8	27.3	32.2
Libya	65.7	/	/
Jordan	42.1	24.6	25.2
Mauritania	19.0	20.4	17.5
Egypt	32.1	13.7	9.7
Iraq	20.3	11.0	10.6

Source: Prepared by the researchers based on the website: (The World Bank, The Global Findex Database)

It is evident from Table () above that the Gulf Arab countries recorded high levels in terms of the Global Financial Inclusion Index, where Kuwait recorded the highest level of 86.8 in 2011, followed by Bahrain in second place, with the United Arab Emirates jumping from third to first place in 2014, while Saudi Arabia maintained the same rank during the three years. The reason behind the high levels achieved by the Gulf Arab countries (Bahrain, Saudi Arabia, UAE, Kuwait) is the development of their banking sectors, in addition to the development of the digital infrastructure. Mauritania, Egypt, and Iraq, on the other hand, witnessed the lowest levels of the Global Financial Inclusion Index, reflecting the weakness of financial intermediation. As for the rest of the countries, led by Algeria, they achieved average levels in this inclusion, ranking seventh in 2011 and 2017, while jumping from seventh to fifth in 2014.

Academic Translation of the Arabic Text to English:

3. Challenges of Financial Inclusion in Algeria

The banking and financial sector is one of the economic activities affected by globalization phenomena, especially financial inclusion, which has a close relationship with the banking system, where it had negative repercussions during the global financial crisis of 2008, and its effects emerged on developing countries, including Algeria. These can be mentioned as follows: (Boudellaceae, Said Bukhoosh, and Bouguerra, 2020, pp. 152-153)

- Among the repercussions of the global financial crisis is a decrease in liquidity, and therefore the difficulty of institutions obtaining bank loans to finance their investments in Algeria;
- An increase in the import bill due to the increase in inflation levels in global markets, which was manifested by a 4.1% increase in agricultural commodity prices;
- The decline of the Algerian dinar against the euro and the dollar, as well as the decline in export revenues, means that the general budget cannot pay the import bill, which leads to the depletion of resources, especially on financial balances and the pursued fiscal policy;
- The growth rate in 2009 was estimated at 2.2%, which is an insufficient level to absorb unemployment and implement the planned programs, so Algerian projects faced several difficulties.

On the other hand, the difficulties that faced the Algerian economy did not directly affect it, which led to the adoption of decisions that are one of the offshoots of financial inclusion, namely:

- Building a strong Algerian economy by encouraging non-hydrocarbon exports and diversifying sources of income, relying on the agricultural, tourism, and services sectors;
- Encouraging the establishment of small and medium-sized enterprises;
- The need to provide financial information by the Central Bank and adopt a transparent approach to avoid speculation;
- The need to rehabilitate the Algerian economy through Arab cooperation, especially in the field of investment.

VI. Conclusion:

Financial inclusion can be an effective tool for achieving economic development in Algeria. Therefore, all stakeholders should work to promote and develop it. The study showed that the reality of financial inclusion in Algeria has witnessed a remarkable improvement in recent years in particular, supported by government policies and measures taken by various financial institutions.

- **Results:**

The study showed the existence of a positive role for financial inclusion on economic growth in Algeria, as the increase in financial inclusion rates coincided with an increase in GDP.
Among the main factors that play an important role in promoting financial inclusion, such as:

- Expanding the scope and diversity of financial services.

• Improving financial infrastructure.
• Raising financial awareness among different segments of society.
• Empowering women and youth through microfinance programs.
• Supporting small and medium-sized enterprises.

- **Recommendations:**
- Continue to support and develop financial inclusion programs.
- Focus on the most vulnerable groups in need of financial services.
- Strengthen public-private sector partnerships to ensure the sustainability of financial inclusion programs.
- Conduct more studies and research on the reality of financial inclusion in Algeria.

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