Economic Sciences, Management and Commercial Sciences Review - University of M'sila -

Volume: 15 / N°: 02 / N.S : 30 (2022) p 301-311

The Reality of Financial Inclusion in Algeria Under the Current Level of Governance

Benhalima Faycal [1], El-Mehdi Barça [2]

[1] Tipaza University Center, Morsli Abdellah, faycalbenhalima8@gmail.com

[2] Tipaza University Center, Morsli Abdellah, barca.elmehdi@cu-tipaza.dz

Received: 14/11/2022 **Accepted:** 25/12/2022 **Published:**31/12/2022

Abstract:

This study aims to analyze the financial inclusion situation in the Algerian banking system in light of the Financial Governance current level, and the reasons that hinder the financial literacy adoption that aims to achieve economic growth. this study relied on the analytical approach in analyzing financial inclusion ratios in Algeria with the help of the Global Findex database. this study concluded that the contribution of Financial institutions in reinforcing the financial inclusion to a different segement of the society is weak and limited in the provision of high quality and low costing financial and banking services, which exclude the category of low incomes and non-incomes, which is considered the highest goal of Financial Inclusion, to achieve its purpose and raise with the economy.

Keywords: Financial Inclusion, Financial Services, Algerian banking sector, Governance.

Jel Classification Codes: G20,G30,G38

Corresponding author: El-Mehdi Barça, e-mail: barca.elmehdi@cu-tipaza.dz.

1. INTRODUCTION

Financial inclusion aims to generalize financial and banking services for all individuals and establishments, and for all segments of society to obtain all services at a lower cost and greater quality. It is from this logic that many bodies considered it as one of the main pillars and a major factor in achieving economic growth and sustainable development in many developing countries. It has received wide attention from many financial institutions, which believe that the participation of community members in the formal financial sector leads to improving their lives, which contributes to the soundness of the financial system. The Algerian banking sector seeks to enhance the degree of financial inclusion, similar to the rest of the Arab banking sectors. In order to keep pace with the development in the banking industry, the Algerian banking sector has adopted several reforms aimed at achieving comprehensive economic and social development. Perhaps the most prominent of them is the strengthening of the arsenal of financial governance, which aims to enhance confidence by establishing the principle of transparency. The lack of clarity in the banking climate for the Algerian citizen may lead to a reluctance to it, and consequently the shrinkage of financial inclusion or its restriction to a certain category, and this is incompatible with its objectives in advancing the economy and pushing it forward. The wheel of development, and in order to expand the scope of financial inclusion in Algeria and to attract various segments of society within the formal sector, it is necessary to provide opportunities to access various financial products and services, with financial innovation by knowing and investing opportunities in achieving financial inclusion on the one hand and on the other hand addressing challenges facing the market, consumer protection, and financial stability; However, this is due to the extent to which the supervisory authorities support the establishment of governance principles and the formation of an arsenal for them.

The Problematic:

From this standpoint, we ask the following question: What is the reality of financial inclusion in Algeria in light of the prevailing level of financial governance?

Hypotheses:

The hypothesis of the study stems from the reasons for the decline in the levels of financial inclusion in Algeria, which is the delay in the banking sector in establishing the principles of governance in order to improve financial services and products.

The importance of the study:

The importance of the study lies in the fact that it highlights financial inclusion and its importance and activates the impact of its role in including all segments of society in the formal financial sector, highlighting the role of governance as a supportive mechanism for financial inclusion.

Study objectives:

The study aims to analyze the status of financial inclusion in the Algerian banking sector, based on the knowledge of the development of the activity of financial and banking services available to financial institutions and available to various segments of society, while passing through the most important legal reforms to support governance in the banking sector in particular.

Study Methodology:

The descriptive approach was relied on to address the literature on financial inclusion, and the analytical method was used to analyze the set of data and information received under the study.

2. Financial Inclusion

Financial inclusion is a broad concept as previous studies provided various definitions of it, and depending on the level of social and economic development of each country, a definition of financial inclusion is defined in different aspects. Although there is no consensus on a standard definition, it is generally understood that financial inclusion is the process of ensuring that people can easily access and use financial services from formal financial institutions in a timely, appropriate and affordable manner, especially for financial institutions. The disadvantaged group (sarma, 2008), that is, it is an attempt by the government through financial regulators to encourage every adult to own a bank account at little or no cost, which will result in individuals knowing about the available banking products, as well as becoming aware of financial market products such as permissions Treasury and shares that are advertised in the banking halls of banks, so financial inclusion opens the door to owning a bank account and is in dispute for a bank credit facility to operate a business at a reasonable cost. Over time, the bank account holder is able to see advertisements for securities and capital markets as well as insurance and be in a position to ask questions about how to benefit from them (Emmanuel , 2022)

Group (20G) and the Global Alliance for Financial Inclusion (AFI) defined financial inclusion as: “A urge to access and use all segments of society, including marginalized groups and people with low and low incomes, for financial services and products that suit their needs, so that they are provided in a fair and transparent manner.” and at reasonable costs” (GPFI, 2022). Radha, R, Sharma (2020) also defined financial inclusion as “the process of ensuring access to financial services, appropriate and timely credit to vulnerable groups such as the most vulnerable sections and low-income groups at an affordable cost” (Radha, 2020) Zulkhibri (2017) also introduced another dimension of financial inclusion to be seen within a broader context of inclusive development, seen as an important way to tackle poverty and inequality and address the Sustainable Development Goals (SDGs) (Zulkhibri, 2017). Abbas (2019) points out that scientific advances lie in the fact that financial inclusion is in fact absolutely essential to the growth process of any economy, bringing more individuals and their families into the formal financial system, it will aid in sound planning and sound decision making by policy makers (Abbas & Atanda, 2019)

The importance of financial inclusion: Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit and insurance - delivered in a responsible and sustainable manner. The importance of financial inclusion as an enabler for seven of the seventeen sustainable development goals (Worldbank, 2022). The G20 committed to promoting financial inclusion worldwide and reaffirmed its commitment to implementing the G20 High-Level Principles for Digital Financial Inclusion. The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity (GPFI, 2022). Research indicates that financial inclusion is important because it works well and inclusively to support the financial system, it is a necessary condition for faster and sustainable equitable growth, as it will provide a large number of low-cost deposits, giving banks the opportunity to do to reduce their dependence on large deposits and help them manage both assets and liabilities This access is particularly necessary for the poor as it provides them with opportunities to build savings, make investments and access credit and also helps the poor to insure themselves against income shocks and prepare them for emergencies such as illness, death in the family or job loss (Subbarao, 2009). Just as people with access to savings accounts or simple informal savings techniques that are likely to increase consumption, productivity and income, increase investment in preventive health, and reduce exposure to illness and other unexpected events (Fadun, 2014), financial inclusion offers a way to bring in the savings of the poor. To the official financial intermediation system and direct it to investment (Subbarao, 2009)

Financial Inclusion Measures: Financial inclusion is measured through three main dimensions in which a large set of indicators fall to measure financial inclusion, and these dimensions are access to financial services, use of financial services, quality of financial services, and financial inclusion is achieved by the ability of individuals to Access and use the full range of financial services easily, at low cost and with the required quality (GPFI, 2022)

Table 1. Indicators for measuring financial inclusion.

Indicator	category	Measuring indicator
Usage	**For adults Older than 15 years old**	**Adults owning an account – Number of accounts – Adults with credit in formal institutions – Adults with insurance – Cashless financial transactions – Adults using digital payments – Payment using a mobile phone or the Internet – Payments using a bank card – Paying with the account – Propensity to save**
	For institutions Formal banking institutions	**Companies with a loan or line of credit outstanding in regulated institutions - Digital payments to and from companies**
Access	**Physical Service Points Service Points**	**- Royal Credit Card - Service Points Project - Compatibility of Service Points**
Quality	**Financial knowledge and the ability to control it**	**-Financial knowledge -Financial behavior**
	Market Conduct and Consumer Protection	**-Disclosure Requirements -Dispute Resolution**
	Barriers to use	**-Credit barriers**

Source: Prepared by the researcher with the help of (GPFI, 2022) G20 Basic set of Financial Inclusion Indicators.

The definitions show how financial inclusion is a multidimensional concept, including supply and demand side aspects of financial products, with its primary dimensions being access, use, and, more recently, quality.

a-Access Indicator: The lack of access is evident among those who do not find financial instruments and services that match their needs are excluded from the formal financial sector. A lack of access has traditionally been defined as a type of observable impediment or impediment resulting from the frictions associated with the financial sector: high transaction costs, uncertainty regarding project outcomes, and asymmetric composition between lenders and borrowers (Maria , 2015)

b- Usage Indicator: With regard to usage, when the decision not to use financial services is determined by temporary preferences and investment opportunities, the failure of some individuals to use financial services is not necessarily a problem. However, when privileged agents have access to financial services, but do not benefit from them for reasons such as lack of financial knowledge or education, lack of savings, employment or income, distrust of financial institutions, or fear of Being burdened with debt, or as a psychological consequence of systemic discrimination in the past (self-exclusion), scarcity or underutilization is the problem of financial inclusion. Therefore the problems of access and use are of a different nature. While the access problem stems mainly from market failures that limit the provision of financial services, the utilization problem is mainly explained by supply and demand side factors for financial services. (Maria , 2015)

c- Quality Indicator: The quality of financial services is represented in the suitability of financial services and products to consumers' needs, and their position on the services provided and available. The quality of financial services to consumers is also evaluated in terms of the ability to provide services at low cost and modern services (Asmaa , 2022).

3. An introduction to governance.

a- Definition of Governance: Governance is considered a set of mechanisms, procedures, systems and laws that guarantee discipline, transparency and justice in order to achieve quality and differentiation in performance, whereby the actions of the management of the economic unit are activated with regard to the exploitation of the economic resources available to it from us that achieves the best possible benefits for all parties that share the interest. (بوسماحة، 2022)

Government is an institution or system composed of a group of people who have the power to govern a country, state, or a particular ministry in their office. The government is necessary for the existence of a civilized society. The government makes laws, rules and regulations, collects taxes and prints money. On the other hand, governance includes all processes of governance that are affected by a country's government, market or network across a social system, and referred to as structures and processes that are designed to ensure accountability, transparency, responsiveness and empowerment. and participation widely. It also represents the symptoms, values and rules of the game by which public affairs are managed in a transparent, participatory, inclusive and responsive manner. Governance is what the government does. It is a physical exercise of the political system while the government is the body through which this is done. (Sumanta, 2021)

The governance of banks is also considered in the system through which banks are managed and monitored in order to achieve their objectives, and it is the system in which the sources of their capital are dealt with. (بوسماحة، 2022)

b- The importance of governance: Financial institutions are charged with maintaining public confidence and protecting depositors. Balance sheets are more opaque, which leads to less transparency and more ability to hide problems. Good governance requires boards of directors and senior management to fulfill their fiduciary responsibilities through effective communication to direct strategic business and risk appetite while ensuring transparent and effective regulation, risk assessment and mitigation, and adequate capital support.

Good governance complements traditional supervision of financial institutions, protects the interests of depositors and other investors in commercial banks, and builds and maintains public confidence in the financial sector. Contribute to the integrity and credibility of financial institutions that are uniquely vulnerable to liquidity shocks that can lead to institutional, and possibly financial, instability.

Good governance supports prudential supervision and regulation, and enhances the role and effectiveness of the supervisor of the financial institution. Many developing countries have embarked on large

-scale corporate governance reforms in state-owned banks in order to improve their efficiency and transparency. Development banks are now playing a more prominent role in the emerging market economy. Development banks play a central role in financial inclusion, small and medium enterprise development, housing, agriculture and infrastructure financing. Strong corporate governance allows these institutions to fulfill their missions more effectively (Worldbank, 2022)

c- Objectives of Governance:

- Work to improve the ability of projects to achieve their goals through improving the mental image. Improving the decision-making process in companies and the ability to evaluate their performance and hold them accountable through the General Assembly. Incorporating environmental and ethical considerations into the decision-making system.

- Improving the degree of clarity, transparency and disclosure and working on the dissemination of information and data. Creating confidence between dealers and allowing financial investors to obtain means of controlling their assets. (GPFI, 2022)

4. The reality of financial governance in Algeria

The investment climate in Algeria has always been cloudy and characterized by lack of transparency. Historically, it is considered full of crises and embezzlement, perhaps on top of which is the KHALIFA Bank crisis. As a result, the Algerian legislator has enacted enhanced laws that serve to establish governance as a tool for applying transparency and urging disclosure.

- ***Law on Financial Control of Banks and Financial Institutions:*** Regulation No. 02-03 issued by the Central Bank of Algeria on 14/11/2002, which includes the internal control of banks and institutions.

- ***Laws against administrative corruption:*** For the first time, the Algerian legislator directly and explicitly confronted the sources of this scourge and the deterrent measures to it, through Ordinance 96-22 of July 09, 1996. It is related to the suppression of violations of the legislation and regulation of foreign exchange and capital movement.

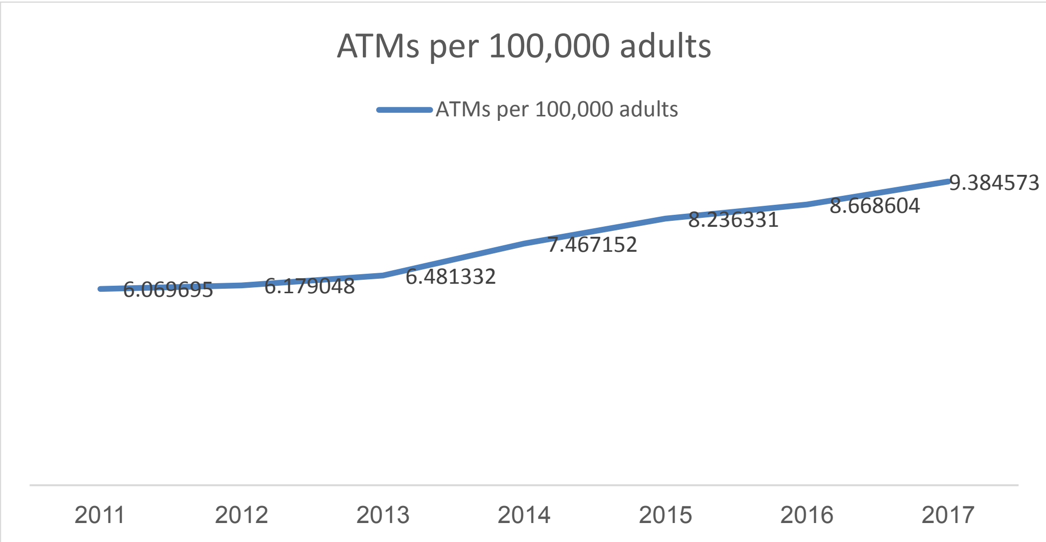
- ***A national action program in the field of governance:*** Payment systems have been updated in accordance with what was stated in the national program, with the aim of improving risk management and strengthening the rules of caution in the Basel 2 system, as Algeria strives to gradually implement what is stated in it with consultation and work with banks and financial institutions. Launching the Algerian Code of Corporate Governance: The Algerian Code of Corporate Governance was issued in 2009, which aims to build confidence in the banking system and promote economic growth. (بوسماحة، 2022)

5. The reality of financial inclusion in Algeria in light of the prevailing level of financial governance.

In order to analyze the development of financial inclusion in Algeria, data is extracted from the database of the global index 2017 (The global Findex), which provides an accurate and multi-dimensional picture of the current situation and the progress made in it. Expanding comprehensive access to financial services, and as previously touched upon, the ownership of Accounting is a key aspect of financial inclusion, which is the first step through which to gain financial knowledge. ***Note: The global findex database is updated every three years*** (GPFI, 2022)

a- Number of ATM's per 100.000 Adults: Denotes the total number of ATMs for every 100,000 adults in the reporting country. Calculated as (number of ATMs)*100,000/adult population in the reporting country. (GPFI, 2022)

Graph 1: the number of ATMS per 100000 Adults

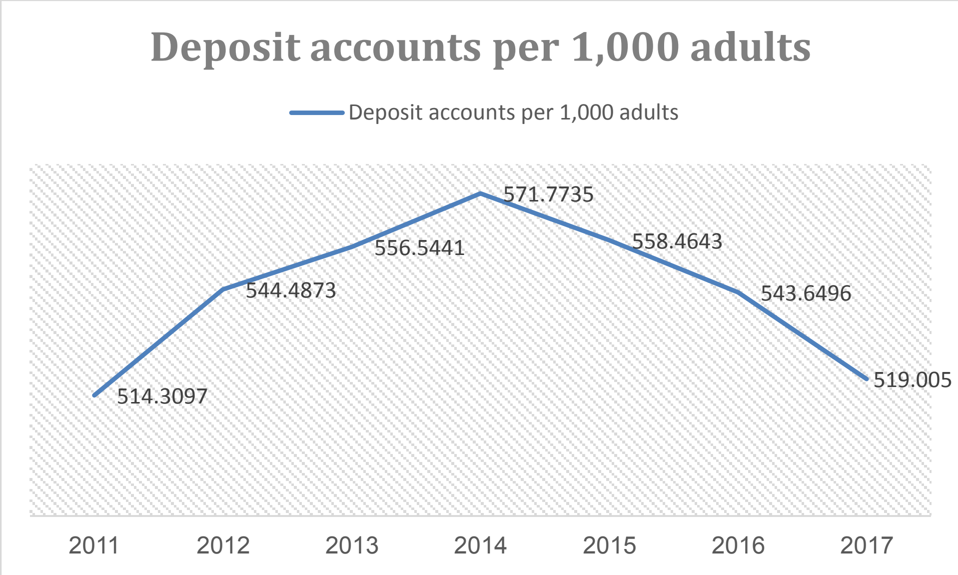


Source : Global Findex Data Base

From the graph number 1 above, we can see the evolving process of the government on raising the number of ATMS expenontionly, hence, the percentage jumped from 6.06 in 2011 to 8.66 in 2017 which is a remarkable raise by 40%, which indicates the efforts made by the government on promoting financial inclusion, but still number of ATMs per 100000 is not a strong indicator if the ATMs are not being used in the first place. Therefore we need to check number of accounts per 1000 adults, number of deposit accounts by adults.

b- Number of deposit accounts per 1.000 adults: Denotes the total number of deposit accounts that are held by resident nonfinancial corporations (public and private) and households in commercial banks for every 1,000

Graph 2: Deposit accounts per 1.000 adults

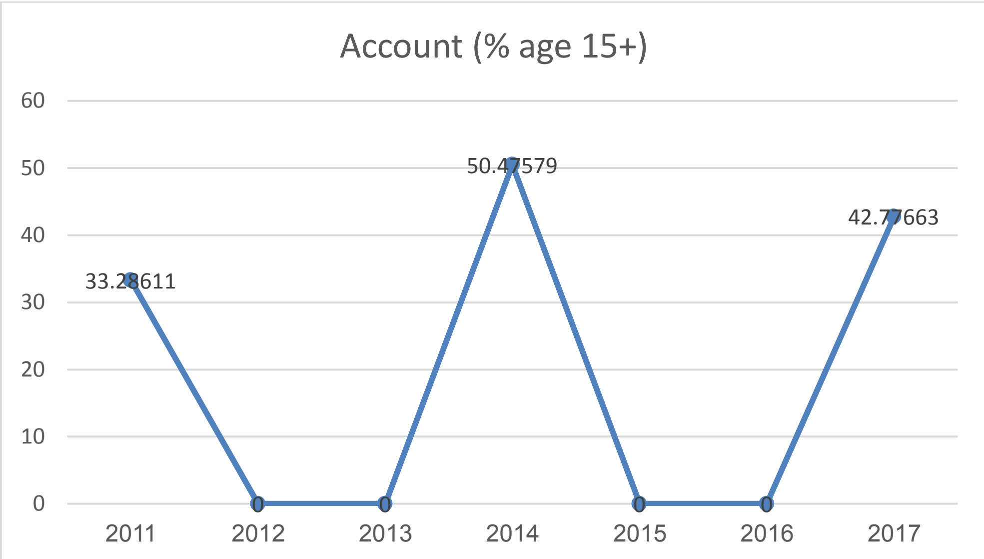


Source: Global Findex Data Base

From the graph above we can see a concaved shape, indicating a raised followed by a decline, its top was on 2014 by 571.77 raising from 2011 by 11% from 514.30, and followed by a decline to 519.005 in 2017 by decreased estimated with 10%,

c- Adults with bank accounts: Denotes the percentage of respondents, ages 15+, who report having an account (by themselves or together with someone else) at a bank or another type of financial

Graph 3: Adults +15 age with bank accounts.

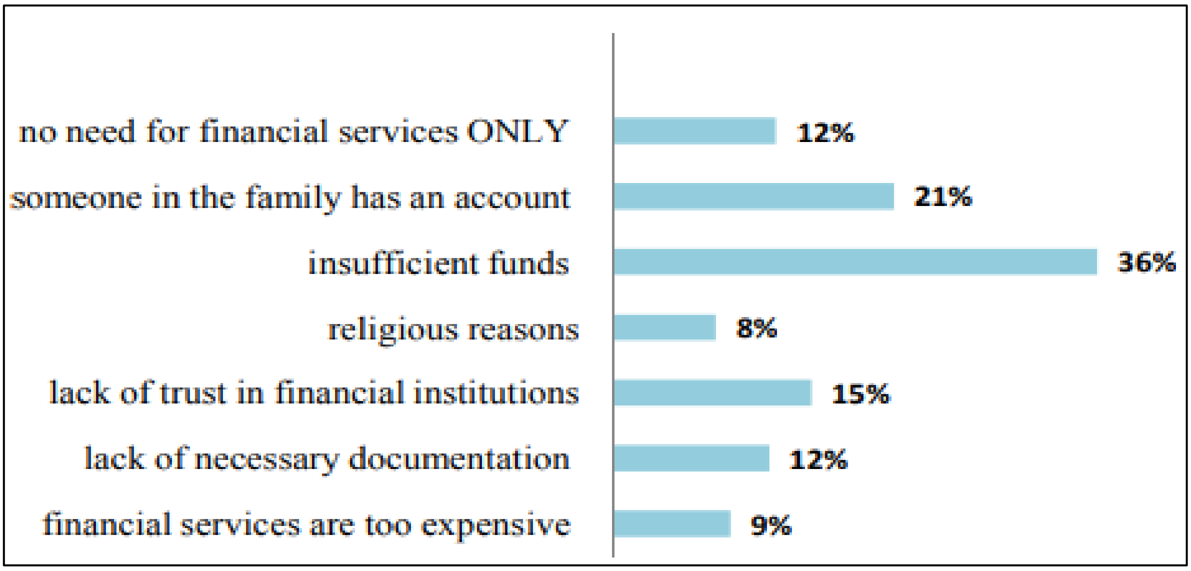


Source: Global Findex Data Base

From graph above, we can see a similar shape to the graph number 2, a raise followed by a decline, in the year 2011 the start was with 33.24 and the peak was in 2014 with 50% raise up to 50.47, then a decline two years later with 18 percent to 42.77.

Even though the number of ATMs per 100.000 adults is raising, we can see a decline in the accounts and deposit accounts, one of the possible reasons is usage to such items, which refers to a service being expensive, which all contradict with financial inclusion goals, in the bar chart below we can see the possible reasons for the decline in accounts .

Graph 4: Reasons for declines in accounts



Source: Global Findex Data Base

As Graph 4 shows, 36 % find the financial services expensive to use, or in other words, those with low incomes and marginalized groups, which are among the objectives of financial inclusion to include them in official financial channels, and help them benefit from Banking services in a fair manner, with low costs and at a quality level, next is 15% refrain from resorting to banks due to the loss of confidence, which indicates a poor governance system to provide enough transparency in the system to address the trust issue.

6. Requirements for achieving financial inclusion.

Promoting financial inclusion in Algeria is a responsibility that rests mainly with the Bank of Algeria, as it is the authority supervising various transactions in the banking sector, so it is obligated to develop a national strategy in order to enhance financial inclusion.

Supporting the financial infrastructure, This is considered one of the mainstays of establishing a suitable environment for achieving financial inclusion, provided that this is accompanied by the provision of an appropriate legislative environment that guarantees the reduction of exaggeration in the application of procedures and the cessation of requiring any supporting document in cases of deposit until the integration of the largest possible amount of cash in the banking sector.

Increasing banking density by strengthening the banking spread of banking agencies and financial institutions, as well as focusing on establishing branches or representative offices that mean microfinance, such as projects for women staying at home and rural areas (Omar, 2019).

Modernizing government payment systems and developing strategies to promote the use of electronic means of payments instead of cash and paper checks.

Improving financial institutions' access to low-cost credit and optimum liquidity management mechanisms in payment settlement systems. Strengthening interoperability, interactions and flexibility of payment, securities, foreign exchange, telecommunications, and internal banking infrastructures to enable end-to-end automation of payment processing (Youssef, 2021)

7. CONCLUSION

Financial inclusion plays a vital role in financing opportunities, it also reflects the ability of people and enterprises to get financial services at the right time with the lowest cost, regarding its social and economic importance in achieving global growth, and governance is happening to have an important role that helps financial inclusion expansion, therefore, many countries seek to adopt reinforcement strategies for better governance mechanisms, meanwhile, Algeria is considered to be one of the countries that face several challenges regarding its banking system, including corruptions, all that hinders the path of enhancing financial inclusion.

8. Bibliography List :

Abbas, U., & Atanda, I. (2019). An Analysis of FinancialInclusion in Nigerian Banks: From the Prospects and Challenges Perspective. *The International Journal of Business &Management*, 140-145.

Abid, R. (2019). A study of the impact of Islamic financial services on financial inclusion in the Arab countries.

Asmaa , A. A. (2022). The effect of financial depth in promoting financial inclusion in some Arab countries. *Tikrit Journal of Administration and Economics Sciences*, 380-400.

Bousmaha , m. (2022). Governance application mechanism in light of financial inclusion. *Economic Manhal journal*, 191-204.

Emmanuel , T. S. (2022). *Applied Monetary Economics: Theories and Corresponding Policy guides for fragile financial systems.* ghana: ELIVA PRESS. Retrieved from https://www.researchgate.net/publication/356641111_FINANCIAL_INCLUSION

Fadun, S. O. (2014). Financial Inclusion, Tool for Poverty Alleviation and IncomeRedistribution in Developing Countries: Evidences from Nigeria. *Academic Research International*, 137-146. doi:https://www.researchgate.net/publication/348151967_Financial_Inclusion_Tool_for_Poverty_Alleviation_and_Income_Redistribution_in_Developing_Countries_Evidences_from_Nigeria

GPFI. (2022, 8 21). *GPFI*. Retrieved from The Global Partnership for Financial Inclusion: https://www.gpfi.org/

Maria , J. R. (2015). Financial Inclusionin Latin America and the Caribbean:Access, Usage and Quality. *Center for Latin American Monetary Studies* , 3-42.

Ommar, M. (2019). Requirements to enhance financial inclusion in Algeria. *Journal of Added Value of Business Economics*, 118-137.

Radha , R. S. (2020). Financial Inclusion and Economic Growth: Evidence-Based Research. *The Journal of Business Perspective*, 139-139. Retrieved from https://www.researchgate.net/publication/341811141_Financial_Inclusion_and_Economic_Growth_Evidence-Based_Research

Sharma, M. (2008). Index of Financial Inclusion. *Indian Council for Research on International Economic Relations*, 215.

State Information Service, your gateway to Egypt. (2017, September 13). Récupéré sur The Global Policy Forum, the ninth annual international conference of the Global Alliance for Financial Inclusion: https://www.sis.gov.eg/Story/148324

Subbarao, D. (2009). *Financial inclusion – challenges and opportunities.* India: reserve bank of india. Retrieved from https://www.bis.org/review/r091215b.pdf

Sumanta , B. (2021). ANALYZING THE CONCEPT OF MINIMUM GOVERNMENT AND MAXIMUM GOVERNANCE. *international Journal of multidisciplinary Educational Research*, 93-97.

Worldbank. (2022, 21 8). *world bank*. Retrieved from worldbank.org: https://www.worldbank.org/en/topic/financialinclusion/overview

Youssef, R. (2021). Financial Inclusion in Algeria: reality and outlook. *Strategy and Development Review*, 478-493.

Zulkhibri, M. (2017). The impact of governance and institutional on Financial Inclusion: Evidence from muslim countries and developing countries JKAU. *Journal of King Abdulaziz University: Islamic Economics*, 37-60.