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Opportunities and Constraints to Achieve the Strategic Objective of Financial Inclusion in Palestine – A Field Study

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Statement of Original Authorship

The work contained in this thesis has not been previously submitted to meet requirements for an award at this or any other higher education institution. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made.

Signature:

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Abstract

The study aims to investigate the opportunities and constraints to achieve the strategic objective of financial inclusion in Palestine from the banks point of view, in light of the national financial inclusion strategy in Palestine (2018-2025). This is by reviewing the financial inclusion concept, objectives and benefits, indicators, and the principles for digital financial inclusion in addition to the key approaches to accelerate financial inclusion.

The study relied on a qualitative approach; the methodology of this research depends on the purposive sample technique from banks operating in Palestine. The key findings of this study indicated that the major opportunities for banks to expand the financial market, increasing the profits and widening the clientele base, and internal and external constraints facing the banking system to play the appropriate role to enhance the financial inclusion in Palestine. The National Financial Inclusion Strategy action plan during the next five years covered most of these constraints.

Finally, the study recommended focusing more on banking products that should be simple, reasonable, and high value for customers and new forms of branching in remote areas.

Keywords: financial inclusion, opportunities and constraints, strategic.

Contents

List of Tables

List of Appendices

Chapter 1: Introduction

1.1 Overview

Although the huge sophistication of financial services at the present time, as a result of the use of communication and digitization technology, more than half of the world's adults are excluded from these services, practicing outside the official financial system, especially in poor countries. The Arab region is one of the world's regions that suffer from the weakness in the extent to which Arab societies benefit from the services provided by the financial and banking system in the region, except for some Arab countries that have achieved acceptable levels in the distribution of financial services to their communities. In contrast, the poorest segments of Arab countries continue to suffer from exclusion and financial marginalization, a term that contrasts the term financial inclusion (bin keda & bo afea, 2018).

In 1980s, retail financial markets grown and more people have the ability to access a broader range of financial services and products. In general, a considerable number of people have benefited from these developments especially those who enjoy stable annual income (Abu Seman, 2016). There is a very important concern raised that this group is the most underserved corner in community and has restricted involvement in financial services which add to the issue of social and financial exclusion (Kempson & Whyley, 1999). As it is financial and social issue, financial exclusion has appeared as an important apprehension in Europe and the United States (Abu Seman, 2016).

Many studies during the 1990s arise on the difficulties and limitations faced by some category of society in accessing and benefiting the banking products and services. In

1999, the term financial inclusion used more broadly to describe the determinants of individual access to available financial services (Abdullah, 2016).

The international attention to financial inclusion increased in the wake of the global financial crisis by the end of 2007. The global trend towards financial inclusion has increased through policies and measures taken by the monetary authorities in the countries aimed at enhancing and facilitating the access of financial services to all segments of the society and enabling them to use and provide all financial products at low costs.

The International Alliance for Financial Inclusion (AFI) established in 2008, which is the first international network to learn from the experience of countries in the field of financial inclusion. It includes 94 developing countries represented in 119 institutions divided between ministries of finance and central banks. The alliance is working on developing the tools used to apply financial inclusion and exchange. technical and practical expertise among member states, assist them in formulating reform policies and strategies, implementation mechanisms, in addition to preparing educational visits in the same field (Alliance for Financial Inclusion, 2019).

The first annual conference of the International Alliance for Financial Inclusion held in Kenya in 2009 and subsequently held in Indonesia, Mexico, South Africa, Malaysia, Trinidad and Tobago, Mozambique, Fiji, Egypt, Guinea, and in Morocco in 2019 (Alliance for Financial Inclusion, 2019).

Great steps made in the direction of enhancing financial inclusion as 1.2 billion adults globally have obtained access to a bank account since 2011, which is the key to the financial inclusion gate. In the year 2018, more than 69% of adults globally have a bank account (Word Bank, 2018). Moving from access to the active account is the following step for countries where more than 80% of the population have accounts (Thailand, China, India, and Kenya) these countries depend on developing private sector innovation, strategic reforms, and a drive to low-cost bank accounts, including digital payments and mobile bank (Word Bank, 2018).

Financial inclusion identified as a Supportive and complementary factor for seven of the seventeen Sustainable Development Goals (United Nations, 2019). The G20 committed improving financial inclusion worldwide and to implement the G20 High-Level Principles for Digital Financial Inclusion (Global Partnership for Financial Inclusion, 2020). The World Bank Group considers financial inclusion is a key enabler to reduce extreme poverty and boost shared prosperity, and has put forward an ambitious global goal to reach Universal Financial Access (UFA) by 2020 (Word Bank, 2018).

The results of the financial inclusion surveys in Palestine in the year 2016 shows that 59% of adults has shortage of adequate financial knowledge, 51% of males have good financial knowledge compared to 31% between females (Abdullah, 2016).

The findings also show that the rate of people’s access to banking services and products of the official financial sector is low, and stands at 36.4%; the remaining percentage includes those who do not utilize official financial services and products. PMA hopes to bring the financial inclusion rate to at least 50% in 2025 as planned in the national financial inclusion strategy in Palestine (Palestine Monetary Authority, 2018).

1.2 Research Objectives

Financial inclusion has two important components: financial access and financial usage (Demirguc-Kunt et al. 2008), remark that ‘access essentially refers to the supply of services, whereas use is determined by demand as well as supply’. The reason that both these components are important to measure is because having access to financial services does not automatically translate into (regular) use. A bank account can serve as an entry point to the formal financial sector and put people on the right path towards financial inclusion, but it does not ensure that they are going down this path (World Bank, 2014).

Financial access is more challenging to establish empirically than financial usage, there have been various studies that have researched the relationships between access to financial services and socio-economic development or poverty alleviation of the rural and poor populations.

Since many people face multiple barriers to the access and use of formal bank accounts, it is expected that tackling only one constraint may not have many positive effects if the other barriers still exist.

The research objectives are:

1- To assess constraints and opportunities that banks may face in achieving the strategic goal of financial inclusion in Palestine based on three angles. The first angle is to look at the Concept of financial inclusion; the second angle focuses on The National Financial Inclusion Strategy in Palestine 2018 – 2025, where the third angle was the Supply-side, demand-side, and objective factors constrains and opportunities. These angles are being analysed against the data from the field research.

2- To investigate how banks can meet the goal of financial inclusion across various strata of society, regions, gender, and income and encourage the public to embrace banking habits.

3- To identify the key issues that banks need to address to achieve the objectives of financial inclusion as a long-term strategy, and what is the opportunities and constraints to achieve these keys.

1.3 Research Problem

The banking sector has become an essential factor in the debate about financial inclusion. Banking services seen as a method to increase financial inclusion through better access to and potentially increase the use of financial services, and potentially diminishing the financial infrastructure gap. This thesis researches the business environment of the main providers of financial services and products to achieve the strategic objective of financial inclusion in Palestine, from banks operating in Palestine point of view.

The importance of the study is that it deals with a vital subject that globally focused on academic and research institutions for a long time and recently in the Palestinian financial market.

Focus on the connection between financial service providers and financial inclusion and clarifies the most important opportunities and constraints facing financial service providers to raise the level of financial inclusion in Palestine. In addition, it contributes to explain ways to improve those opportunities and overcome obstacles, to ensure the promotion of economic development in Palestine. As the study based on an analysis of the main goals and implementation plan of the national strategy for financial inclusion in Palestine.

1.4 Research Questions

The main question of the study is:

(**What are the opportunities and constraints facing the banking sector to achieve the strategic objective of financial inclusion in Palestine?),** and stem from this question several sub-questions:

1. What is the role of Palestinian banks in raising the proportion of financial inclusion?
2. Does financial inclusion have an impact on its strategic success?
3. To what extent does the level of religious commitment and financial culture reflect the strategic plan for the financial inclusion of the banking sector?
4. Does the development of digital software and the use of the Internet and mobile phone drive banks to reduce the cost of banking services and the introduction of new financial products, which enhances the strategy of financial inclusion?

1.5 Significance of the Study

The international evidence shows that access to financial services promotes household welfare, reduces income inequality, encourages small enterprise activities, and promotes real economic growth. This is why the World Bank, for example, has given special attention to the issue of financial services and established the "Global Financial Inclusion Index (Global Findex)" for over 140 countries.

Addressing the imbalance within the formal financial system is an extremely important process to ensure inclusive and sustainable economic growth in terms of the effective participation of the majority of the population in the formal financial system as savers and borrowers. This increases the efficiency of financial intermediation by mobilizing domestic savings and channelling them towards investment and finance, to achieve greater economic growth, to reduce the levels of poverty and unemployment, and to reduce inequalities between different groups of the community.

Given the growth in the volume of various financial services and products, financial exclusion becomes a real obstacle to access to income generation opportunities and to improving economic welfare levels. The problem of financial exclusion among women, youth, and the unemployed in particular.

Chapter 2: Literature Review

2.1 Financial Inclusion Concept

The Center for Financial Inclusion (CFI) defines financial inclusion as "a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. It adds that these services are provided by a range of institutions, mostly private, and reach everyone who can use them, including disabled, poor, and rural populations". (Center for Financial Inclusion, 2020).

According to the World Bank, 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 way" (Word Bank, 2018).

According to a United Nations Report, "financial inclusion is the sustainable provision of affordable financial services that bring the poor into the formal economy" (United Nation, 2016).

"Financial inclusion includes growing the number of poor people that have access to formal financial services mainly through having formal bank accounts, which contributes to poverty reduction and economic growth. With greater financial inclusion, individuals who previously financially excluded will be able to invest in education, save and launch businesses, and this contributes to poverty reduction and economic growth" (Bruhn & Love, 2016).

A comprehensive financial system is applicable, and grant possibilities for all people, youth, women and mainly the poor, to get admission to and pass funds, limit risk, and develop capital. Access for Insurance, remittance, saving, credit, and other banking payment services for all people at a reasonable cost are the main objective for the united nation of comprehensive finance.

G20 decided the three foremost symptoms for financial inclusion for dimension throughout nations. Each essential indicator carries various standards for persons and companies, three key dimensions to measure the financial inclusion:

1. Access to financial services.
2. Usage of services.
3. Quality of products and delivery.

The Basic Set, presented in the table below, captures some elements of access and usage.

Table 2. 1 G20 Basic Financial Inclusion Indicators

	Categories	Indicators	Sources	Dimension
1	Formally banked adults	% of adults with an account at a formal Financial institution. Number of depositors per 1,000 adults OR number of deposit accounts per 1,000 adults (%)	Global Findex IMF FAS	Usage
2	Adults with credit by regulated institutions	% of adults with at least one loan outstanding from a regulated financial Institution. Number of borrowers per 1,000 adults OR number of outstanding loans per 1,000 adults (%).	Global Findex IMF FAS	Usage
3	Formally banked enterprises	% of SMEs with an account at a formal financial Institution. Number of SMEs with deposit accounts/number of deposit accounts OR number of SME depositors/Number of depositors.	Global Findex IMF FAS	Usage
4	Enterprises with outstanding loan or line of credit by regulated institutions	% of SMEs with outstanding loan or line of credit. Number of SMEs with outstanding loans/number of outstanding loans OR number of outstanding loans to SMEs/number of Outstanding loans.	Global Findex IMF FAS	Usage
5	Points of service	Number of branches per 100,000 adults	IMF FAS	Access

Source: http://www.financialinclusion.ps

Financial inclusion is not only the process of ensuring access to financial Services or making available timely and adequate credit when needed by Vulnerable groups, such as weaker sections and low-income groups, at an affordable cost. In our context, definition of financial inclusion is much wider. It is not only providing accessibility of the entire range of financial products and services, it must also be appropriate, it must also be fair and it must be transparent. In that sense, we can say that 95% of the population financially excluded, with most of us not knowing what an appropriate financial product is suitable for us. Therefore, we have to go a long way forward. (Kochhar, 2009).

There are supply side and demand side factors driving Inclusive Growth. Banks and other financial services play an important role from supply side by providing access to basic financial services to the poor and disadvantage social group. Access to financial products is constrained by several factors, which includes lack of awareness about the financial products, unaffordable products, high transaction costs, and products. Which are not convenient, inflexible, not customized and of low quality. Apart from the supply side factors, demand side factors, such as lower income, lower asset holdings also have a significant bearing on inclusive growth. Owing to difficulties in accessing formal sources of credit, poor individuals, small, and microenterprises usually rely on their personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities (Chakrabarty, 2010).

Discussions aiming to define the universe of discourse for financial inclusion are broadening to allow for measures and classifications of inclusion that go beyond access as the determinant of a binary assessment that results in individuals and business simply being in included or not. Most recognize the need for a richer definition; such definitions generally include reference to access, usage and quality about financial services, as illustrated in below (Hansen, 2019).

Figure 2.1 key dimensions to measure the financial inclusion

1	ACCESS	Availability of formal, regulated financial services: Physical proximity Affordability
2	USAGE	Actual usage of financial services and products: Regularity Frequency Duration of time used
3	QUALITY	Products are well tailored to client needs Appropriate segmentation to develop products for all income levels

Source: https://www.un.org/development

2.2 Financial Inclusion Benefit

Financial inclusion has several benefits for poor households. It provides low-income individuals with the possibility to save for the future which fosters stability in personal finance, and a high level of use of bank deposits which contributes to securing a more stable deposit base for banks during distressed times (Han & Melecky, 2014). Greater financial inclusion can also provide poor households with opportunities to build savings, make investments and access credit (Ellis, Lemma, & Rud, 2010). Financial inclusion also enables them to handle income shocks over unforeseen emergencies such as illness or loss of employment (Collins, Morduch, Rutherford, & Ruthven, 2011). Financial inclusion is concerned with the social aspect: this concerns the poor and the low-income by obtaining fair financial products at low prices and thus development their social and economic conditions.

Financial inclusion has positive effects for financial stability by reducing procyclicality risk. A substantial increase in the number of small savers via greater financial inclusion would increase both the size and stability of the deposit base of banks, which would reduce banks dependence on “non-core” financing, which tend to be more volatile during a crisis (Khan, 2011).

There is a close relationship between financial inclusion, economic growth, and financial stability. (Hannig & Jansen, 2010).

Greater levels of financial inclusion can facilitate increased participation by different sectors of the economy in the formal financial system because, as the share of the formal financial sector increases, it strengthens the case for the use of interest rate as a key policy tool for macroeconomic stability, which has positive effects for economic growth (Kharroubi & Cecchetti, 2012). Financial inclusion can be viewed as both a business opportunity and social responsibility when self-help groups and microfinance institutions participate in inclusion programs, because these two agents are important to improve financial inclusion (Dev, 2006). Financial inclusion is key to achieving the Sustainable Development Goals (SDGs), Finance contributes to improving the standard of living, empowering women, financing microenterprises, Reduce poverty and inequality, create jobs, and integrate the informal economy into the formal economy, by formalizing Small and medium-sized enterprises (SMEs) (Consultative Group to Assist the Poor, 2020).

2.3 Principles for Digital Financial Inclusion

Digital technologies offer affordable ways for the financially excluded - the majority of whom are women - to save for school, make a payment, get a small business loan, send a remittance, or buy insurance. In the year 2010, G20 Principles for Innovative Financial Inclusion spurred initial efforts and policy actions. These in the year 2016 high-level principles for digital financial inclusion build on that success by providing a basis for country action plans reflecting country context and national circumstances to leverage the huge potential offered by digital technologies.

Table 2. 2 G20 High Level Principles for Digital Financial Inclusion	
Principle 1	Promote a Digital Approach to Financial Inclusion
Principle 2	Balance Innovation and Risk to Achieve Digital Financial Inclusion
Principle 3	Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion
Principle 4	Expand the Digital Financial Services Infrastructure Ecosystem
Principle 5	Establish Responsible Digital Financial Practices to Protect Consumers
Principle 6	Strengthen Digital and Financial Literacy and Awareness
Principle 7	Facilitate Customer Identification for Digital Financial Services
Principle 8	Track Digital Financial Inclusion Progress
Source: G20 High-Level Principles for Digital Financial Inclusion, Communiqué of the G20 Finance Ministers and Central Bank Governors Meeting 23–24 July 2016, Chengdu, China.	

These eight principles based on the rich experience reflected in G20 and international standard-setting bodies' standards and guidance. They also recognize the need to support innovation while managing risk and encouraging development of digital financial products and services (Sun, 2016).

2.4 Key Approaches to Accelerate Financial Inclusion

As World Bank staff working on financial inclusion, our days revolve around a critical question: what are the most promising ways to improve access to and usage of appropriate financial products for the underserved? A big part of their job is to track the wide range of experiences and learnings from around the world and incorporate them into their work advising policymakers and regulators.

They thought it would be useful to share their current thinking, distilled into a list of the top eight approaches to accelerate financial inclusion. This list is from a policymaker perspective, and takes into account the fact that policymakers play a multi-faceted role in financial inclusion, balancing promotion, protection and stability (Randall & Chien, 2017).

1. Foster a diversity of financial institutions.

2. Facilitate the use of innovative technologies and entry of technology-driven, non-traditional institutions. No country better illustrates what can be achieved by innovative approaches that driven by non-traditional players, such as Alibaba in China (an e-commerce company) and Tencent (a social networking platform).
3. Expand agent-based banking and other cost-effective delivery channels. Relying solely on brick-and-mortar branches has long recognized as a key obstacle to financial inclusion.
4. Invest in supervision and leverage technology to optimize limited resources. A financial sector that not well supervised from a prudential or market conduct point of view is unlikely to be inclusive, an approach often referred to as “Regtech.”
5. Implement risk-based, tiered AML/CFT requirements. According to the World Bank’s Global Findex, over 300 million adults worldwide cite excessive documentation as a major obstacle to opening an account.
6. Encourage the development of low-cost, innovative financial products, and promote customer-centric product design that overcomes behavioural barriers and increases utility.
7. Strengthen financial infrastructure. Expanding credit reporting systems and collateral registries (including for movables) and improving the efficiency and accessibility of retail payments systems can increase access to financial services.

2.5 Financial Inclusion in Palestine

Financial inclusion received a serious beating in Palestine when the Israeli occupation authorities locked the banks directly after the occupation of the West Bank and Gaza on the year 1967 and bounded development and investment in all finance sectors. This denied the Palestinians and their economy the access to financial services and products for more than 25 years. Therefore, when the Palestinian Authority created, the financial sector had already suffered a large multi-dimensional gap: the deficiency of an appropriate legal and regulatory framework; shortage of banking human experience and resources; and poor public knowledge of financial products and services, which have witnessed a breakthrough with the scientific and technological revolution in the 1970s (Palestine Monetary Authority, 2016).

The Palestine Monetary Authority and the Capital Market Authority established in 1995 and 2004, respectively. Soon after the establishment of the PA, the Legislative Council created the Monetary Authority Law, the Banks Law, the Capital Market Authority Law and the Insurance Law. In 1996, the PA established the Palestinian Financial Market as a private company; and it granted licenses to several insurance, brokerage, lending, money exchange, mortgage and lease financing companies (Palestine Monetary Authority, 2016).

Palestine’s financial sector has made important strides during the past two decades, which enabled it to bridge the multi-dimensional gap built up between 1967 and 1994. However, the macroeconomic expectations of the government and its partners are still higher than the achievements made so far.

The stakeholders[1] believe that there is still much to be done to make financial inclusion a lever for the prosperity of vulnerable areas and poor segments, particularly women and youth. Therefore, and owing to the growing need for raising the awareness of consumers who have the right to simply access to financial services, the Palestine Monetary Authority and the Capital Market Authority have taken some measures to achieve and improve financial inclusion.

[1] The Steering Committee was established in 2014 and chaired by the PMA and the PCMA. The membership includes the Palestine Banking Association, the Ministry of Education and Higher Education, the Banking Services Consumer Society, the Palestinian Network for Small and Microfinance “Sharakeh”, the United Nations Relief and Works Agency, Palestine Exchange, The Palestine Union of Securities Trading Companies, the Palestinian Insurance Federation and Ministry of Social Development.

The initiatives have helped the Palestinian Authority transfer from crumb programs into a national strategy for financial inclusion. The strategy is a joint effort by all parties driven by a mutual goal and integrated concrete programs that can react to the priorities and needs (Abdullah, 2016).

The action based on an understanding of the local context and the ability to capitalize on best experiences of countries, which have built and implemented successful financial inclusion models inspired by the G20 development agenda. The good practice principles adopted by the Alliance for Financial Inclusion (AFI) and the World Bank, in addition to the elementary values for building a national financial literacy strategy informed by the guidelines of the Organization for Economic Co-operation and Development (OECD) (Abdullah, 2016).

Palestinian Monetary Authority has start cooperative with the Global Alliance for Financial Inclusion (AFI) in the year 2009, and announced its commitment to the Maya Declaration in the year 2012 in South Africa. Further achievements include the environment development of the legal status for the banks operation and specialized lending institutions. In addition, the PMA known for its excellent execution of financial awareness campaigns, particularly concerning the Child and Youth Banking Week, for which it obtained the 2013 Global Money Week Award for organizing the best financial and banking awareness-raising event in the Middle East. The PMA launched a campaign in the year 2012 to embolden adults including among low-income beneficiaries to open a basic account (the Basic Account Campaign), which concluded in opening 80,000 new bank accounts (Abdullah, 2016).

During the past few years, the PMA faced clear challenges in maintaining the stability and soundness of Palestine's banking system by employing macro prudential tools for crisis management and safeguarding the development of the financial system infrastructure. It has also carried out various and extensive projects, even with administrative and financial resource scarcity. These projects include the Palestine National Payment System, the Large-

Value Payment System, the Credit scoring and Registry System, the Bounced Checks System, the International Banking Account Number (IBAN) system, the Public Key Infrastructure (PKI), and, recently, the Automated Clearing System. The PMA has recently launched the National Switch System, which will promote the culture of bankcards, particularly the 194 National ATM card, in order to reduce the use of banknotes and facilitate liquidity, for establishments and individuals alike, through point of sale terminals and ATMs anywhere in the country, and at any time. As for the Capital Market Authority, the most prominent achievement was the enforcement of the provisions of the financial leasing law, the financial education program in the Palestinian academic institutions, the awareness campaign "Your right as a shareholder", and the electronic awareness campaign on the Authority's website. In addition to the technical assistance project for the development of the securities sector (phase III), the insurance sector development project and the Islamic financing project, which aims to develop the necessary legal and supervisory frameworks to oversee financing instruments and oversee Islamic financing tools in Palestine (Abdullah, 2016).

As part of the PMA great attention to financial inclusion, the National Financial Inclusion Strategy (2018-2025) launched in December 2018, after it approved (with the composition of the National Committee for Financial Inclusion) from the Palestinian Cabinet in 2018. The launch of the strategy came after a three-year effort during which the document was prepared in accordance with relevant international practices and standards, funded by the Global Financial Inclusion Alliance (AFI) and technical support from the GIZ. It is worth mentioning that Palestine ranks second after Jordan in the launch of the National Strategy for Financial Inclusion, since the establishment of the Arab region financial inclusion initiative by GIZ, the Arab Monetary Fund, and the Global Financial Inclusion Alliance (AFI) at the Global Policy Forum in Egypt 2017.

To implement this strategy, the National Financial Inclusion Committee formed by a decision of the Cabinet, headed by PMA and Palestine Capital Market Authority (PCMA). The National Committee approved the formation of a technical committee for financial inclusion at its first meeting in May 2018 to chair jointly by PMA and PCMA.

Based on the World Bank estimation results in the year 2017, financial inclusion in west bank and Gaza is equal to (25.0 %). More disappointing is the fact that financial inclusion amongst females and males are equal to (15.9 %) and (34.4 %) respectively. The currently existing (25.0 %) of inclusion is much lower than those, which exist in, for example, Finland (100 %), Israel (92.8 %), Bahrain (82.6 %), Saudi Arabia (71.6 %), and Turkey (69.6 %). In fact, this low proportion is close to only those in Egypt (32.8 %). Moreover, less than in Jordan (42.5 %). The relatively low financial inclusion in west bank and Gaza is very discouraging (Demirgüç-Kunt et al., 2018).

The results of the comprehensive field survey of financial inclusion in Palestine showed that the percentage of financial coverage in Palestine is 36.4 % (The World Bank data should be conservatively preserved and not compared with the study results because the research methodology is different) of the total adult population; about 892,000 adult citizens are financially covered. Which is a sign of the existence of potential opportunities for growth in the demand for financial products and indicators that this demand has not reached the stage of saturation and that the main objective of the strategy is to raise this ratio to a minimum of 50% by the end of the year 2025. The Council the Palestinian Ministers approve that strategy and the implementation of that plan started at the end of 2018 because of their important role in achieving financial stability and improving living standards and promoting social development.

Financial inclusion indicators as show in the below table reflect the development of the development in the banking sector in Palestine in the period between the year 2014 and 2018, the number of branching increased around 26% during five years. Accordingly, the number of deposit accounts increased by 20% for the same period. Customer deposits increased by 26%, while credit portfolio increased by 42%.

Table 2. 3 Financial inclusion indicators in Palestine, 2014-2018

Items	**2014**	**2015**	**2016**	**2017**	**2018**
Branches & Offices (number)	258	274	309	337	351
Deposit accounts (number)	2,766,635	2,940,575	3,072,923	3,208,783	3,471,849
Customer deposits (USD million)	**8,935.3**	**9,654.6**	**10,604.7**	**11,982.5**	**12,227.3**
Personals	6,468.9	6,805.9	7,341.0	8,316.1	9,065.4
Corporates	1,681.2	2,192.8	2,590.1	2,536.6	2,556.2
Public sector	785.2	655.8	673.5	736.2	605.7
Credit Portfolios (USD million)	**4,895.1**	**5,824.7**	**6,871.9**	**8,026.0**	**8,432.3**
Personals	2,052.0	2,539.5	2,731.6	3,206.2	3,345.7
Corporates	1,603.3	1,829.1	2,721.5	3,343.7	3,769.8
Public sector	1,239.8	1,456.1	1,418.8	1,476.0	1,316.8
ATM's machines (number)	549	592	622	644	690
Point of sales (number)	5,579	5,987	6253	5,579	5,660
Credit cards (number)	70,029	82,830	118,076	98,041	103,057
Debt cards (number)	419,676	466,789	547,019	695,120	816,329
ATM withdrawal cards (number)	163,074	189,414	165,763	132,772	114,966

Source: Palestine Monetary Authority (PMA), Annual Report 2018

Other indicators of financial inclusion organized by product type, customer segment, and method of access. A selection of the most important indicators presented in the following table. "Demand" indicators sourced from customer surveys, while financial institutions generate "supply" indicators.

Table 2. 4 Core indicators of financial inclusion in Palestine

Deposits and savings	**Value**	**Source**
Has bank account	22.7%	Demand
Has bank account (females)	15.4%	Demand
Has bank account (males)	42.1%	Demand
Has bank account (residents of refugee camps)	3.6%	Demand
Has bank account (residents of rural areas)	4.2%	Demand
Lack of financial capability	59%	Demand
Lack of financial capability (females)	68.8%	Demand
Lack of financial capability (males)	49%	Demand
Information about financial services and products from relatives and friends	37%	Demand
Relied on the information available at the branch of the financial institution.	16.6%	Demand
Has savings account	9.2%	Demand
Has debit card	34%	Demand
Has internet shopping card	0.03%	Demand
Bank deposit accounts	1.1%	Supply
Has Internet Banking	6.2%	Supply
Credit	**Value**	**Source**
Abstain from taking loans for religious reasons	31%	Demand
do not have a bank account because of their religious beliefs	13.9%	Demand
Borrowed (obtained loans from any source)	20.8%	Demand
Borrowed from financial institution	42.8%	Demand
Borrowed from the informal sector	57.2%	Demand
Borrowed from MFI	2.9%	Demand
Has credit card	4.4%	Demand
Outstanding bank loans	5.1%	Supply

Source: the results of the survey of the adult population (18 years and over) prepared specifically to measure financial inclusion in the occupied state of Palestine in October 2015- MAS.

In view of the importance of studying the opportunities and constraints to achieve the strategic objective of financial inclusion in Palestine, the banking sector in Palestine have been selected to evaluate this since they are the largest player in the provision of financial services in the Palestinian society.

2.6 Palestine Banking Institution 2018

As per Palestine Monetary Authority (PMA), Annual Report 2018, the analysis of the financial statements for the banking sector (as at the end of 2018) showed that total assets in the banking sector increased by 1.7% to USD (16,124.9 million). The direct credit facility portfolio also increased by about 5.1% to reach about USD (8,432.3 million), or 52.3% of the total assets of the banking system (Association of Banks in Palestine, 2018). This is a sign of greater activation of the role of financial intermediation between deficit and surplus units in the local economy, providing more contributing to the economic development process and financing opportunities and financial inclusion. It may be difficult to achieve financial inclusion without stability in the financial system.

The operated banks in Palestine as per the below table:

Table 2. 5 The operated banks in Palestine

		Year of Establishment	Number of branches and offices	Number of ATMs
	Local Banks			
1	Bank of Palestine P.L.C	1960	94	217
2	Palestine Investment Bank	1995	18	23
3	Al Quds Bank	1995	40	70
4	Arab Islamic Bank	1996	22	54
5	Palestine Islamic bank	1997	43	79
6	The National Bank	2006	62	117
7	Safa Bank	2016	6	6
	Foreign Banks			
1	Cairo Amman Bank	1986	21	47
2	Arab Bank	1994	31	107
3	Bank of Jordan	1994	18	41
4	Egyptian Arab Land Bank	1994	7	8
5	Jordan Commercial Bank	1994	5	5
6	Jordan Ahli Bank	1995	9	16
7	Housing Bank for Trade and Finance	1995	15	33

Source: Association of Banks Palestine, Fact Sheet 2018

The providers of financial products and services also expect the strategy to incorporate improvements that can enhance the internal and external business environment, which can be possible through enhancing strengths, reducing weaknesses, helping in seizing opportunities and meeting the external challenges to growth.

(Abdullah, 2016) Evaluating the Palestinian banking sector using SWOT analysis, the main strengths factors was the Improvement of the capacities of the Monetary Authority as a supervisory and regulatory body and the Development of the legal framework, physical infrastructure and institutional infrastructure for better financial inclusion. On the other hand, the main weaknesses were the absence of national currency and Relying heavily on paperwork. While the main threats were Political instability, Restrictions on Jerusalem and Area C, Weak financial literacy, and Poor electronic services. However, the main opportunities for the banking sector was the new Islamic banks products and services, the chance for Improved digital software and effective Internet spread, and the Expansion and spread in villages and refugee camps.

The SWOT analysis for the banking sector shows the strengths factors in the banking financial market, those factors will be the foundations for the opportunities to increase the financial inclusion percentage. On the other hand, weaknesses and threats will be the main constrains facing the development that leads to financial inclusion growth.

2.7 National Strategy for Financial Inclusion in Palestine 2018 – 2025

In the year 2010, Palestine represented through Palestine Monetary Authority (PMA) become a member of the Alliance for Financial Inclusion (AFI) obtaining advantage from world experience in figuring out the significance of advancing financial inclusion. PMA made a dedication to the Maya Declaration to formulate a National Financial Inclusion Strategy in Palestine. Financial inclusion has come to the lead of the improved financial services coverage and reform agenda in Palestine lately. Several reforms added in the economic zone to grow financial inclusion. Such measures have embraced financial knowledge and education, enhancements in financial infrastructure, and the legal and regulatory framework, financial consumer safety and protection as properly as the reform of the microfinance service providers.

Subsequent to the Maya Declaration, PMA signed an agreement for joint management with the Palestine Capital Markets Authority (PCMA) for the components of the proposed NFIS, which will cover the duration of the years 2018 - 2025, and created a National Steering Committee (NSC) to oversee the methodology of the strategy. The National Financial Inclusion Strategy (NFIS) demonstrates the company, accelerated willpower of Palestine's economic policymakers and stakeholders to strategy the troubles of financial inclusion in a greater systematic manner, and fulfils PMA’s Maya dedication (Palestine Monetary Authority, 2019).

1. Strategy Vision

The vision of the NFIS is to achieve “a developed financial sector that fully meets the financial needs of all segments of the Palestinian society to improve their welfare”.

2. Financial inclusion definition

For the determination of the NFIS, financial inclusion defined as “Enhancing access to, and use of, financial products and services by all segments of the society via formal channels, while meeting their needs in a timely and affordable manner, protecting their rights and promoting their financial knowledge to enable them to make well-informed financial decisions.”

3. The Study of Financial inclusion in Palestine, 2016.

In order to verify the status of financial inclusion in Palestine, a complete study carried out in the year 2016 primarily based on supply and demand aspect survey records. Findings published that financial inclusion used to be low at 36.4% for the whole adult above 18 years old population, which is equal to 898,732 financially covered adults. Thus, a massive majority continue financially excluded.

4. <u>Constraints on financial inclusion</u>

As per NFIS, “there are internal and external constraints for financial inclusion in Palestine. The internal constraints include supply-side and demand-side constraints that affect both access to and/ or usage of financial products and services and the quality of financial products and services in the market.”

The core supply-side limitations include high business budgets of providing the products services, and insufficient legal outline within which the financial service provider are required to operate. The demand-side limitations in the ability of people and companies to access offered services and products. These contain socio-economic and social factors and religious views, extremely low levels of financial knowledge, and the low level of awareness on financial consumer rights.

The external limitations are these out control of the authorities worried on financial inclusion in Palestine. The principal exterior challenge is the Israeli occupation and the borders imposed by way of the Israeli authorities on the free movement of Palestine human beings and trade. Rigidly enforced Anti-Money Laundering and Countering Financing of Terrorism (AML-CFT) requests are additionally phase of the exterior restraints.

Demand aspect constraints are the constraints that stop human beings from getting admission to and use of handy financial products and services. The comprehensive study of financial inclusion confirmed that a massive share of adults is nevertheless unable or unwilling to use financial products and offerings for a range of reasons.

The demand-side constraints consist of Lack of financial awareness, knowledge, and capabilities limit the potential of a considerable majority of adults to discover their financial needs and make prudent financial choices excellent for situations of their life. Both poverty and unemployment viewed amongst the most necessary constraints on getting entry to and utilization of financial products and services in addition to religious thoughts.

Supply-side constraints additionally play an essential function in limiting financial inclusion. Such constraints encompass insufficient legal and regulatory framework, excessive transaction expenses of imparting offerings to sure areas, and populace segments. Policymakers have made an effort to enhance the legal and regulatory framework for financial inclusion in the latest years. Lack of technological infrastructure limits the use of technology to get admission to and utilization of and provision of financial products and services. The survey confirmed that 20.8% of adults have acquired loans and 57.2% of these with outstanding loans have acquired them from the casual sector, whereas only 42.8% of these with loans used banks or MFIs for their loans.

Another significant constraint on financial inclusion is the mismatch between the supply of and demand for financial products and services.

2.8 Prior Research

Al-Shammari (2018) discussed the impact of Financial Inclusion on achieving strategic success of service Organizations. In light of the rapid developments in the world of information technology, this prompted banks to think and make in-depth studies on how to satisfy customers and meet their needs within the social, economic and strategic axes. The researcher has conducted a detailed analysis of these factors in the light of the answers obtained for the study sample represented by the private banking sector in Iraq.

Al-Shammari (2018) study reached a number of conclusions, perhaps the most important of which is a relationship between the axes of financial inclusion and the strategic successes of banks. The study came out with a number of recommendations, perhaps the most important of which is the need to increase cultural awareness of workforces in the banking sector and work to rehabilitate and develop them to work on modern means of providing services. In addition, the role of the Banking Department in studying the internal and external environments in a way that guarantees them to draw up their plans in a way that is compatible with environmental changes. The results of the analysis showed that there are a set of clear relationships in the results of the three axes (social, economic, strategic) of financial inclusion and between the strategic success represented by its four dimensions (survival in the field of work, adaptation and response, growth, continuing education).

Ozili (2018) investigated the Impact of Digital Finance on Financial Inclusion and Stability, the process of digital financial inclusion begins with the assumption that the excluded and/or underserved population have some sort of formal bank accounts and need digital access to enable them to carry out basic financial transactions remotely. If the excluded and underserved population understand and can persuaded about the intended benefits of digital financial inclusion, an effective digital financial inclusion program should be suited to meet the needs of the excluded and underserved population, and should be delivered responsibly at a cost that is sustainable to providers and affordable to customers.

Ozili (2018) discussed the term ‘Fintech’ denotes ‘financial technology’ and defined as the delivery of financial and banking services through modern technological innovation led by computer programs and algorithms. If the excluded population have a mobile phone and affordable internet connectivity, greater supply of digital finance predicted to have positive effects for financial Inclusion, all other things being equal; implying a positive correlation between the use of digital finance and access to formal financial services. On the other hand, digital finance can have negative effects for financial inclusion, Providers of digital finance services are profit seeking corporations that use digital finance to maximise their profitability or to maximise the profitable opportunities of businesses affiliated with digital finance providers namely banks, financial and non-financial institutions.

Ozili (2018) concluded that financial inclusion could lead to greater digital finance usage, because greater financial inclusion would increase a bank account holder's awareness of new and existing digital finance platforms, which they can use for their own convenience. Greater financial inclusion can lead to greater digital finance if increasing the number of poor or low-income individuals that have a saving or checking account at a formal banking institution makes it easier for banks to inform or persuade new and existing accountholders about available digital finance products and services, which they can use for their own convenience. When this is the case, greater financial inclusion (proxy by increase in number of bank account holders) will lead to greater usage of digital finance.

Abdullah (2016) investigated in financial inclusion for the first time in Palestine, the investigation aims to arrive at detailed proposals and recommendations based on facts and evidence for the preparation of a financial inclusion strategy by the Palestinian Monetary

Authority and the Palestinian Capital Market Authority, and their partners in banking and non-banking financial service providers in Palestine.

Abdullah (2016) study also reviewed an integrated database of all indicators of financial inclusion in the State of Palestine, which was collected through the demand side survey of a representative sample of the adult population (18 years and above) and the supply side surveys of companies and institutions providing financial products and services. The comprehensive information base will form the basis for measuring the subsequent progress in following up the development of financial inclusion indicators in subsequent years to compare them with other countries as well.

The supply-side survey showed that providers of financial products and services have a positive perception of the efforts made by the regulatory authorities. They believe such efforts have a positive role in expanding the market, increasing the profits and widening the clientele base. The providers are thus willing to contribute to those efforts within the framework of the national strategy for financial inclusion.

Abdullah (2016) identified a set of the most important general needs through this survey, as the Completing the efforts of building the legal framework, Enhancing the effectiveness of the judicial system for better enforcement of financial contracts, improving financial literacy among the population, the development of financial inclusion in the Gaza Strip, and encouraging service providers to open more branches there.

Chehade et al. (2017) identified ways to improve financial inclusion in the Arab world. The working paper focused on the Low levels of financial inclusion in the region as the result of unserved demand, in the absence of a suitable formal offer, and the necessary to Detailed and accurate data to identify priorities and measure progress.

Chehade et al. (2017) concluded that the weakness of financial inclusion indicators in the Arab world is not because of lower demand for financial services. On the contrary, the region shows equal or higher financial activity, but lower outreach of formal financial services, be it for account ownership or for credit. The Improvements in financial inclusion indicators will come only from significant changes in the actual outreach of formal financial services, which in turn require changes in the financial sector architecture. However, enhancing financial inclusion cannot go without also analysing the legal and regulatory framework, as financial regulators and supervisors have a critical say in expanding financial inclusion opportunities while overseeing market conduct.

Abu Daya (2016) identifying the role of banking spread and financial inclusion in the Palestinian economy during the period (1995 - 2014). This is by reviewing the concept of financial inclusion, its importance and its objectives, in addition to learning about the world bodies to establish standards of financial inclusion. Then it analyses the role of banking system in achieving financial inclusion in Palestine, and identifies its level compared to some neighbouring countries. It also discusses the challenges and opportunities it faces in Palestine and ways to improve the force of financial and banking services to all segments of society, and it demonstrates the impact of financial inclusion on the Palestinian economic activity as will.

Abu Daya (2016) concluded a set of important results mainly, a positive relationship between the banking branching and spread of the financial and banking services to all segments of society. Finally, the study recommended the necessity of creating financial services that should presented without bank branches. To improving chance for the poor people to get financial services, increasing the interest of spreading bank awareness and defining the financial products. In addition, giving advice to its agents of money management, debts, savings and credit in an effective way, as well as encouraging the geographical distribution for banks especially in rural and remote areas, to facilitate the delivery of banking services to the excluded groups

Ben Naceur et al. (2015) analysed the existing country-level information on the relationship between the development of Islamic banking and financial inclusion. In Muslim countries- members of the Organization for Islamic Cooperation (OIC) - various indicators of financial inclusion tend to be lower, and the share of excluded individuals citing religious reasons for not using bank accounts is noticeably greater than in other countries; Islamic banking would therefore seem to be an effective avenue for financial inclusion. However, that although physical access to financial services has grown more rapidly in the OIC countries, the use of these services has not increased as quickly. Moreover, regression analysis shows evidence of a positive link to credit to households and to firms for financing investment, but this empirical link remains tentative and relatively weak. The paper explores reasons that this might be the case and suggests several recommendations to enhance the ability of Islamic banking to promote financial inclusion. Worldwide financial exclusion for religious reasons seems relatively small, but the share varies notably across countries and can be particularly high in certain Muslim countries.

Ben Naceur et al. (2015) provides the empirical results for a possible link between the presence and activity of Islamic banking and financial inclusion, across a wide array of measures of both.

The results present a mixed picture of Islamic banking and financial inclusion. A first pass of the data suggested that, though physical access to financial services has increased more rapidly in OIC countries, it seemed to be the case that OIC countries in recent years are still less financially inclusive than the rest of the world, in part because of religious self-exclusion. On the other hand, the Islamic banking OIC countries seemed to have slightly higher levels of inclusion, suggesting that religious self-exclusion mitigated to some extent.

Ben Naceur et al. (2015) concludes that no significant impact of Islamic banking; nor did they find significant differences between OIC countries and others

Shihadeh & Wang (2015) highlighted on the reality of the financial inclusion in Palestine through discussing the adopted policies and instructions, by the financial authorities and financial services companies. They used secondary data, which collected from differed sources to analyse, discuss the financial inclusion indicators, and compare it with some countries in the area. A “stock market “was added as a new factor to the financial inclusion indicators (Access, usage, and quality) which was determined by Group 20. The study found that financial inclusion indicators improved since Palestine has joined to the Alliance for Financial Inclusion in addition to the improvement in the infrastructure. However, using the financial services are still limited specially the credit, and need more efforts to improve it. In addition, some countries in the area has good financial inclusion indicators because of political stability. The writers focused on the main obstacle in Palestine is the lack of political and economic stability, leading to the reluctance of individuals and institutions to borrow or utilize funding sources.

The financial leasing and mortgage sector contribution in the financial inclusion is still poor. Up until this research, there are no special laws to regulate the mortgage finance sector; instead, it replaced by a set of instructions that is intended to assist the development of the sector. These sectors made up of fewer companies due to the lack of law guaranteeing protection.

Furthermore, the lack of an integrated geographic correlation in the Palestinian territories weakens the process of achieving financial inclusion and hampering the stability of economic growth rates. In order to remove the obstacles of achievement the financial inclusion, government institutions should continue with their program of financial awareness, due to its significant impact on the promotion of financial inclusion. Furthermore, the prices of Internet access via mobiles should reduce, and financial apps should license and encouraged in order to encourage consumers to utilize electronic methods. This will prove to be a catalyst that will encourage financial lending institutions and banks to provide banking facilities at favourable terms for small businesses. This also involves promoting Islamic finance, development, and marketing of new financial products and effective services to ensure their perpetual use.

Donovan (2012) evaluated the benefits and potential impact of mobile money, especially for promoting financial inclusion in the developing world, before providing an overview of the key factors driving the growth of mobile money services. It also considers some of the barriers and obstacles hindering their deployment. Finally, it identifies emerging issues that the industry will face over the coming years. Since mobile money is often linked to financial inclusion, it is vital to understand how and under what conditions mobile money applications can extend financial services to the poor. Support for mobile money initiatives from governments, nongovernmental organizations, and the international development community needs to be justified by assessing the impact on development goals such as financial inclusion, poverty reduction, increased productivity, and risk management. Improving the ability of the poor to transfer money is certainly beneficial, but in isolation, mobile transfer services do not capture the full potential of mobile money to enhance financial inclusion. Early studies of South African mobile money found that while it had the potential to advance financial inclusion, it had not increased access to banking, especially compared with non-technological efforts, such as a particular type of bank account designed especially for the poor.

Littlefield et al. (2006) answered a question that the international community, both public and private, could contribute to achieving the greatest possible increase in access to financial services for people with underserved services. Four trends identified that would help Access to, or damage to, financial resources: wireless technology, active governments, new international actors and international systems; extreme scenarios have developed for each of these trends and their implications for strengthening the international community's access to financial resources. To accelerate the use of mobile phones and other technologies in the provision of financial services, increase the access of the poor to such innovations, the participation of governments in increasing credit to individuals, the harmonization of the poverty agenda and the availability of opportunities, and between the security agenda and the Financial Stability Agenda.

Chapter 3: Methodology

3.1 Research Design

The methodology of this research depends on the purposive sample technique; the sample includes participants represented six banks out of fourteen banks operating in Palestine; four of them are commercial banks (two local banks and two foreign banks) and two Islamic banks, which cover all banks types, registrations, and widespread branch network in Palestine.

The purposive sampling technique, also called judgment sampling, is the deliberate choice of a participant due to the qualities the participant possesses. It is a non-random technique that does not need underlying theories or a set number of participants. Simply put, the researcher decides what needs to be known and sets out to find people who can and are willing to provide the information by virtue of knowledge or experience (Bernard, 2002). It is typically used in qualitative research to identify and select the information-rich cases for the most proper utilization of available resources (Patton, 2002).

Usually, the sample investigated is quite small, especially when compared with probability sampling techniques (Oliver, 2015).

The research design is qualitative nonrandom sampling frame; the sample includes the high-level business executives from certain banks departments related to the research subject. The related departments are:

- Strategic planning.
- Risk.
- Retail and MSME banking.
- Corporate banking.

- Branches managements.
- Marketing.

The data collected by conducting interviews, technology tools, and phone calls to fill the answers of the survey with the targeted participant. The sample size is 60 surveys to cover the related departments in the targeted banks.

3.2 Research limitations

There are three major limitations to the study:

- Sample size: Due to the nature of the research questions, the number of eligible respondents was very limited. Moreover, access to the sample in each selected bank required a great effort of coordination, and in some cases, some of the participants apologized for answering the survey due to the lack of comprehensive knowledge of the subject.
- The national strategy for financial inclusion (2018-2025) was a relatively recent release, and there are no issued reports about the progress of the related action plan.
- The research depends and limited on banks' point of view as the major player in the financial market sector, other important players as the microfinance sector not discussed, and left for future investigations.

3.3 Participants

The branches, offices, and ATMs of selected banks represent around 65% of total banks and offices of the operated banks in Palestine. Divided by type and registration category, as per the below table.

Table 3. 1 The targeted banks for survey			
		Number of branches and offices	Number of ATMs
	Local commercial Banks		
1	Bank of Palestine P.L.C	94	217
2	The National Bank	62	117
	Foreign Banks		
1	Cairo Amman Bank	21	47
2	Arab Bank	31	107
	Islamic bank		
1	Palestine Islamic bank	43	79
2	Safa Bank	6	6
Source: Association of Banks Palestine, Fact Sheet 2018.			

The 60 surveys distributed to the eight banks targeted the related departments; 44 surveys successfully completed and received, as per the below table.

Table 3. 2 Surveys distribution			
		Number of Distributed surveys	Successfully Received surveys
1	Bank of Palestine P.L.C	11	6
2	The National Bank	10	5
3	Cairo Amman Bank	11	9
4	Arab Bank	10	9
5	Palestine Islamic bank	11	8
6	Safa Bank	7	7
	Total	60	44

3.4 Survey

The survey questions reflect the exploration of the national strategy for financial inclusion in Palestine (2018-2025) and analysis of previous studies about the opportunities and constraints to achieve the strategic objective of financial inclusion in Palestine, the survey divided into four sections, in addition to general information about the bank represented by the participant. Survey templet in appendix A.

1- The first section contains two questions about the concept of financial inclusion, to measure the reach of the message of financial inclusion to banks as a concept, using the definition of the Palestinian Monetary Authority and the World Bank. Concerning the differences between them to focus on the participant's opinion in informal financial channels and their impact on raising the proportion of financial inclusion in Palestine.

2- The second section contains three questions about the National Financial Inclusion Strategy in Palestine 2018 - 2025, which is the official plan to raise the percentage of financial inclusion in Palestine during the years 2018-2025. the strategy carried several goals and implementation plans to achieve the strategic goals and the way to measure it, the aim of this section of the survey is to measure the extent of the banks ’strategic interest in implementing the plan and the extent Applicability on the ground.

3- The third section contains three questions about the constraints that banks may face in achieving the strategic goal of financial inclusion in Palestine; these obstacles were summarizing in three groups according to our review of the strategic plan for financial inclusion and previous studies in this field. As each group resulted in several obstacles. This section aims to arrange these obstacles in terms of importance from the participant's point of view.

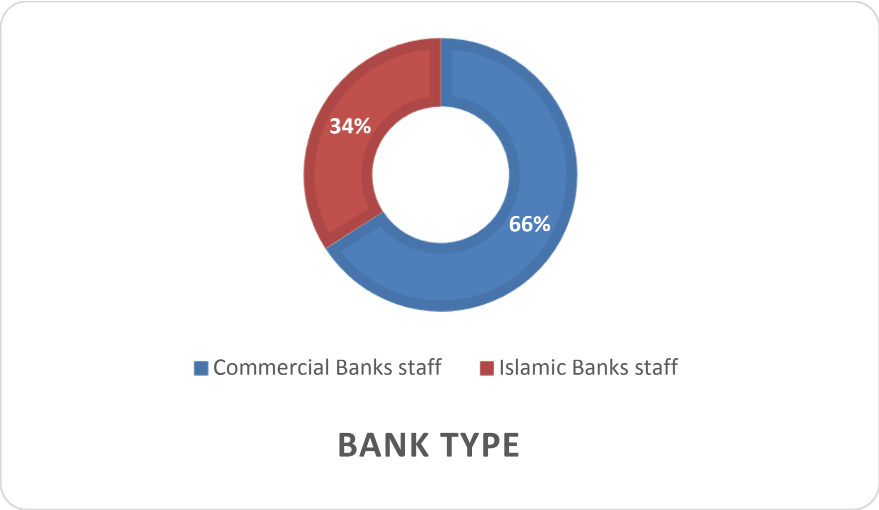
4- The fourth section contains ten questions about the opportunities presented by the strategic objective of financial inclusion in Palestine for banks. The questions measured the opportunity to Islamic banks comparing to commercial banks, the role of financial awareness programs, the universities and service provider cadres adequate to reinforce the opportunities, electronic banking services, branching…

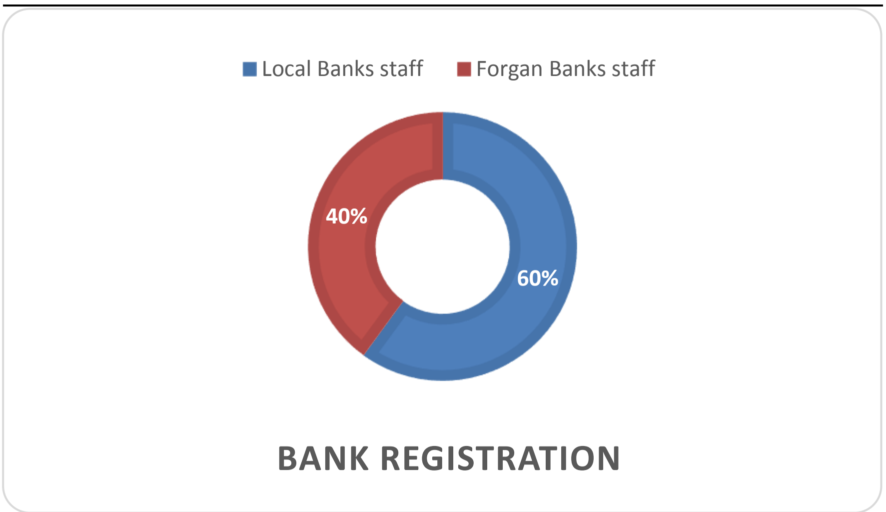
Chapter 4: Results and Analysis

This chapter will discuss, interpret and evaluate the results with reference to the literature and previews research. Survey result in appendix B.

- **General information about the banks participated in the survey**

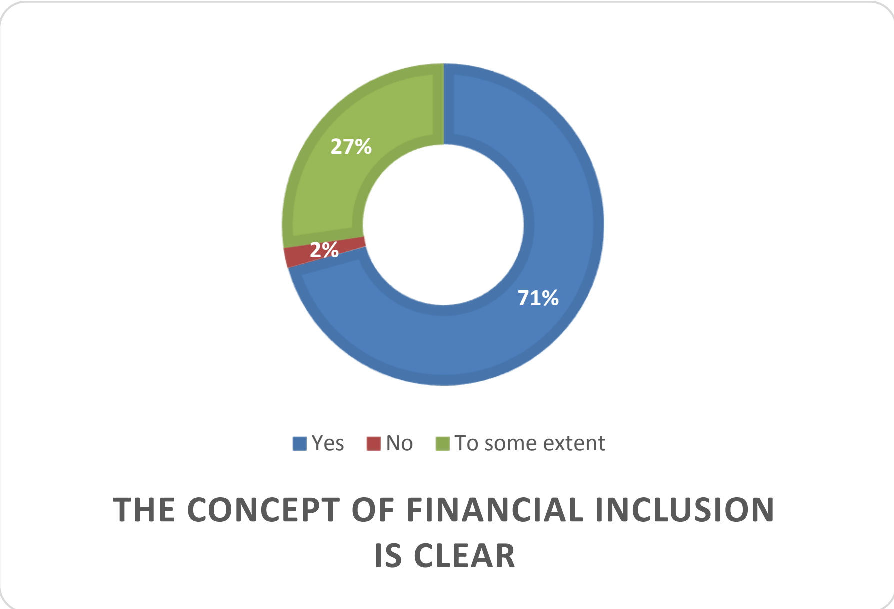
The purposive sample includes 44 participate; they answer all survey questions from 6 banks, 60% from local banks, and 34% from Islamic banks. 84% of these banks has more than 20 branches and ATMs.





- **<u>Section one: The concept of financial inclusion</u>**

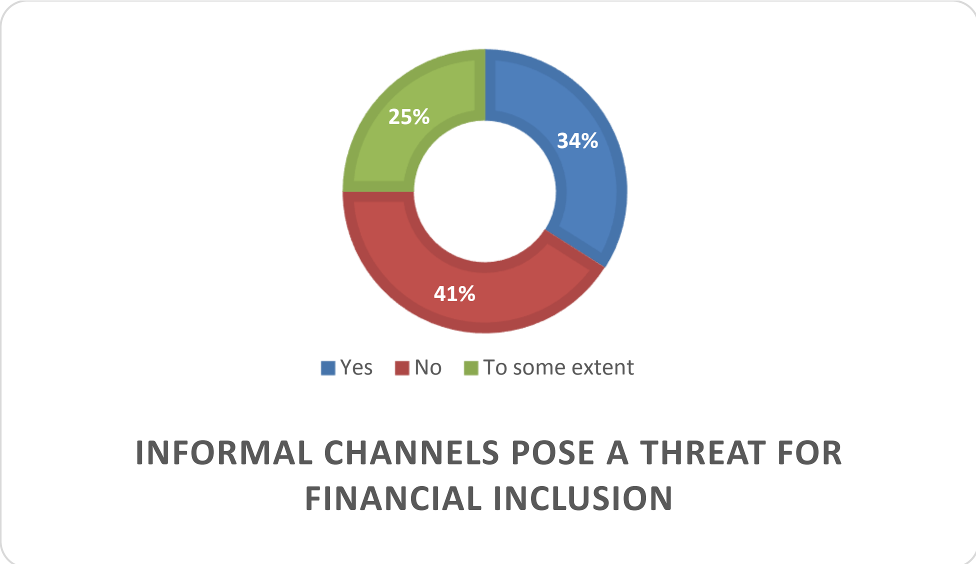
1. The first question in this section about the concept of financial inclusion, the concept was clear to most of the participants; the survey shows that 71% of the participants are aware of the definition of financial inclusion. On the other hand, the survey shows that 27% of the participants are partially aware of the financial inclusion definition, and they attribute that for the lack of awareness programs about financial inclusion inside banks, in addition to not imposing clear applications and instructions from PMA to banks, except for the implementation of financial inclusion account.



PMA issue only one instruction to banks about the financial inclusion, instruction (06/2019) about financial inclusion account, during the period 2018-2019, in addition to Arab Day activities for financial inclusion every year.

The above percentages show that financial inclusion well understood by the target group; however, applications of the concept remain unclear to the vast majority. The financial service supplier rate of knowledge about financial inclusion concept and application is the entrance of the customer to financial inclusion benefit.

2. The second question in this section about the impact of informal financial channels on financial inclusion: 34% of the Participants believe that the informal financial channels pose a threat to financial inclusion, and 25% partially believe that the informal channels cause financial exclusion.

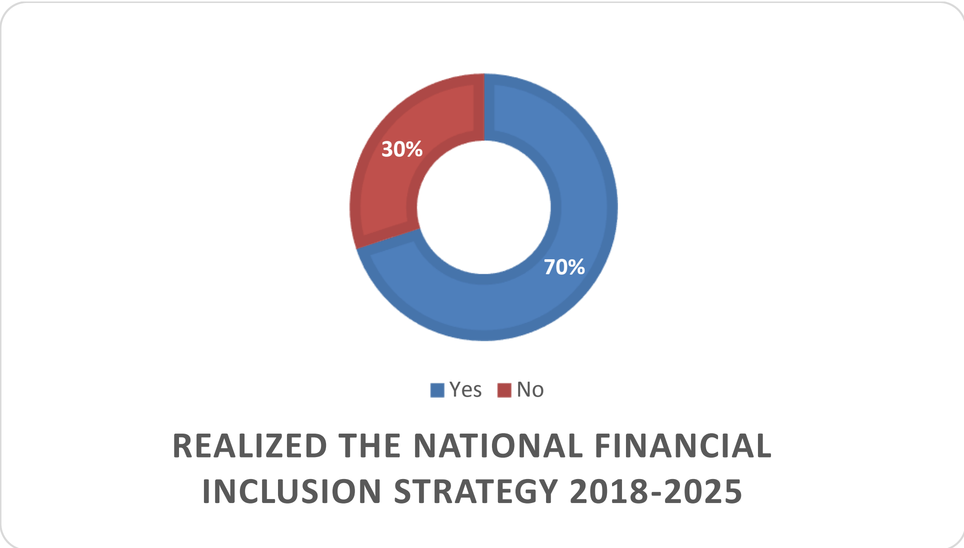


In this context, a survey on Financial Inclusion in Palestine 2016, showed that 20.8% of adults have obtained loans and 57.2% of those with outstanding loans have obtained them from the informal sector (Through family, friends and other informal sources and channels), whereas only 42.8% of those obtained loans from banks or MFIs. According to some analysts, the greater preference for informal sources reflects the convenience with which those sources accessed and the relatively low prices prevailing in some segments of the informal markets. This proposes the informal market is a constraint to financial inclusion growth.

There is an opportunity for the formal financial sector to reach the untapped market that depends on informal channels, for both sides the Borrower and the lender, and reducing the risks of using financial products and services in circulation outside the formal system. The survey result showed that the participants do not appreciate the size of the missed opportunity in the informal market, there is a conflict between the results of the research and the findings of the study of financial inclusion in Palestine in this demand.

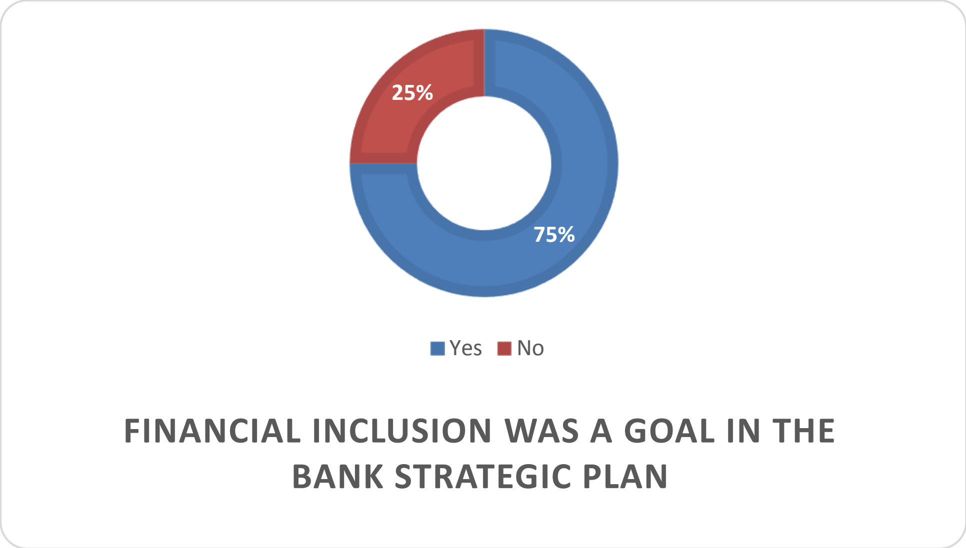
- **<u>Section two: The National Strategy for Financial Inclusion</u>**

1. The first question in this section about the national strategy for financial inclusion (2018-2025): (70%) of the participants realize the National Financial Inclusion Strategy 2018-2025, which matched with the percentage of the awareness of participants (71%) about the financial inclusion definition in section one of this survey.



2. The second question about the applicability to achieve the strategic goal of financial inclusion: (45%) of the participants believe that the main objective of the financial inclusion strategy in Palestine is achievable; on the other hand, (41%) partially believe that this goal is achievable.

3. The third question about the banks strategic plan: (75%) of the participants informs that financial inclusion is one of their bank's strategic goals.



This result corresponds with the literature review summary that the providers of financial products and services have a positive perception of the financial inclusion strategy. In addition, they believe such efforts have a positive role in expanding the market, increasing the profits, and widening the clientele base. This will enhance the chances of increasing the percentage of financial inclusion and implementation of the strategy.

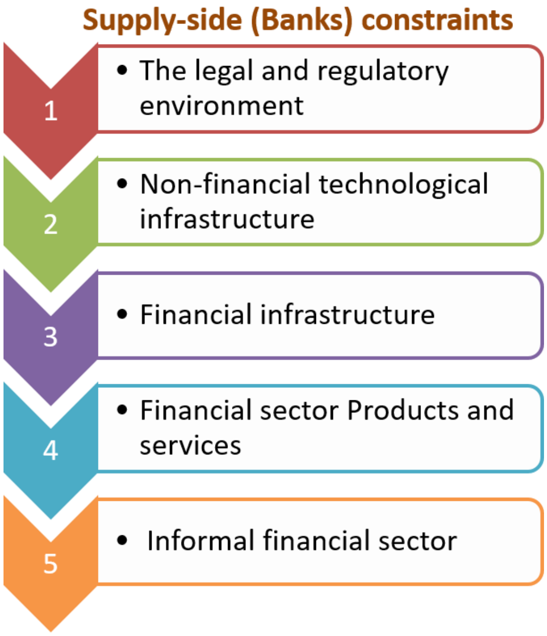
The importance of developing a national financial inclusion strategy lies in defining the desired vision and future goals to achieve financial inclusion is one of the special goals of every bank and it will be under follow-up and evaluation as well. As it works to unify and frame Initiatives and efforts to promote financial inclusion under one umbrella and avoid duplication of efforts and resources made and achieve the desired goals to reach the largest possible segment of the targeted sectors. This can be achieved through the presence of strong and effective leadership, with expanded powers working to develop and build a national strategy for financial inclusion. That includes all sides Related to financial inclusion, and the process of building a national strategy for financial inclusion considered the first step on the path to achieving financial inclusion in any country.

- **Section three: Constraints for financial inclusion in Palestine**

In section three of the survey, financial inclusion constrains divided into three groups:

1. Internal supply constraints.
2. Internal demand-side constraints.
3. Objective constraints.

1. The survey lists the supply side constraints (banks) factors that play a major role in limiting the promotion of financial inclusion. Participant sorted the



constraints factors by importance as follows:

- The participants give the legal and regulatory environment the highest rank, which is match with the survey in the Financial Inclusion study in Palestine, 2016, which recommend to enhancing the effectiveness of the judicial system for better enforcement of financial contracts and prompt, effective resolving of financial disputes. This factor was included in the financial inclusion action plan as one of the minor goals.
- The participants give the non-financial technological infrastructure the second highest rank constraint. Which coincide with the G20 High Level Principles for Digital Financial Inclusion number (4), the Innovative of Financial inclusion depends on the Expand of the Digital Financial Services Infrastructure Ecosystem, such as monetary data and communications technological infrastructure for the safe, reliable, and lower-priced

provision of digital monetary offerings to all applicable geographical areas, in particular underserved rural areas... This factor was included in the financial inclusion action plan as one of the minor goals.

- The participants give the financial infrastructure the third highest rank constraint, which is one of the main goals in the financial inclusion action plan.

  Infrastructure can be defined in a number of ways.

  First, there is the financial infrastructure, such as physical bank branches, ATMs, point-of-sale devices, payment associations, credit bureaus, and so on, where consumers can engage in the marketplace and conduct financial transactions. This can also include access to financial technologies such as mobile and smart phones to conduct electronic payments and digital banking.

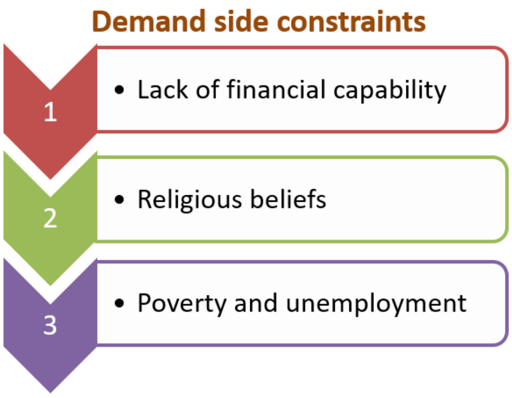
  Second, there is the physical infrastructure related to the overall material conditions of the community in which the household lives, such as the quality of roads, proximity of financial institutions, and availability of public transportation to facilitate access to the services.

  Third, the social and informational infrastructures can affect the usage of the formal financial system, especially due to some households' lack of trust in formal institutions

- The participants give the Products and services provided by the financial sector the fourth highest rank constraint, this factor with low degree in the ranking is very important as G20 determined the quality of the products and the service delivery as one of the three main indicators for financial inclusion for measurement across nations. Moreover, one of the key approaches to accelerate financial inclusion is encouraging the development of low-cost, innovative financial products. The factor is one of the minor goals in the financial inclusion action plan.

- The participants give the Informal financial sector the fifth and last highest rank constraint, as the sample does not give any importance to this factor in the survey question also. The factor is one of the minor goals in the financial inclusion action plan.

2. The survey lists the Demand side constraints (customers) factors that play a major role in limiting the promotion of financial inclusion, the participant are asked to sort the constraints factors by importance from banks point of view, the results are as follow:



- The participants give the Lack of financial capability the highest rank, which is match with the first goal of the National Financial Inclusion Strategy. The goal was once to Increase the degree of financial operation in centered segments of the populace by way of enhancing financial operation amongst college students in schools, community colleges and universities, promote financial functionality amongst women, youth and unemployed human beings and improve people's belief in the financial carrier providers.

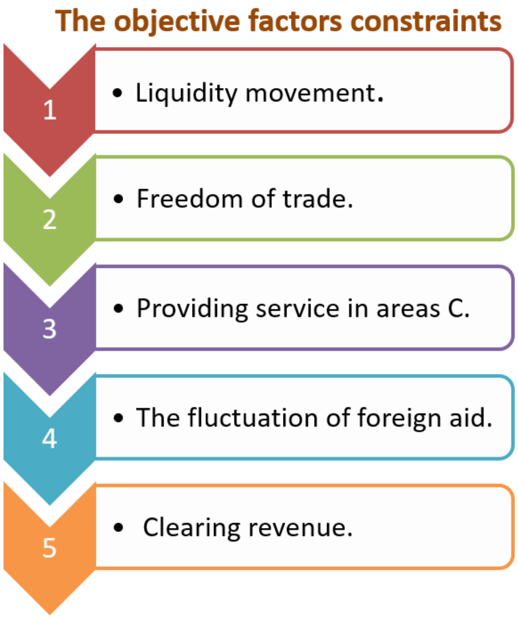
> Financial capability is the combination of attitude, knowledge, skills, and self-efficacy needed to make and exercise money management decisions that best fit the circumstances of one's life, within an enabling environment that includes, but is not limited to, access to appropriate financial services (Stuart, 2013).

- The participants give the Poverty and unemployment factor the second highest rank, both poverty and unemployment measured among the most significant constraints on practice and access to financial services and products and to contribute in the formal financial system as per the National Financial Inclusion Strategy. On the other hand, The World Bank Group considers financial inclusion a main enabler to decrease exciting poverty.

- The participants give the Religious beliefs factor the third highest rank.

> There are two types of financial exclusion, one is voluntary exclusion (examples: religious, indirect access, not interested) and the other is involuntary (examples: insufficient income, high risk, weak contract enforcement, lack of information, high interest …etc.). The demand side constraints should focus on the involuntary exclusion.

3. the survey lists the objective factors constraints factors that play a major role in limiting the promotion of financial inclusion, the participant asked to sort the



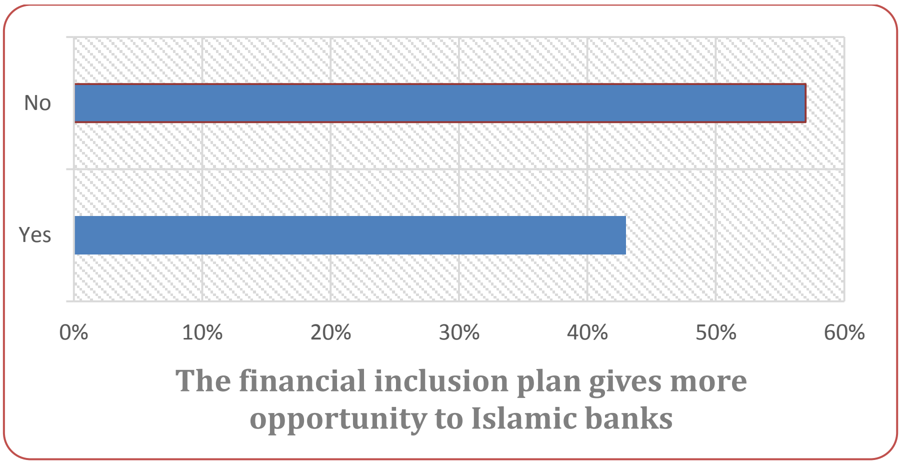
constraints factors by importance, the result was as follow:

- The participants give the Liquidity movement the highest rank. According to experts, Palestinian money is going in one direction from the banks to the merchants and money exchanges, in contrast to the required economic growth, as no money returned to the treasury of banks due to the economic weakness.

During 2019, GDP increased by 1.2% compared to 2018. Thus, the Palestinian economy maintained its previous growth rate for the year 2018 in spite of the financial crisis that befallen upon the economy that witnessed a withholding for clearance revenues for more than 6 consecutive months, and what resulted from it including liquidity problems and accumulation of government's arrears as well as the continuing decline of external grants and aids, especially the suspension of American aid for government and civil organizations and institutes (UNRWA and USAID), in addition to the continuing settlement expansion as well as continuing confiscating more lands in the West Bank and not allowing the exploitation of natural resources in areas (C). Hence, GDP per capita declined by 1.3% compared to 2018 due to the natural population growth with a pace higher than the growth in GDP. Accordingly, the first quarter of 2019 witnessed a decline in the real GDP by 3.3% compared to the fourth quarter of 2018. The decline continued during the second quarter of 2019 by 2.0% compared to the first quarter of 2019 as a result of the clearance revenues crisis with the Israeli occupation; the clearance revenues constitute almost two thirds of the government's revenues. In the context of the financial crisis management, the government adopted an emergency budget resulted in a partial suspension for government obligations towards paying its wage bill to public sector employees. In the third quarter of 2019, estimates indicated that there is a slight improvement in the level of economic activity; thus, it recorded an increase of 1.0% compared to the previous quarter of the same year. During the fourth quarter of 2019, GDP continued to increase, recording a growth of 3.6% compared to the third quarter of 2019 due to the expectation of the recovery of domestic demand, especially household consumption expenditure, the improvement of growth pace of main economic activities, and the accelerating levels of government expenditure after the resumption of transferring a big part of government's clearance revenues on a monthly basis and in retrospectively of the past months of 2019 (Palestinian Central Bureau of Statistics, 2020).

- **Section Four: opportunities for financial inclusion in Palestine.**

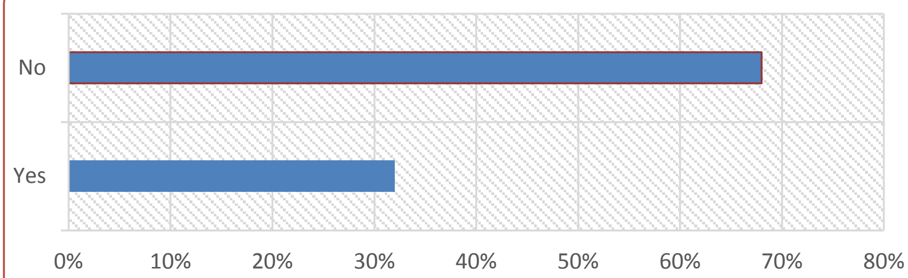
- Only 57% of the participants thought that the financial inclusion plan gives more opportunity to Islamic banks; this low percentage matches with the ranking of the Religious beliefs constrain (the last one) in the Demand side (customers) constraints in section three in the same survey. In addition, the result of the working paper about the opportunity of Islamic banks to increase the financial inclusion. This gives almost equal opportunity for both Islamic banks and commercial banks.



The market shares of the Islamic banks in Palestine compared with the same of their conventional counterparts is very low. Out of the total customer deposits in Palestine, Islamic Banks hold only 15% in the year 2018 comparing to 9.1% in the year 2013. The pattern follows for credit facilities as only 17.7% of the total disbursed loans are provided by Islamic banks in the year 2018 comparing to 10.4% in the year 2013. This indicates the potential growth opportunity for Islamic banking in Palestine (Association of Banks in Palestine, 2018) .

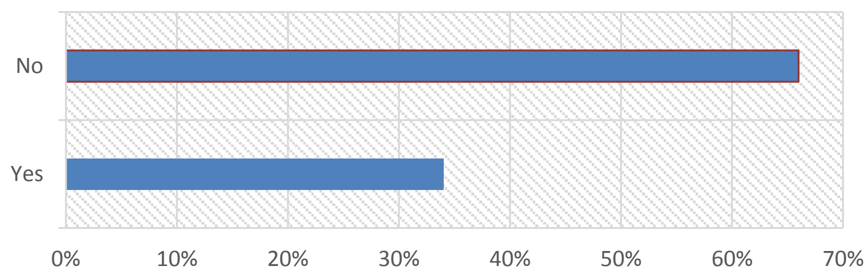
Islamic banks may need to improve their current operating model to attract depositors and serve SMEs to understand the market dynamics of these firms and to tailor Islamic financial instruments to their specific needs. Which have so far been excluded from the formal financial sector for religious considerations.

- 68% of the participant realized that the scientific material related to Islamic banking in universities and institutes is not sufficient to produce human capabilities capable of marketing Islamic banking products. On the other hand, 66% believed that Qualifying and strengthening the capabilities of the service provider cadres to deal with the funding needs of MSMEs are not adequate.



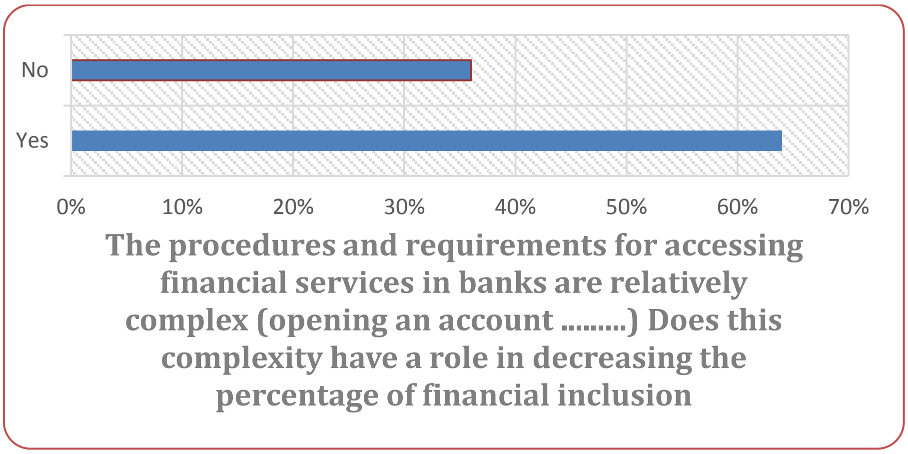
The scientific material related to Islamic banking in universities and institutes is sufficient to produce human capabilities capable of marketing Islamic banking products

The National Financial Inclusion Strategy established goals to address this weakness by integrating and teaching the fundamentals of Islamic jurisprudence within the educational curriculum for students of faculties of economics and administrative sciences, in addition to strengthening the capabilities of service provider's cadres to know and define citizens' needs and the funding needs of MSMEs.



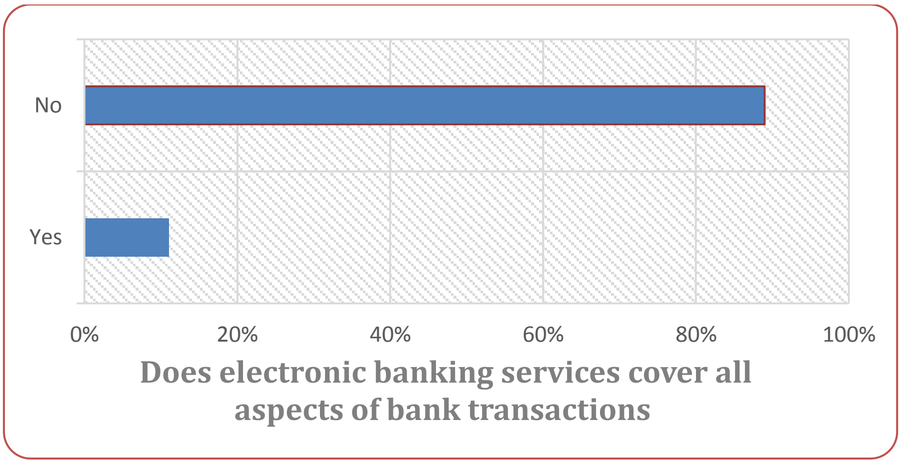
Qualifying and strengthening the capabilities of the service provider cadres to deal with the funding needs of MSMEs, are they adequate

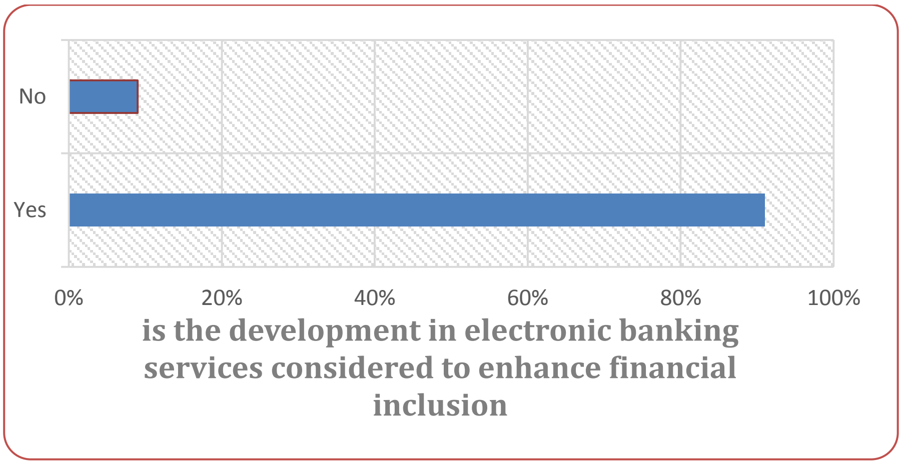
- The procedures and requirements for accessing financial services in banks are relatively complex for 64% of the participant (opening an account ...) and they believe that this complexity has a role in decreasing the percentage of financial inclusion.



This reinforces the definition of financial inclusion for the usage of financial products. The National Financial Inclusion Strategy established goals to address this weakness by Simplifying procedures, and requirements for accessing financial services. The delivery of customers is the target of Palestinian banks, but complexity is the major operational and strategic challenge to achieve this target. However, banks understand the want to simplify their approach; it is precisely their excessive level of complexity that stops them from pursuing simplification with greater vigor. Therefore, a systematic and logical methodology is required to create financial institutions simplification.

- The electronic banking services does not cover all aspects of bank transactions, this what 89% of the participant agree with. In addition to 91% believed that, the development in electronic banking services is very important to enhance the financial inclusion rate.



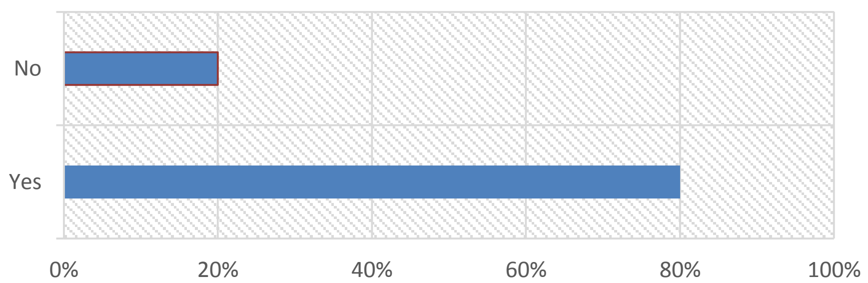


This coordinated with the study of Financial Inclusion: Policies, Status, and Challenges in Palestine. That noted the required to limit the expenses of the Internet get admission to by mobiles, and financial apps must license and prompt to inspire shoppers to make use of digital methods. This will show to be a catalyst that will inspire financial lending establishments and banks to furnish banking amenities at favorable phrases for small businesses.

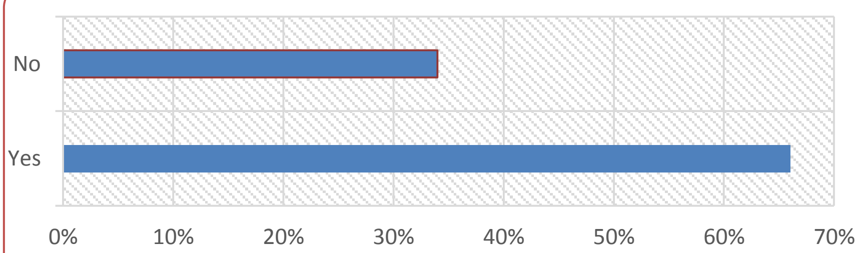
A combination of these new technologies can radically improve financial inclusion. As new technology infrastructure increasingly permits the secure exchange of up-to-date customer information.

This additionally includes advertising and develop Islamic finance, development, and advertising of new financial products and advantageous offerings to make certain their perpetual use. Digital financial inclusion has some benefits. Digital financial inclusion guarantees to assist banks to decrease charges by way of lowering queuing traces in banking halls, limit guide bureaucracy and documentation, and keeping fewer financial institution branches.

- The concentration of bank branches in cities and urban areas considered obstacles to achieving financial inclusion in Palestine, as agreed by 80% of the sample and 66% agreed that the limited spread of ATM machines in the countryside and border areas considered an obstacle to achieving the financial inclusion in Palestine.



The concentration of bank branches in cities and urban areas considered obstacles to achieving financial inclusion in Palestine

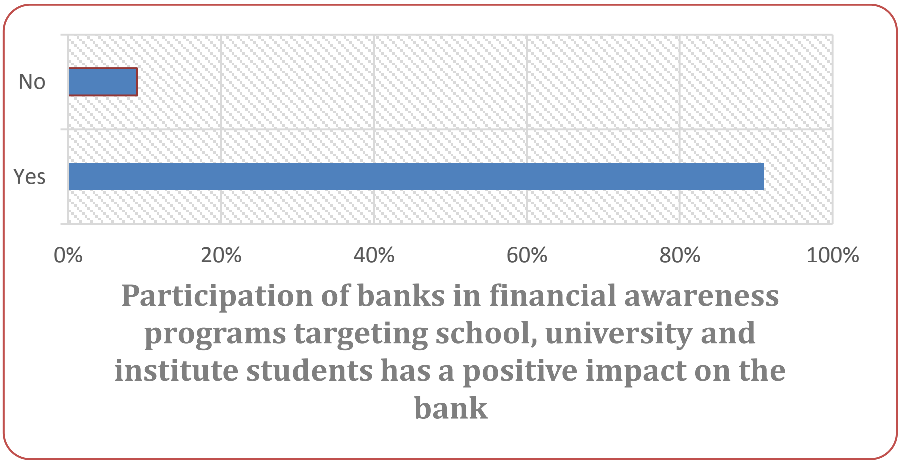


The limited spread of ATM machines in the countryside and border areas considered an obstacle to achieving financial inclusion in Palestine

As the lecture mentioned "the lack of a built-in geographic correlation in the Palestinian territories" weakens the manner of accomplishing economic inclusion and hampering the steadiness of financial growth quotes. The study of The Role of Spread out of Banking

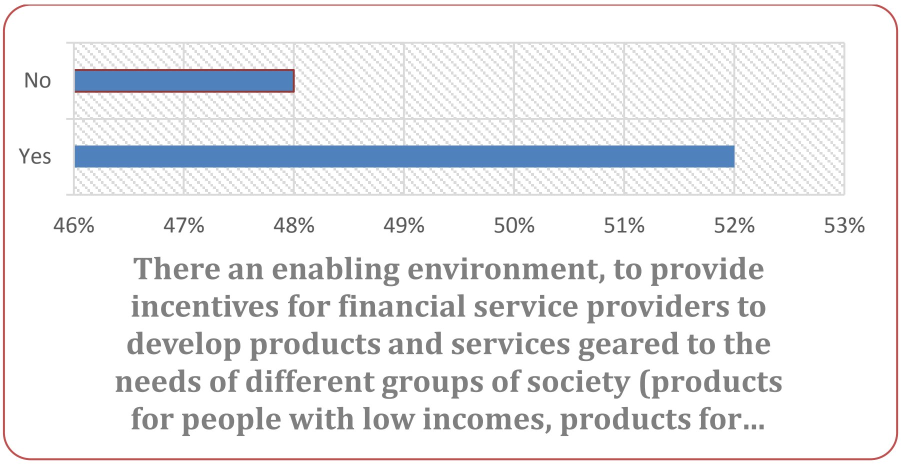
System and Financial Inclusion in The Palestinian Economic Activities stated that there is a positive relationship between the banking branching and spread of the financial and banking services to all segments of society. especially the poor and low-income classes, and the presence of a positive impact on the spread of financial and banking services to mobilize savings and an increase in deposits from the public.

- 91% of the survey participants believed that Participation of banks in financial awareness programs targeting school, university and institute students has a positive impact on the bank progress.



One of the main goals of the national strategy of financial inclusion action plan is to improve financial capability among students in schools, universities and community colleges. by Define the target school grades to allocate programs that suit these groups, Developing and implementing awareness programs using extracurricular methods and using modern technology methods that target specific academic stages, and Developing and implementing programs aimed at enhancing the financial capabilities of university students by creating virtual branches of financial institutions in universities.

- 52% believed that there an enabling environment, to provide incentives for financial service providers to develop products and services geared to the needs of different groups of society (products for people with low incomes, products for youth, and products for women).



One of the main goals of the national strategy of financial inclusion action plan is to create an enabling environment, and provide incentives for financial service providers to develop targeted products and services according to the needs of different groups of society, by developing a number of products and services that suit the needs of citizens. In addition, take the necessary measures to encourage Islamic financial services providers to diversify Islamic financial services.

Chapter 5: Conclusions

This study shows that there are Constraints facing the banking system to play the appropriate role to enhance the financial inclusion in Palestine, on the other hand, financial inclusion is an opportunity to increase the customer base as the Bottom of pyramid individuals are the strong pillars of the banking system today. The study explores the opportunities and constraints to achieve the strategic objective of financial inclusion in Palestine, from the banking system's point of view.

Lecture review conducted to previous studies and the national strategy for financial inclusion in Palestine, to explore the opportunities factors and constraints factors to achieve the strategic objective of financial inclusion in Palestine. In addition, to discuss these factors by survey with the banks managements (purposive sample) to summarize these factors to reinforce their orientation to improve the financial inclusion in Palestine.

This study shows that there are opportunities for banks to expanding the financial market, increasing the profits and widening the clientele base, in order to achieve the strategic objective of the NFIS during the next five years. In addition, to the need for strong and comprehensive financial service providers that simplify the product formats, financial resources and procedures that leads to a high level of financial inclusion and builds the financial capability of customers.

This study shows that the financial awareness packages to clients are very necessary to enhance financial inclusion. In addition to, the need to reinforcing the functionality and capabilities of the financial provider carriers and explores how financial service companies are leveraging innovation, new technology, social networks, and various strategic planning preparation that target customers' information and interact with their needs. These driving

Banks to develop more products and growing client confidence in the financial services providers.

There is a need to develop and improve the digital software, electronic banking service, and effective internet spread, to cover all aspects of bank transactions, which has weakness in the Palestinian financial market today. This should drive banks to reduce the cost of banking services, introduce new financial products and spread the bank's branches and ATMs in the countryside, refugee camps, and border areas. Bank facilities, branches, and ATMs service have to be at strategic locations for customers; due to the fact, one of the primary issues of financial inclusion improvement factors is the remoteness, the persons have to travel to have contact with these services. Notable that individuals would retailer further if service providers were nearer and accessible to them than if they had been farther. Modern technological innovation as debit cards, internet banking, and cell banking features that permit bank customers to effortlessly reach and utilize banking can be in a location to assist and encourage individuals and companies of the benefits of banking services.

This study shows that these opportunities are almost equal for both Islamic and commercial banks in Palestine. As there is a clear interest from decision-makers in banks to promote the concept of financial inclusion and its applications. On the other hands, the legal and regulatory environment and Non-financial technological infrastructure are the main constraints facing the banks to achieve the goals of the financial inclusion in Palestine from their side, and they believe that Lack of financial capability in the demand side is the most important constrain that needs handling in the NFIS implementation plan. Moreover, they considered the Liquidity movement, and trade freedom is the most objective factor constraints.

Financial inclusion in Palestine is still in the bank account stage that is the first step to be a member of the financial banking system; on the other hand, the financial inclusion in financing and lending side is below the market need.

Chapter 6: Recommendations

- It is imperative to develop a strong and flexible financial infrastructure for digitization, supporting the geographical spread of banks. In addition, an appropriate and supportive legal environment for the transformation of financial inclusion, and concerned with financially marginalized groups.
- Banks products should be high value, reasonable, simple, and well designed, with feedback about the product services from customers and do regular surveys in villages for understanding the financial needs of the people. On the other hand, PMA should frequently check whether the financial products actually utilized by customers effectively, if not it should analyze the reasons.
- PMA should advise banks to increase the number of branches in remote areas by strategic spread plan to cover all unserved locations, to be part of the bank's internal strategic plan.
- Comprehensive Studies should conduct to measure the impact and development of financial inclusion interventions in Palestine.
- New forms of branching should create to reduce the cost of banking spread as a tool for financial inclusion, the branchless banking model is one of the marvels of innovation in the fields of Information Communication Technology (ICT) and BPR (Business Process Re-engineering) it could be one of the new models.
- There is a need to develop the universities Curriculum to enhance the knowledge and skills of future banking staff, jointly with PMA and Association of Banks in Palestine.

- The microfinance sector in Palestine is a major player in financial inclusion should study in future research, in light of Microfinance Strategic Framework (2019–2023).
- The challenges facing financial inclusion due to the COVID-19 pandemic are unprecedented. How do we as a community respond to ensure vulnerable households, businesses, and financial services providers are resilient and recover? Should study in future research.

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Appendix A : Survey Questions

The survey was prepared below to be an essential part of the research for my Master's thesis entitled (Opportunities and Constraints to Achieve the Strategic Objective of Financial Inclusion in Palestine – A Field Study), and its importance lies in obtaining results from the banking sector to enhance the outcomes of the above thesis.

I would like you to answer the following questions, noting that all information provided will be confidential and for study and analysis purposes only. Your participation is important for gathering data, answering research questions, and research success. Thank you in advance.

- **<u>General information about the bank</u>**
  - The bank as per registration

    Local bank ☐ Arab non-local bank ☐

  - Bank by type:

    Islamic bank ☐ Commercial bank ☐

  - Number of branches and offices:

    Less than 10 ☐ from 10 to 20 ☐ More than 21 ☐

  - Number of ATMs:

    Less than 10 ☐ from 10 to 20 ☐ More than 21 ☐

- **<u>First: the concept of financial inclusion</u>**

- Definition of financial inclusion according to the Palestinian Monetary Authority:

"Financial inclusion means the promotion of access and use of all sectors of society to financial services and products from official channels, which are appropriate to their needs at reasonable cost and time. In addition, to protect their rights and enhance their financial knowledge, so that they can make the appropriate financial decision".

- Definition of financial inclusion according to the World Bank:

"Financial inclusion means that individuals and companies have access to useful financial products and services at affordable prices that meet their needs - transactions, payments, savings, credit, and insurance and presented to them in a responsible and sustainable manner."

1- Do you think that the concept of financial inclusion is clear for banks internal policymakers in Palestine?

To some extent ☐ No ☐ Yes ☐

If the answer is (no) or (to some extent), what is the reason?

2- The definition of the Palestinian Monetary Authority referred to informal channels (moneylenders, family members or friends) to provide financial services. Do you think that informal channels pose a threat to financial inclusion?

To some extent ☐ No ☐ Yes ☐

If yes, how does it pose a threat?

- **<u>Second: The National Strategy for Financial Inclusion.</u>**

The results of the financial inclusion surveys in Palestine showed that the percentage of citizens accessing financial services from the official financial sector, which amounted to 36.4% (includes bank account holders by 22.7% for ages above 18 years old, beneficiaries of a bank loan by 5.1%, and insurance policyholders by 8.6%%) In the year 2016.

While the percentage of bank account holders according to the report of the World Bank for the age above 15 years old is (19% - in 2011), (24% - in 2014) and (25% - in 2017).

The main objective of the financial inclusion strategy in Palestine is (to increase the current financial inclusion rate of 36.4% of adult individuals to reach a minimum of 50% at the end of the year 2025).

1- Have you realized the National Financial Inclusion Strategy 2018-2025?

   YES ☐ NO ☐

2- Do you think that the above goal is applicable?

   YES ☐ No ☐ To some extent ☐

3- Was financial inclusion a goal in the bank strategic plan in which you work?

   YES ☐ NO ☐

- **<u>Third: Constraints for financial inclusion in Palestine</u>**

  Supply-side (Banks) constraints play a major role in limiting the promotion of financial inclusion. These includes:

A. The legal and regulatory environment: (Lengthy, inefficient and costly judicial procedures and the lack of technical understanding of financial sector issues within the judicial system, The absence of a functioning Palestinian Legislative Council……).
B. Informal financial sector :(20.8% of adults have obtained loans and 57.2% of those with outstanding loans have obtained them from the informal sector such as family, friends, and entities not subject to financial supervision...).
C. Non-financial technological infrastructure: (The non-existence of retail payment methods, the non-existence of E-government and access to data, Limited availability of landlines and internet services in rural areas, engagement of telecommunication and mobile companies in providing micro payment services.).
D. Financial sector services and Products: (the gap between the demand and supply side for financial services and products).
E. Financial infrastructure: (Insufficient credit guarantee systems to increase the source of credit to SMEs, the legal framework that limits debt recovery).

Rank the above five constrains according to the degree of impact (from most important to least important) from the point of view of the banking sector.

1 2 3 4 5

- Demand side constraints are those obstacles that prevent individuals from accessing financial services and products. These include:

A. Lack of financial skills, knowledge and awareness: (59% of adults have weak or very weak level of financial capability; only 16.6% depend on information available at the financial institution branches).

B. Religious thoughts: (31% of adults desist from loans for religious reasons, 13.9% of adults do not have a bank account because of their religious beliefs.).

C. Poverty and unemployment :(26.9% is the Unemployment rate in 2016 and 25.8% is the poverty rate in 2011.) Especially among young age group, which reflects the lack of need for financial services and limited expansion.

Rank the above three constrains according to the degree of impact (from most important to least important) from the point of view of the banking sector.

1 2 3

- The objective factors (the Israeli occupation and the international community) are among the biggest external obstacles to achieving financial inclusion, and these include the following:

A. Providing service in areas c.

B. Liquidity movement.

C. Clearing revenue.

D. The fluctuation of foreign aid.

E. Freedom of trade.

Rank the above five constrains according to the degree of impact (from most important to least important) from the point of view of the banking sector.

1 2 3 4 5

- **<u>Fourth: Opportunities for financial inclusion in Palestine</u>**

- The financial inclusion plan gives more opportunity to Islamic banks to increase the number of their clients and their revenues more than commercial banks. Do you support that?

  YES ☐ NO ☐

- Do you think that the participation of banks in financial awareness programs targeting school, university and institute students has a positive impact on the bank?

  YES ☐ NO ☐

- Do you think that the scientific material related to Islamic banking in universities and institutes is sufficient to produce human capabilities capable of marketing Islamic banking products?

  YES ☐ NO ☐

- Is there an enabling environment, to provide incentives for financial service providers to develop products and services geared to the needs of different groups of society (products for people with low incomes, products for youth, and products for women)?

  YES ☐ NO ☐

- The procedures and requirements for accessing financial services in banks are relatively complex (opening an account ...) Does this complexity have a role in decreasing the percentage of financial inclusion?

  YES ☐ NO ☐

- Qualifying and strengthening the capabilities of the service provider cadres to deal with the funding needs of MSMEs, are they adequate?

YES ☐ NO ☐

- Does electronic banking services cover all aspects of bank transactions?

YES ☐ NO ☐

- Is the development in electronic banking services considered to enhance financial inclusion ?

YES ☐ NO ☐

- Is the limited spread of ATM machines in the countryside and border areas considered an obstacle to achieving financial inclusion in Palestine?

YES ☐ NO ☐

- Is the concentration of bank branches in cities and urban areas considered obstacles to achieving financial inclusion in Palestine?

YES ☐ NO ☐

Appendix B: Survey results

General information about the banks participated in the survey

Registration	# Participate	%
Local Banks staff	26	60%
Forgan Banks staff	18	40%

Type	# Participate	%
Commercial Banks staff	29	66%
Islamic Banks staff	15	34%

# of Branches and offices	# Participate	%
More than 20	37	84%
Less Than 20	7	16%

# of ATMs	# Participate	%
More than 20	37	84%
Less Than 20	7	16%

First: the concept of financial inclusion

The concept of financial inclusion is clear

	# Participate	%
Yes	31	70%
No	1	2%
To some extent	12	27%

Comments from the participants that they answer was NO or To some extent

* There are aspects of the definition that needs more explanation.

* Inconsistencies between disclosure and money laundering policies and the requirements for applying financial inclusion.

* Financial inclusion is new to the society culture, so we need more time and awareness to apply and benefit from it.

* There are no integrated procedures to apply as required, only some procedures such as financial inclusion account.

*Internal awareness inside the bank.

*Lack of interest

Informal channels pose a threat to financial inclusion		
	# Participate	%
Yes	15	34%
No	18	41%
To some extent	11	25%

Comments from the participants that they answer was Yes

* Because it helps them to the existence of alternatives for dealing with banks.

*Informal channels operating in the financial system aimed at profit only and has no developmental social responsibility.

*Informal channels prevent certain segments from joining the financial system.

*Informal channels limit financial inclusion because they reduce its levels through formal channels and lose their opportunities.

*Resorting to informal channels is a waiver of a person's right to be financially independent, which keeps him away from available financial services.

*Trading cash away from banks or a financial institution will work to eliminate the concept of financial inclusion.

*This is because the vast majority do not want to go to banks because of tax evasion and their unwillingness to disclose information about their balances in addition to the need to prove official bills for granting loans.

*It reduces the need for banks.

Second: The National Strategy for Financial Inclusion.

Realized the National Financial Inclusion Strategy 2018-2025		
	# Participate	%
Yes	31	70%
No	13	30%

The Strategic goal of the strategy is applicable		
	# Participate	%
Yes	20	45%
No	6	14%
To some extent	18	41%

Financial inclusion was a goal in the Bank strategic plan		
	# Participate	%
Yes	33	75%
No	11	25%

Third: Constraints for financial inclusion in Palestine		
Supply-side (Banks) constraints		
	Score	Rank
A. The legal and regulatory environment	149	1
B. Informal financial sector	119	5
C. Non-financial technological infrastructure	149	2
D. financial sector Products and services	139	4
E. Financial infrastructure	141	3
Demand side constraints		
	Score	Rank
A. Lack of financial capability	99	1
B. Religious beliefs	88	3
C. Poverty and unemployment	95	2
The objective factors constraints		
	Score	Rank
A. Providing service in areas c.	132	3
B. Liquidity movement.	143	1
C. Clearing revenue.	126	5
D. The fluctuation of foreign aid.	131	4
E. Freedom of trade.	142	2

Fourth: Opportunities for financial inclusion in Palestine		
The financial inclusion plan gives more opportunity to Islamic banks		
	# Participate	%
Yes	19	43%
No	25	57%

Participation of banks in financial awareness programs targeting school, university and institute students has a positive impact on the bank			
	# Participate	%	
Yes	40	91%	
No	4	9%	
the scientific material related to Islamic banking in universities and institutes is sufficient to produce human capabilities capable of marketing Islamic banking products			
	# Participate	%	
Yes	14	32%	
No	30	68%	
there an enabling environment, to provide incentives for financial service providers to develop products and services geared to the needs of different groups of society (products for people with low incomes, products for youth, and products for women)			
	# Participate	%	
Yes	23	52%	
No	21	48%	
The procedures and requirements for accessing financial services in banks are relatively complex (opening an account ....) Does this complexity have a role in decreasing the percentage of financial inclusion			
	# Participate	%	
Yes	28	64%	
No	16	36%	
Qualifying and strengthening the capabilities of the service provider cadres to deal with the funding needs of MSMEs, are they adequate			
	# Participate	%	
Yes	15	34%	
No	29	66%	
Does electronic banking services cover all aspects of bank transactions?			
	# Participate	%	
Yes	5	11%	
No	39	89%	
•is the development in electronic banking services considered to enhance financial inclusion			
	# Participate	%	
Yes	40	91%	
No	4	9%	

• the limited spread of ATM machines in the countryside and border areas considered an obstacle to achieving financial inclusion in Palestine			
	# Participate	%	
Yes	29	66%	
No	15	34%	
• The concentration of bank branches in cities and urban areas considered obstacles to achieving financial inclusion in Palestine.			
	# Participate	%	
Yes	35	80%	
No	9	20%	

Abbreviations

AFI	Alliance for Financial Inclusion
AML-CFT	Anti-Money Laundering and Countering Financing of Terrorism.
DAP	Dinarau Action Plan.
FIEG	Financial Inclusion Experts Group.
G20	is an international forum for the governments and central bank governors from 19 countries and the European Union (EU), Founded in 1999 with the aim to discuss policy pertaining to the promotion of international financial stability.
GPFI	The Global Partnership for Financial Inclusion.
GDP	Gross Domestic Product
GIZ	German Corporation for International Cooperation
JOD	The Jordanian Dinar
KYCC	Know Your Customer's Customers
MAS	The Palestine Economic Policy Research Institute
NFIS	National Financial Inclusion Strategy
NIS	New Israeli shekel
OIC	Organization for Islamic Cooperation
PA	Palestinian Authority
PLO	Palestine Liberation Organization
PMA	Palestine Monetary Authority
PCMA	The Palestine Capital Market Authority
OECD	The Organization for Economic Co-operation and Development
USSD	Unstructured Supplementary Service Data

الفرص والمعوقات لتحقيق الهدف الاستراتيجي للشمول المالي في فلسطين

ملخص البحث

تهدف الدراسة إلى التعرف على الفرص والمعوقات لتحقيق الهدف الاستراتيجي للشمول المالي في فلسطين من وجهة نظر المصارف العاملة في فلسطين ، في ضوء الاستراتيجية الوطنية للشمول المالي في فلسطين للأعوام (2018-2025). وذلك من خلال مراجعة مفهوم الشمول المالي وأهدافه وفوائده ومؤشراته ومبادئ الشمول المالي الرقمي بالإضافة إلى المناهج الرئيسية لتحقيق الشمول المالي.

اعتمدت الدراسة على المنهج النوعي، حيث اعتمدت منهجية هذا البحث على أسلوب اختيارالعينة الهادفة من العاملين في المصارف الفلسطينية للإجابة على اسئلة الاستبيان. أشارت النتائج الرئيسية لهذه الدراسة إلى أن الفرص الرئيسية التي يمكن ان تحققها البنوك من خلال تطبيق الشمول المالي هي توسيع السوق المالية وزيادة الأرباح وتوسيع قاعدة العملاء ، بالإضافة الى ترتيب القيود الداخلية والخارجية التي تواجه الجهاز المصرفي الفلسطيني من حيث الأهمية للعب الدور المناسب لتعزيز الشمول المالي في فلسطين، حيث غطت خطة عمل الاستراتيجية الوطنية للشمول المالي خلال السنوات الخمس المقبلة معظم هذه القيود.

أخيرًا ، أوصت الدراسة بالتركيز أكثر على نوعية المنتجات المصرفية التي يجب أن تكون بسيطة ومعقولة وذات قيمة عالية للعملاء وبالإضافة الى دعم أشكال جديدة من الفروع في المناطق النائية..