



ARAB MONETARY FUND

**Statement by
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On behalf of the Arab Monetary Fund (AMF), I would like to extend my gratitude to the G-24 Secretariat for the kind invitation to participate, on our capacity as observer member, in the G-24 Ministerial meeting, an important coordination platform for developing countries to discuss set of extremely important global development issues. In this regard, I would like to express my appreciation for the opportunity given to the AMF to present the Arab region efforts and perspectives in promoting entrepreneurship, small businesses and startups to support addressing the unemployment challenges across the region, in particular for youth population. Such perspectives, while having features similar to those found in the other regions across the world, are profoundly different in light of the current circumstances of the region.

Let me recognize first that Arab region has undertaken a diversified range of economic reforms over the past three decades, however, the full gains of these reforms have not yet materialized as expected, particularly with respect to the ability of Arab economies to achieve higher, sustainable and inclusive growth rates. Indeed, the modest growth rate of the Arab economies is below the region's potential and would not be sufficient to reduce youth unemployment rate, especially among women youth.

Employment challenges ahead

The Arab region's population is growing rapidly and is expected to reach 461 million by 2025, and 621 million by 2050. This equates to an increase of roughly 80% over the next 40 years, twice the global population growth rate. With more than one-half of its population under the age of 25, the region has one of the world's youngest workforces which poses both numerous opportunities and enormous challenges.

With more than 52 million of Arab youth reaching working age in the next five years, combined with the current region's unemployment rate, which is about 29.1 percent for youth and 43.8 percent for women youth, it is widely acknowledged that unemployment issues, represent the most important development challenge for policymakers in the Arab countries, particularly in the

context of global move toward knowledge-based economy. Job creation, especially with an employment structure shifting towards high-skilled workers, is therefore one of the region's top priorities in the coming years to propel its young population towards greater prosperity.

In this context, policymakers and different sectors of society in the Arab region recognize that entrepreneurship is one of important drivers to address the needs of the Arab youth. Moreover, there is a general consensus among stakeholders that fostering entrepreneurial environment in which entrepreneurs can easily start new businesses and spread innovation is key to accelerate job creation in sufficient numbers and in a sustainable manner. Consequently, there have been recently positive changes in the Arab region in terms of policies, business engagement, and civil society participation in achieving a common goal of creating jobs for youth and engage them in productive activities.

Tapping the potential of startups and innovative SMEs

Entrepreneurship has always been an important element in the Arab world and the recent growth of startups' entrepreneurs from young population continues to gain momentum amidst the economic challenges facing the region. Startups are shaping a new economic landscape across the region based on a culmination of several factors, including demand for a new business engagement among the youth. Enterprises now leverage technology to make their operations easier and faster and there is no doubt that the unprecedented growth of telecommunications and communications technology worldwide plays a crucial role in shaping the future directions of this generation of entrepreneurs and business leaders.

Consequently, this new entrepreneurship model entices many young executives to set up their own business. Indeed, several studies point to more Arab youths looking to run their own business rather have their own business than being employed. The growing trend of startups adds vibrancy to the region already teeming with small and medium-sized enterprises (SMEs), which have always been considered as an important driver for national economic growth. Actually, despite their size, these SMEs account for 33 percent of GDP and employ about 20-40 percent of the workforce in the region and in certain countries, they generate more than 65 percent of total private sector employment.

Nevertheless, more than 80 percent of entrepreneurs in the region have very small-scale operations, with enterprise value of less than USD 15,000, and are most vulnerable to external shocks. Indeed, the important job generation of startups has occurred with relatively limited formal access to financing, business development services and markets. Relevant stakeholders, such as Governments, NGOs, and financial services providers started offering all-in-one financial and non-financial support to help them progressively grow from micro startups into small and medium-sized businesses. Few customized business development services, such as networking, business planning, strategic advice and accounting exist in the Arab region, which in turn support these enterprises to grow into significant contributors to employment, especially when stakeholders focus on more labor-intensive small businesses.

Currently, about 150 existing initiatives encourage entrepreneurial activity in the Arab region aiming at developing technology incubators and networking associations for aspiring entrepreneurs and university dedicated entrepreneurship programmes. In fact, the pace at which new entrepreneurship initiatives have been launched in the region has accelerated since 2000, from approximately 1.5 initiatives per year to about 10 initiatives per year, as Arab governments are increasingly recognizing the value of entrepreneurship and its importance in sustainable economic growth.

Alongwith the importance given to expand entrepreneurship initiatives, the Arab governments are also recognizing the need to arise and implement these programmes in an efficient way and in complementarity means with the entire entrepreneurial ecosystem, which encompasses all the elements that entrepreneurs need to thrive. Indeed, supporting entrepreneurs and startups requires a full and comprehensive system, moving from understanding the working environment, developing legislation and infrastructure, building empowerment and creating opportunities in terms of availability of business incubators and professional services, and supporting access to financial services. While recognizing the importance of all enablers in the entrepreneurship ecosystem, suitable access to financing seems to be a key empowerment for entrepreneurs and startups. The need to secure long-term funding by strengthening competent providers of risk-capital, such as angel-investors, venture-capital firms or crowdfunding platforms is one of main challenges facing Arab policy makers. The expansion of accessible financial services in a timely manner and with appropriate mechanisms is pivotal to support innovation and scaling up Arab startups and SMEs.

Fostering Inclusive Finance

Today, there is only one in five of local SMEs in the Arab region have a loan or a line of credit, and only 10 percent of their investment expenditures are financed by a bank loan. Although, some entrepreneurs may be able to tap into the funds of family and friends, the current level of formal lending in the region is not wholly unjustified. New business and SMEs may lack financial transparency and the state of financial infrastructure in some Arab countries makes it difficult for banks to take smart and informed lending decisions.

In this context, Arab policymakers have taken steps to address challenges of meaningful financial inclusion by refining financial inclusion strategies and promoting regulatory and legal framework conducive to the development of a more formal and accessible early-stage financing industry, in particular the network of equity investors, a critical source for startup capital in the West. In this regard, while recognizing how tight the local credit market is for startups, several Arab countries have introduced special programmes to encourage banks to lend more to startups and SMEs, including exemptions on reserve requirements, credit subsidies and partial credit guarantee schemes. In addition to these Governments programmes, the Arab region is also gaining the spotlight from venture capital and social impact investors, shifting their focus to promising startups.

With this in mind, the most measures of financial access and use show substantial opportunities to address the funding gap of Arab startups and SMEs, particularly in the context of recently enabled new business models environment for financial services' providers in many Arab countries,

including digital finance, non-banking financial services, and lending models such as mezzanine finance. This combined with hundreds of sets of above-mentioned players spurring the growth of startups, such as accelerators, incubators, platform providers for business plan competitions, social venture capital firms and business networks.

AMF efforts to support the Arab policymakers in expanding finance to startups and SMEs.

The AMF joins a cohort of highly engaged global bodies and stakeholders committed to advancing financial inclusion. The efforts exerted by the AMF in this regard are driven by its role as the Secretariat of both the Council of Arab Central Banks Governors and the Council of Arab Finance Ministers, and by its strategic plans, aiming to help member countries to broaden and deepen their financial systems. This also comes in the context of thoroughness given by policymakers in the Arab region to achieve the Sustainable Development Goals by 2030 and ensure access to a full range of quality, cost-effective, and appropriate financial services to unbanked and/or underserved Arab populations and businesses.

In this regard, multiple actions have been undertaken by the AMF to address financial inclusion issues across the Arab region. To this end, it has established dedicated initiatives and programmes to build capacity, provide technical assistance, promote best practices, generate and disseminate knowledge, and provide advice and targeted support to country led-projects, in particular for the benefit of Arab financial regulators and policymakers across the Arab region. Among these initiatives, the establishment of Financial Inclusion Task Force, under the umbrella of the Council of Arab Central Banks and Monetary Authorities' Governors, the expansion of its Economic Policy Institute capacity development programmes to cover broadly SMEs and financial inclusion issues. Additionally, the AMF has established April 27 as Arab Financial Inclusion Day where the focus this year will be entrepreneurship and startups.

Moreover, in line with the growing regional recognition of SMEs' and small-business contributions to promote inclusive growth and creating jobs, the AMF established in 2016 an SMEs Enabling Environment Facility to cultivate a conducive environment for SMEs in its Member Countries by providing financial and technical assistance to meet regional needs of a developing SMEs sector. As of March 2018, the facility has approved USD 178 million in support to Member Countries.

Furthermore, in an attempt to synergize efforts and accelerate financial inclusion advancements, the AMF in partnership with GIZ, AFI, and the World Bank, has established in 2017, under the auspice of the Council of Arab Central Banks Governors, the Financial Inclusion for the Arab Region Initiative (FIARI). FIARI aims to help accelerate conducive policies and actions for enhancing Arab societies' access to financial services and hence to empower Arab countries on the path to sustainable development. The scope of FIARI initiative is to cover a wide range of relevant financial inclusion policy domains, with a focus on providing tailored technical assistance at country level and developing a regional coordination mechanism intending to capitalize on learnings across borders from countries who share certain cultural and structural commonalities. FIARI activities align closely with the G20 Principles of Innovative Financial Inclusion and liaise

with the GPMI global dialogue. With this in mind, several regional and international development institutions have recently joined the initiative to support implementation of its activities.

In defining FIARI activities and prioritizing measures for its first three-year phase, seven target market segments were identified, with a focus on youth, including own business, startups and SMEs. In this regard, it was timely that AMF has recently organized in the framework of FIARI initiative, a high-level policy forum on “New Venture Finance in the Arab World”, in partnership with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Alliance for Financial Inclusion (AFI). The forum that took place on 20-21 November 2017, gathered more than 160 policy makers, financial regulators, investors, donors and other key stakeholders from the world of startup finance, which explored innovative approaches in entrepreneurship finance and options to create new channels of access to finance for the Arab startups.

Finally, while considering the emerging issues and development around the globe, the AMF forward-looking plans is to continue overarching Arab policymakers’ goals towards universal access to financial services in the region, in close collaboration with its regional and international partners. In this regard, AMF reiterates its appreciation for the energetic and significant engagement of its partners in the region and calls other international development organizations to join FIARI initiative and widely expand their activities, in providing expertise, knowledge and financing. For that purpose, AMF is pleased to welcome interested partners and explore tangible ways of materializing synergies and joining forces for an efficient collaboration and improved coordination to maximize impact in financial inclusion related areas in the Arab region.

Thank you

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