

The Financial Technology Revolution: Opportunities and Challenges in MENA Countries

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Abstract: The countries in the region have all the components they need to move into the digital future. Its well-educated youth have adopted new digital and portable technologies, but this is still in its infancy, and the region's youth face obstacles to putting technology for productive use. The challenge for the region is to create the conditions for these signs to flourish. The key is that MENA countries become “learning communities”, which could lead to an active digital economy. A strong push must be made to seize the opportunities offered by the region's digital economy. Policymakers will need to work on multiple fronts, taking advantage of all available tools. The earlier this began, the greater the chance of today's youth to overcome economic exclusion, and have more opportunities to realize their full potential and that of their region. This article outlines the principles of the new digital economy for the MENA region that embraces innovation and entrepreneurship.

Keywords: new digital economy, economic exclusion, MENA countries.

1. INTRODUCTION

The countries in the region have all the components they need to move into the digital future. Its well-educated youth have adopted new digital and portable technologies, but this is still in its infancy, and the region's youth face obstacles to putting technology for productive use. The challenge for the region is to create the conditions for these signs to flourish. The key is that MENA countries become “learning communities”, which could lead to an active digital economy. A strong push must be made to seize the opportunities offered by the region's digital economy. Policymakers will need to work on multiple fronts, taking advantage of all available tools. The earlier this began, the greater the chance of today's youth to overcome economic exclusion, and have more opportunities to realize their full potential and that of their region. This article outlines the principles of the new digital economy for the MENA region that embraces innovation and entrepreneurship.

While overall growth appears strong, the pace of economic recovery in the region remains slow. Challenges remain - including the slow pace of reforms, the temptation to return to pro-cyclical fiscal policies in the wake of high oil prices, high debt levels and high unemployment rates among the youth and the women - and if not addressed, they can discourage economic recovery and hinder Long-term growth prospects in the region. If the countries of the region were to accelerate growth and create jobs for millions of unemployed youth, they could not put their hopes in pursuing the traditional development path based on industrial exports. Instead, it will have to develop a digital economy that benefits from a young, educated workforce. This will require, first and foremost, the adoption of new technologies and even the provision of “digital public goods”, such as regular broadband Internet solutions and digital payment solutions.

The economic growth in the MENA region was expected to rise to 4.1% in 2018 from an average of 0.2% in 2017. This moderate recovery in the region's growth reflects the positive impact of reforms and economic stabilization policies taken in many countries in parallel with the recent rise in oil prices and external demand for crude. The economic growth in the region was also expected to improve modestly to 6.2% in 2019-2020. The oil exporters will benefit greatly from rising the oil prices and external demand for crude, which is likely to remain high, as well as domestic reforms. The oil importers are expected to benefit from reforms, increased trade with Europe and China, and the financial flows from the oil exporters in the Middle East and North Africa.

MENA countries have all the ingredients to overcome obstacles and make a big leap towards the digital future. It has a large segment of well-educated young people, and is embracing new digital technologies and the mobile phones widely. As well as females with a higher education, this combination promises enormous potential to drive growth and create jobs in the future.

2. THE QUESTION IS WHETHER THE REGION CAN ADAPT TO THE NEW ECONOMIC REALITY

The digital economy augurs well for a new way forward, but it is still in its infancy, and young people continue to face obstacles in the way of productive use of technology. Despite the widespread reach of the Internet and handheld devices in the region, it is currently used to access the social networking sites and not to launch new businesses. But there is "signs of recovery" looming. Karim's delivery and relocation services, for example, began as start-ups and it is now a \$ 1 billion company, providing thousands of jobs in 80 cities in the Middle East and North Africa, Pakistan and Turkey. The digital job platforms connect job seekers with employers, offering vocational training, business incubators and start-ups. The challenge for the region is to create the conditions for these signs to flourish.

In addition to skills, the digital economy will also need technical infrastructure. Accessibility is a prerequisite for the introduction of new mobile and digital services in e-commerce, vocational training, healthcare and finance, all of which will greatly enhance well-being. Therefore, countries in the region should focus on expanding broadband Internet access. The education and Internet infrastructure geared towards productive use will serve as the basis for a new economy.

Ensuring sustainable growth in the region will also require improved the financial systems. The digital economy depends not only on easy-to-use and widely available payment systems, but they should also be reliable. It will be necessary to establish effective payments from analog systems to a peer-style PESA-M system in Kenya, which does not require a financial intermediary such as the banks to ensure the prosperity of the digital to share passenger platforms, and perform tasks on demand, and other services.

The quality of the financial services in the MENA region is currently lagging behind the rest of the world, with the exception of the GCC, which has relatively advanced payment systems. Unless improvements are made to the financial system, and in particular to the banking sector, the region's vast human capital potential will not be realized.

Finally, the governments should develop a regulatory approach that encourages innovation rather than stifling it. Ensuring trust, especially in the financial systems, is essential, but regulations must be balanced with the policies to promote the competition, so that start-ups can easily enter the market and experience new ideas. There should be more room for other companies, such as Karim. The policymakers should consider the Kenyan model of regulation that combines ease and efficiency, which has promoted the rapid growth of the M-PESA system. A strong push must be made to seize the opportunities offered by the digital economy to the MENA region, where the policymakers must work on multiple fronts, making the best use of all available tools. The sooner it starts, the more opportunities young people have today to overcome economic exclusion, and have more opportunities to realize their full potential and that of their region.

The financial technology, or Fintech, must be defined in this article. The financial technology or "Fintech" is a term that few have heard about less than a decade ago because of the degree of its specialization, which addresses investors interested in this technology. But since 2010, the term has been gaining popularity every year for its predecessor, with small investors or ordinary people needing it to facilitate their financial transactions. By the end of the first decade of the 21st century, the term financial technology was expanded to include any new financial innovations in the financial sector, including the financial literacy, the retail banking, the financial investment, the fund transfer, the loans, the fundraising and the asset management. The term financial technology can be applied to any innovation in how the individuals deal with business, such as inventing new money as a bitcoin. Banks, their financial customers, consumers and small businesses are the main users of the new financial technology. This article will answer the following questions:

1. What are the motivations and impediments to financial technology in the Middle East and North Africa?
2. What are the solutions offered by start-ups in the field of financial technology?
3. What are the main barriers these start-ups face and how can we overcome them?
4. What is the potential of financial technology in the region?
5. What are the necessary needs to be available to unlock these possibilities?

The financial technology sector (FinTech) is gaining ground in the world of entrepreneurship. Innovative companies are finding new solutions to old problems in the Middle East, as in all regions of the world. In the Arab world alone, the number of start-ups operating in the financial services sector has doubled dramatically, from 46 in 2013 to 105 at the end of 2015. Start-ups operating in this sector are located in 12 Arab countries in the region and the most successful in this sector are the United Arab Emirates, Lebanon, Bahrain, Qatar, Jordan and Egypt. Among these countries, the United Arab Emirates is the most successful in this sector, providing a very suitable environment for the growth of financial technology companies.

The phenomenal growth of these companies in the Arab world is due to four unique factors in the region that enable innovative companies to enter new approaches to finance.

- ✓ Firstly currently, 86% of adults in the region do not have bank accounts, but rely on cash for their purchases. Companies trying to break this barrier have great potential to ensure their growth.
- ✓ Second Debt in the region is mainly provided by major banks. In fact, providing debt to SMEs in the MENA region is half its value compared to the rest of the world, leaving a huge gap for innovative companies to benefit from and grow in this area.
- ✓ Third E-commerce is growing rapidly in the region and is expected to quadruple in the next five years. Companies that can take advantage of this from the moment have a great opportunity to grow in the coming years.
- ✓ Fourthly 1 in 2 bank customers said they are interested in trying out new digital services which means that adopting innovative services will be accepted by consumers in the region.

The financial technology sector will witness real growth and emergence until 2020. With early signs of the development of the payments sector especially in the GCC, a new wave of start-ups is expected to enter the financial technology sector once the sector stabilizes and has a strong presence in the region.

In recent years, a new generation of financial technology start-ups has emerged supporting financial institutions and digital solution providers, transforming financial markets around the world by leveraging technological innovations in finance. In light of this rapid development, methods are needed to ensure that the revolution in financial technology is employed for the benefit of society and the economy, taking into account the protection of consumers and the financial system. Financing has evolved thanks to technological developments over the centuries. Over the past decade, however, technology-based innovations in finance have enhanced consumers' access to many services in the areas of payments, lending, insurance, savings and investment, and have come at an unprecedented pace and scope.

Financial technology is expected to contribute to enhancing the financial inclusion of millions of individuals and micro, small and medium enterprises in Arab countries by overcoming traditional barriers. The market in the region is expected to be worth \$ 2.5 billion by 2022. With the use of new tools such as Supervisory Technology (SupTech), regulators can handle the situation successfully and better address emerging risks, balancing the promotion of financial technology with financial inclusion, stability, integrity and customer protection.

Block chain technology based on decentralized logging technology is one of the most famous innovations of financial technology along with artificial intelligence, cloud services and big data. It is used because of its efficiency to reach a larger and more comprehensive market quickly, safely and at a lower cost. For example, the use of technology in the clearing, the settlement, the transfer of funds across borders, digital currencies, digital identity and payments of individuals.

Financial technology links the ICT and financial sectors; these sectors are growth markets and enabling factors for Arab economies. More and more young people are well educated and knowledgeable about modern technology, but they do not get decent jobs, making them adopt innovative services or start such projects. Financial institutions and government agencies are pushing for funding innovations driven by improvements in infrastructure and enormous market potential from people not served by banks in the Arab region (63% of adults - according to the World Bank) as well as companies (a funding gap of 2.5%). Billion - according to the International Finance Corporation (IFC), start-ups and major technology companies that have huge funds and aggregation of data.

The adoption of financial technology faces multiple challenges. The old regulations are the first obstacle to the growth of financial technology start-ups, further circumventing regulations. A study showed that more than 85% of financial technology companies were prepared to leave for other countries because of regulations. Because technology knows no

borders and requires a large scale to make a profit, multinationals have an edge over local start-ups that find it difficult to expand into new markets across borders. Most importantly, the new world is not only full of opportunities, but is also fraught with a range of known and unknown risks at several levels, from individuals (data breaches, data privacy breaches, discrimination, etc.) to the financial system (fraud, fraud, viruses, exclusion, attacks, and electronic instability).

The first Arab Forum on the Modern Financial Technologies, held in December 2018 as part of the Financial Inclusion Initiative for the Arab Region, allowed regulators, professionals and experts to explore the potential of financial technology in the region. Countries have already highlighted impressive projects such as Peacock Financials (a Moroccan company providing a reporting and analytics platform), AtCash (an Emirati company providing digital identity solutions based on distributed registry technology), Neumann (a Lebanese company providing a platform for data based on artificial intelligence), and the government initiative "Dubai Smart".

There is thus much scope for creating an enabling platform for more transformational financial technology companies to emerge. The UAE ranks first among the Arab countries on the Global Innovation Index, ranking 38th globally, followed by Qatar and Saudi Arabia at 51st and 61st respectively. In order to have a common platform leading to financial innovation in the Arab region, action is needed in the following three areas:

1. **Regulatory cooperation:** There is scope for creating a secure environment for regulatory authorities to exchange experiences on technology solutions, exchange supervisory information, cooperate in solving emerging financial technology problems and develop intelligent regulations.
2. **Organizational learning:** Financial authorities can build institutional capacity by bringing technical experts and decision-makers to training courses and peer-to-peer learning sessions and benefiting from international good practices on countries' access to modern technology.
3. **Regulatory experience:** Authorities at the bilateral or the multilateral level can adopt common tests to access appropriate RegTech regulatory technology, as well as to harmonize licensing methods. The environment in which dialogue, development meetings and workshops reduce the time it takes for the financial technology companies to access their innovative solutions to the market, allowing them to scale up or cross-border solutions fairly and efficiently.

A new framework for cooperation between the financial regulators on the innovation-related topics would help to build institutional capacity and strengthen the conditions of the regionally integrated framework for scaling up cross-border financing technology, including inclusion, stability, integrity and protection considerations. International initiatives have already emerged for new frameworks for collaboration on a regional scale beyond testing, testing or enhancing block chain technology and financial technology solutions such as the Association of Southeast Asian Nations (ASEAN) for Financial Innovation (AFIN) and the Global Financial Innovation Network (GFIN).

AFIN is currently running the API and Test Environment Platform (APIX) market. GFIN is still at an early stage where there are plans to provide a common environment methodology for testing new services in multiple regions as well as providing a forum for cross-border knowledge sharing.

With the rush of both the start-ups and the existing companies to the market by using new technology solutions, it had to be supportive of the existence of a basic system in the Arab region is based on the cooperation, learning and experience in order to strengthen financial sectors and the adoption of the innovation. This is to allow for the customer growth and the market prosperity and to guide the countries on the way to digitizing their economies. By joining forces, the financial policy makers, advocates and the agents of change can tap this enormous potential for sustainable economic development in the region.

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