مؤسسة الملك خالد الخيرية
King Khalid Foundation

# FINANCIAL INCLUSION IN SAUDI ARABIA

Reaching the financially excluded

"My primary goal is for our nation to be a leading global model of success in all domains, and we will work together to achieve this aim."

**Salman bin Abdulaziz Al-Saud**

# Introduction

Today our society is reaping the benefits of several features which have been introduced by the digital revolution and by the advancements in the international financial system. Most of us have bank accounts, ATM cards, and credit cards. Some of us prefer to shop online to pick and choose from global markets, while others use electronic banking services to pay utility bills. Commercial and government banks (e.g., Social Development Bank, Real Estate Development Fund) provide loans to members of the society who need them. Further, many financial services are accessible to enterprises, especially small and medium ones, as well as to entrepreneurs, and these include online selling platforms and training programs related to financing and microloans.



## Are you aware, however, that there are members of society who cannot open bank accounts? That there are enterprises that cannot obtain basic financial services, such as credit or ATM cards?

Through this publication, KKF aims to shed light on the less fortunate segments of society who cannot fully benefit from financial and banking products and services. The Foundation also includes recommendations that aim to enable such segments from gaining access to these services, which will then reflect positively on their living conditions and financial independence, in addition to minimizing their reliance on others. Further, we present financial inclusion data related to savings, loans, bank account ownership, and financial literacy rates in Saudi society. In addition, we also highlight governmental efforts in this area, the most significant of which was the Financial Sector Development Program 2020 which was launched in 2018, and which helped outline the Kingdom's financial inclusion policy. The report is concluded with five recommendations directed at several government entities. The recommendations emphasize KKF's vision of promoting access to financial services for the following segments in society: **women, stateless persons, defaulting persons, and non-profit organizations**.

We are looking forward to collaborating with our partners in the government sector to facilitate access to financial products and services to all individuals and establishments in the Kingdom of Saudi Arabia, especially the less fortunate, since the Custodian of the Two Holy Mosques aims for the Kingdom to be **"a leading global model of success in all domains"**.

# Overview

## of Financial Inclusion Domestically and Globally

Many individuals and commercial establishments do not have access to financial services and products, such as opening bank accounts or investment accounts, applying for loans, being issued credit cards, transferring money, and obtaining insurance. On an international scale, there are approximately 1.8 billion unbanked adults (15+) worldwide[1], approximately 6.9 million of them are in the Kingdom, which represents 28% of the Kingdom's adult population. It is worth noting that the rate of bank account ownership around the world has grown from 51% in 2011 to 69% in 2017. In the Kingdom, bank account penetration rates are 72% of the adult population[2].

An international trend to address this issue has been detected via what are known as financial inclusion policies. These policies aim at integrating unbanked segments of the population. Goal 8 of the United Nation's Sustainable Development Goals 2030, which is related to promoting continual and comprehensive economic growth for all, emphasizes enhancing the ability of financial institutions in such a manner that enables such institutions to provide financial products and services to all segments of society, especially less fortunate groups because empowering such groups contributes to economic growth[3].

The World Bank's Global Findex Database is the most comprehensive benchmarking index that tracks and documents financial inclusion rates in different countries including the Kingdom. Global Findex addresses different dimensions, such as bank account ownership, making payments, savings, loans, and managing risks. Findex results have revealed that a country's high ranking is positively associated with lower rates of poverty, hunger, and inequality[4].

*The Global Findex Database issued by the World Bank Group provides data on how adults (15+) save and borrow money, make payments, and manage financial risks, in addition to data on bank account ownership. The Global Findex Database also provides data on more than 140 countries. The data is based on surveys conducted in collaboration with Gallup. Global Findex provides data for 2011, 2014, and 2017, including data for Saudi Arabia. The Saudi 2017 sample consisted of 1,009 individuals.

8 Decent Work and Economic Growth

### Goal 8
Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all:

8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all

8.10.2 The percentage of adults (15+) who have accounts with banks, financial institutions, or mobile financial service providers

SUSTAINABLE DEVELOPMENT GOALS

According to these indicators, the following segments suffer from financial exclusion in most countries worldwide:

1. **Women**
   constitute 56% of unbanked persons
2. **Low-income groups**
   the poorest 40% of families constitutes approximately half of the unbanked persons worldwide
3. **Less-educated individuals**
   constitute 62% of unbanked persons
4. **Persons outside the labor force**
   represent 47% of unbanked persons
5. **Those living in remote and rural areas**

## What are financial products and services?

| Bank accounts | Loans | Credit Cards | Bank Transfers | Insurance | Investment Portfolios |
|---|---|---|---|---|---|

The Global Findex Database shows that the Kingdom is in line with relevant international trends since segments that face difficulties in accessing financial services and products include **women, persons outside the labor force, low-income groups, and less educated individuals**. However, people living in remote or rural areas in the Kingdom do not suffer from financial exclusion, since bank account ownership rates are estimated at 79% among the adult rural in Saudi Arabia[5].

In addition to addressing the four segments that suffer the most from financial exclusion, this report also considers other segments in the Kingdom suffering from the same issue. The World Bank defines financial inclusion as when "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".

KKF believes that the scope of financial inclusion goes beyond individuals and businesses to include **non-profit organizations** as well.

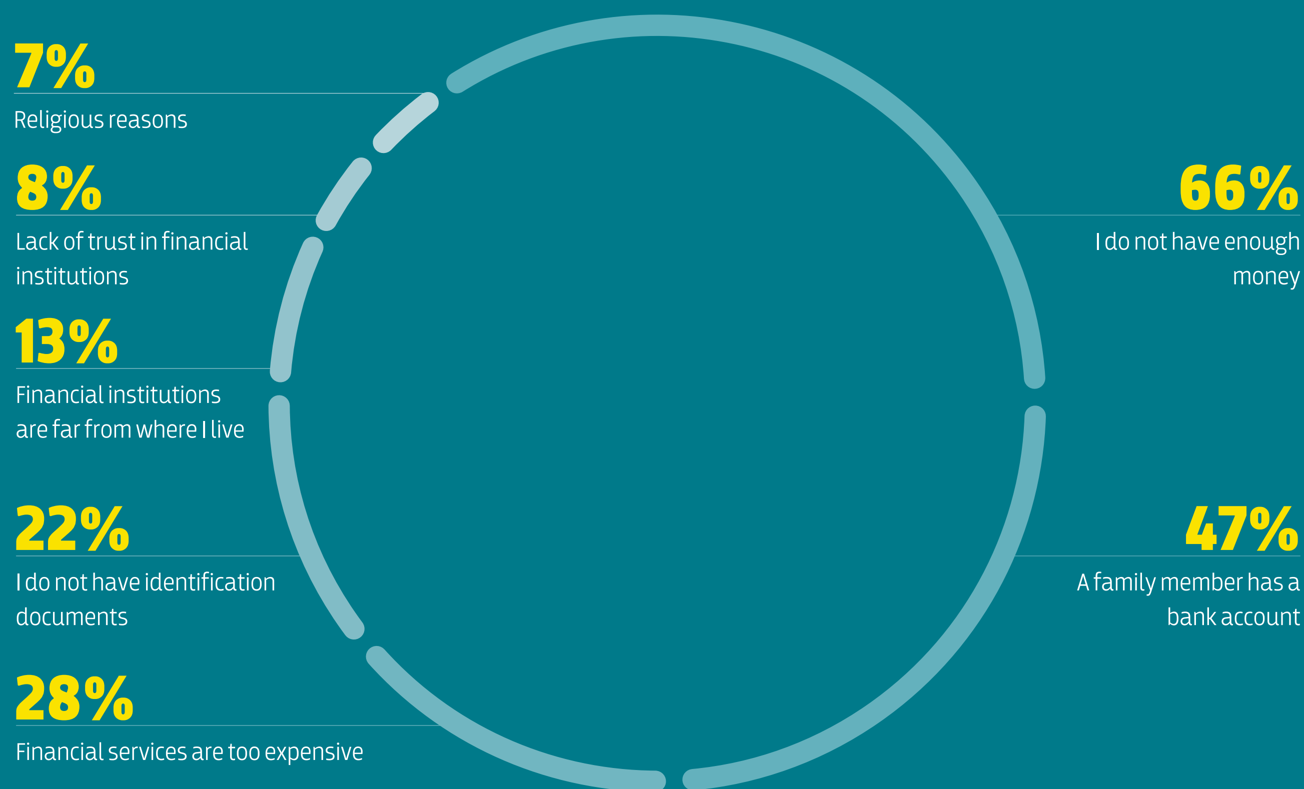

# Financial
## Inclusion Indicators in the Kingdom



### Bank Accounts 2017:

- Bank account ownership rates among the Kingdom's adult population are estimated at 72%[6], and the target is for these rates to reach 80% according to the objectives of the Financial Sector Development Program[7].
- 28% of the population is unbanked due to the following reasons:

**Reasons for not Having Bank Accounts***




- 13%[8] of those who own bank accounts in the Kingdom (Saudis and non-Saudis) do not use their accounts. Comparable international rates estimate those underbanked to be 20%, while in high-income countries, this segment accounts for only 4%, which indicates a lack of financial literacy, or other limitations that prevent individuals from fully utilizing their bank accounts.

A KKF survey indicates that most Saudis who own bank accounts have used their accounts during the last six months.

**Have you used your bank account during the last 6 months?**




* The total exceeds 100% because participants were allowed to choose more than one reason through Global Findex surveys.

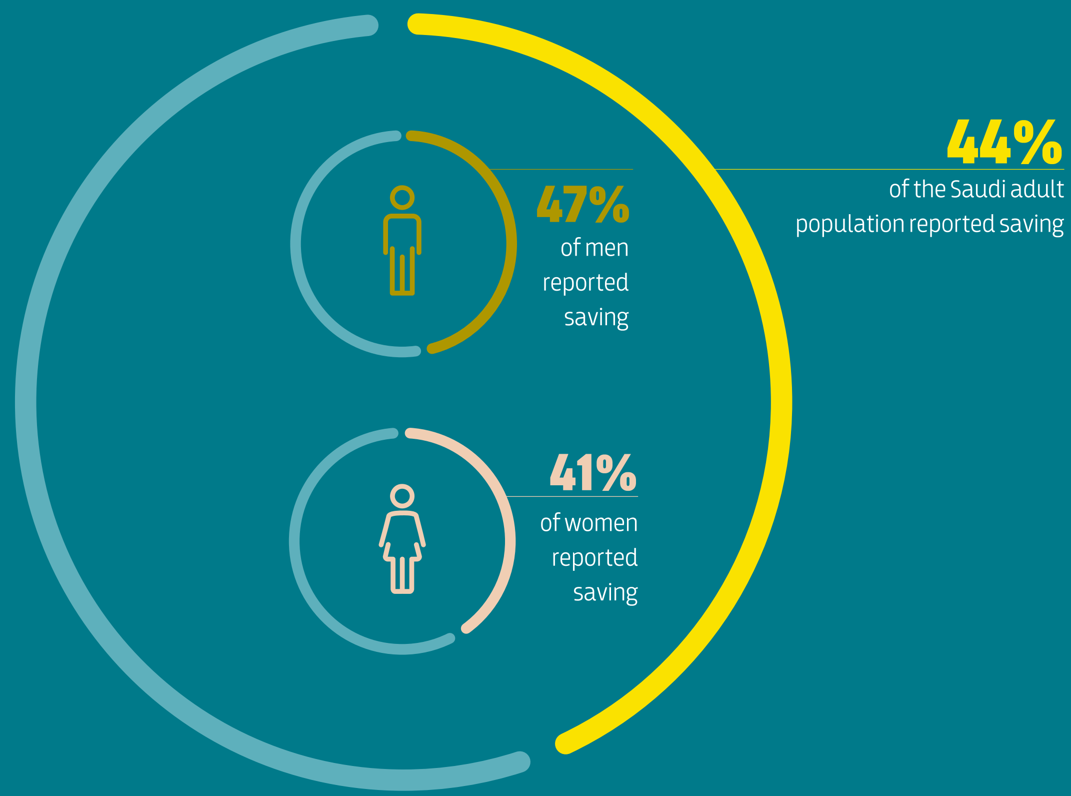
** KKF conducted a phone survey through King Abdulaziz Center for National Dialogue's Public Opinion Poll Center in August 2018 on a representative sample of Saudi adults including 1,151 participants. The results and methodology were independently reviewed for data quality.

## Financial Inclusion Indicators in the Kingdom

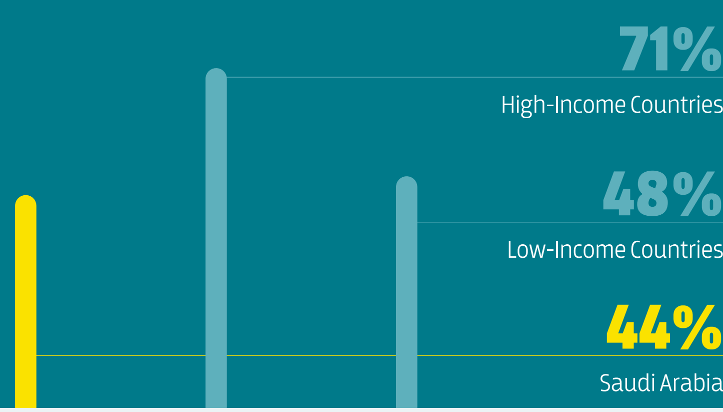
### Savings 2018:

- 44% of Saudi adults reported saving, compared to savings being reported by 47% of men and 41% of women [9]. The figure below compares savings rates in Saudi Arabia to other countries:

- Only 14% of the Kingdom's adult population deposits their savings in banks, while 30% keep their money elsewhere.
- Most Saudis deposit their savings in bank accounts, while a smaller percentage prefers to keep their savings with friends and colleagues via financial community groups[11].




**Savings Rates in Saudi Arabia and Other Countries**




**Preferred Savings Methods among Saudis**


* The total exceeds 100% because participants were allowed to choose more than one reason through Global Findex surveys.

## Loans 2018:

- KKF's survey indicates that 31% of Saudis borrow money.
- 60% of Saudi borrowers prefer to borrow money through bank loans, which is followed by borrowing money from friends and relatives (25%). Survey responses also indicate that loans provided by government banks (e.g., Real Estate Development Fund, Social Development Bank) play an important role as well (15%)[12].

### Borrowing Money during the Last 12 Months among Survey Participants


### Preferred Methods for Borrowing Money in the Saudi Society


- The Global Findex Database indicates that 48% of the world's adult population has access to emergency funds, mostly from relatives and friends (37%), employers (30%), or savings (21%).

* The total exceeds 100% because participants were allowed to choose more than one reason through Global Findex surveys.

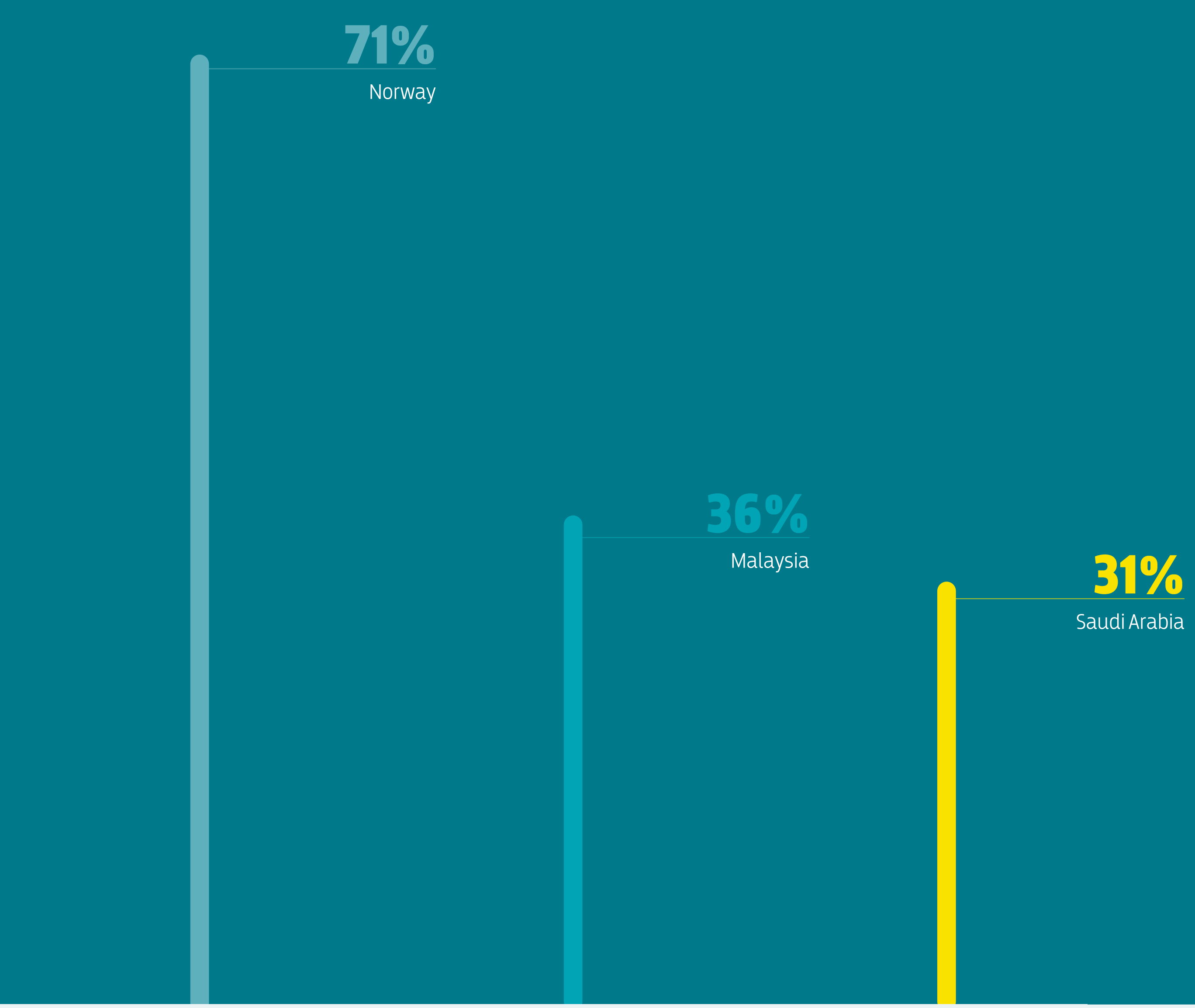
## Financial Literacy 2017:

- Financial literacy rates among the Kingdom's adult population are estimated at 31% compared to other countries, based on a World Bank Survey[13].

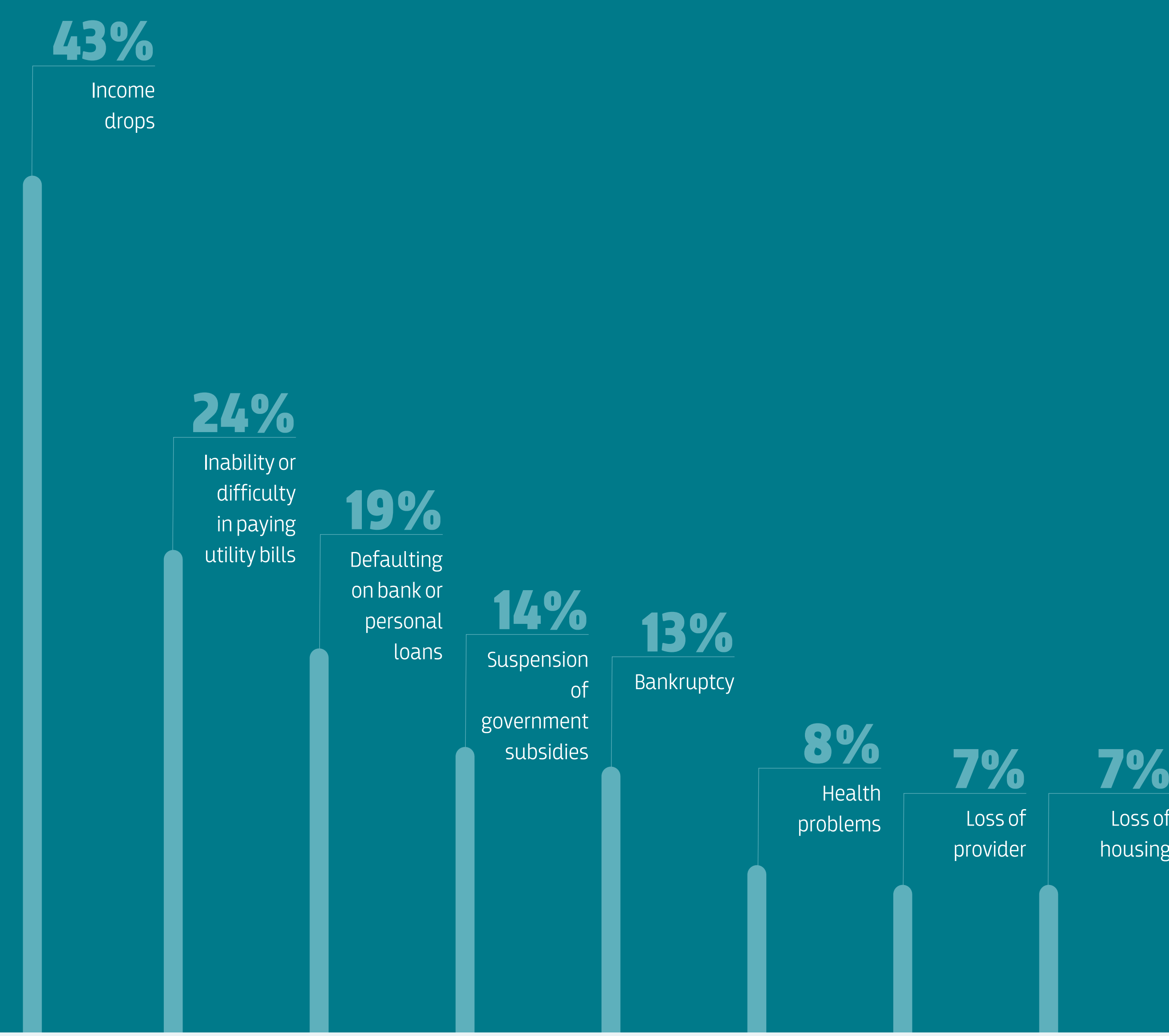
## Financial Issues Encountered by Saudis in 2018:

- A KKF survey indicates that the most significant financial difficulty encountered by Saudis during the last 12 months were income drops (43%), inability or difficulty in paying utility bills (24%), and defaulting on bank or personal loans (19%).

### Financial Literacy Rates in Saudi Arabia and Other Countries




### Financial Difficulties Encountered by the Saudi Society during the Last 12 Months




* The total exceeds 100% because participants were allowed to choose more than one reason.

# Who Are the Financially Excluded in the Kingdom?

## First:
## The Stateless

There are stateless persons in the Kingdom who are deprived of educational and medical services, employment, marriage, and even issuing birth certificates for their children because of the lack of legal identification documents. These individuals are found among several migrant tribes from the northern regions of the Arabian Peninsula, certain tribes in the south, and among some of the people residing near the border in the Kingdom's southeastern region, in addition to some Arab, Asian, and African communities that settled in the Western Region several generations ago. Identification documents, in the form of mobility documents or residency permits, have been issued to some of these groups, but the majority remains without. Lack of legal identification documents causes a decline in the humanitarian status of these groups, as well as limiting any opportunities they may have to improve their standards of living, and obstructing their full integration into society.

In terms of financial inclusion, opening bank accounts in the Kingdom requires individuals to have legal identification documents to verify their identities in accordance with international standards. Therefore, stateless persons cannot open bank accounts because some of them either do not have mobility documents or residency permits, or their mobility documents are invalid or in need of renewal.

The Global Findex Database indicates that the percentage of unbanked persons due to the lack of legal identification documents in the Kingdom in 2017 was 22% of the total number of the unbanked; and this translates into approximately 1.5 million adults in Saudi Arabia. This emphasizes the urgency of addressing the needs of this group of people since their lack of bank accounts minimizes employment opportunities because employment requires individuals to have bank accounts. Further, the lack of identification documents makes it impossible for employers to register them with the General Organization for Social Insurance, which means they will not receive proper social insurance coverage. Citizen's Account policies have provided allowances to persons with mobility documents, provided that they have bank accounts, which is a positive step towards the financial inclusion of this group. However, rectifying the legal and regulatory status for all stateless persons has become a necessity in order to provide more social protection programs that cater to their needs, especially opening bank accounts and retirement benefits.

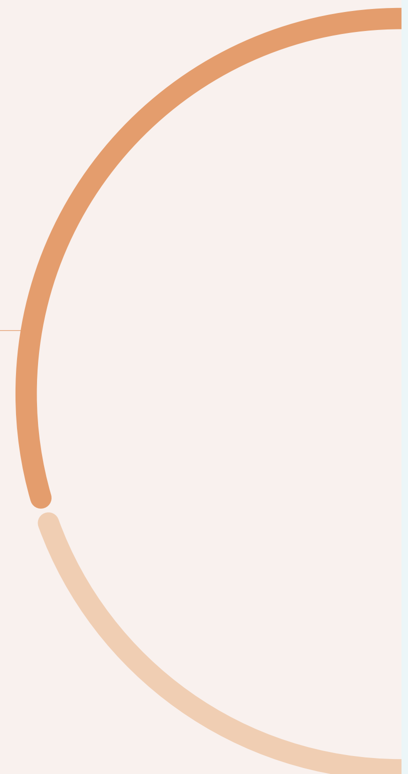
* The number of stateless adults who do not have bank accounts in the Kingdom was estimated to be 1,509,998 adults. This number was a result of multiplying 22% (the percentage of adults who do not have bank accounts in Saudi Arabia due to the lack of legal identification documents of the overall number of adults who do not have bank accounts) by 6,863,628 (the number of adults who do not have bank accounts in Saudi Arabia). It is important to indicate that it is impossible to link this number with certainty to individuals who do not have legal identities since some people might have expired IDs or have not been issued IDs for any other reason. The number of adults who do not have bank accounts was estimated by multiplying the percentage of those who do not have bank accounts according to the Global Findex Database 2017, which is 28%, by the adult population (15+), which is 24,512,956, according to the Population Characteristics Survey of 2017 issued by the General Authority for Statistics.

## Second: Women

There are 6.9 million unbanked adults in the Kingdom. Sixty percent[15] of them are women. Approximately 4,156,765 women do not own bank accounts compared to 2,777,020 million men[16].

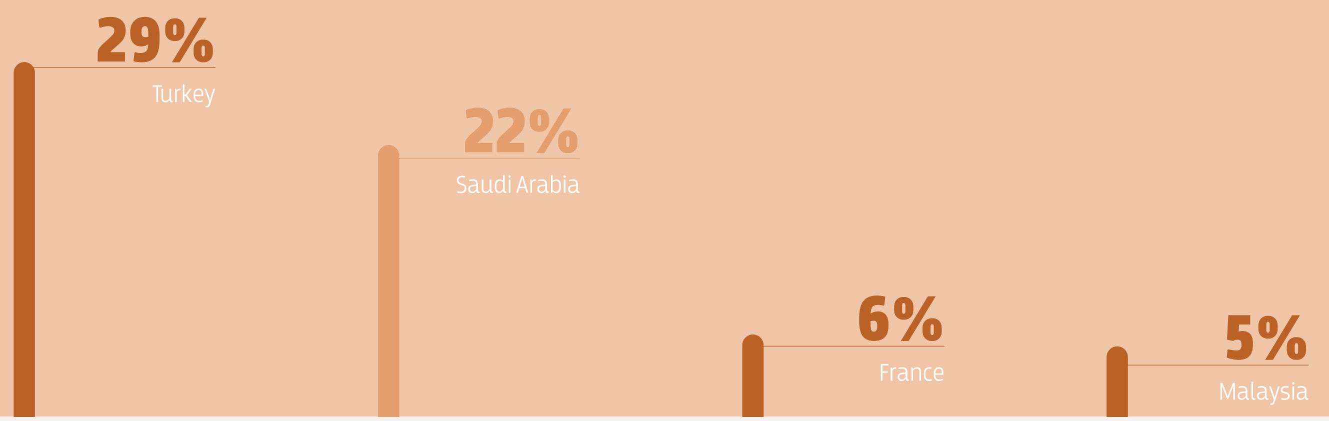
**60%**

of women do not own bank accounts



Furthermore, 58% of women own bank accounts in Saudi Arabia, which is considered low compared to the average rates of high-income countries, among which Saudi Arabia has been grouped, according to the Global Findex Database. According to the Global Findex, 93%[17] of women in high-income countries own bank accounts. This means it is imperative that we work towards increasing the percentage of bank account ownership among this segment to reach the rates in countries of the same category.
Global Findex data indicate that the gender gap in terms of bank account ownership in the Kingdom[18] has been estimated at 22%, to the benefit of males.

### Gender Gap in Terms of Bank Account Penetration




## Third: Persons Outside the Labor Force

Joining the labor force is considered one of the most important instruments of financial inclusion because employed persons are required to open bank accounts to receive their salaries, as well as using their accounts to save and transfer funds, which complies with the Saudi Wage Protection System. The Global Findex Database indicates that bank account ownership rates among employed persons exceed those of the unemployed. Bank account ownership among employed individuals is 74% worldwide, compared to only 59% for the unemployed, which is a 15% difference[19].
The rate in Saudi Arabia is lower since only 50% of the population outside the labor force owns bank accounts, compared to 80% of those who are in the labor force, which is a 30% difference. This highlights the importance of providing decent employment opportunities for everyone, and especially those that come from low-income households.

Fourth:
## Defaulting and Limited Income Groups

Limited income segments are the most susceptible to financial exclusion because of their unfamiliarity with financial services and products, in addition to their low incomes. Limited income segments represent half of unbanked persons worldwide[20]. In Saudi Arabia, the percentage of unbanked persons among the poor is 35% compared to 24% among other income groups, which means the gap between low income groups and other income groups is 11%[21].

In addition, other difficulties face those who have defaulted on the payment of their loans. In accordance with the Judicial Enforcement Law and its Implementing Regulations, persons who are late in paying the installments of their loans face judicial enforcement for civil claims. As a result, they are sentenced to imprisonment until their debts are paid off. Although, on an international scale, defaulting persons are not sentenced to prison, and defaulting on a loan is not classified as a crime that is punishable by imprisonment. In such cases, the property of defaulting persons is foreclosed and their services are suspended. Furthermore, the financial repercussions on families whose providers are imprisoned are devastating due to added financial burdens, in addition to the added burden that the government has to bear due to the growing number of prisoners. This also includes the psychological and social suffering of defaulting persons and their families due to imprisonment.

### Article 46 of the Judicial Enforcement Law issued by Royal Decree No. M/53 dated 13/08/1433H states:

“If the debtor fails to comply or disclose property sufficient to satisfy the debt within five days from the date of notifying him of the writ of execution or from the date of its publication in a newspaper if notification was not possible, said debtor shall be deemed in default. The enforcement judge shall immediately order the following:

1- Banning the debtor from travel.

2- Banning the debtor from issuing powers of attorney directly or indirectly regarding the property and whatever relates thereto.

3- Disclosing the debtor’s present and future property in the amount that satisfies the debt in the enforcement document as well as charges of attachment and enforcement in accordance with the provisions of the Law.

4- Disclosing the debtor’s commercial and professional licenses and registers.

5- Notifying an authorized notary to register the credit information of the non-enforcement deed thereof.

**In addition to the above mentioned, as the case may be, the enforcement judge may undertake any of the following:**

A- Barring government agencies from dealing with the debtor and seizing his dues therewith. Said agencies shall notify the enforcement judge of their compliance.

B- Barring financial institutions from dealing with the debtor.

C- Ordering disclosure of the property of the debtor’s spouse, children, and whomsoever circumstantial evidence indicates that any property may be transferred to or that he is being favored therewith If the suspicion is established by evidence or presumptions that property has been concealed, the matter shall be referred to the competent judge for review..

**D- Imprisoning the debtor according to the provisions of this Law.**”

## Fifth: Less Educated Individuals

Less educated individuals suffer from limited access to banking services and weak financial inclusion because they are considered among the most financially excluded segments worldwide. This segment represents 62% of those who do not have bank accounts. The Global Findex Database reveals that the bank account ownership rate among individuals in Saudi Arabia with elementary degrees is 65%, compared to 73% among those who have high school diplomas or higher degrees. The Index also indicates that the percentage of individuals who save their money among elementary certificate holders was only 5% compared to 16% among high school graduates or those with higher degrees.

## Sixth: Financial Inclusion of Non-Profit Organizations

Addressing the consequences of the increasingly strict implementation of regulations that control transactions between financial institutions and non-profit organizations, with the aim of combatting money laundering and the financing of terrorism (AML/CFT), is considered an important issue that pertains to the financial inclusion of the non-profit sector. Some exaggerate in the implementation of restrictions to the point of excluding the non-profit sector from financial transactions, especially in the Arab World[22], which usually leads to resorting to other illegal means.

Nevertheless, ongoing dialogue about the non-profit sector's financial inclusion exceeds the scope of the Arab World reaching other countries. The C20's Civil Society Summit—held in Argentina in 2018—issued several recommendations from Civil Society Organizations to G20 governments calling for a re-assessment of the financial restrictions enforced on non-profit organizations worldwide, especially in terms of international financial transactions, and the restrictions placed on banks and financial institutions, which have driven banks to suspend all transactions with non-profit organizations due to associated risks (i.e., bank de-risking)[23]. This has adverse effects on the capacity of non-profit organizations to invest in developmental work in their communities, in addition to preventing them from making any real social or economic contributions.

The Summit also called for the creation of a joint work team consisting of representatives from the G20 and the Global Partnership for Financial Inclusion (GPFI) to help identify and overcome the causes of the lack of financial inclusion of non-profit organizations. The C20 also issued a recommendation to the Financial Action Task Force (FATF) to prepare guidelines for non-profit organizations and financial institutions with regards to sound practices on the risk-based approach[24].

Studies have also revealed that there is no conflict—in principle—between the goals of financial inclusion and the goals of AML/CFT. On the contrary, countries that need assistance in AML/CFT also usually need assistance in expanding the scope of financial inclusion and empowering their citizens to access official financial services, which ultimately limits the practices of money laundering and financing terrorism[25].The conflict occurs when banks and financial institutions engage in de-risking and exaggerate in the implementation of regulations preemptively to avoid the risks associated with non-profit organizations, which leads to their exclusion and weakens their social and economic impact. It also restricts the efforts that aim at promoting security and development among communities that are suffering due to money laundering and terrorist acts. Further, studies have highlighted the importance of enhancing coordination among concerned international organizations, central banks, and financial institutions worldwide to examine and address the problem, in addition to controlling any possible social consequences.

KKF believes in the importance of keeping abreast of international efforts that aim at expanding the scope of financial inclusion among non-profit organization to facilitate their financial transactions because non-profit organizations in the Kingdom suffer from restricted financial transactions with Saudi banks which differ from one bank to another. KKF has also addressed this issue in its recent report "The Saudi Nonprofit Trends Report 2018"[26] by calling on the Saudi Arabian Monetary Authority (SAMA) to reconsider the financial restrictions imposed on non-profit sector establishments in terms of bank transactions by making such restrictions similar to those imposed on their private sector counterparts. Saudi Vision 2030 has emphasized the empowerment of both sectors by enhancing and improving their work environments in a manner that promotes their economic and developmental roles. The Foundation is currently coordinating with its partners at the Ministry of Labor and Social Development and SAMA to discuss these restrictions in an attempt to resolve the issue and alleviate any negative impacts on a domestic scale. The Kingdom can play a pivotal role in this regard on an international scale, especially during its G20 Presidency in 2020, by encouraging international organizations, such as GPFI and FATF, to re-evaluate the negative consequences of the exaggerated implementation of AML/CFT regulations and bank de-risking, which have restricted the non-profit sector worldwide. This is due to the exaggerated implementation of such regulations by banks and the absence or lack of risk management strategies, which leads to the unwarranted exclusion of non-profit organizations from financial transactions.

## Financial inclusion within Saudi Vision 2030 and the Financial Sector Development Program 2020

Saudi Vision 2030 has prioritized the promotion of the financial sector in order for it to become a diversified and effective sector that supports the development of the national economy, in addition to encouraging savings, financing, and investing, and maximizing the financial sector's efficiency to increase assets, expand its beneficiaries, and address associated challenges. To this aim, the Council of Economic and Development Affairs launched the "Financial Sector Development Program 2020", an executive program to fulfill Vision 2030's objectives, such as the goal concerned with "promoting and enabling financial planning".

**The Program's Delivery Plan includes, among its aspirations, the promotion of an inclusive structure for the financial services sector, as well as achieving significant improvement in financial inclusion, which will be realized in two ways: Increasing bank account ownership among adults in the Kingdom from 74% in 2016 to 80% in 2020, and encouraging the financing of productive financing assets, such as increasing loans to small and medium enterprises and mortgages[27].**
**The Financial Sector Development Program's third main objective is "Promoting and enabling financial planning". This objective involves achieving the following four targets:**

1. Stimulating and bolstering sustainable demand for savings schemes
2. Driving expansion of savings products and channels available in the market
3. Improving and strengthening savings ecosystems
4. Enhancing financial literacy

**The Program proposed two important initiatives, namely, establishing a National Savings Entity, which provides government-backed retail savings products, and establishing a Financial Literacy Entity. Additionally, the Program involves the following seven initiatives:**

1. Developing tailored products: Home-ownership savings scheme
2. Developing tailored products: Education savings scheme
3. Distributing collective investment schemes through non-AP entities
4. Developing tailored products for low-income segments
5. Automatically enrolling Citizen's Account beneficiaries in the National Savings Entity
6. Simplifying access to banking savings products
7. Introducing incentives for banks to attract long-term deposits

## Financial Inclusion in the Policies and Initiatives of the Saudi Arabian Monetary Authority (SAMA):

**The Financial Sector Development Program 2020 is concerned with the recommendations issued by the National Savings Committee and the National Savings Strategy, led by SAMA. Both the Committee and Strategy are concerned with promoting the culture of savings and developing the savings of individuals including low-income groups. Further, they encourage savings initiatives that meet the needs of all segments of society and promote the culture of saving and financial planning among individuals.**

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Saudi Arabian Monetary Authority

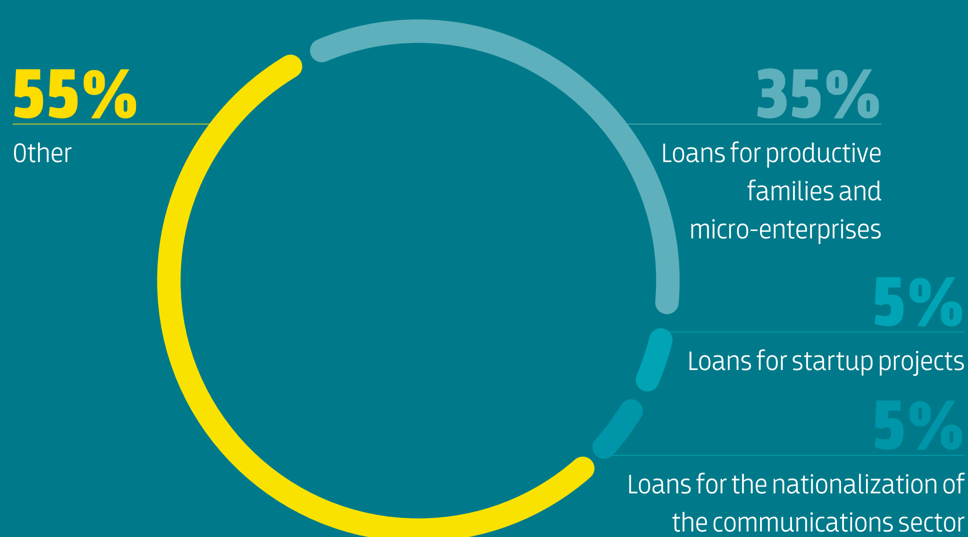
In addition, as a central bank, SAMA has many contributions with regards to promoting financial inclusion. Central banks worldwide typically engage in adopting financial inclusion policies, increasing the clientele of financial institutions, and diversifying the range of banking services and products, with an emphasis on consumer protection. SAMA collaborates closely with Saudi banks during the Arab Financial Inclusion Day by organizing awareness campaigns targeting their clients. They also propose rules and regulations aiming at consumer protection, such as the principles for protecting the consumers of banking, insurance, and financial services, in addition to the "Responsible Lending Principles for Individual Customers", which were implemented in 2018.
SAMA has also played a role in diversifying access to financial services. An example is the agency banking initiative, which plays a role in increasing bank account ownership among establishments and individuals. Banking agents enable quick and easy access to financial services, especially in small cities and towns. Further, SAMA encourages regulatory creativity with regards to the promotion of financial inclusion as well as the financial empowerment of women. Other contributions include designing and developing a financial inclusion database, in addition to promoting financial literacy and awareness among different segments in society and especially the youth.
Both SAMA and the Capital Market Authority (CMA) have realized the role of technology in enhancing financial inclusion and expanding the scope of access to financial services and investment products by proposing several Fintech initiatives. These initiatives emphasize digital financial inclusion via electronic channels that enable all segments of society to access financial and investment services and products.
The most recent Fintech initiative was the launch of the digital payments service in collaboration with the Digital Transformation Program 2020.
The Kingdom took part in several organizations involved in financial inclusion, such as MENA-FATF. It also hosted the GPFI meetings and Forum entitled "Technological Trends in Digital Financial Inclusion", which were held in Riyadh during July of 2018.
The Forum addressed how blockchain technology can promote financial inclusion and its relevant policies. It also included workshops related to improving the access of women to financial services.

## Financial Inclusion via the Social Development Bank's Products:

The Social Development Bank is considered a vital government body that is concerned with enhancing financial inclusion and providing financial services to less fortunate segments in the Kingdom by offering subsidized social loans, in addition to the Bank's recent initiatives in relation to savings and promoting financial literacy among its beneficiaries. The social loans provided by the Bank include marriage loans, family loans, and home renovation loans, in addition to loans that are provided via charities which are directed to orphans, prisoners, and families in need. Since its establishment in 1971, the Social Development Bank has granted more than 2.5 million loans to 7.7 million citizens including social loans and loans for developmental projects, which amount to approximately 102 billion SR. Further, more than 72% of the marriages in the Kingdom between 2011 and 2016 were financed by the Social Development Bank's marriage loans[28].
The Bank is active in providing productivity loans related to financing small enterprises. A total of 13,544 of these loans were granted in 2017, which amounts to 706.3 million SR[29].

The Social Development Bank also offers non-financial services related to building the capacities of the owners of small and productive enterprises, in addition to financial literacy and awareness services.

**Productivity Loans Granted by the Social Development Bank in 2017[30]**




## The Ministry of Justice's Efforts with Regards to Defaulting Persons:

The National Committee for the Welfare of Prisoners, Ex-Inmates, and their Families (Tarahum) plays a limited role in the protection and empowerment of defaulting persons due to the lack of contributions to help them pay off their debts. It is worth noting that the Ministry of Justice has reconsidered Article 83 of the Judicial Enforcement Law issued by Royal Decree No. M/53 dated 13/08/1433H, especially the amendment of clauses 1 and 2 of Article 83 of the Enforcement Law's Implementing Regulations issued by the Minister of Justice on 20/02/1439H, which links the imprisonment of defaulting persons to the issuance of an imprisonment ruling in the following cases:

- **A** If the debt is due to the employment of funds or the like
- **B** If there are more than five creditors
- **C** If the debt, or sum of debts, amounts to one million Saudi Riyals[31]

The Ministry of Justice also recently issued regulations for the suspension of government services after considering the consequences of suspension. Many defaulting persons who have not been imprisoned have suffered due to the suspension of their services. The regulations emphasize that the suspension of government services should not have negative consequences on the dependents of those subject to suspension. Further, suspension should not involve essential or basic needs, such as medical treatment, education, employment, identification documents, or the registration of civil events.

## Legal Identity and Residency Permit Policies

**There are approximately a billion people worldwide who do not have official identification documents[32]. This number is on the rise across the world due to waves of immigration, wars, and natural disasters. International Laws and conventions recognize the right of individuals to identification documents, which grant them access to services and essential rights. Further, the Convention on the Rights of the Child, to which the Kingdom acceded, has maintained the rights of children born within the geographical borders of a country to be issued a birth certificate[33]. Sustainable Development Goals (Goal 16.9) also state, the "provision of legal identity for all including free birth registrations"[34]. Thus, countries are obligated by International Law to grant their populations legal identification documents. However, granting citizenship is considered a sovereignty issue that governed in accordance with national laws, provided that impartial and non-discriminant practices are upheld.**

After reviewing relevant national policies and measures, there have been attempts in the past to resolve this issue among some of the groups that do not have identification documents by issuing travel documents to migrant tribes and correcting the status of the Burmese community in the Western Region. Such attempts have improved these groups' living conditions. Nevertheless, many more measures need to be taken in terms of issuing legal identification documents to other groups of stateless persons.

KKF would like to commend Citizen's Account policies which have recognized those who do not have legal identification documents and included them within the program's allowances. This makes it the most inclusive social protection program in the Kingdom. The initiative taken by the Citizen's Account program is a step in the right direction, paving the way for other initiatives to address the case of stateless persons.

The Quality of Life 2020 program has discussed the possibility of launching an extended residency program (Gold Card)[35] to attract international talent and qualifications to the Kingdom in exchange for a fee that grants cardholders access to certain benefits, such as real estate ownership, education, unemployment insurance, domestic worker visas, and other such services. Providing similar cards to stateless persons may be a solution, provided that no fees are charged in exchange for obtaining the card, in accordance with international standards that maintain the issuance of official identification documents to individuals without charging any fees[36].

After considering the laws that regulate official identification documents around the world, we find that some laws link official documentation to citizenship, while others distinguish between the two[37]. Aadhaar is a popular system used in India that distinguishes between legal identification documents and citizenship. The system has successfully issued digital IDs to more than a billion people living in India irrespective of their nationalities by linking their identities to their fingerprints. The digital identity grants individuals access to several services, such as financial support, and access to financial services, medical treatment, and education. In fact, the digital revolution has provided several solutions that can be used to issue identification documents, such as: electronic numbers, smart cards, digital certificates, etc.

It seems to be an opportune time to resolve the issue of stateless persons in light of the digital solutions that can be employed, in addition to current trends that have been adopted by the providers of social protection programs in the Kingdom to include this segment of society, improve their living conditions, and integrate them into society. Resolving the issue entails issuing them legal identities which help them access financial, medical, and educational services, as well as marriage, employment, and issuing birth certificates for their children. Further, provisions should be created to enable them to obtain citizenship in the future.

16 Peace, Justice, and Strong Institutions

### 16.9 Providing legal identities for all, including birth registration

Many UN-led initiatives have been proposed to resolve this issue, the most significant of which is the initiative led by the United Nations High Commissioner for Human Rights to end statelessness by 2024. The initiative adopts the following ten-point Global Action Plan to End Statelessness:

| Action 1 | Action 2 | Action 3 | Action 4 | Action 5 |
|---|---|---|---|---|
| Resolve existing major situations of statelessness | Ensure that no child is born stateless | Remove gender discrimination from nationality laws | Prevent denial, loss, or deprivation of nationality on discriminatory grounds | Prevent statelessness in cases of state succession |
| **Action 6** | **Action 7** | **Action 8** | **Action 9** | **Action 10** |
| Grant protection status to stateless migrants and facilitate their naturalization | Ensure birth registration for the prevention of statelessness | Issue nationality documentation to those who are entitled to it | Accede to the UN statelessness conventions | Improve quantitative and qualitative data on stateless populations |

SUSTAINABLE DEVELOPMENT GOALS

# Assessing National Efforts

## To Enable Financial Inclusion

Reviewing the efforts and contributions of government institutions reveals the collaborative efforts of relevant entities and their interest in expanding the scope of financial inclusion and empowering less fortunate segments to access financial, savings, and awareness-raising services and products, in addition to the ongoing improvements in the consumer protection domain and the alleviation of the negative impacts of financial distress among individuals.

The Financial Sector Development Program aims to achieve Saudi Vision 2030 by increasing bank account ownership to 80% among adults by 2020. It is worth noting that the goals and objectives related to financial inclusion are modest, especially the target goal for bank account ownership among adults. The Kingdom has achieved a 23% increase in bank account ownership rates from 46% in 2011 to 69% in 2014 although no strategic programs were launched at the time to bring about this remarkable increase. The previous period is equal to the target period determined by the Financial Sector Development Program (2016-2020). Therefore, KKF believes that the target bank account ownership rate should be increased in order for it to be more ambitious. It is also understandable that achieving similar growth rates to those that occurred between 2011 and 2014 is unrealistic because the 2011 rates were low to begin with. In addition, it is difficult, during the remaining period of the Financial Sector Development Program (which is scheduled to end in 2020), to achieve rates comparable to those in high-income countries (94%). However, it is possible to allocate a more reasonable target that exceeds the current target rate by an acceptable figure.

KKF also believes that current efforts mostly revolve around technical initiatives that empower financial inclusion, which contributed to significant growth rates. Such initiatives include developing payment systems, their distribution rates, and ease of access. However, the initiatives that emphasize the needs of financially excluded segments are not as many, including women, poorly educated segments, low-income groups, stateless persons who cannot carry out banking transaction, and non-profit organizations.

The Foundation is aware of the obstacles that face the non-profit sector due to financial restrictions imposed by the Rules Governing the Opening of Bank Accounts in Saudi Arabia—issued by SAMA—which strictly prohibit transferring funds or issuing bank or personal checks to entities outside the Kingdom even if these practices are related to sound and clear employment or service contracts. Other restrictions include prohibiting non-profit organizations from dealing in cash, in addition to prohibiting them from being issued credit cards, ATMs, transfer membership cards, or obtaining electronic banking services. These restrictions are not enforced on private sector organizations whatsoever.

Further, non-profit organizations suffer from the inconsistent implementation of rules and regulations from one bank to another in the Kingdom, which leads to discrepancies in dealing with non-profit organizations based on the bank's interpretation of the rules and the adoption of de-risking strategies that exclude non-profit organizations from any transactions. KKF would like to highlight the non-profit sector's role in combatting terrorism and controlling its associated risks as stated in the 2018 FATF Mutual Evaluation of the Kingdom's efforts in AML/CFT.

Further, KKF understands the need to apply extra due diligence on non-profit sector organizations since they are categorized as high-risk entities, but this does not justify complete exclusion, nor does it justify the discrepancies between banks or the exaggerated implementation of financial controls. On the contrary, it stressed the importance of a balanced implementation of due diligence to ensure compliance and financial control.

The Foundation would also like to recognize the Ministry of Justice's recent efforts in amending the Implementing Regulations of the Enforcement Law to control the imprisonment of defaulting persons, in addition to the circular on the suspension of government services, which will resolve many of the issues and obstacles faced by this segment and their families. Additionally, KKF believes that continuing to deal with cases of default by extended periods of imprisonment until insolvency is proven in a practice that violates human rights and other international conventions. In addition, it fails to achieve the desired effect because defaulting persons who are incapable of making any payments due to the lack of financial resources will not be able to pay off their debts while imprisoned. Further, most do not receive the financial support of their


relatives or other good-doers via the National Committee for the Welfare of Prisoners, Ex-Inmates, and their Families (Tarahum). In fact, most countries have stopped using imprisonment in default cases by resorting to filing civil lawsuits, enforcing on the debtor's property, and regulating bankruptcy, which are more successful measures in achieving social justice and returning funds to their rightful owners.

While we applaud the role of the Citizen's Account program in including stateless persons within the program's allowances, we highlight the importance of encouraging similar measures by launching a special program for this segment of society to enable them to issue legal identification documents. Such documents will grant them access to multiple services, such as opening bank accounts, employment, marriage, medical services, education, and issuing birth certificates for their children.

# Recommendations

Saudi Vision 2030 and the Financial Sector Development Program 2020 have succeeded in creating a strategic outline for Financial Inclusion Policies in the Kingdom. The IMF has recently commended the Kingdom's efforts in Financial Development and Inclusion Indicators. The IMF also recommended that the Kingdom launch a detailed strategy for financial inclusion targeting more than financial access, and especially for women[38]. Even though we agree with the IMF's recommendation, we believe that the Kingdom's financial inclusion policy should comprehensively include the less fortunate segments outlined in the present document. The analysis presented above has revealed that resolving the issue does not lie in creating unconventional overarching solutions, such as providing easy-access banking services and promoting financial literacy. Although these solutions play an important role in promoting financial inclusion for the segments presented above, there remain legal issues—requiring legal remedies—that touch upon essential human needs. Such issues should be addressed first to ensure the concerned segments are granted their basic rights as humans, including financial inclusion. Based on the above presentation, KKF puts forth the following recommendations:

**1.**
**Reconsidering the target outcomes related to financial inclusion in the Financial Sector Development Program,** and setting more ambitious targets with regards to bank account ownership among adults by raising the target from 80% to 85%.

**2.**
**Designing a special initiative for financially excluded segments within the Financial Sector Development Program** in a manner that has a positive impact on financial inclusion indicators while ensuring financial empowerment, independence, and efficiency especially:

1. Promoting financial access among women and increasing bank account penetration among them from 58% to 75%, which is closer to the rates of high-income countries comparable to the Kingdom
2. Decreasing the percentage of unbanked persons among stateless persons from 22% to 11%
3. Empowering the non-profit sector towards financial development in a similar manner to the support given to small and medium enterprises in the FSDP, by revising the Rules Governing the Opening of Bank Accounts for non-profit organizations in order to minimize the restrictions on opening bank accounts, bank transfers, and issuing ATM and credit cards, which contributes to the growth and development of the Kingdom's non-profit sector.

**3.**
**Addressing the issue of stateless in the Kingdom, considering the most suitable legal means to grant them legal identities** (e.g., residence permits, smart cards, digital identification cards, green or gold extended residency cards, etc.), and correcting their status by 2024, in accordance with the UN's campaign to end statelessness, and to achieve Sustainable Development Goal 16.9.

**4.**
**Introducing more amendments to the Enforcement Law and its Implementing Regulations to avoid the imprisonment of defaulting persons** including the removal of Clause D of Article 46 of the Law, while maintaining foreclosure measures on accounts and property to ensure the private rights of persons and entities, in addition to expediting and regulating bankruptcy and insolvency for defaulting persons.

**5.**
**Revising the procedures enforced by SAMA to regulate transactions between financial institutions** and non-profit sector organizations in the Kingdom, and moving forward from the non-profit sector's contribution in AML/CFT in the Kingdom, as follows:

1. Encouraging banks and financial institutions to adopt balanced procedures in assessing risks related to the non-profit sector to help the sector achieve the goals of Saudi Vision 2030, and especially in terms of increasing its contribution to the GDP to 5%.
2. Coordinating with the Ministry of Labor and Social Development to build the capacities of the non-profit sector with regards to the criteria of sound AML/CFT practices, in addition to building the capacities of the Ministry's employees in the implementation of sound control procedures.
3. Encouraging FATF to address ill-founded bank de-risking measures practiced against the non-profit sector, and adopting international criteria to address risks that empower non-profit organizations to make effective economic contributions.

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