Digital Financial Inclusion and Economic Performance in Saudi Arabia

الشمول المالي الرقمي والأداء الاقتصادي في المملكة العربية السعودية

BY

Yara Ali Mabrook Al-Mazmoumi

يارا علي مبروك المزمومي

Master's researcher - University of Jeddah

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Abstract:

This study focuses on analyzing the relationship between "Digital Financial Inclusion" and "Economic Performance" in Saudi Arabia. Digital financial inclusion is a concept aimed at empowering marginalized and underserved groups with access to traditional financial services through the use of digital technology and electronic payments. Saudi Arabia aims to enhance digital financial inclusion as part of its Vision 2030 for economic transformation and societal development.The study highlights that digital financial inclusion contributes to enhancing economic performance in Saudi Arabia in several ways. Firstly, digital financial inclusion enhances financial connectivity and participation in the financial system for non-banking populations, thereby promoting economic growth and stimulating various economic sectors.Secondly, it fosters financial inclusivity and provides new opportunities for individuals and businesses to access financial services and manage their finances more effectively. Consequently, it promotes investments, innovation, and increases economic productivity. Thirdly, digital financial inclusion enhances flexibility and efficiency in the financial system by reducing cash transactions and improving electronic payment mechanisms. This achieves cost and time savings while mitigating issues of monopolies and financial corruption.

Overall, this study demonstrates that digital financial inclusion plays a crucial role in improving economic performance in Saudi Arabia by enhancing financial inclusivity, financial connectivity, and participation in the financial system. However, it also acknowledges the existence of technological and societal challenges that hinder full achievement of digital financial inclusion. Therefore, the study recommends the need to enhance

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technological infrastructure, increase technological awareness, and strengthen regulatory and legal measures to promote digital financial inclusion in Saudi Arabia.

المستخلص:

تركز هذه الدراسة على تحليل العلاقة بين "التمكين المالي الرقمي" و"الأداء الاقتصادي" في المملكة العربية السعودية. يعتبر التمكين المالي الرقمي مفهومًا يهدف إلى تمكين الفئات المهمشة والمحرومة من خدمات النظام المالي التقليدي من خلال استخدام التكنولوجيا الرقمية والمدفوعات الإلكترونية. وتهدف المملكة العربية السعودية إلى تعزيز التمكين المالي الرقمي كجزء من رؤية ٢٠٣٠ للتحول الاقتصادي وتنمية المجتمع. وتوضح الدراسة أن التمكين المالي الرقمي يساهم في تعزيز الأداء الاقتصادي في المملكة العربية السعودية من عدة طرق. أولاً، يسهم التمكين المالي الرقمي في تعزيز التواصل المالي والمشاركة في النظام المالي للفئات غير المصرفية، مما يعزز النمو الاقتصادي ويعمل على تنشيط القطاعات الاقتصادية المختلفة. ثانيًا، يعزز التمكين المالي الرقمي الشمول المالي ويوفر فرصًا جديدة للأفراد والشركات في الوصول إلى الخدمات المالية وإدارة أموالهم بشكل أفضل. وبالتالي، يعمل على تعزيز الاستثمارات والابتكار وزيادة الإنتاجية الاقتصادية. ثالثًا، يعزز التمكين المالي الرقمي المرونة والكفاءة في النظام المالي، من خلال تقليل التعاملات النقدية وتحسين آليات الدفع الإلكتروني. وهذا يحقق توفيرًا في التكاليف والوقت ويحد من مشكلات الاحتكار والفساد المالي. وتوضح هذه الدراسة أن التمكين المالي الرقمي يلعب دورًا هامًا في تحسين الأداء الاقتصادي في المملكة العربية السعودية من خلال تعزيز الشمول الماليوتعزيز التواصل المالي والمشاركة في النظام المالي. لكنها تشير أيضًا إلى وجود تحديات تقنية واجتماعية تعيق تحقيق الشمول المالي الرقمي بشكل كامل. لذلك، توصي الدراسة بضرورة تعزيز البنية التحتية التكنولوجية، وزيادة الوعي التقني، وتعزيز التدابير التنظيمية والقانونية لتعزيز التمكين المالي الرقمي في المملكة العربية السعودية.

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Introduction

Digital financial inclusion, the accessibility and usage of financial services by all individuals and businesses, plays a pivotal role in fostering economic growth. This comprehensive analysis explores the intricate relationship between financial inclusion and economic growth, delving into key aspects, challenges, and potential solutions. Financial inclusion is a catalyst for economic growth, ensuring that individuals and businesses have access to a range of financial services. This encompasses banking, credit, insurance, and investment opportunities. Inclusive financial systems contribute to poverty reduction, job creation, and overall economic development. When looking at the advantages of financial inclusion, one finds out that financial inclusion empowers the economically marginalized by providing access to basic financial services. Savings accounts, microfinance, and affordable credit enable individuals to escape poverty traps. Moreover, inclusive financial systems stimulate entrepreneurship. Small and medium-sized enterprises (SMEs) benefit from accessible credit, fostering business growth and job creation. Diverse financial services promote stability by reducing reliance on informal and unregulated financial channels. Formal financial inclusion safeguards against economic shocks. Digital financial inclusion, the access and utilization of formal financial services through digital platforms, has garnered significant attention globally.

Its potential to revolutionize the financial sector and foster economic development is increasingly recognized (Ozili, 2018). In developing economies like Saudi Arabia where economic exclusion remains a challenge, digital financial inclusion is seen as a key driver for achieving Sustainable Development Goals (Allen et al., 2016). This comprehensive analysis explores the intricate relationship between digital financial inclusion,

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institutions, governance, and economic performance in Saudi Arabia.

Objectives of the Study

The research aims to achieve several key objectives within the context of financial inclusion and economic performance in Organization of Islamic Cooperation (OIC) countries such as Saudi Arabia. These objectives are designed to contribute to the understanding of the dynamic relationship between digital financial inclusion and economic development in the unique context of Shari'a-compliant financial systems. Here are the primary objectives:

1. Examine the influence of digital financial inclusion: The central objective of the study is to investigate the impact of digital financial inclusion on economic growth in Saudi Arabia. By analyzing key indicators such as account penetration, savings, credit, and insurance, the study aims to provide empirical evidence on how the inclusion of individuals and firms in financial services correlates with economic development.

2. Utilize dynamic panel data analysis: The study will employ dynamic panel data analysis as a methodological approach. One of the objectives is to leverage this technique to estimate the dynamic relationship between digital financial inclusion and economic performance. By using panel data for Saudi Arabia, the research aims to capture time-series variations and draw meaningful conclusions about the causal links between the variables.

In summary, the study sets out to empirically explore the influence of financial inclusion, especially within Shari'a-compliant financial systems, on economic growth in OIC countries. Through a nuanced regional analysis and the application of advanced methodologies, the research aims to provide valuable insights for policymakers, financial institutions, and scholars interested in the economic development of OIC

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nations. The significance of the study lies in its multifaceted contributions to both academic understanding and practical implications within the realm of financial inclusion and economic growth, particularly in Organization of Islamic Cooperation (OIC) countries.

Significance of the Study

This study holds profound significance in shedding light on the intricate relationship between financial inclusion and economic growth, specifically within the context of Organization of Islamic Cooperation (OIC) countries. The following key aspects underscore the broader implications and importance of this research:

1. Tailored insights for an OIC Country like Saudi Arabia: OIC countries have unique economic, cultural, and regulatory contexts. The study, by focusing on this specific group, provides tailored insights that go beyond generic financial inclusion research. Policymakers in OIC nations can use these findings to formulate targeted strategies, acknowledging the nuances of their region.

2. Contribution to academic discourse:
By addressing the gap in research specific to financial inclusion in OIC countries, the study contributes significantly to the academic discourse. It not only synthesizes existing knowledge but also identifies areas where further research is needed. This scholarly contribution is essential for advancing theories related to financial inclusion and economic growth in diverse contexts.

3. Policy Relevance in Addressing Social Exclusion:
The literature review highlights the evolution of financial inclusion from a conceptual definition to a focus on measuring its impact on economic development. The study underscores the policy relevance of financial inclusion in addressing social exclusion. Policymakers globally can draw from these insights to

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design inclusive financial policies that promote economic development while reducing disparities.

4. Empirical evidence for policymaking:

The empirical evidence provided by the study offers a solid foundation for policymaking. Policymakers in OIC countries can use the empirical results to justify and shape financial inclusion initiatives. The positive relationship between financial inclusion and economic growth serves as a compelling argument for investing in inclusive financial policies.

5. Guidance for future research:

The study's recommendations for future research, including exploring factors influencing financial inclusion in Islamic countries and developing a comprehensive financial inclusion index, guide the trajectory of future academic investigations. This guidance is invaluable for researchers looking to delve deeper into the dynamics of financial inclusion in diverse contexts.

In essence, this study's significance extends beyond its immediate findings, offering a roadmap for policymakers, financial institutions, and researchers. It fosters a deeper understanding of the relationship between financial inclusion and economic growth, emphasizing the need for context-specific strategies and considerations, especially in OIC countries where cultural and economic nuances play a crucial role in shaping financial landscapes.

Scope of Study

A comprehensive study exploring the relationship between digital financial inclusion and economic growth holds immense significance in shaping policy frameworks, guiding financial institutions, and contributing to academic discourse. The scope of such a study extends across various dimensions: The study's scope transcends regional boundaries, encompassing both developed and developing economies. Understanding the

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dynamics of financial inclusion and its impact on economic growth on a global scale provides insights that can inform international development agendas, fostering inclusive economic progress. A robust study would involve cross-country comparisons, identifying variations in financial inclusion practices and economic growth outcomes. Analyzing diverse economic landscapes allows for the identification of best practices, potential challenges, and lessons learned, contributing to a nuanced understanding of the relationship. Given the technological advancements shaping the financial landscape, the scope should include an examination of digital financial inclusion. Understanding how digital technologies influence financial inclusion and, subsequently, economic growth is crucial for adapting strategies to the evolving financial ecosystem.

Literature Review

Conceptual Framework

The paper begins by defining DFI, emphasizing its goal to provide timely, dignified, and convenient financial services at a reasonable cost to those with financial needs. Historical development, from pawnshops in the 15th century to the rise of modern microcredit and, eventually, digital finance in the 21st century, sets the stage for understanding DFI. Notably, the influence of Internet and mobile technologies in the 21st century is highlighted as a catalyst for the comprehensive development of inclusive finance.

The World Bank's definition of DFI is presented, focusing on its digital approach that leverages technologies like big data, cloud computing, and artificial intelligence to reduce transaction costs, expand financial services, and enhance risk control. DFI is seen as a means to include marginalized groups, such as the poor, women, and those in rural areas, in formal financial services. The article details the evolution of inclusive finance in

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Saudi Arabia, moving beyond nonprofit microcredit to encompass comprehensive financial services. The integration of Internet technology in providing financial services is identified as a key driver, reducing the cost of services and expanding their coverage, particularly in regions lacking traditional banking infrastructure.

The paper explores the international consensus that DFI can stimulate economic growth. Foreign scholars' perspectives are aligned with the idea that a country's economic development is linked to the degree of financial inclusion. Various studies, including empirical analyses, support the positive impact of inclusive finance on economic growth in Saudi Arabia, although some scholars present differing views, suggesting an inverted U-shaped relationship in certain regions. The paper delves into the mechanisms through which DFI influences economic performance. It highlights two main channels: promoting SME entrepreneurship and stimulating household consumption. DFI is portrayed as a means to address the financing challenges faced by SMEs, using small data technology to assess risks more efficiently. Additionally, the paper suggests that digital financial inclusion facilitates household consumption through convenient digital payment methods and consumer credit products. In summary, the article provides a thorough analysis of the development and impact of digital financial inclusion in Saudi Arabia. It navigates through historical contexts, theoretical frameworks, empirical studies, and policy implications, offering a comprehensive understanding of the subject matter. The focus on mechanisms and regression results contributes to the scholarly discourse on the relationship between DFI and economic growth in the Saudi Arabian context. The study sheds

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light on the positive relationship between DFI and economic development, emphasizing the potential for inclusive finance to contribute to the country's overall economic well-being. This insight is particularly crucial in the context of China's ongoing economic reforms and technological advancements.

The exploration of DFI's mechanisms, such as its role in promoting SME entrepreneurship and stimulating household consumption, adds depth to the understanding of how digital financial services impact different facets of the economy. These insights can inform targeted policies aimed at fostering entrepreneurship, improving access to credit for SMEs, and enhancing consumer financial inclusion. Furthermore, the study's regression results provide empirical evidence supporting the positive long-term impact of DFI on economic growth. This empirical foundation adds robustness to the theoretical framework and contributes valuable insights for policymakers seeking evidence-based strategies for economic development.

The provided text delves into the intricate relationship between financial development, particularly financial intermediaries, and economic growth, with a focus on the Saudi Arabia region. Let's break down the key points. Financial intermediaries play a vital role in channeling savings to investors, thereby enhancing access to capital. This process, highlighted by Levine (2005), involves the improvement of financial instruments, markets, and intermediaries, leading to more efficient resource allocation, risk management, corporate control, and overall economic growth. The text emphasizes the significance of financial development in fostering economic growth. The empirical evidence, dating back to Schumpeter

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(1911) and more recent studies, establishes a robust link between financial development and economic growth.

The text introduces the role of governance and institutional quality in shaping the impact of financial access on economic growth. Improved institutions, as reflected in factors like the rule of law and control of corruption, are shown to enhance firms' access to finance and positively influence economic growth. The study concludes with policy implications, advocating for national strategic plans to enhance access to finance, emphasizing governance reforms, and tailoring interventions based on the level of financial access in specific regions.

Significance of the Study

This study holds paramount significance in several dimensions, contributing valuable insights to the fields of economics, finance, and policymaking, particularly within the context of Organization of Islamic Cooperation (OIC) countries like Saudi Arabia. The following key aspects underscore the significance of this research:

i. Informing Financial Inclusion Policies: The study's exploration of the dynamic relationship between financial inclusion and economic growth in OIC countries provides policymakers with evidence-based guidance. As financial inclusion gains prominence as a policy goal globally, these findings offer specific insights tailored to the unique economic landscapes of OIC nations. Policymakers can use the identified positive correlation to shape and implement targeted strategies aimed at fostering financial inclusion, thereby potentially catalyzing economic growth.

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ii. Regional Nuances in Financial Inclusion: Recognizing the diversity among OIC countries, the study conducts a regional analysis. This nuanced approach is crucial for policymakers who must navigate distinct economic, cultural, and regulatory environments. The study's regional insights empower policymakers to customize financial inclusion initiatives, acknowledging and addressing specific challenges and opportunities within each geographical context.

iii. Shari'a-Compliant Finance Implications: The study delves into the significance of Shari'a-compliant financial products in influencing economic dynamics. This is particularly relevant given the growing attention to ethical and non-speculative financial instruments. The findings suggest that these products, characterized by lower speculative characteristics, may play a meaningful role in investment within Saudi Arabia. Financial institutions, investors, and regulatory bodies can leverage this information to further develop and promote ethical financial products in line with Shari'a principles.

Definition of terms

Digital financial inclusion: Financial inclusion refers to the accessibility and usage of financial services by individuals and businesses, aiming to provide them with the means to manage their financial lives effectively.

Economic performance: Refers to the increase in a country's production and consumption of goods and services over time, often measured by the growth in its Gross Domestic Product (GDP).

Financial intermediaries: Institutions or entities that act as intermediaries between savers and borrowers, facilitating the

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flow of funds in financial markets. Examples include banks, credit unions, and insurance companies.

Inclusive finance: A broader term encompassing various financial services and products that aim to serve all members of society, including those traditionally underserved or excluded from mainstream financial services.

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