2 Finance

Regional financial integration can bring long-term growth benefits, notably through greater capital flows, technological transfer and risk diversification. This chapter discusses financial integration in the Union for the Mediterranean region. The analysis acknowledges that full benefits from financial openness are possible only in the presence of policies that strengthen local financial markets and regulatory and prudential frameworks. This is a priority for Middle East and North Africa (MENA) and Western Balkan sub-regions, which feature relatively low levels of financial development. These regions can reap the benefits of a more effective implementation of the regulatory frameworks for investment, with a deepening of South-South and other sub-regional investment flows. Remittances represent a significant inflow in the Southern and Eastern Mediterranean that would greatly benefit from the establishment of practical formal frameworks for money transfer.

Key takeaways

- Financial development in the Union for the Mediterranean (UfM) region varies significantly across countries as well as within sub-regions. Strengthening of local financial markets in MENA and Western Balkans countries is a necessary step to fully benefit from the gains of financial integration with other countries in the region.
- Restrictions on foreign direct investment remain high in several MENA countries, in particular in certain service activities. In terms of cross-border restrictions, MENA markets show significantly higher degrees of impediments than other Union for the Mediterranean (UfM) sub-regions. Restrictions in the manufacturing and services sectors, notably concerning foreign ownership of equities strongly account for these gaps.
- Within the UfM region, EU countries are the main senders and receivers of foreign direct investment. There is significant untapped potential within the MENA and Western Balkans regions, and between the two sub-regions, which share limited Foreign Direct Investment (FDI) flows.
- Foreign bank penetration is relatively nascent in Southern and Eastern UfM member states. MENA countries like Morocco and Jordan have pursued banking integration policies to promote cross-border bank penetration. Under an appropriate macro-prudential framework designed to counter spillovers, bank integration can increase efficiency and stability of domestic bank and enhance capital transfer.
- Remittances represent a significant financial flow in the MENA and Western Balkans countries and an important source of income. However, the cost of sending remittances remains high, and it is estimated that a significant portion of remittances is sent through informal channels. International cooperation should facilitate establishing practical frameworks for the transfer of remittances through formal channels that are recommended to avoid losses to informal channels. Encouraging the use of formal channels for sending remittances contributes to greater financial literacy.
- Monitoring of financial flows at the UfM level requires reliable and harmonised data collection. Data on FDI flows and stocks in international databases is lacking for a number of countries in the region, notably in the MENA and Western Balkans regions. A greater engagement with international specialised bodies, such as the OECD Investment Committee's Working Group on International Investment Statistics, could enhance data availability and comparability.

Introduction

Financial integration is the process through which economic agents gain equal access to financial markets regionally or globally. Integrated financial markets provide participants with a single set of rules, equal access to financial instruments, and equal treatment within the market (Baele et al, 2004[1]). Features of financial integration include an increase in international financial flows, convergence of asset prices across countries and foreign penetration in the banking sector. International financial flows can take various forms. Capital flows typically refer to equity and debt flows for investment purposes, such as foreign direct investment (FDI), foreign portfolio investment and bank lending. Other types of international financial flows include remittances and official development assistance (ODA).

The process of financial integration is formally driven by the lifting of cross-border restrictions, such as restrictions on foreign investments, and by the harmonisation of financial regulations. The impact of financial integration has been extensively discussed in the economic literature. Empirical research suggests that integration has a positive impact on long-term growth – notably through larger, more efficient capital flows – but the relationship is not linear, and these benefits have been disputed to some degree (OECD, 2011[2]). Integration can increase the size of financial markets, allowing for economies of scale to develop; these are associated with lower costs, higher liquidity and risk-sharing through portfolio diversification (European Commission, 2018[3]). The reduction of costs and risks and the improved access to capital is beneficial for both investors and borrowers, and can facilitate a more productive allocation of investment capital by increasing investment opportunities. Lifting barriers to foreign investments allows both companies and investors to choose the most productive platforms and placements, and may lead to capital inflows to new markets. Recent evidence has highlighted the productivity benefits of FDI through technology transfers (Fons-Rosen et al, 2018[4]).

Financial institutions can benefit from integration by increasing the scale of their operations, leading to greater efficiency and profitability (African Development Bank, 2010[5]). In the banking sector, foreign penetration can improve the efficiency and quality of domestic banking-sector services through increased competition and knowledge transfer (Agénor, 2001[6]).

Since the 1990s, capital inflows to emerging economies, notably in East Asia and Latin America, have increased significantly both in volume and as a share of gross domestic product (GDP) (OECD, 2018[7]) (World Bank, 2014[8]). Through capital deepening and technological transfer, the rise in foreign capital has contributed to the growth potential of receiving countries. Greater access to affordable finance is especially beneficial in the case of small and medium-sized enterprises, which struggle the most in accessing capital.

The challenges of financial integration

The growing interconnectedness of financial markets can amplify the cross-border transmission of instability (OECD, 2012[9]). Research showed an association between capital flows, mainly portfolio and bank flows, and financial crises, in particular if liberalisation takes place before policy-related distortions have been removed and before domestic markets, institutions, and the administrative capacity of the prudential authorities have developed enough to generate confidence that foreign finance will be channelled in productive directions (Eichengreen, 2001[10]). Cases in point are the 1994 Mexican banking crisis, which followed the bank privatisation and financial liberalisation of the country (Graf, 1999[11]) and the 1990s banking crisis in Finland and other Nordic countries, where capital account liberalisation was accused of being one of its determinant factors (Herrala, 2020[12]). However, some cross-country empirical studies and studies that use measures of *de facto* integration or finer measures of *de jure* integration, were unable to find robust evidence that capital account liberalisation by itself increases vulnerability to financial crises (Kose et al, 2006[13]).

Political risks also challenge financial integration. For instance, North African economies saw an abrupt reversal of FDI flows as the 2008 financial crisis spread, and suffered additional pressures from the Arab Spring and the political uncertainty that ensued.

Large capital inflows resulting from financial integration can also affect a country's current account balance. In Central Europe, in the years prior to the 2008 financial crisis, the surge of bank flows prompted a credit and asset price bubble that led to worsening deficits and debt (World Bank, 2014[8]). Large capital inflows do not automatically entail a worsening of the current account deficit, as this can be counteracted by other variables in the balance of payments, such as capital outflows (in the form of investments abroad by residents) or changes in foreign currency reserves. Countercyclical macroeconomic and prudential policies, when adequately conducted, can also help an economy avoid growing deficits or debts. This emphasises the necessity to carefully prepare and monitor financial openness policies.

Other concerns are specific to the integration of the financial markets of emerging and developing economies with those of more-developed financial markets. As mentioned earlier, countries with less-developed capital markets can reap new investment opportunities from integrated markets (European Commission, 2018[14]). In studying the impact of financial development on investment capital allocation in countries with different levels of development from 1980 to 2014, Marconi and Upper (2017) found that less-developed financial systems allocate capital flows with less efficiency than developed ones. Furthermore, in contexts of low financial development, fast accumulation of capital (in other words, rapidly growing capital inflows) was found to worsen the allocative efficiency of the concerned systems.

In brief, liberalising financial markets in the absence of sound macro, prudential and regulatory policies may not evolve towards an optimal or efficient outcome (Baele et al, 2004[1]). Currently, financial integration and globalisation are moving at a much faster pace than global financial regulation and harmonisation. As national legislators remain the main actors in the crafting of domestic financial regulations, it is key that economies engage in the adoption of internationally set standards designed to foster the convergence of frameworks and to facilitate transparency.

Monitoring financial integration

There is no standard measure of financial integration across countries, although literature in this field often examines FDI flows. In the context of the UfM, the analysis focuses on three areas: i) indicators of financial development; ii) investment-related indicators; and iii) data on remittances, which constitute an important financial inflow in developing economies (their volume and frequency shed light on the availability and quality of infrastructures allowing remittances flows). Table 2.1 shows the six indicators examined in this chapter.

Official development assistance flows represent significant capital flows between UfM member states, notably from the European Union to Southern Mediterranean and Western Balkan countries. ODA flows can contribute to financial integration through the promotion of economic development (see Indicator F1 below), but they are not per se an indicator of financial development or integration, and were therefore not considered for the monitoring exercise.

Table 2.1. Key indicators for monitoring financial integration

Indicator	Description	Coverage	Frequency
Indicator F1. Financial market development	It measures the depth, access and efficiency of financial institutions and financial markets. It is based on the Financial Institutions index and Financial Markets index, which summarise how developed financial institutions and financial markets are in terms of their depth, access and efficiency. Source: IMF Financial Development IndexDatabase	All UfM member states except Montenegro and the Palestinian Authority	Annual (last available year: 2017)
Indicator F2. FDI Regulatory Restrictiveness Index	It measures the restrictiveness of a country's foreign direct investment rules in four areas: foreign equity restrictions, discriminatory screening or approval mechanisms, restrictions on key foreign personnel, and operational restrictions. Source: OECD FDI Regulatory Restrictiveness Index	Available for OECD, EU and G20 countries	Annual (last available year: 2019)
Indicator F3. FDI positions and flows	It assesses the extent of regional financial integration by examining regional and intra-regional direct investment positions. It estimates the amount of inward FDI stock by investors from countries within the region and outside the region (rest of the world). The Central Bank of Egypt provides data on FDI inflows and outflows concerning the country. Source: IMF Coordinated Direct Investment Survey (CDIS) database and Egypt Central Bank	IMF database covers all UfM member states except Egypt, Mauritania, Tunisia. North Africa, Europe, Near and Middle East	IMF CDIS: Annual (last available year: 2018) Egypt: Last available year 2013/14
Indicator F4. Restrictions on portfolio and bank capital inflows	It measures the restrictiveness of capital controls on both inflows and outflows. It considers administrative restrictions (outright prohibitions, licensing requirements) and market-based restrictions (taxes) with regard to inflows of three assets: money market, bonds and equities. Source: Schindler et al. (2015), Capital Control Measures dataset, http://www.columbia.edu/~mu2166/fkrsu/	Algeria, Egypt, Israel, Lebanon, Morocco, Tunisia, Turkey, and EU member states except Croatia, Estonia, Lithuania, Luxembourg, Slovak Republic	Annual (last available year: 2017
Indicator F5. Portfolio investment flows	It measures portfolio flows to and from UfM Member states. Portfolio investments refer to ownership of financial assets that do not entail active management role, contrary to foreign direct investment. Stocks, government bonds and corporate bonds are example of assets included in portfolio investments. Source: IMF Balance of Payments and International Investment Positions statistics	All UfM member states, although data for Mauritania are not complete/consistent	Annual and quarterly (last available year: 2019)
Indicator F6. Intra-regional remittance flows and costs	It measures inflows and outflows of annual remittances using host country and origin country incomes. Where data is available, remittances are measured as the sum of: i) personal transfers, ii) compensation of employees, and iii) migrants' transfers (i.e., capital transfers between resident and non-resident households). For some countries, data is obtained from the respective country's Central Bank and other relevant official sources. Source: World Bank Bilateral Remittances Matrices	Data on remittance flows available for all UfM member states. Data on remittance costs missing for Albania, Algeria, Bosnia and Herzegovina, Israel, Montenegro, PA, Turkey	Annual (last available year: 2017)

Indicator F1. Financial market development

In the 2018 European Financial Stability and Integration Review (European Commission, 2018[15]) the European Commission discussed the state of financial integration within the European Union, noting that developed markets may benefit more from a capital market union than less developed ones, typically in Central, Eastern and South Eastern Europe (CESEE) countries. The review underlined the importance of developing lagging local markets prior to the push for integration in a region with different levels of financial development.

Financial market development can be defined as the capacity of markets to perform efficiently as intermediators and stimulate growth through reduced information and transaction costs (Alomari et al, 2019[16]) (Creane et al, 2003[17]). It is driven by an increase in the demand of capital by companies and households and the supply of capital by investors, (European Commission, 2018[14]) as well as by macroeconomic stability through appropriate policies (Creane et al, 2003[17]).

In the UfM region, economies feature highly differing levels of economic and financial development. The MENA countries, the Western Balkans and the CESEE countries have lower levels of financial market depth and access than the other UfM member states, as measured by the Financial Development Index (IMF, 2020[18]).

There is considerable heterogeneity within sub-regions as well. Among the MENA countries, Egypt, Jordan and Morocco perform better in terms of financial access than other countries with similar (or higher, in the case of CESEE countries) income levels see also(Box 2.1).

In general, lagging countries perform better in access than in depth, reflecting their lower degree of integration into foreign, more developed markets, and their reliance on local markets.

Box 2.1. Islamic finance

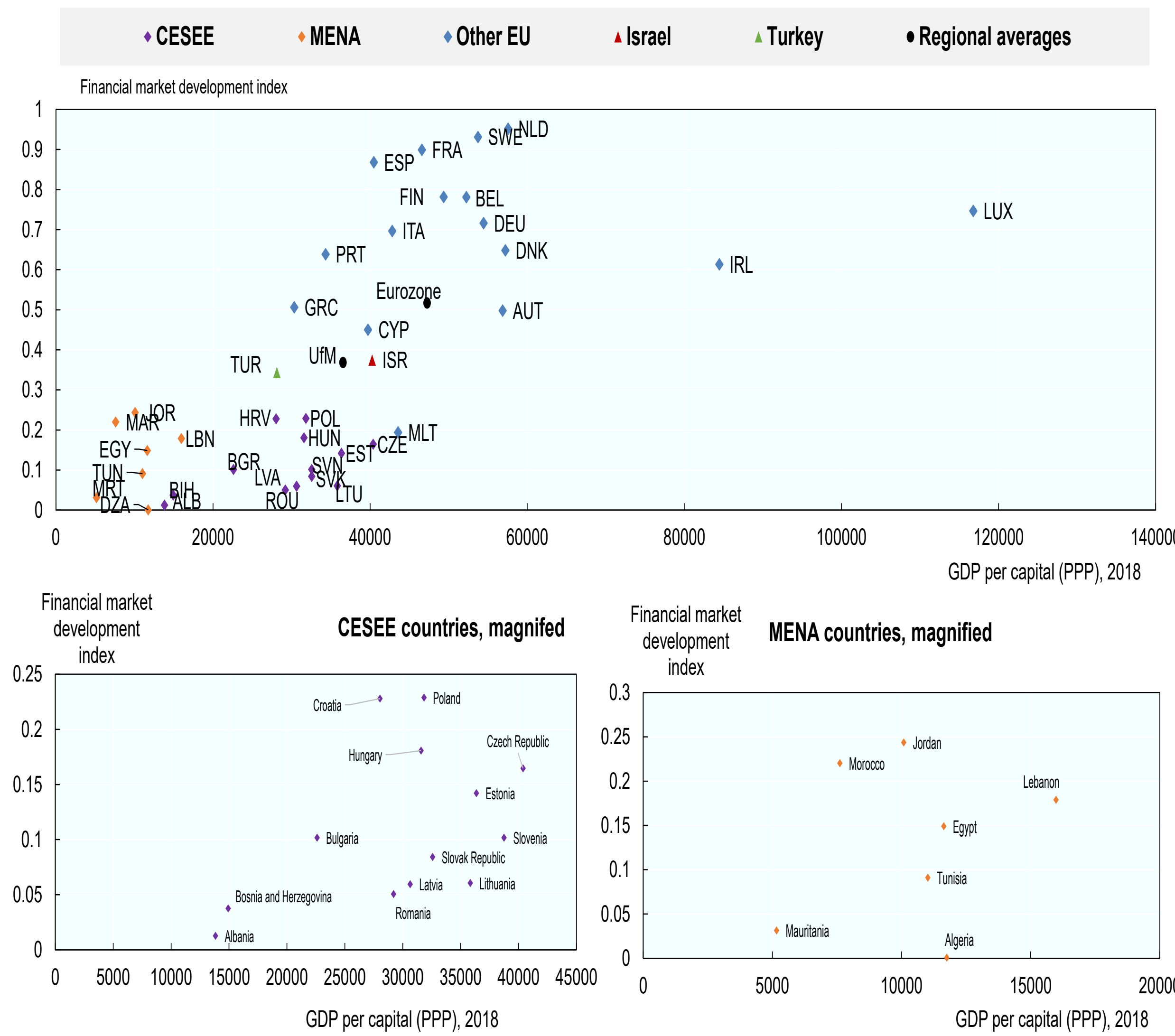
Islamic financial institutions can be seen as a complement or an alternative to the conventional financial sectors. Although they provide similar services and products to savers, borrowers and investors, they respond to different rules: Islamic banks follow the precepts of Islamic law, known as sharia law. This includes a ban on interest, games of chance and other activities considered illicit. It also includes a duty to benefit the greater society, for instance through redistribution of profit.

Islamic finance is most commonly present in the MENA (especially in the Gulf) and Southeast Asia regions, but enjoys a growing presence in Sub-Saharan Africa, Western Europe and Central Asia, notably in countries with significant Muslim populations. In 2006, Islamic banks represented around 50% of banking institutions in the West Bank and Gaza Strip. Other UfM member states also have a sizable share of Islamic banks, such as Jordan (around 20%) and Egypt and Mauritania (over 10%). However, when assessed in terms of credit and asset shares, Islamic banking institutions are less important.

Islamic finance can bring interesting opportunities to countries with developing financial systems. Islamic finance has been growing in importance in the last two decades. The diffusion and deepening of Islamic banks, notably in Muslim-majority countries and countries that trade with Muslim-majority countries, could be beneficial for economies with limited financial development, notably in the MENA and Western Balkan regions. (Imam and Kpoda, 2010[19]) (Imam and Kpodar, 2015[20]) found that, unlike for conventional banks, the quality of institution in a certain country does not affect the development of Islamic banks. Additionally, despite their lower presence in the overall financial sectors, Islamic banks have been positively associated with overall economic growth, notably through improved financial inclusion. As such, the development of Islamic banking represents significant opportunities for emerging and development markets, notably in the UfM area.

Source*:* (Imam and Kpoda, 2010[19]), (Imam and Kpodar, 2015[20]).

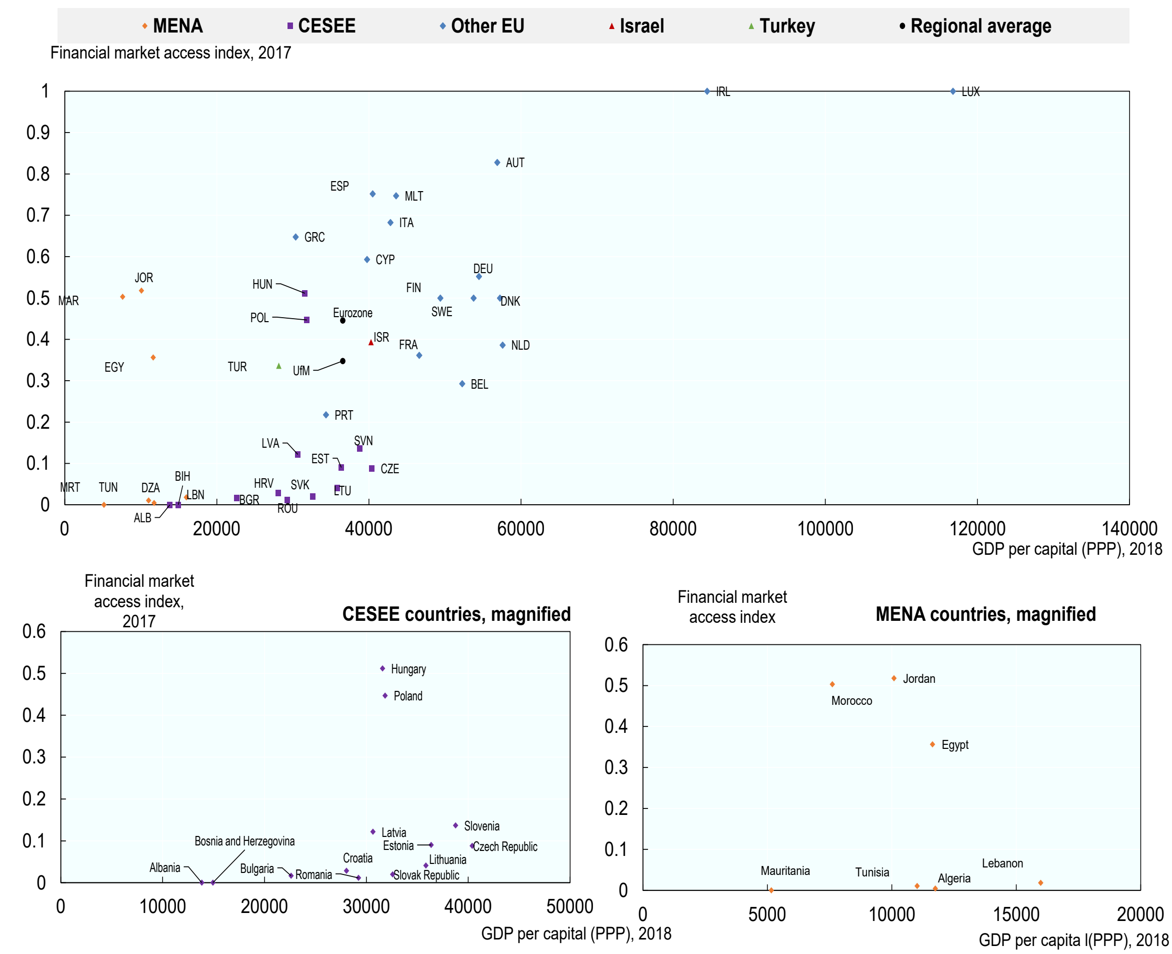
Figure 2.1. Financial market depth and economic development



Note: Depth refers to the size and liquidity of markets (IMF, 2020).
Source: Authors based on IMF Financial Development Index database and World Bank data. https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B

StatLink https://stat.link/jq6348

Figure 2.2. Financial market access and economic development



Note: Access measures the ability of individuals and companies to access financial services (IMF,2020).
Source*:* Authors based on IMF Financial Development Index database and World Bank data. https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B

StatLink https://stat.link/6ougz3

Indicator F2. FDI Regulatory Restrictiveness Index

The attractiveness of UfM economies to foreign investors depends on several factors, including market size and geography, but also the policies and institutions that support a coherent and predictable investment environment. For foreign investors, the rules governing their entry and operations in the host country are also important. Some legal or regulatory restrictions on FDI in general exist in most countries, either to protect specific domestic industries or for national security interests (OECD, 2021[21]).

The level of a country's openness to foreign investment is reflected in the OECD FDI Regulatory Restrictiveness Index, which measures the restrictiveness of an economy's rules on FDI (see Box 2.2). The Index provides an indication of a country's investment climate, noting that a range of other factors come into play, including how FDI rules are implemented, the existence of state ownership in key sectors, the size of a country's market and the extent of its integration with neighbours, and even geography. Used in combination with measures of other aspects relevant for the investment climate (e.g. good governance), the Index can help to explain variations among economies in attracting FDI.

For UfM countries that are members of the OECD, the source of information for measures to be scored under the FDI Index is the list of countries' reservations under the OECD Code of Liberalisation of Capital Movements (Capital Movements Code) and its lists of exceptions and other measures reported for transparency under the National Treatment instrument[1], as well as regular monitoring conducted by the OECD[2]. For non-OECD members, additional sources include information gathered through a review of relevant legislation, either in the context of OECD Investment Policy Reviews or specific projects (Kalinova et al., 2010[22]) (OECD, 2020[23]).

The Capital Movements Code provides a framework to ensure a country's policy is not more restrictive than necessary, and remains to date the only multilateral instrument with the primary function of promoting transparency and openness of capital accounts. It covers a variety of transactions including direct investment, financial credits and loans, and operations in foreign exchange. It comprises a set of mutual rights and obligations established by governments (OECD, 2020[23]). Since 2012, it has been open for adherence by non-OECD member states. Countries that are not ready to undertake high openness commitments in a formal adherence process can still benefit from the Code's framework and OECD's expertise to improve their financial reform agenda (Blaschke, 2019[24]).

Box 2.2. The OECD FDI Regulatory Restrictiveness Index

The OECD FDI Regulatory Restrictiveness Index (FDI index) measures statutory restrictions on FDI across 84 economies (as of 2019), including all OECD countries and non-OECD countries that are UfM member states: Albania, Bosnia and Herzegovina, Croatia, Egypt, Jordan, Montenegro, Morocco and Tunisia.

The Index covers 22 sectors, including *primary* (agriculture, forestry, fishing, mining and quarrying), *secondary* (various manufacturing, electricity and construction) and *tertiary* (distribution, transport, hotels and restaurants, media, telecommunication and financial services). For each sector, the scoring is based on four main types of FDI restrictions:

- Foreign equity limits on start-ups and acquisitions, in both cases considering whether foreign equity is allowed at all, and the existence and level of an upper limit to the share of foreign equity.
- Screening and approval mechanisms applicable only to foreign investors fulfil many functions and vary widely in their scope. In the most restrictive case, a screening and approval mechanism is applied to both start-ups and acquisitions in economic sectors that are considered of national interest. In other cases, they are automatic and require only a pre-notification requirement for investors.
- Restrictions on key foreign personnel/directors: foreign key personnel not permitted; economic needs test for employment of foreign key personnel; nationality for board of directors, e.g. majority must be nationals or at least one must be a national.
- Other types of restrictions: establishment of branches not allowed/local incorporation required; reciprocity requirement; restrictions on profit/capital repatriation; access to local finance; acquisition of land for business purposes; land ownership not permitted but leases possible.

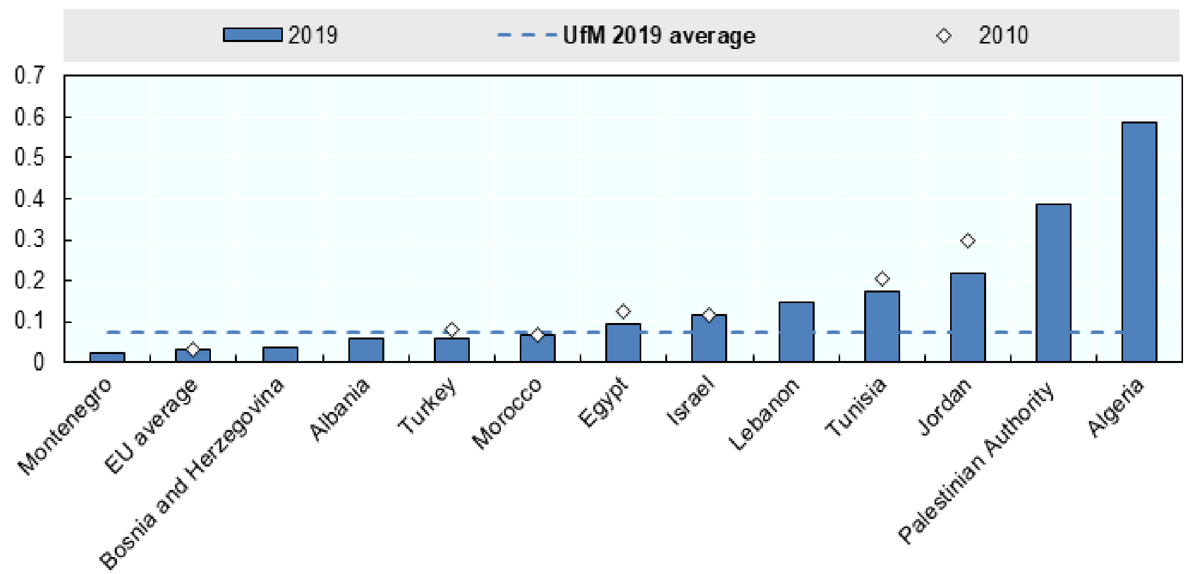
The index does not measure the following: the degree of implementation or circumvention; state monopoly or participation in a sector; special treatment accorded to a group of investors; restrictions based on national security or prudential measures.

Source: OECD's FDI *Restrictiveness Index* - 2010 Update, www.oecd-ilibrary.org/finance-and-investment/oecd-s-fdi-restrictiveness-index_5km91p02zj7g-en.

FDI regulatory restrictiveness varies greatly among UfM member states (Figure 2.3). Restrictiveness scores for 2019 show greater levels of openness in the Western Balkans and EU countries than among MENA countries. Virtually all MENA countries (except Morocco) are above the UfM average (0.075, on a scale from 0, open, to 1, closed), but the region converged towards the UfM average between 2010 and 2019, notably due to increased openness in Tunisia, Jordan and Egypt. Algeria and the Palestinian Authority are the two economies showing the highest levels of restrictions, with respective scores of 0.587 and 0.388, and in a specular way, they are the MENA economies with the lowest inflows of FDI (see in the following section (Figure 2.11). Morocco and Egypt, the two most open MENA economies, receive the largest inflows of FDI in the region.

Figure 2.3. FDI Restrictiveness Index in UfM economies

From 0 (open) to 1 (closed)



Note: 2010 data is missing for Albania, Algeria, Bosnia and Herzegovina, Jordan, Lebanon and the Palestinian Authority. Base-year data for Jordan are from 2012. EU average does not include Cyprus and Malta. UfM average does not include Cyprus, Malta and Mauritania.
Source: Authors, from the OECD FDI Restrictiveness Index database, https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX.

StatLink https://stat.link/a4tbzq

The high scores of the most restrictive economies in the UfM are largely driven by restrictions applied on foreign equity ownership to all or most foreign investors, notably in MENA economies (Figure 2.4). MENA countries display an extensive list of restricted sectors, notably in non-oil manufacturing sectors and servicesFor instance, the Palestinian Authority prohibits majority foreign ownership across sectors with few exceptions (e.g. manufacturing, banking, hotels and restaurants). Similarly, until recently, Algeria restricted foreign ownership to less than 50% of a firm's equity in all sectors; however, with the 2020 Finance Law the government lifted the cap on foreign ownership (OECD, 2021[25]).

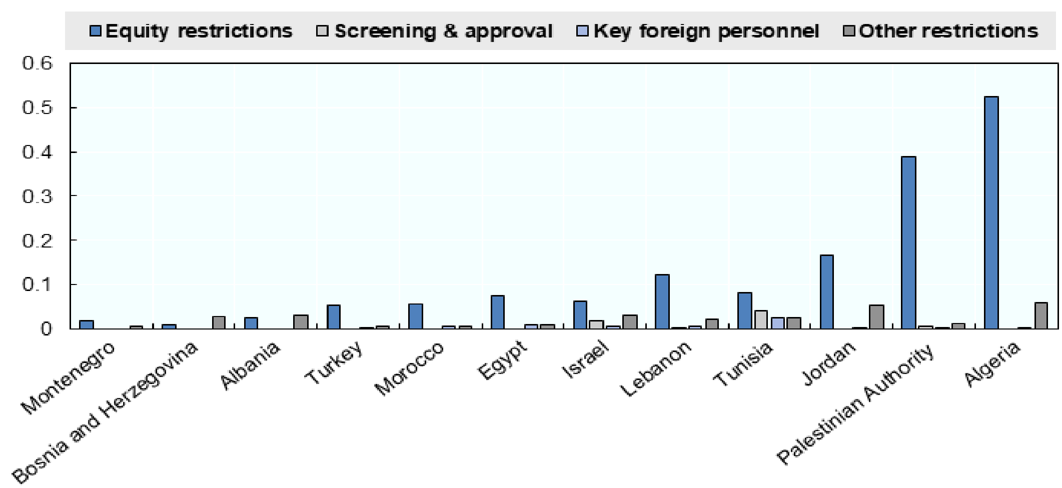
Some countries have, indeed, made notable improvements. Jordan and Tunisia have recently carried out significant structural reforms concerning investment regulation, and show the greatest degrees of improvement between the base year and 2019.

The overall lower restrictiveness of Tunisian markets is a result of changes in screening and approval procedures, notably following the entry into force in April 2017 of Investment law No. 2016-71, which repealed the 1993 Investment Code, and Law No. 2019-47 for the improvement of the investment climate. Screening and approval procedures restrictiveness dropped from 0.073 in 2010 to 0.042 in 2019. Law No. 2016-71 removed the necessity for foreigners to obtain approval from the High Commission for investment in 46 sectors, and Law No. 2019-47 simplified enterprise creation and approval procedures for domestic and foreign investors.

In Jordan, throughout the 2012 to 2019 period, screening and approval procedures remained open, while all three other sub-indices improved. The Regulation for Organising non-Jordanian Investments No. 77 of 2016, which replaced regulation No. 47 of 2000, specifically lays out the framework for economic activities conducted in Jordan by non-Jordanians. Foreign equity restrictiveness dropped from 0.187 in the base year to 0.165 in 2019. While Article 4 broadened the scope of activities in which foreign investors can have a shareholding of up to 50%, Article 5 lowered the threshold of foreign ownership from 50% to 49% in certain activities, which likely has mitigated the improvement in this sub-index.

Figure 2.4. FDI regulatory restrictiveness sub-indices, 2019

From 0 (open) to 1 (closed)



Source: Authors, from the OECD FDI Restrictiveness Index database, https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX.

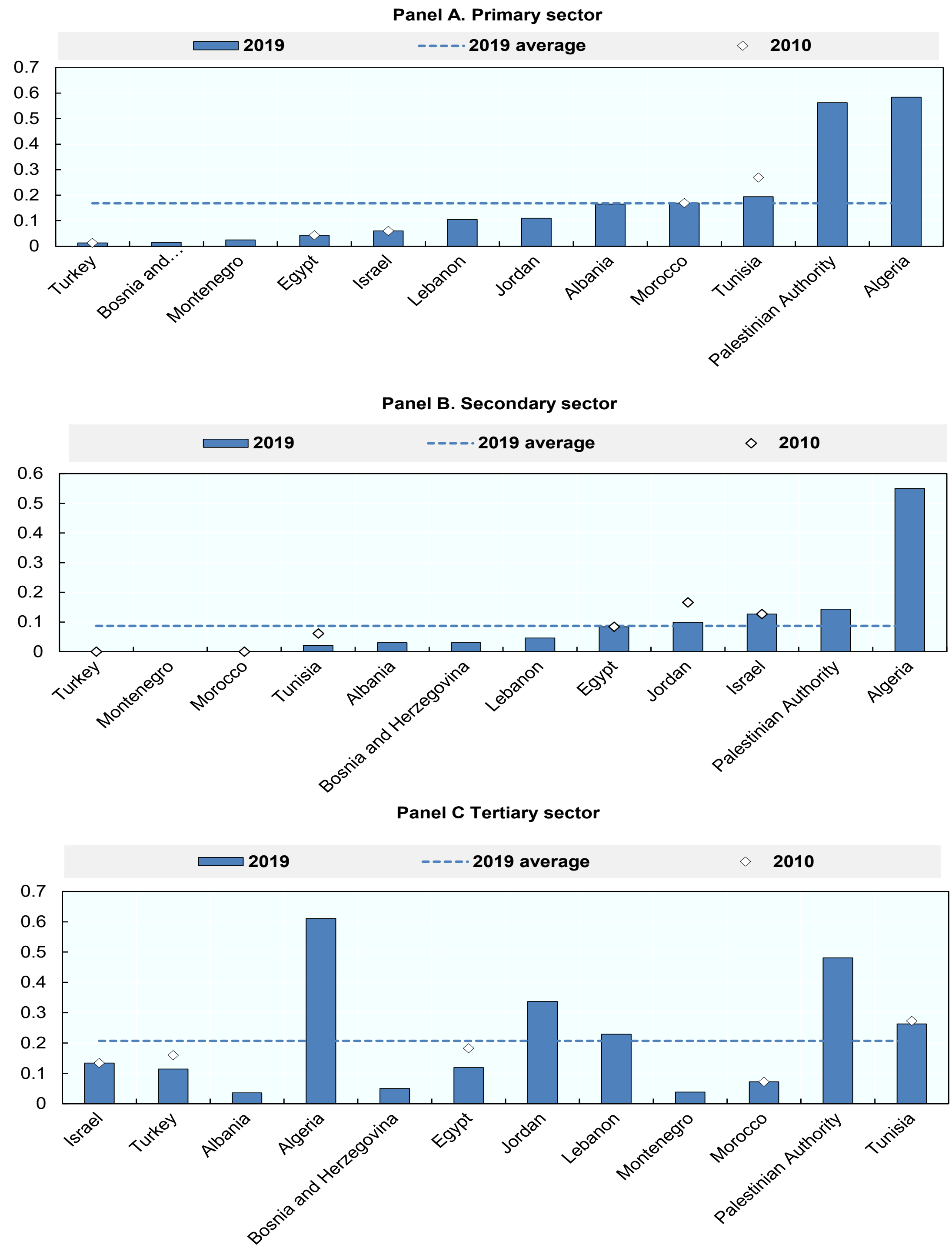
StatLink https://stat.link/1ulki3

In terms of economic sectors, restrictions are concentrated in the primary and tertiary sectors, with the lowest degree of closeness being recorded in the secondary sector (Figure 2.5). This is consistent with global trends, where the manufacturing sector is consistently more open to FDI than other sectors (Mistura and Roulet, 2019[26]). In 2019, the average for the secondary sector for non-EU UfM member states was 0.087, compared to 0.168 for the primary sector and 0.193 for the tertiary sector. MENA countries, especially Tunisia and Jordan, show the greatest decrease in restrictions. Western Balkan countries perform similarly to the EU average overall, with the exception of Albania's value for the primary sector.

An OECD survey of 60 developed and emerging economies showed that easing FDI restrictions has the most significant impact on the services sector as compared to manufacturing and agriculture (Mistura and Roulet, 2019[26]). As services tend to be the most restrictive sector in the UfM region, FDI liberalisation reforms oriented towards the tertiary industry may generate significant benefits in terms of bilateral stocks.

Figure 2.5. Regulatory Restrictiveness Index, by industrial sector

From 0 (open) to 1 (closed)



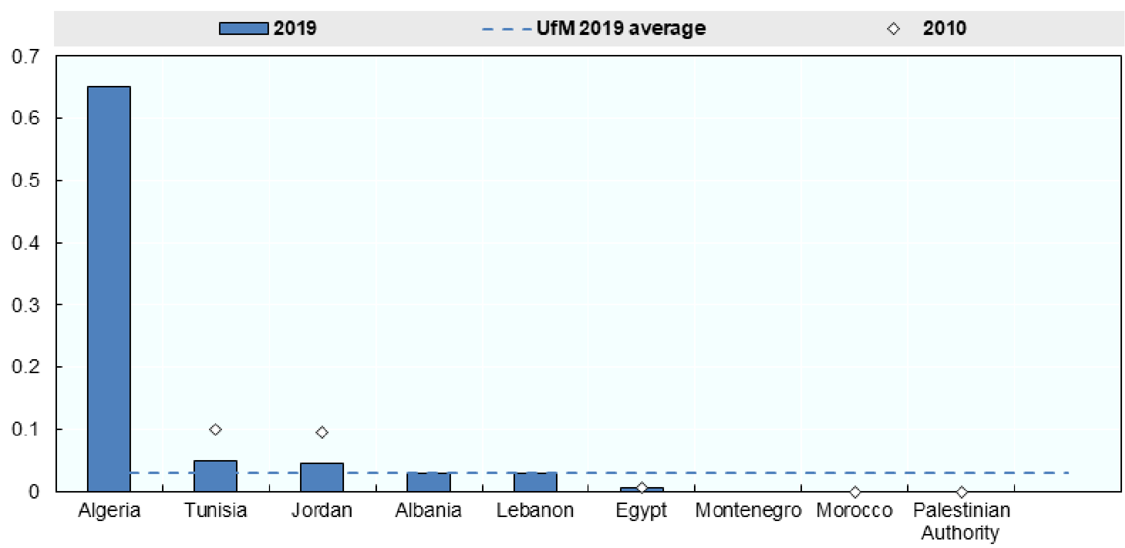
Note: 2010 data are missing for Albania, Algeria, Bosnia and Herzegovina, Jordan, Lebanon and the Palestinian Authority. Base-year data for Jordan is from 2012. EU average does not include Cyprus and Malta. UfM average does not include Cyprus, Malta and Mauritania.
Source: Authors, from the OECD FDI Restrictiveness Index database, https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX

StatLink https://stat.link/sn86fi

Restrictions on FDI can also affect the development of an economy's financial sector. For instance, restrictions on foreign entry in the banking sector can influence the level of regionalisation or internationalisation of the sector. The average restriction index on the banking sectors only across the UfM region (0.029) is significantly lower than when all sectors are considered (Figure 2.6). With the exception of Algeria, Jordan and Tunisia, non-EU UfM member states are approximately equal to or below the region's average. Given the relatively low levels of restrictions, there is potential for greater investments, which can spearhead the development of foreign bank entry in regions where it remains relatively constrained see (Box 2.3).

Figure 2.6. Regulatory Restrictiveness Index for the banking sectors, 2019

From 0 (open) to 1 (closed)



Note: The UfM average does not include Bulgaria, Cyprus, Malta and Mauritania. For Morocco, Montenegro and Palestinian Authority the value of the index in 2019 is 0.
Source: OECD FDI Regulatory Restrictiveness Index. https://www.oecd.org/investment/fdiindex.htm

StatLink https://stat.link/165fa3

Exposing the banking sector to foreign investments can lead to several potential benefits. When the management of branches in a foreign market is closely linked to the parent bank, foreign entry can enhance local supervisory mechanisms (OECD, 2009[27]). The presence of foreign banks can facilitate access to foreign capital and to new financing opportunities. Foreign banks can in principle reduce cross-border capital flight in periods of instability, by allowing foreign investors to shift their capital from domestically owned bank to local foreign banks. A sound legal framework is a necessary precondition for the successful integration of foreign banks into domestic markets and for the optimisation of its benefits. This includes, but is not limited to, modernised legislation on bankruptcy, risk management, accounting, capital requirements, and lending. Countries have taken steps to implement international standards to varying degrees.

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Box 2.3. Foreign bank penetration

Through increased competition and knowledge transfer, the entry of foreign banks can improve the efficiency and quality of services of the domestic banking sector. When the management of branches in a foreign market is closely linked to the parent bank, foreign entry can enhance the local supervisory mechanisms (OECD, 2009[27]). The presence of foreign banks can also facilitate access to foreign capital and to new financing opportunities. Lastly, foreign banks could reduce cross-border capital flight in periods of instability, by providing foreign investors with the opportunity to shift their capital from domestically owned bank to local foreign banks. However, regulators can limit the entry of foreign banks into local financial sector due to specific concerns, notably the risk of transmitting financial shocks to the host economy.

Foreign bank presence is heterogeneous across the MENA region. The Jordanian banking sector is one of the most developed in the region – the country also ranks the best in the IMF Financial Development index as compared with other MENA countries. Among Arab banking institutions, Jordanian-headquartered Arab Bank has the largest international presence. There are also several foreign banks within the country, such as Standard Chartered (United Kingdom), Egyptian Arab Land Bank (Egypt), BLOM Bank (Lebanon), Bank Audi (Lebanon), Citibank (United States), Rafidain Bank (Iraq) and Al-Rajhi Bank (Saudi Arabia). In the Maghreb (Algeria, Mauritania, Morocco and Tunisia), where the banking sector is the main provider of financial services, foreign entry remains limited despite a growing regionalisation of banking services. Regionalisation of banks is most important in Morocco and, to a lesser extent, Tunisia (African Development Bank, 2010[5]). The following banks are an example of successful regional penetration of Maghrebi banks:

- Morocco's Attijariwafa Bank in Tunisia and Mauritania;
- Morocco's Axis Capital in Tunisia;
- Tunisian subsidiary banks and financial institutions in Algeria (Tunisia Leasing and Amen Leasing);
- Algerian investment bank in Tunisia (International Market Bank).

In 2017, the *Banque maghrébine d'l'investissement et de commerce extérieure* (BMICE) was established with the aim of promoting commercial ties and capital movement between Maghreb countries, notably by overcoming regulatory restrictions. The five countries participate equally in the USD 500 million capital of the BMICE.

Source: (OECD, 2009[27]), (African Development Bank, 2010[5]), *Banque maghrébine d'l'investissement et de commerce extérieure* (BMICE) https://www.bmice-maghreb.org/fr/accueil/, last accessed April 2021.

According to OECD research, liberalisation reforms can have a sizable and significant effect on FDI (OECD, 2021[25]). Overall, a 10% reduction in the level of FDI restrictiveness, as measured by the *Index*, could lead to a 2.1% increase in bilateral FDI inward stocks on average, all else held equal. If this average effect were to apply equally across all countries, the more restrictive economies could expect FDI stocks to be between 7 and 95% higher if they were to ease FDI restrictions to the OECD average level. While the magnitude of the impact of liberalisation reforms on FDI can vary between countries, it shows how restrictions still act as barriers to investment and that there is substantial room for FDI growth if governments continue to advance liberalisation reforms.

Finally, it is worth mentioning that FDI restrictions analysed in this section are discriminatory measures explicit in regulations or laws, but other de facto restrictions on foreign investors may exist (OECD, 2021[21]). These include institutional or informal barriers to investment (e.g. excessive bureaucracy or corruption), and also inconsistent enforcement of rules, distortions caused by state ownership in key sectors, special treatment received by certain firms, insufficient competition, skills shortages, inadequate infrastructure, political instability, governance challenges, and weak regional integration.

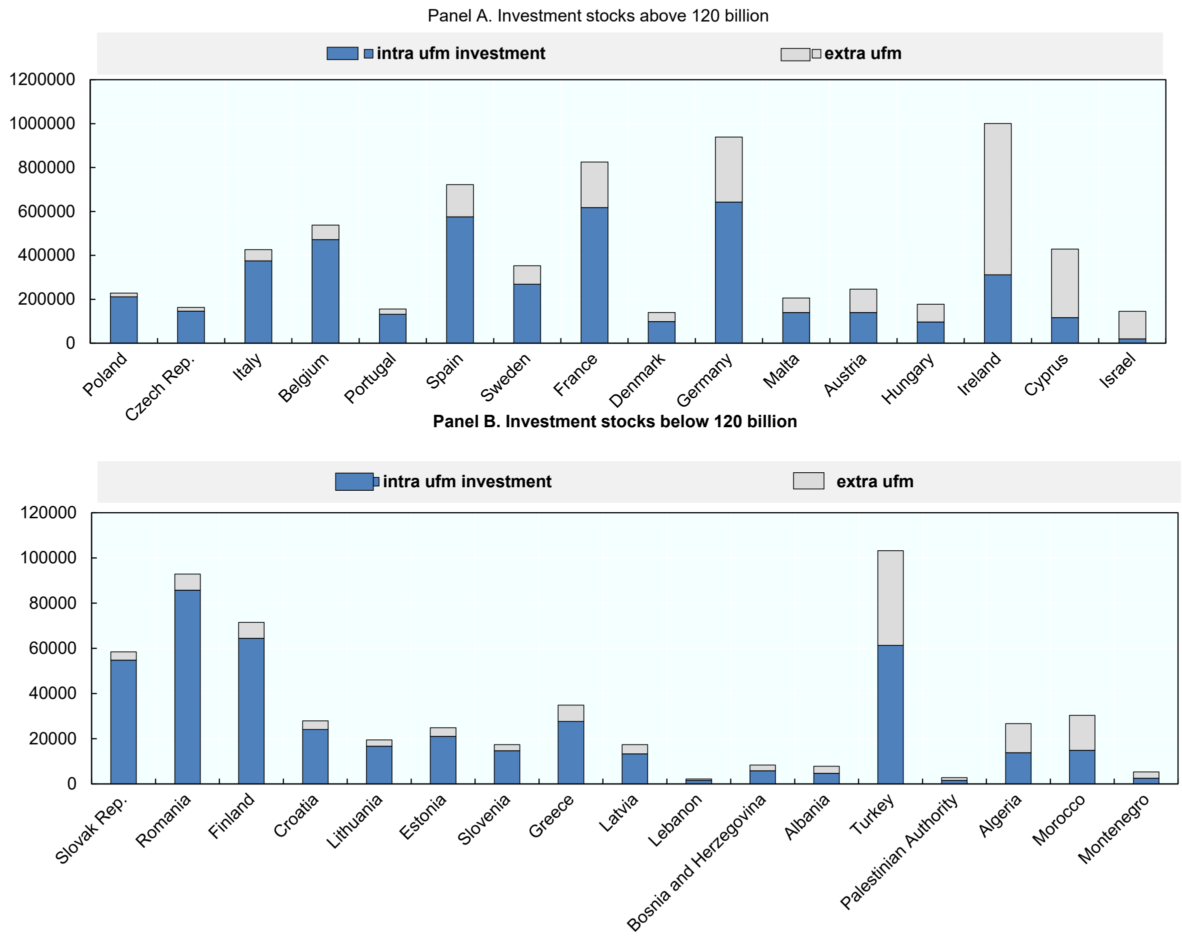
Indicator F3. FDI positions and flows

The distribution of FDI stock among UfM member states is considerably uneven (Figure 2.7). Also, within the UfM region, FDI flows usually involve an EU member state, whereas intra-MENA or intra-Western Balkans flows remain limited.

EU countries, especially, attract the overwhelming majority of investments due to the status as financial centres of some of the EU member states (Damgaard et al, 2019[28]). The relatively small share of investments distributed across MENA and Balkan countries reflects their low level of integration, coupled with existing restrictions to FDI in the regions. The predominance of the banking system, the limited development of financial systems, and external and internal shocks (such as financial crises) all constrain direct investment. Also, structural challenges shared by many MENA economies are hindering FDI (OECD, 2021[21]). These include insufficient competition, skills shortages, inadequate infrastructure, political instability, governance challenges, and weak regional integration.

On average, 68% of investment stock in a reporting economy from the UfM comes from another UfM member state. Given the depth of formal ties that EU member states share among themselves, they roughly have the highest share of intra-UfM investment. This is especially the case concerning smaller EU economies that have weaker financial ties with developed North American and Asian economies than countries like France and Germany. With the exception of Bosnia and Herzegovina and Lebanon, MENA and Western Balkan countries – in addition to Israel, Turkey and the United Kingdom – are below the average share of intra-UfM investment.

Figure 2.7. Inward FDI stock in UfM countries, 2018



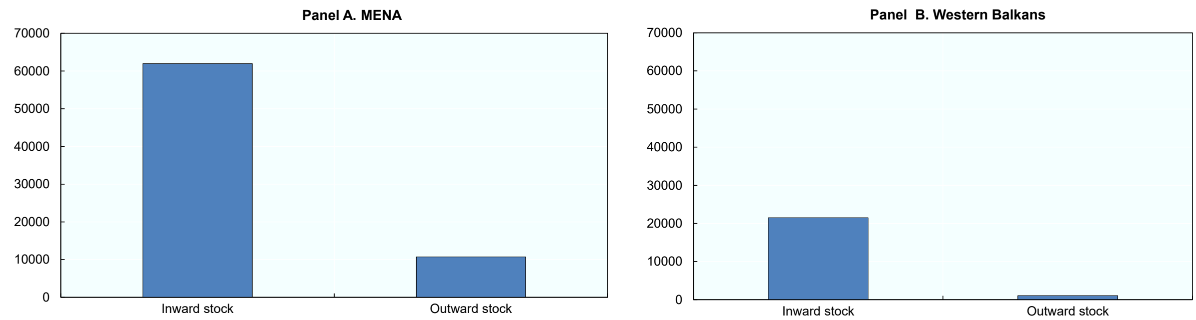
Note: Inward FDI measures investment by non-resident investors in the reporting economy, whereas outward FDI measures investment by residents of the reporting economy in partner economies. FDI stocks or positions are a measure of the total level of direct investment at a precise point in time, usually at end year or quarter, reflecting the accumulation of investment in or by the reporting economy and show long-term links between partner economies. FDI flows measure cross-border direct investment during a given period of time, usually a year or a quarter. Countries are ranked in order of decreasing share of intra-UfM investment position. The Netherlands and Luxembourg do not appear on the graph due to their significantly higher stocks; their shares of intra-UfM inward stock stand respectively at 51% and 42%. Bilateral FDI stocks in the IMF CDIS database include resident Special Purpose Entities (SPEs), which are particularly significant in countries like Luxembourg and the Netherlands. Data for Egypt, Jordan, Mauritania and Tunisia are unavailable.
Source: Authors, based on IMF *Coordinated Direct Investment Survey*, https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5.

StatLink https://stat.link/wpufqc

The MENA and Western Balkans regions are net receivers of foreign investments and have a limited presence as foreign investors (Figure 2.8). Lebanon is an exception, with USD 3.9 billion in outward stock against USD 2.9 billion in inward stock. In addition to structural long-term ties reflected by stocks, FDI flows reflect shorter-term changes in direct investment as influenced by global macroeconomic conditions and internal changes, including regulatory changes.

Figure 2.8. Inward and outward stock in UfM sub-regions, 2018

Million USD



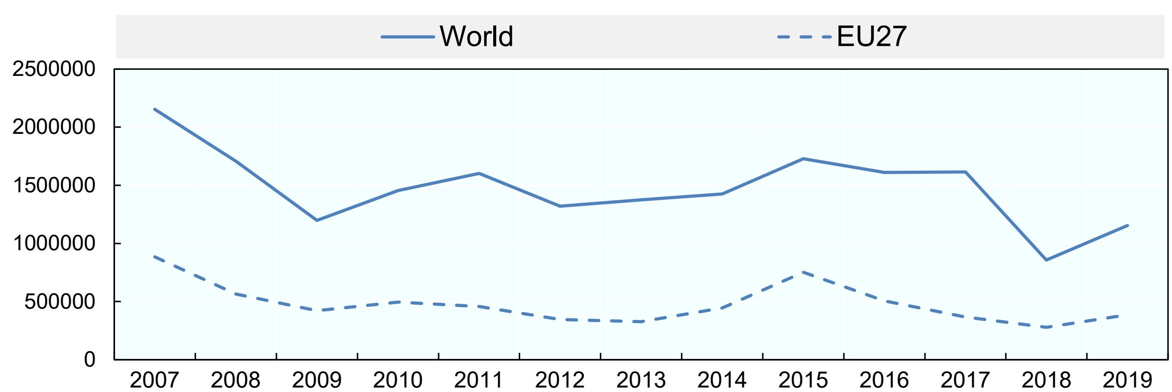
Note*:* Inward and outward stock data for Jordan are unavailable. Outward stock data for the Palestinian Authority and Montenegro are unavailable.
Source*:* Authors, from the IMF *Coordinated Direct Investment Survey*, https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5.

StatLink https://stat.link/52ltjv

Investment outflows from the EU, whose member states are significant investors in the MENA and Western Balkans regions, follow global trends (Figure 2.9), namely a sharp decline following the 2007-08 financial crisis and progressive decline between 2016 and 2018, mainly due to a constriction of investment relations with the United States (European Commission, 2018[3]).

Figure 2.9. FDI outflows, world and EU27, 2007-19

Million USD



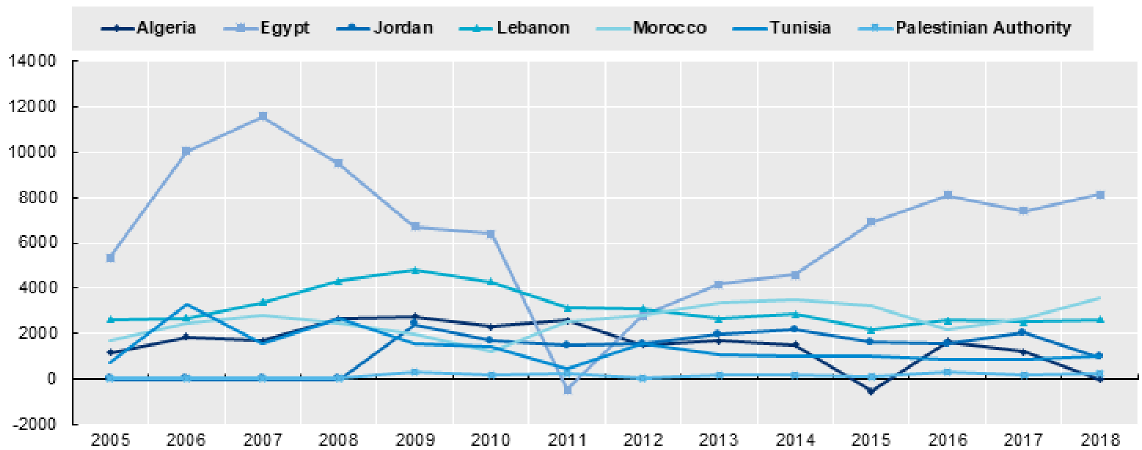
Source: OECD Foreign Direct Investment Statistics database, https://www.oecd.org/corporate/mne/statistics.htm.

StatLink https://stat.link/sjwzk4

In the MENA region, following the 2008 financial crisis, the outbreak of political upheaval in several countries put pressure on the recovery of FDI, including on intra-regional investment (Box 2.4) (Figure 2.10). Egypt receives the largest amount of FDI (despite being among the most affected by the 2007-08 financial crisis and the Arab Spring), followed by Morocco.

Figure 2.10. FDI inflows to MENA countries

Million USD



Source: IMF *Coordinated Direct Investment Survey*, https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5.

StatLink https://stat.link/fgut4d

Box 2.4. Intra-MENA investment flows

There is little reliable data available concerning intra-MENA investment flows. Economies in the region tend to compete to attract capital from other region, such as the EU and the GCC, while undertaking limited capital exchange amongst themselves. The amount of FDI flows within the region is three times lower than in the Asia Pacific region and more than two times lower than in Latin America (Wall J, 2019[29]). Recent analysis by the OECD founds that FDI flows between MENA economies are marginal, representing only 1% of total greenfield investment since 2003 (OECD, 2021[25]).

This is despite the existence of regional frameworks for financial integration, notably in North Africa – such as the Agadir Agreement, a multilateral trade agreement with investment provisions established between Egypt, Jordan, Morocco and Tunisia, and later joined by Lebanon and the Palestinian Authority. Previous studies have linked this to a limited implementation of existing agreements (OECD, 2014[30]).

Indicator F4. Restrictions on portfolio and bank capital inflows

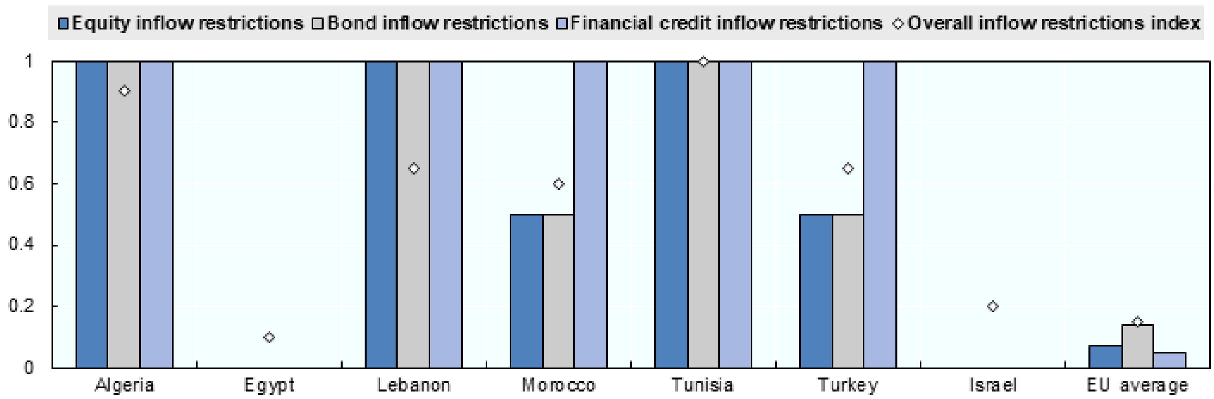
Moving to other types of capital flows beyond FDI, this section analyses the level of openness to portfolio and bank cross-border flows. The capital restrictions index computed by (Schindler et al, 2015[31]) covers controls on inflows and outflows for ten types of assets, including money market, bonds and equities.

Restrictions on capital flows are heterogeneous in the UfM region (Figure 2.11). In particular

- MENA economies implement more restrictions than the European average,
- Algeria, Lebanon and Tunisia show the maximum level of overall inflow restrictiveness;
- Egypt is open in the three categories on portfolio and financial credit capital inflows, while Morocco has some restrictions on equity and bond inflows.

Figure 2.11. Restrictions on portfolio and bank capital inflows, selected UfM countries, 2017

Index 0 (no restriction) to 1 (presence of a restriction)



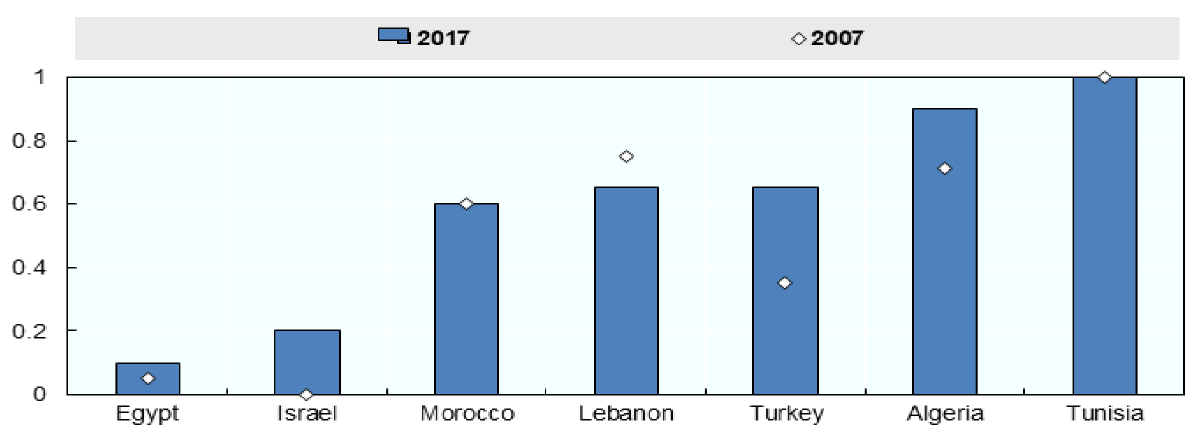
Note: The EU average covers 22 member states, except Croatia, Estonia, Lithuania, Luxembourg and the Slovak Republic. For Egypt and Israel, the values of restrictions indicator for the three specific type of inflows, i.e. equity, bond, financial credit, was equal to 0 in 2017
Source: Schindler et al. 2015, *Capital Control Measures dataset*, http://www.columbia.edu/~mu2166/fkrsu/.

StatLink https://stat.link/clkya6

With the exception of Lebanon and, to a lesser extent, Tunisia, most countries show greater degrees of restriction today than in 2007 (Figure 2.12). In Algeria, restrictions first increase in 2008 and follow a slow, fluctuating growth until 2013. But not all changes have been applied following the crisis across the region. In Israel and Turkey, the first restrictions appear in 2011, and the index continues to increase in 2012 and 2013. Lebanon experienced a slight decrease in 2016, highlighting a slightly more open market.

Figure 2.12. Overall capital inflow restrictions index

Index 0 (no restriction) to 1 (presence of a restriction)



Source: Source: Schindler et al. 2015, Capital Control Measures dataset, http://www.columbia.edu/~mu2166/fkrsu/.

StatLink https://stat.link/05gelm

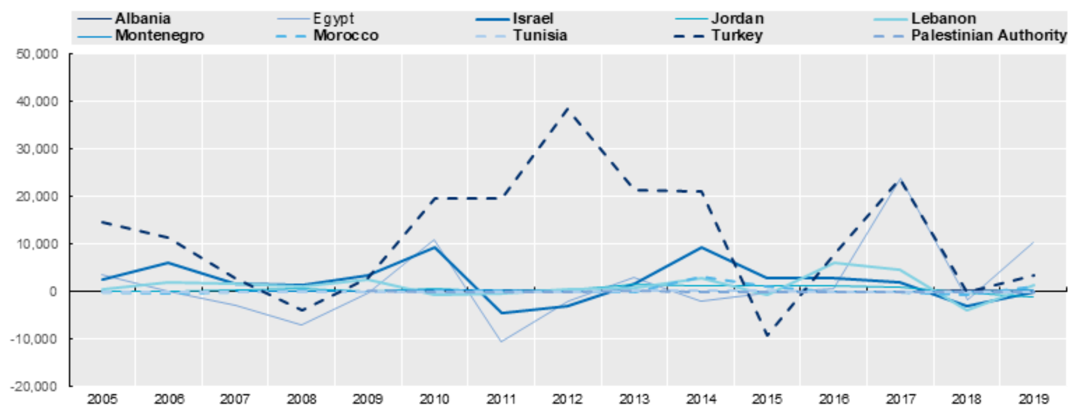
Indicator F5. Portfolio investment flows

Along with FDI flows, portfolio flows provide information on the level of financial integration from the perspective of capital markets. Inward portfolio flows (liabilities) represent the volume of portfolio investment coming into the MENA and Western Balkan regions from the rest of the world. Outward portfolio flows (assets) represent the volume of portfolio investment from local investors into foreign economies.

With the exception of Turkey, which received significantly higher flows between 2009 and 2014, the focus economies have relatively low inflows, with generally limited fluctuations. Turkey, but also Egypt and Israel – the three economies showing the lowest levels of capital control (Indicator F4) within non-EU/UfM member states – seem to be the most affected by external and internal shocks, notably the 2007 financial crisis and the Arab Spring (Figure 2.4).

Figure 2.13. Portfolio capital outflows, per country, 2005-19

Million USD

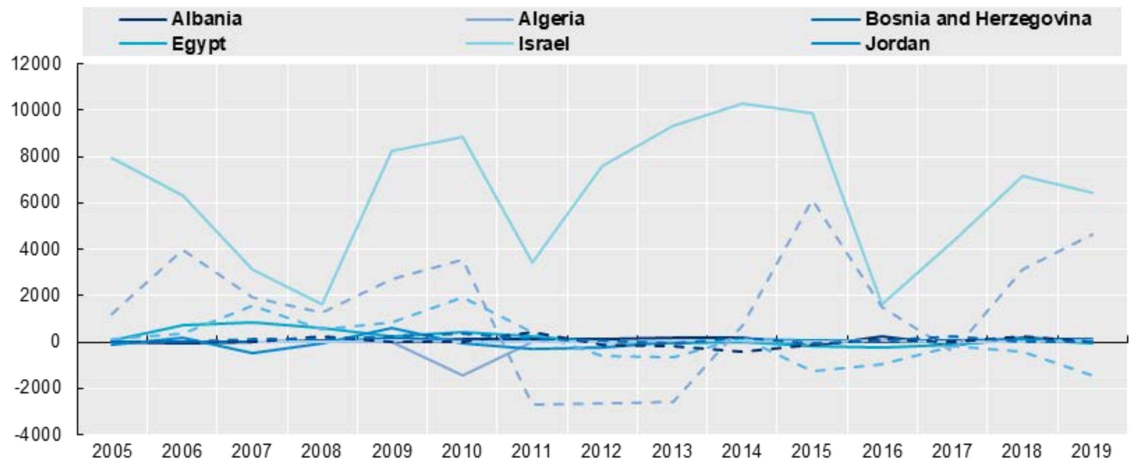


Note: Negative values refer to years where disinvestments exceed investments. In the case of inflows, this refers to a situation where foreign investors repatriated more funds than they have invested in the focus economy.
Source: Authors, from the, IMF *Coordinated Direct Investment Survey,* https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5

StatLink https://stat.link/snk3xp

Similarly to FDI flows, MENA countries are much less present as global investors. Egypt, Israel and, to a lesser extent, Turkey show significantly greater volumes of portfolio capital outflows, with a high propensity to fluctuate Figure 2.14.

Figure 2.14. Portfolio capital outflows, per country, 2005-19



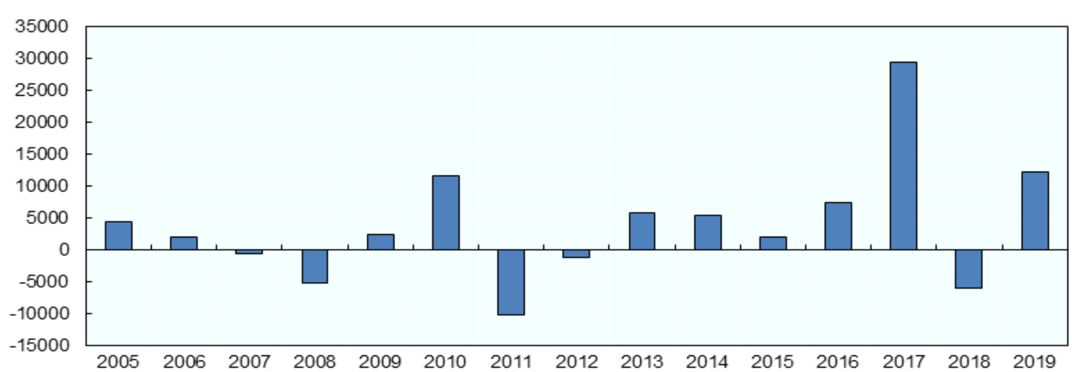
Note: Negative values refer to years where disinvestments exceed investments. In the case of outflows, this refers to a situation where local investors repatriated more funds than they have invested abroad.
Source: Authors, from the IMF *Coordinated Direct Investment Survey*, https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5

StatLink https://stat.link/fi947y

Aggregated inflows of MENA and Western Balkan economies show high heterogeneity from one year to another. The years following the financial crisis and the Arab Spring witnessed higher disinvestments than investments. The surge of inflows in 2017 is mostly captured by inflows to Egypt following an improved economic outlook and monetary and fiscal reform (World Bank, 2017[32]) (Figure 2.15).

Figure 2.15. Total portfolio capital inflows, UfM MENA and Western Balkan countries

Million USD



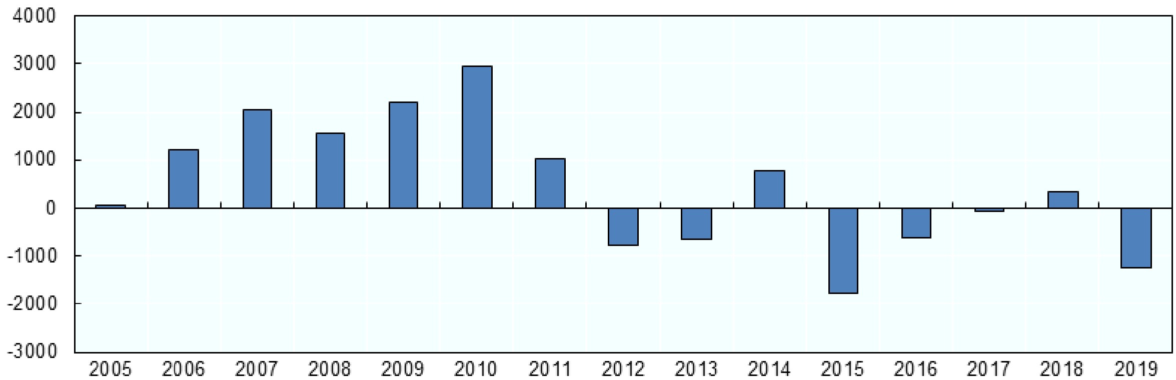
Note: Negative values refer to years where disinvestments exceed investments. In the case of inflows, this refers to a situation where foreign investors repatriated more funds than they have invested in the focus economy.
Source: Authors, from the IMF *Coordinated Direct Investment Survey*, https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5.

StatLink https://stat.link/oa1vn5

Total portfolio outflows, after reaching a peak in 2010, experienced a downward trend, with a fluctuating volume of outflows ever since: they are in general negative, except for 2014 and 2018 where however outflows remain far from pre-2010 levels (Figure 2.16).

Figure 2.16. Total portfolio capital outflows, MENA and Western Balkan countries, 2005-19

Million USD



Note: Negative values refer to years where disinvestments exceed investments. In the case of outflows, this refers to a situation where local investors repatriated more funds than they have invested abroad.
Source: Authors, from the IMF *Coordinated Direct Investment Survey*, https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5.

StatLink https://stat.link/0io1fd

Indicator F6. Remittance flows and costs

Remittances are money transfers between different parties, usually residing in different countries. Generally, a remittance refers to the sum of money sent by a migrant worker to family members in the worker's country of origin. Remittances represent a significant source of external financing in low-to-middle–income economies, where such inflows can exceed FDI flows (IEMed, 2020[33]). In the UfM, 90% of emigrants from North Africa and almost all emigrants from the Western Balkans lived in an EU country in 2019. A sizable share of them migrated to seek employment opportunities, with their families continuing to live in their countries of origin (see Chapter 4).

Through the allocation of the migrant labour force in foreign, more productive markets, countries of origin capture gains they would not have access to otherwise. Remittance flows are the result of a cross-border reallocation of labour, and represent the regional distribution of gains generated in the remittance sending economy. There has been a significant increase in remittance flow since the 1980s. Inflows to developing countries represent a large source of income, often surpassing official development assistance (ODA). In 2016, the World Bank estimated that remittances reached USD 575 billion and involved 232 million migrants (World Bank, 2020[34]); see Box 2.5 for more information on the World Bank Remittance prices worldwide database.

Remittance flows indicate the volumes of financial transfers, while costs and efficiency provide insights into the structures allowing remittance flows and possible barriers to them. The World Bank estimates that reducing remittance costs by 5% could generate, at the world level, savings of up to USD 16 billion a year (World Bank, 2020[34]). Target 10.c of the UN Sustainable Development Goals specifically concerns the transaction costs of remittances: "by 2030, reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%".[3]

Several factors influence remittance prices, including the level of development of financial markets and institutions, low competition, statutory constraints, and constrained access to banks by remittance-sending migrants (World Bank, 2020[34]). Decision-making and cooperation at the national and regional levels can affect the volume of remittances going through formal challenges. Lowering transaction costs and strengthening the role of financial institutions in cross-border exchanges is an efficient way to capture remittances through formal channels. This can take the form of facilitation of foreign transactions through banks, reducing the fees of money transfer operators (MTOs), offering digital ways of transferring funds, etc. Furthermore, when domestic banks open borranches abroad, they provide remitters with lower transaction fees (World Bank, 2006[35]). Cost-efficient financial institutions operating at the regional level maximise the disposable income sent by remitters and encourage the use of formal transfer channels.

Remittance flows and costs are a relevant dimension of financial integration in the UfM region as they shed light on a form of capital exchange that is particularly significant between MENA and Balkan countries, on the one hand, and EU countries, Israel and Turkey on the other. While the volume of remittances is primarily determined by the presence of immigrants from a net remittance-receiving country in a net remittance-sending country, it also depends on the existence of financial structures allowing such transfer of money (i.e. MTOs) and on the costs imposed by such structures.

Remittances sent through formal channels can positively affect financial inclusion and literacy. Leveraging and maximising formal remittance flows can help lift migrant workers' families out of poverty. Encouraging contact of remittance-receivers with banks and MTOs provides a first contact with financial institutions and promotes inclusion in the financial system. Empirical studies conducted in five Sub-Saharan countries (Burkina Faso, Kenya, Nigeria, Senegal and Uganda) found that receiving remittances increases the probability that migrant workers' families subsequently open a bank account (Aga and Peria, 2014[36]).

Due to the Covid-19 pandemic, digital payments are expected to grow fast across the region in 2021 and beyond, which will require countries not only to develop the legal environment but also to strengthen the regulatory framework for service providers to allow for further innovation in this area. This would boost remittances as well as e-commerce, which is currently limited in part due to the lack of infrastructure for digital payments. In 2017, studies reported that only 8% of SMEs in the wider MENA region had an online presence (compared to 80% in the United States) and only 1.5% of the region's retailers were online (McKenna, 2017[37]).

Table 2.2. Remittance flows and cost analysis in MENA and Western Balkan countries

	UfM relevance in Key corridors	Net flows – million USD	Cost (%)	Competition	Network coverage	Digital channels	Average speed of MTOs
Country							
Albania	HIGH (Greece, Italy)	1 183	n.a.	n.a.	n.a.	n.a.	n.a.
Algeria	HIGH (France, Spain)	1 893	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia and Herzegovina	MODERATE (Croatia, Serbia)	1 957	n.a.	n.a.	n.a.	n.a.	n.a.
Egypt	LOW (KSA, Kuwait)	19 582	3.35	High	High	Null from KSA	High (less than a day on average)
Jordan	LOW (KSA, UAE)	1 562	6.4	High	High	Moderate from Kuwait	Very High (less than one hour on average)
Lebanon	LOW (KSA, US)	6 787	6.87	High	High	Null from KSA	High
Montenegro	MODERATE (Serbia, Turkey)	351	n.a.	n.a.	n.a.	Low from UAE	n.a.
Morocco	HIGH (France, Spain)	7 365	5.05	High	High	Null from	Very high

	UfM relevance in Key corridors	Net flows – million USD	Cost (%)	Competition	Network coverage	Digital channels	Average speed of MTOs
						KSA	
Palestinian Authority	MODERATE (Jordan, KSA)	1 118	N.a.	n.a.	n.a.	Medium from US	n.a.
Tunisia	HIGH (France, Italy)	1 382	8.59	High	High	n.a.	Very high
Israel	HIGH (France, Morocco)	1 936	n.a.	n.a.	n.a.	Medium	n.a.
Turkey	HIGH (Germany, Bulgaria)	3 692	n.a.	n.a.	n.a.	n.a.	n.a.

Note: Data is organised following the methodology adopted by the UN High Commissioner for Refugees (UNHCR) in their Remittances brief
Source: Authors, from the World Bank Remittance Prices Worldwide database and World Bank bilateral remittance matrices

Box 2.5. World Bank Remittance prices worldwide database

The World Bank Remittance Prices Worldwide website provides data on the costs of sending and receiving remittances across several key corridors, as well as additional data on the modalities of such transfers:

- The cost refers to the average cost (calculated on the basis of sending 200 USD) of sending money along the first two key corridors of the concerned country. This cost includes fees retained by the MTO, which usually makes up the main share of costs, as well as exchange rate margins.
- Net flows correspond to a net receiver's remittance inflows minus outflows, and to a net sender's remittance outflows minus inflows. The top ten key corridors are taken into account.
- Competition refers to the number of MTOs available for the first two key corridors. High corresponds to five or more, medium to three or more and low to less than three.
- Network coverage corresponds to the network coverage of MTOs. High refers to at least one MTO with high network coverage, medium to at least one MTO with medium coverage and low to no MTO with either high or medium coverage.
- Digital channels correspond to the possibility of sending of receiving money through digital means. High refers to corridors where the sender and receiver can transfer money digitally, medium when only the sender can transfer money digitally and low is when neither the sender nor the receiver can transfer money digitally.

Source: World Bank Remittance Prices Worldwide, https://remittanceprices.worldbank.org/en.

Key remittance corridors refer to the main source (or destination) of remittances for a country. UfM member countries from the MENA and Western Balkans regions are net remittance receivers, while Turkey and Israel are net remittance senders. Intra-UfM remittance flows are significant: 10 countries out of the 14 considered have at least one UfM member state as key partner. Based on available data, only Egypt is below the 5% target set by the United Nations – noting that the countries two key partners are not UfM member states. All other key corridors, notably ones with high UfM relevance, remain over the 5% threshold. Sending remittances to Tunisia, whose key partners are France and Italy, is the costliest transaction.

In several MENA and Balkan states, remittances represent a significant share of GDP (Table 2.3). On average, remittance inflows represent 10.4% of GDP in the Western Balkans and 7.8% in the MENA region against 0.8 in the EU. This percentage is likely underestimated in several countries due to remittance flows that are unaccounted for because they are sent through informal channels. In countries with significant inflows, the income generated through cutting transaction costs is significant both in absolute terms and as a share of GDP. This is the case with the Palestinian Authority, for instance, where remittances currently represent 17% of GDP.

Intra-UfM cooperation to reduce the costs of sending remittances would not only have a positive impact on the volume of remittances and on migrants' families income, but would also promote financial literacy and financial inclusion, through greater contact with the banking sector and other financial institutions.

Table 2.3. Remittances as percentage of GDP, 2019

	Remittances as percentage of GDP
Country	9.6%
Albania	1.1%
Algeria	11.3%
Bosnia and Herzegovina	8.8%
Egypt	10.0%
Jordan	13.9%
Lebanon	0.8%
Mauritania	10.6%
Montenegro	5.7%
Morocco	5.3%

Source: World Bank staff estimates based on IMF balance of payments data, and World Bank and OECD GDP estimates. World Bank *Remittance Prices Worldwide database*, https://remittanceprices.worldbank.org/en.

Conclusions and policy considerations

The countries of the UfM region vary considerably in their levels of financial development, and this can present a barrier to integrating the region's financial sector. Cohesion in the degree of financial development and in the soundness and modernity of legal frameworks regulating cross-border financial relations (notably in MENA countries and the Western Balkans) is a prerequisite to promoting potential benefits and avoiding negative externalities from integration, including the spread of macroeconomic instability.

The frameworks regulating capital flows and the actual volume of flows are complementary indicators of the relative financial integration of a region. The bulk of capital exchange in the UfM region involves at least one EU member state.

In terms of cross-border restrictions on portfolio capital flows and investment flows, MENA markets are more restrictive than other UfM sub-regions. Restrictions on portfolio flows have tended to increase in the past decade, generally as a result of the financial crisis and the economic impact of the Arab Spring.

Levels of financial flows have remained relatively low in MENA and Western Balkan economies in the past decade. Turkey, Israel and to a lesser extent Egypt capture higher volumes of flows but are also more subject to external shocks.

Restrictions on foreign investment in the manufacturing and services sectors, notably concerning foreign ownership of equities, strongly account for these gaps – although recent reforms efforts are narrowing the gap, especially in Jordan and Tunisia. Further easing restrictions and facilitating investments in technology and science would allow for more technology transfers and linkages with local suppliers.

In terms of volume of direct investment, there is significant untapped potential for FDI within and between the MENA and Western Balkans sub-regions, which currently share limited FDI flows. Data on FDI flows and stocks in international databases is lacking for a number of countries in the UfM region, particularly in the MENA and Western Balkans sub-regions. It is recommended that countries report investment data so that the volume of financial flows can be properly estimated and monitored.

International organisations and frameworks like the OECD Codes of Liberalisation can provide guidance for gradually moving towards more openness and reaping the benefits of capital flows while ensuring resilience – in other words, for moving toward a 'level playing field' by raising the standards of financial systems such as capital requirements and loan and credit regulation.

Remittances represent a significant financial flow in the UfM region and an important source of income, notably in the MENA and Western Balkans regions. In some cases, there are few options for sending remittances through formal channels, and when such options exist, the associated costs can be prohibitive; as a result, it is estimated that a significant portion of remittances is sent through informal channels. International co-operation and public-private dialogue between UfM member states and the main remittance transfer institutions (including banks and MTOs) is necessary to promote the gathering of data on remittance costs and transfer efficiency, and to reduce avoidable costs.

Monitoring of financial flows globally and at the UfM level requires reliable and harmonised data collection. A greater engagement with international bodies, such as the OECD Investment Committee's Working Group on International Investment Statistics[4], is highly recommended to enhance data availability and comparability.

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Notes

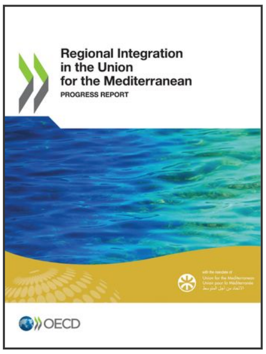
[1] See https://www.oecd.org/daf/inv/investment-policy/national-treatment-instrument-english.pdf;

https://www.oecd.org/daf/inv/investment-policy/codes.htm;

[2] Monitoring is produced within the framework of the OECD Freedom of Investment roundtables, in which 29 UfM countries participate. It is available at http://www.oecd.org/investment/g20.htm#foi

[3] See: https://sdgs.un.org/goals/goal10.

[4] See: https://oecdgroups.oecd.org/Bodies/ShowBodyView.aspx?BodyID=7250.



From:

Regional Integration in the Union for the Mediterranean

Progress Report

Access the complete publication at:

https://doi.org/10.1787/325884b3-en

Please cite this chapter as:

OECD (2021), "Finance", in *Regional Integration in the Union for the Mediterranean: Progress Report*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/852c9e60-en

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