Joint Survey by the Union of Arab Banks (UAB) and the International Monetary Fund (IMF)

The Impact of De-Risking on MENA Banks[1]

In response to enhanced implementation of global regulatory standards and economic and trade sanctions, several global banks have reportedly scaled back or terminated (de-risked) their foreign correspondent relations. Given the significant role these banks play in the global trade and payment system, any large scale withdrawal could potentially carry serious and unintended consequences by excluding or limiting access to international finance of transactions, sectors, and customers that are not the targets of the regulatory and enforcement actions. Such de-risking from international finance could in turn have negative implications for affected countries' financial stability and growth prospects.

Against this backdrop, the IMF and the Union of Arab Banks (UAB) conducted a survey of banks in the MENA region. Banks were asked to assess how they were affected by the enforcement of AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) regulations; the introduction of the U.S. Foreign Account Tax compliance Act (FATCA); and the implementation of Basel III. About 117 banks (or one quarter of the banks to which the survey was sent) responded. This paper reports the main findings of the survey and highlights areas for further analysis.

[1] For questions on the survey, please contact Ms. Jeanne Gobat (jgobat@imf.org) and Dr. Ali Awdeh (ali.awdeh@uabonline.org).

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I. INTRODUCTION AND SUMMARY

1. **De-risking by global banks in their correspondent relationship and third-party services has become a key concern for policy makers**. Several large global banks have announced that they are looking into scaling back the banking services they provide to foreign banks, as well as to money transfer operators (MTOs) that specialize in international cash balance remittance transfers. One reason cited has been the heightened regulatory compliance expectations and increased enforcement actions and penalties in cases of breach. These compliance expectations relate to AML/CFT, transparency and exchange of tax information (e.g., FATCA[2]), Basel III prudential regulation, and economic and trade sanctions.[3] In the face of these actions, correspondent banking (CB), including U.S. dollar transactions in the payment system, has developed into a higher risk and relatively low-return business for banks. There has also been concern that banks could be cutting ties not just on a case-by-case basis with banks, where ML/FT risks, among others, cannot be mitigated. Instead, they are terminating relationships in a wholesale fashion, resulting in the withdrawal from entire categories of customers, business lines or regions.[4]

2. Several international initiatives are underway to look into the impact of de-risking:

- The **Financial Action Task Force (FATF)** announced at its plenary meeting in October 2014 that it would gather evidence and analysis on the drivers and scale of de-risking and follow up with further guidance if necessary.
- The **World Bank** has been tasked by the G-20 to conduct a survey in order to look into the broader macroeconomic implications of de-risking, including on financial inclusion and poverty. This survey will include the perspectives of MTOs, banks, and national governments worldwide.
- The **Financial Stability Board (FSB)** has proposed to review the unintended financial exclusion of categories of customers and financial institutions from "high risk" countries by a withdrawal of CB services.

3. **Complementing these initiatives, the IMF and the UAB conducted a survey of MENA banks in early 2015.** The survey was sent to 471 banks in twenty countries,

[2] The U.S. Foreign Account Tax Compliance Act (FATCA) is a U.S. federal law that requires U.S. persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial institutions to report to the Internal Revenue Service about their U.S. clients.

[3] MENA countries on the UN, U.S., and EU sanction lists are: Iran, Iraq, Lebanon, Libya, Somalia, Sudan, Syria, and Yemen.

[4] Wholesale de-risking is associated with the notion of risk avoidance as opposed to risk management.

covering the largest fifty banks regionally and the systemically important ones in each jurisdiction. It included both conventional and Islamic banks, private and state-owned banks as well as foreign banks (branches and subsidiaries). Banks were asked for their assessment, among other things, of the impact on their operations and customers from the recent enforcement of AML/CFT issues on CB relations and remittances, and the introduction of the FATCA (Appendix 1 with the questions posed in the survey). About one quarter of the banks to which the survey was sent responded, although response rates across countries varied significantly (see Appendix 2 on the coverage of the responses by country). Banks were also asked to identify the main obstacles for enhancing lending to small and medium-sized enterprises (the results are reported in Appendix 3).

4. **The take-aways from the banks that responded to the survey are**:

- Systematic wholesale de-risking by global banks does not appear to have taken place so far. The survey responses generally suggest that stricter AML/CFT enforcement has increased **CB** business costs. A high number of banks viewed the compliance-enhancing efforts as necessary to maintain the integrity of the global financial system and lower reputation risks. An exception, however, are banks home to countries subject to economic and trade sanctions with which some large regional domestic banks have cut correspondent relations because of higher ML/FT risks ("regional MENA de-risking").

- Except in countries on the economic and trade sanctions list, international **remittances** have been only marginally impacted by the enforcement of AML/CFT rules. A few Gulf Cooperation Council (GCC) banks, however, noted that some de-risking is taking place as they have cut services to third-party remittance providers such as money transfer operators.

- Most banks viewed the **FATCA** as a cost-adjustment problem without a revenue offset. A key issue for banks is to educate customers. Most banks report that they are ready to comply with FATCA requirements.

- **Basel III** would not fundamentally affect banks, related to both their medium-term business strategies and balance sheet structure, including lending operations. Meeting the minimum net stable funding ratio (NSFR) requirement could constrain lending growth for some banks. However, banks still see room for balance sheet expansion and are seeking the benefits from diversification and optimization strategies—across border, asset and deposit classes, and business lines—that may be incentivized by Basel III.

5. **The survey should be seen as a first step to better understand the scale, drivers and consequences of de-risking**. Most importantly, a higher response rate, including from banks in the GCC, would have improved the robustness of the survey. It would also have

allowed for a more granular evaluation of the findings (for instance, it would have been interesting to distinguish between banks providing CB services and banks relying on CB services). As such, the results of the survey should be interpreted with caution and, in going forward should be complemented with further analyses.

6. **This paper is organized as follows.** Section II discusses the impact of tighter AML/CFT enforcement on CB relationships as well as remittances. The next section looks into the implications for MENA banks of the introduction of FATCA while the following section reviews the impact of implementing Basel III. Section V concludes by outlining possible areas for future research.

II. Impact of Stricter AML/CFT Enforcement

7. **Stricter AML/CFT enforcement has increased business costs due to**:

- The widening and changing sanction lists for countries in the region, including specially designated nationals (SDN),[5] and enhanced due diligence against politically exposed persons (PEPs);
- Several countries either on FATF's International Co-operation Review Group (ICRG)[6] Public Statement or classified as "Improving Global AML/CFT Compliance: on-going process;"[7]
- The imposition of large punitive penalties and fines on global banks in recent years for non-compliance with AML/CFT standards and sanction list breaches;
- The tightening, particularly by U.S. correspondent banks, of risk classification of embassies, non-profit organizations, travel agents, and exchange houses, forcing their respondents to also reclassify these to higher risk categories; and

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[5] The SDN list is published by the U.S. Department of the Treasury, and designates individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. It also lists individuals, groups, and entities, such as terrorists and narcotics traffickers designated under sanction programs that are not country-specific. Collectively, these individuals and companies are called "Specially Designated Nationals."

[6] As of May 2015, the MENA countries on the FATF's ICRG Public Statement are Iran and Algeria. The FATF has called upon its members and other jurisdictions to apply counter-measures to protect the international financial system from the on-going and substantial money laundering and terrorist financing (ML/TF) risks emanating from Iran and to consider the risks arising from the deficiencies associated with Algeria.

[7] As of May 2015, the MENA countries on the "Improving Global AML/CFT Compliance: on-going process" list are Afghanistan, Iraq, Sudan, Syria, and Yemen. In this list the FATF identifies jurisdictions with strategic AML/CFT deficiencies that have provided a high-level political commitment to address the deficiencies through implementation of an action plan developed with the FATF. It acknowledges that the situation differs in each jurisdiction and that therefore each presents different degrees of ML/TF risks.

- The adoption in 2012 by the FATF of its revised standards on AML/CFT and the follow-up guidance in 2014 for banks, with greater emphasis on a risk-based approach, including that all CBs should be subject to an appropriate level of customer due diligence.[8]

8. The following sections discuss the survey results of stricter AML/CFT enforcement on correspondent banking and remittances.

A. Correspondent Banking

9. **Around 12 percent of banks responded that the regional political and civil unrest poses a significant challenge for their sanctions screening systems**. Banks are focused on the monitoring and screening of transactions against sanctions lists, and responding to rapid changes to lists and their increased volumes. PEPs are also monitored. This necessitates enhanced due diligence requirements, including tighter monitoring of transactions of source and final destination. Twenty percent of the banks responded that they are enhancing their risk mitigation tools against sanctions risks by investing in infrastructure, such as market leading technology and screening software, staff training, recruiting compliance staff, and upgrading procedures and processes. One bank noted that it has established a separate senior level sanctions screening division to keep up with the changing list of sanctions and to mitigate jurisdiction and customer risks with regard to AML/CFT issues.

10. **About forty percent of banks indicated that their CB relationships are becoming more demanding, more time consuming, more complex and expensive to maintain (Figure 1)**.[9] No single bank suggested that global CBs have exited relations with them altogether (de-risking), but rather that they are facing higher compliance requirements. More time and effort is being spent by respondent banks to adequately manage their relationships with global CBs. Global CBs are requiring closer monitoring of the implementation of AML/CFT standards of respondent banks, including examining whether they have enhanced due diligence systems in place for their customers. The requirements by global CBs include, amongst others, identifying the nature of the respondent banks' business activities, markets and customers; its group, management and shareholder structure; the quality of its home regulatory and supervisory framework; its own AML/CFT policies and procedures; and then mapping this into a risk-based framework. One respondent bank noted that U.S. CBs are

[8] See "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation," FATF (February 2012), "Guidance for a Risk-Based Approach," FATF (October 2014), and "Sound management of risks related to money laundering and financing of terrorism," BCBS (January 2014).

[9] According to the FATF Glossary, "correspondent banking is the provision of banking services by one bank (the correspondent bank) to another bank (the respondent bank)." MENA banks can play both roles.

reassessing their ML/FT-related risks of doing businesses in the MENA region, and that the depth and volume of questions posed by U.S. CBs has increased substantially.

11. **Around ten percent of banks responded that they have reduced their CB risk profile by closing a few relations with respondent banks from countries on the sanction list or where they found material weaknesses in their AML/CFT policies ("de-risking of regional CB relations by MENA banks")**. Some banks from sanctioned countries noted that any compliance effort on their part was generally nullified by their country being on the sanction list. This may explain why they feel that they are less impacted by stricter enforcement of AML/CFT standards and are undertaking fewer efforts to lower ML/FT risks (Table 1).

12. **One-fifth of the banks indicated that they are upgrading their compliance infrastructure** (e.g., people, process, and technology). Around 10 percent of the banks suggested that IT upgrades and due diligence enhancements are necessary and part of their business plans. This will have a positive impact on CB relationships and enhance the integrity and the soundness of the financial system. Some (fewer than 10 banks) also stressed the importance of implementing measures against financial crime, and that this did not affect them negatively as enforcement and enhanced due diligence is on the rise both globally and regionally. Effective AML/CFT systems and compliance with international standards would be mutually beneficial as it increases the confidence in their own financial system and attracts financial flows.[10] Some banks located in jurisdictions with significant regional financial centers such as Bahrain, Lebanon, Qatar, and the UAE viewed the enhanced requirements as essential to lower or address reputational risks. Three banks indicated that penalties associated with non-compliance, threats to banking relationships and the integrity of the financial system far outweigh the cost of enhancing compliance requirements. One bank stressed that its AML/CFT policies warranted an urgent upgrade as weaknesses were otherwise negatively affecting its relationship with CBs. To this end, it is moving ahead with the purchases of software and upgrades to IT infrastructure.

B. Remittances

13. **Banks did not perceive much impact on international cash remittance transfers, with exception of banks in countries classified as "Improving Global AML/CFT Compliance: on-going process."**[11] About 40 percent of banks noted that rules governing remittances for customers with bank accounts have to meet FATF standard requirements (such as purpose, name, account number, address, source of funds, and relationship to

[10] A few banks stressed that they had policies and procedures in place to not allow for CB relations with shell banks or banks that provide CB relations to shell banks.

[11] See footnote 7.

beneficiary). Five banks indicated that they cater international cash remittance transfers only for account holders and not for third parties. As part of the risk-based approach, two banks indicated that monitoring activity has also expanded to the screening of SWIFT messages. By contrast, 22 percent of banks from sanctioned countries (8 out of a total of 37) reported notable difficulties in international cash remittance transfers (Table 1).

14. **Some banks noted that some de-risking has taken place through their decision to no longer provide foreign currency transactions services to third parties such as MTOs.** One bank noted that these transactions pose unacceptably high ML/FT and sanction risks which it cannot easily mitigate. Another bank indicated that it no longer facilitates services to third parties because they typically do not disclose the individuals or the identity behind the transactions to banks, although this is part of the customer due diligence (CDD) requirements, including for clearance of U.S. dollar transactions in the payment system. To the extent that these customers are not viewed as "bankable" in terms of meeting CDD compliance requirements and unwilling to provide required information or open bank accounts, this could lead to lower remittance flows or higher costs of sending and receiving remittances. Two banks suggested that some of these remittances could be channeled through non-regulated entities.

III. IMPACT OF FATCA

15. **The majority of banks (over 90 percent) responded that the implementation of FATCA imposes mainly a large compliance cost without a revenue-enhancing offset**. The costs incurred include adjusting the existing AML/CFT infrastructure for U.S. tax evasion, including installing new software systems, training staff, hiring external consultants, and revising procedures and policies. These are viewed generally as one-off compliance costs.

16. **About 10 percent of banks pointed out that the key FATCA issue is educating customers and businesses, and dealing with non-cooperative customers and bank privacy issues in some countries (e.g., Jordan, Sudan, or Syria)**. While not providing a number or percentage, banks indicated that some accounts of non-cooperative customers (i.e., those unwilling to comply with FATCA requirements) have had to be closed, with a negligible impact on banking operations. Overall, more than half of the banks report no significant impact of FATCA on their customer base and business operations, in part because many banks do not have large exposures to U.S. nationals or U.S. companies, and/or their customers are willing to comply with FATCA reporting requirements.

17. **One GCC bank noted that it would be beneficial if its governments move ahead and sign intergovernmental agreements (IGAs) with the U.S. government.** It noted that IGAs help provide more transparency and clarity to their reporting process, and enable financial institutions to report directly to their national tax authorities, who will then report to the U.S. tax authorities to satisfy the FATCA requirements. Indeed, the MENA region is

lagging behind Europe, Asia and Latin America in this area, with most European countries having signed agreements (see Figure 2), although delays in signing could be related to reciprocity agreements where there has been some concern regarding the asymmetry of information sharing between the U.S. and the IGA signatory country.

IV. Impact of Basel III

18. **About one third of the banks—from 9 out of 19 countries—responded to the questions on Basel III.**[12] Regulators have announced the full implementation of Basel III by 2019 in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, and Saudi Arabia.[13] Large banks in Kuwait and Qatar noted that they will be subject to a domestic systemically important bank (D-SIB) capital surcharge on top of the Basel III requirements.

19. **Overall, the survey responses suggest that Basel III will moderately but not fundamentally affect banks.** This relates to both their medium-term business strategies and balance sheet structures, including lending operations. This is mainly because many banks in the region are holding relatively high quality and comfortable levels of capital and liquidity, well in excess of the new requirements. Also, the new minimum leverage ratio appears not to be a binding constraint for most banks in the region. As such, banks still see room for balance sheet expansion and are seeking the benefits from diversification and optimization strategies—across border, asset and deposit classes, and business lines—that may be incentivized by Basel III. Some banks distinguished between short- and long-term needs. They noted that by the time of full implementation in 2019 and thereafter, capital needs could potentially increase. In this context, they may need to revisit business strategies and the capital risk-return balance. This could include having to diversify exposures toward assets (both on and off balance sheet) and transactions consuming lower capital and liquidity while yielding higher returns and profitability.

20. **On the impact, banks can be distinguished into two groups**:

- The first group (42 percent of respondents) needs to raise Tier 1 capital, and/or liquid assets, and/or stable funding and/or address large exposure requirements (Figure 3).

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[12] Percentages in this section related to those banks that responded to the Basel III questions.

[13] While regulators have published rules on capital and many have required that their banks meet the new capital requirements starting 2014 in line with Basel III requirements, some are moving faster than others in implementation. For instance, the Qatari regulators required that banks meet the capital conservation buffer (of 2.5 percent) in 2014, ahead of the Basel III schedule. Banks in most jurisdictions will implement the Liquidity Coverage Ratio (LCR) requirement starting 2015 with the 100 percent minimum required by 2018. In most countries, policy work with regard to the NSFR is at the very beginning and final guidance has not yet been released. Hence, several banks from jurisdictions where policy work is still ongoing, such as Egypt, Jordan and Morocco, did not respond to the survey questions on Basel III liquidity regulations.

These banks noted that some of this could result in balance sheet optimization and re-profiling as well as divestments, including potentially shifts in asset composition, higher loan run-off rates in certain asset classes, and selling assets. They also indicated that potentially some of the higher business cost from Basel III may have to be passed on to customers by raising average margins and increasing fee income.

- The second group (53 percent of respondents) has comfortable Tier 1 capital and liquidity buffers to expand their balance sheet. For these banks, their business and profitability will be less impacted by Basel III implementation. Most of them expect assets to grow in line with their business plans.

21. **Over half of the banks indicated that operational costs would increase moderately.** This is a result of upgrading operating and compliance systems under Basel III. About 10 percent of the banks stressed that this will temporarily act as a drag on earnings.

22. **Forty percent of the banks were of the view that meeting the minimum NSFR requirement could constrain lending growth**. Generally, banks' large Tier 1 capital buffers and holdings of liquid assets along with a reliance on deposits should help them meet the NSFR. That said, two banks noted that deposit tenors need to be lengthened and that new types of deposits and funding sources would need to be mobilized. This could also put some pressure on interest spreads. About one fifth of the banks noted that some lending activity such as longer-tenured loans could come under pressure, mainly project finance and infrastructure lending, given the need for more prudent maturity matching of asset and liabilities structures. For these projects, the lack of alternative funding sources as a result of underdeveloped domestic capital markets could pose a constraint. One GCC bank was concerned that the lack of developed local capital markets provides limited room to fundamentally change funding structures within the given time frame.

23. **Meeting the Liquidity Coverage Ratio (LCR) is less an issue for most banks, with half noting that they already meet the minimum requirement**. This is because of high levels of liquidity at the bank and system level and low reliance on short-term wholesale funding. That said, two GCC banks pointed out that the small size of local capital markets, including limited high quality liquidity assets (HQLA), could pose a challenge. They further emphasized that their banks' high reliance on government and corporate deposits is an issue, but that they are seeing signs of the market maturing and average tenors starting to increase beyond 30 days.

24. **Two thirds of the banks did not see a negative impact from Basel III on trade finance**. Most noted that they have sufficient balance sheet capacity to expand trade finance. A few (about 5 banks) pointed out that trade finance will receive favorable prudential treatment under Basel III. Two banks, however, pointed out that the new leverage ratio under Basel III could negatively impact trade finance as it requires banks to hold capital against off-balance sheet exposures such as letters of credit and guarantees; this could translate to higher capital cost.

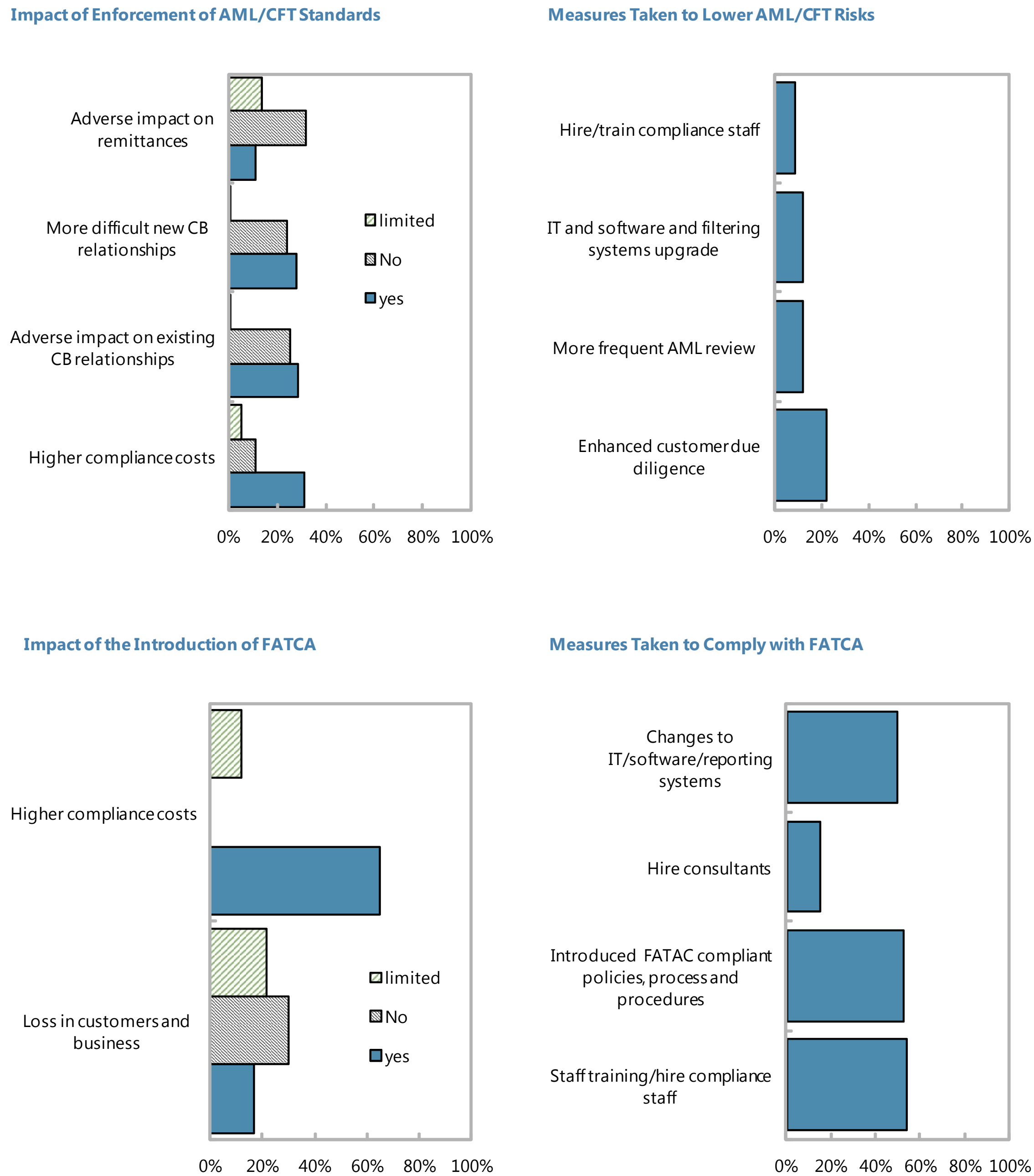
25. **More than 70 percent of the banks thought that there would be no impact on Small and Medium Sized Enterprises (SME) finance**. Two banks indicated that for SMEs that do not make sufficiently granular financial data available or are unrated or lower–rated, the cost of lending could increase, or there could be some pull-back. Another two banks noted that their SMEs portfolio is quite small and hence no major impact is expected from Basel III. Several banks (about 15 percent) indicated that they hold sufficient capital and liquidity so that SME expansion plans are not being modified. One bank pointed out that the new large exposure requirement could favor diversification strategies, including greater SME lending.

V. Possible Areas for Future Research

26. **While the findings of the survey provide a first snapshot of the impact of de-risking on MENA banks, more analysis is needed.** For instance, to explore the fragmentation of CB, it would be useful to understand whether global banks, regional banks with cross-border operations within the MENA and local banks play different roles. Moreover, more in-depth questions on whether Islamic banking is more affected than conventional banking by the enforcement of ML/FT issues could be examined (there is some anecdotal evidence that Islamic banks may be facing greater difficulties with regard to de-risking). Further, the survey did not go into the issue of whether certain transactions such as U.S. dollar transactions were more affected than others by the enforcement of AML/CFT standards. And, it would be interesting to know whether banks in the sample have faced fines in the home jurisdiction for not meeting FATF standards or FATCA requirements (and, if so, quantify this). While banks did not seem to suggest a major cut-back in business lines from Basel III, detailed balance sheet projections and quantitative impact studies would provide a better understanding. Finally, it would be important to see how de-risking by domestic banks vis-à-vis domestic MTOs could impact families and countries that are dependent on remittance transfers for their livelihood.

Figure 1. Responses to De-Risking Questionnaire from Banks

(In percentage of banks that responded to the survey) 1/



Source: International Monetary Fund and Union of Arab Banks Survey; Staff Calculations.

1/ 115 banks responded to the survey, although not all banks provided answers to the questions. As a result, the percentages do not add up to 100 percent.

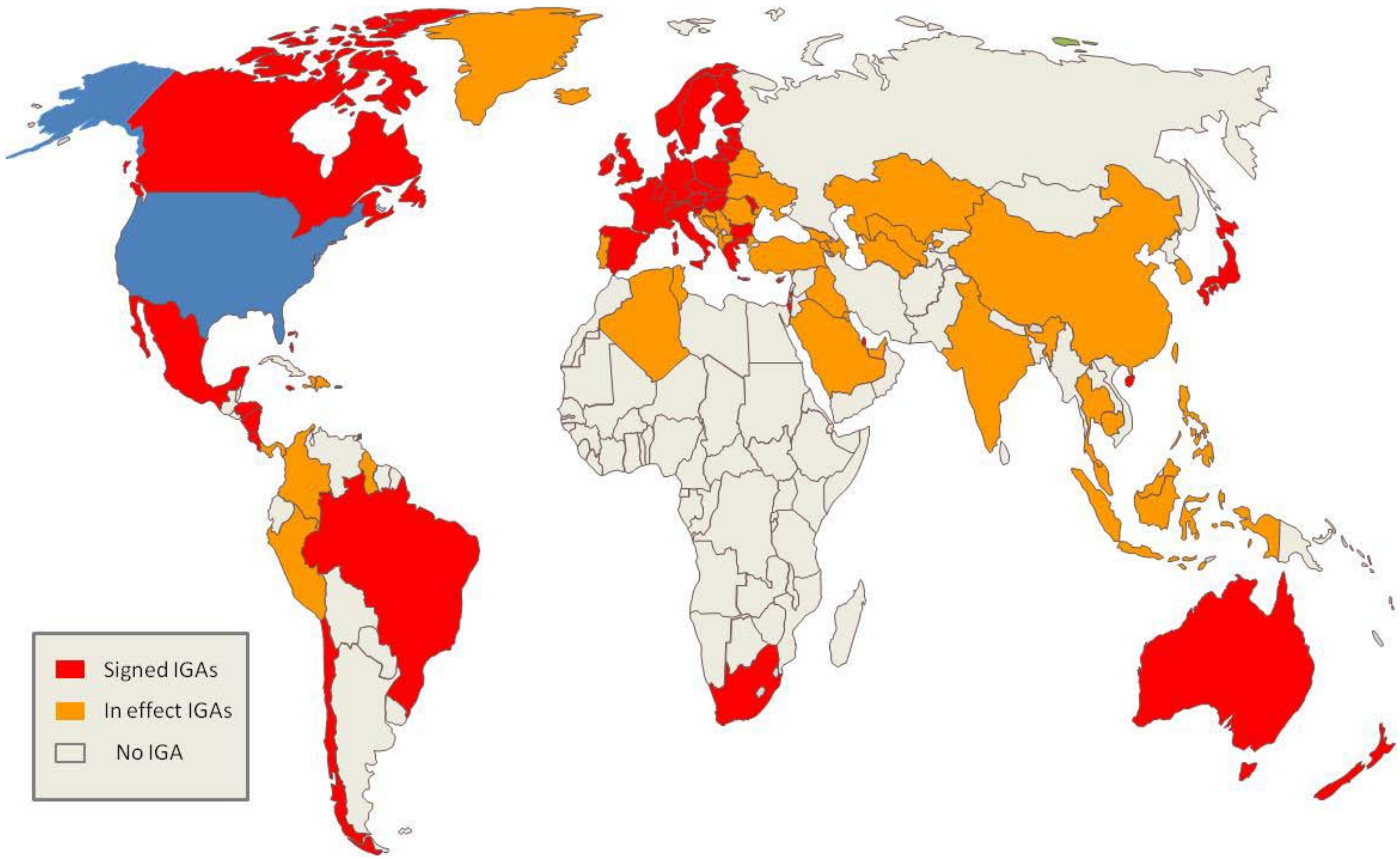
Table 1. De-Risking Survey Responses: Countries Classified as "Improving Global AML/CFT Compliance: Ongoing Process" Versus Countries Not Classified

	Non FATF designation: Bank Response			FATF designation: bank responses 1/		
	Yes	No	Limited	Yes	No	Limited
Survey Questions:						
Impact of stricter enforcement of AML/CFT standards on:						
Higher compliance costs	38%	7%	8%	10%	18%	0%
Adverse impact on existing CB relationships	29%	20%	0%	23%	33%	0%
More difficult new CB relationships	32%	20%	0%	15%	31%	0%
Adverse impact on remittances	1%	36%	17%	26%	23%	5%
Measures taken to lower AML/CFT risks						
Enhanced customer due diligence	33%	0%	0%	3%	0%	0%
More frequent AML review	18%	0%	0%	0%	0%	0%
IT and software and filtering systems upgrade	17%	0%	0%	3%	0%	0%
Hire/train compliance staff	12%	0%	0%	3%	0%	0%
Impact of the introduction FATCA						
Loss in customers and business	12%	34%	22%	26%	13%	15%
Higher compliance costs	59%	0%	16%	59%	0%	5%
Measures taken to comply with FATCA						
Staff training/hire compliance staff	55%	0%	1%	38%	0%	0%
Introduced FATAC compliant policies, process and procedures	57%	0%	1%	33%	0%	0%
Hire consultants	21%	0%	1%	3%	0%	0%
Changes to IT/software/reporting systems	57%	0%	1%	33%	0%	0%

Source: International Monetary Fund and Union of Arab Banks Survey; Staff Calculations

1/ Banks from Iraq, Sudan, Syria, and Yemen. See footnote 6 for further discussion.

Figure 2. FATCA: Countries with Signed or "In Effect" Intergovernmental Agreements with the U.S. 1/

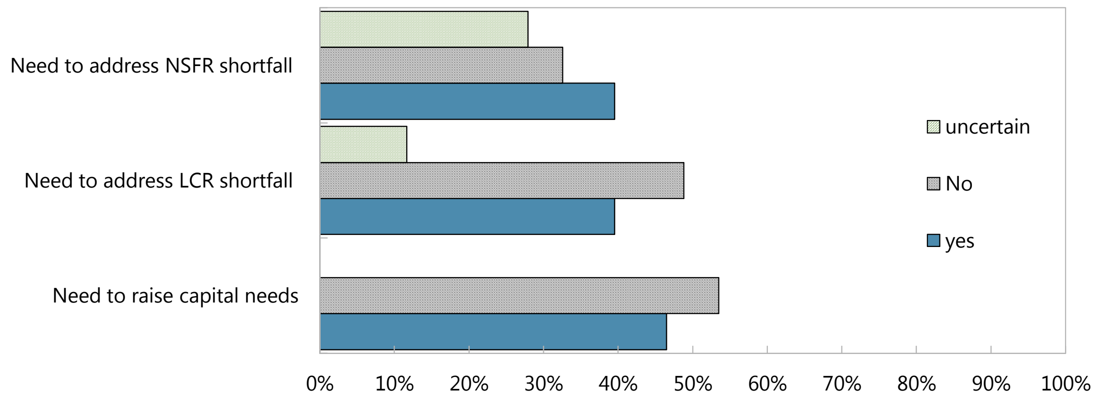


Source: U.S. Treasury Tax Policy Resource Center

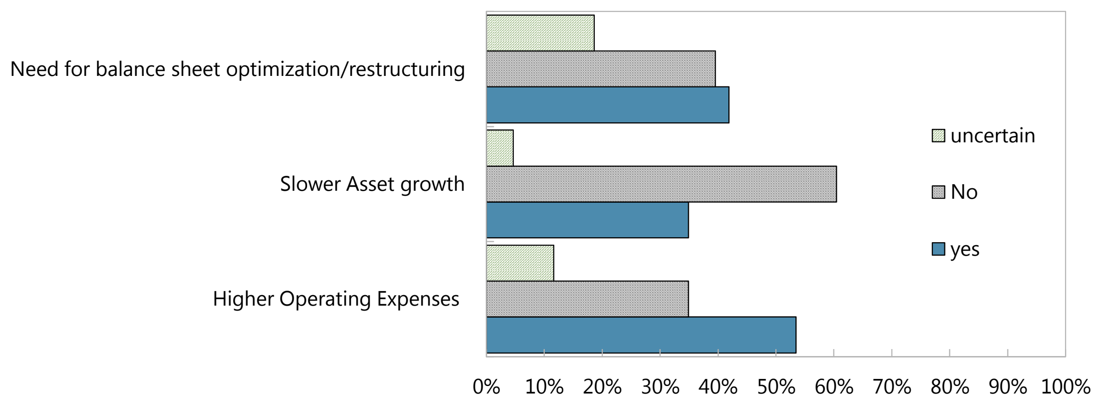
1/ MENA countries with no IGA: Afghanistan, Djibouti, Egypt, Iran, Jordan, Mauritania, Morocco, Oman, Pakistan, Sudan, and Syria

Figure 3. Basel III Impact

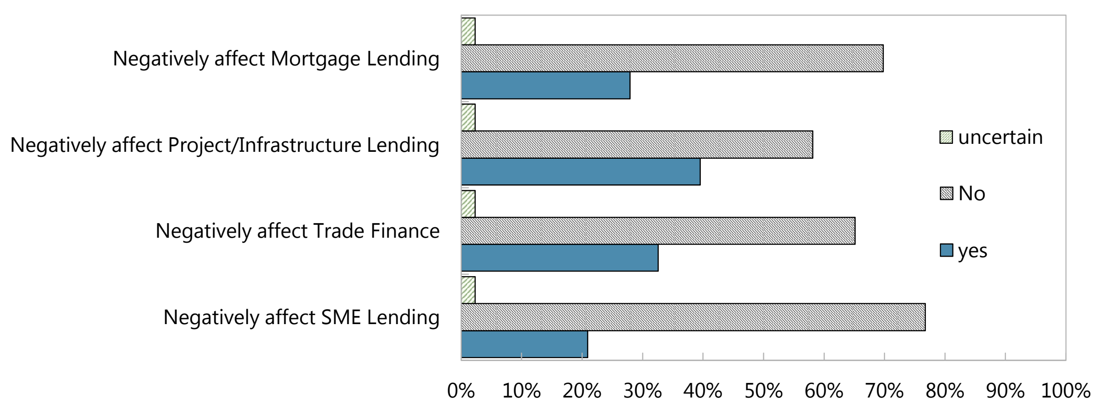
Basel III Impact: Capital, Liquidity



Basel III Impact: Operations



Basel III Impact: Lending Activities



Source: International Monetary Fund and Union of Arab Banks Survey; and staff calculation

Appendix I. Survey Questions

Bank Information

Name of Bank	
Country	
Type of Bank	Domestic Private Domestic Public Foreign Branch Foreign subsidiary
Basel Accord applied by Bank	Basel I Basel II Basel III
Contact Persons	

Factors affecting banking operations

1. Please indicate concerns that your bank may have vis-à-vis the factors listed below and discuss the potential implications on your bank's capital adequacy, asset quality, liquidity, and profitability.	- External factors (e.g., oil price changes, regional geopolitical conditions, global growth prospects, other): - Central Bank Policies - Increasing competition in the industry - Domestic macroeconomic conditions (e.g., growth prospects, high inflation, other) - Other

If your bank is adopting Basel III in the medium term (next five years), please answer questions 2 and 3. Otherwise, please go to question 4.

2. Please discuss how Basel III requirements will affect your bank, particularly in regard to:	- Capital needs - Liquidity needs - Operating expenses - Asset growth - Other
3. Please discuss the impact of Basel III requirements on your bank's operations, clarifying the impact on lending to/for:	- Small and Medium-Sized Enterprises (SMEs) - Trade Finance - Infrastructure/Project Finance - Mortgage Finance - Other
4. Please discuss how AML/CFT requirements may be impacting your banks operations, clarifying the effect on:	- Correspondent banking relations: - Transfer of expatriate remittances - Other

5. Please discuss how the new US regulation on Foreign Account Tax Compliance Act (FATCA) is affecting the banks operations, clarifying the effect on	- Compliance costs (e.g., infrastructure and personnel, etc.) - Loss of customers and/or certain operations - Other

C. Lending Operations and SME Access to Finance

6. Please list the main challenges that your bank faces in lending to SMEs.

7. Please indicate the percentage share of loans to SMEs as a ratio of total credit to the private sector.

8. Please clarify if leasing is among the financial products you offer and discuss the reasons why leasing not developed as a tool for lending to SMEs.

9. Please discuss the availability of alternative source of financing for SMEs.

D. Alternative Sources of Financing

10. Are there any unregulated non-banking institutions that compete with your bank in extending credit to customers?

11. Please clarify if your bank has non-financial subsidiaries and if there are any credit intermediation activities through the subsidiaries.

12. Please clarify if you have any partnerships with auto and other finance companies and the nature of such partnerships.

Appendix II. Coverage of the Survey

The survey was sent to 471 banks in 20 countries (Table1). These banks include the largest fifty banks by asset size in the MENA as well as the systemically important banks in each jurisdiction. About a quarter of the banks (117) responded. Response rates were high in Egypt, Lebanon, Morocco, Sudan and Syria where more domestic banks responded to the survey. The response rate by banks from the GCC was low, ranging between 10 and 30 percent. The majority of banks that responded (76 out of 117) were from jurisdictions that are not on the economic and trade sanctions lists. Overall, the qualitative details of the responses differed greatly from bank to bank. Our assessment standardized and categorized the responses both qualitatively and quantitatively.

Table 2. De-Risking Survey: Country and Bank Response Rate

Country	Number of banks that received the survey	Number of banks that responded to survey	Percentage of banks that responded
Algeria	19	0	0%
Djibouti	1	0	0%
Egypt	39	12	31%
Iraq	39	6	15%
Jordan	24	9	38%
Kingdom of Bahrain	25	3	12%
Kuwait	13	3	23%
Lebanon	66	12	18%
Libya	26	1	4%
Morocco	16	14	88%
Mauritania	7	0	0%
Oman	14	1	7%
West Bank and Gaza	16	4	25%
Qatar	14	5	36%
Saudi Arabia	18	2	11%
Sudan	32	18	56%
Syria	20	15	75%
Tunisia	25	2	8%
United Arab Emirates	40	8	20%
Republic of Yemen	17	2	12%
Total number of banks that received survey	471		
Total number of banks that responded	117		

Source: International Monetary Fund and Union of Arab Banks Survey.

Appendix III. Constraints to Access to Finance for Small- and Medium-Sized Enterprises (SMEs)

Banks were also asked to identify the main obstacles for enhancing SME lending. There was somewhat universal agreement on the main constraints to SME lending. The key ones are:

- **The business framework.** The absence of credit information systems (such as a credit bureau), a centralized registry of collateral, effective auditing and accounting guidelines for SMEs, and a bankruptcy framework;

- **SME-related business risks.** Higher credit risks, in light of an often less diversified and more volatile cash flow, weak business planning (including continuity), a lack of transparency in financial information, and limited tangible collateral and guarantees.

These responses are consistent with other studies. These studies show that better access to finance for SMEs requires greater coverage and depth of credit bureaus, and improvements in the collateral regime, especially for movable assets.[1]

[1] See, for instance, "The Status of Bank Lending to SMEs in the MENA region: The results of a joint survey of the Union of Arab Banks and the World Bank" at http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-5607.