

Financial inclusion in Egypt: the road ahead

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Abstract

Purpose – The literature review stated that financial inclusion (FI) influences economic growth through different channels. Hence, this paper aims to investigate the underlying process of FI in Egypt theoretically, and to derive some policy implications for promoting the process and achieving more improvement in different financial and economic aspects, that is basically through discussing the opinions of FI's main stockholders in Egypt.

Design/methodology/approach – The analysis used secondary data from the Global Findex and FAS Database, namely, automated teller machines, outstanding deposits and loans with commercial banks, debit and credit cards ownership. The research particularly used scientific methods as method of deduction, methods of graphical and tabular representation of data, comparative analysis and synthesis of partial knowledge. The paper is also based on a descriptive approach in addition to in-depth interviews with the main stakeholders of the financial inclusion process in Egypt.

Findings – The analyzed results of interviews revealed that new FI vision should have a deep understanding of the financial lives of the poor and low-income groups, including how they acquire, manage and use their money. However, the impact is becoming more prominent for the efficiency of the banking system and hence economic growth rather a regulatory and sound institutional framework enhances it. This finding supported the fact that Egypt can design an appropriate FI strategy, but the main challenge is how to implement it with the required speed and outreach capacity, especially in underprivileged communities.

Research limitations/implications – The result of this study has interesting implications for Egypt's ability to attain effective FI initiatives that promote sound financial choices and behavior which in turn help to stimulate financial and economic growth.

Originality/value – The study contributes to the literature by assessing the FI level in Egypt, its implications and how it should be enhanced for better performance and results in the future. It addresses the deep fact of this process through inclusive surveys and interviews that help in determining the road ahead.

Keywords Financial inclusion, Central bank of Egypt, CBE financial inclusion initiatives, Financial inclusion indicators, In-depth interviews

Paper type Research paper

1. Introduction

Financial inclusion "FI" denotes the process of making financial services attainable at reasonable costs to all entities, sectors as well as individuals; irrespective of wealth and size, respectively. FI strives to address solutions to the constraints that exclude people from participating in the financial sector. In order to provide financial services at low costs for individuals from different levels of income, the financial sector is always trying to provide new ways such as providing crowdfunding, digital payments and social lending. However, although the existence of those ways, there is still a low percentage of the population that remained unbanked.

In fact, FI provides individuals with the possibility of having an appropriate way to save for the future and so can boost financial stability. If financial institutions do not exist or do not



function well, individuals, as well as firms, will suffer to gather savings, honor payments or secure loans for businesses, which could create deficiencies and obstacles to development and growth.

Moreover, FI is widely used as a benchmark to track the achievement of the Sustainable Development Goals (SDGs) given its basic role in promoting inclusive development and achieving poor socio-economic benefits. That in turn gives more importance to deeply investigate the situation for FI in Egypt. Especially that, FI is considered as a top priority in Egypt's national agenda as a milestone in Egypt's 2030 Vision.

Some recent studies investigate FI using the World Bank's Global FinDex database in different countries. However, little works have so far focused on financial inclusion in Egypt. Therefore, this study aims to investigate the situation as well as the main indicators of FI in Egypt given all potential challenges and barriers. In addition, to analyze the thoughts beliefs and experts of main FI's stakeholders (CBE, Commercial Banks, and FRA), and hence trying to draw a roadmap in promoting FI for different targeted beneficiaries.

Thereby, the research problem of the study is "To what extent did the FI policy succeed in expanding the financial services in Egypt given all potential barriers and challenges?" What are the main policy actions that should be undertaken to make the financial sector more inclusive to all society's segments?

Unlike most of the studies that tackled FI, this one aims at exploring and contributing to the growing knowledge about Egypt's FI strategy in terms of its main stakeholders' opinions and experiences. The study applies a new approach that was not previously touched in discussing the case of FI in Egypt; that is in-depth interviews by holding one to one meeting, trying to draw recommendations for a future roadmap of FI in Egypt and how our financial system be better inclusive.

Moreover, this study focuses on Egypt as an individual country performance rather than regional FI activities, where the latter is the main purpose of the existing literature.

The rest of the study proceeds as follows: [Section 2](#) focused on main concepts, definitions and indicators of FI as well as an overlook of FI in the international sphere. Furthermore, presenting a deep overview of the Egyptian FI which is illustrated in [Section 3](#), data and methodology for in-depth interviews are discussed in [Section 4](#). Finally, in [Section 5](#), the study reveals the main results and highlights some policy implications.

2. Theoretical background

2.1 FI as a concept in international and regional sphere

The concept of FI has become one of the most important and widespread financial concepts since the global financial crisis 2008, where the leaders of the Group of Twenty (G20) have promoted the initiatives adopted by the developing countries to expand the scope and spectrum of FI to have a sound, solid and healthy financial system.

According to [Demirguc-Kunt and Klapper \(2013\)](#) FI mainly refers to "The process that ensures the ease of access, availability, and usage of formal financial services for all members of an economy at a reasonable cost and in a sustainable mode". This definition ensures the absence of both price and nonprice barriers to financial services.

Furthermore, FI has become a vital issue for economic policymakers, regulators, financial institutions and development agencies locally and globally. Since 2010 more than 55 countries have made commitments to FI, and more than 30 countries have either launched or are improving national strategies for FI ([World Bank, 2018](#)).

Accordingly, the study tried to elaborate the different definitions for FI either from international or regional perspectives.

On the international side, FI is defined, *according to the World Bank "WB"*, as: "FI means that individuals and businesses have access to useful and affordable financial products

and services that meet their needs, transactions, payments, savings, credit, and insurance which are delivered in a responsible and sustainable way” (World Bank, 2015; World Bank Group, 2013). This definition is not far in meaning with that belonged to **The United Nations** where FI is “Access at a reasonable cost for all households to a full range of financial services, including savings, payment and transfer services to ensure continuity and certainty of investment and hence economic growth”. Finally, **The OECD** states that FI is “an affordable, easily accessible process including a wide range of regulated financial products and services”.

On the regional side, there are quite similar definitions such as the definition of the African Development Bank (ADB) which defines FI as: “Having access to different services including making payments, mobilizing savings, allocating capital funds, monitoring users of funds and transforming risks” (ADB, 2013).

In addition, **The Banking Association South Africa** defines FI as the access and usage of a wide range of affordable, high-quality financial services and products, with respectable consideration to client protection. Accessibility is accompanied by usage, which should be supported through the financial education of clients (The banking association South Africa, 2018).

Despite the similarities between definitions, there are some differences, such as: (1) the scope of the definition, (2) the concepts the definition includes and (3) the explicit mention of a goal such as what the government/institution hopes to achieve with its FI policy (Zulkhibri and Ghazal, 2016).

On other hand, the concept of financial exclusion generally refers to the nonaccessibility of financial services to those who have a low-income level. In this context, the study highlights the difference between *voluntary exclusion* versus *involuntary exclusion*. The WB defines voluntary exclusion as a condition where the segment of the population or firms choose not to use financial services either because they have no need for them or due to cultural or religious reasons. In contrast, involuntary exclusion arises from inadequate income and high-risk profile or due to market failures and distortions.

Due to all these procedural hassles, people feel that it is easier to make money from informal credit sources, but it results in a compromised standard of living, higher physical and transaction costs and potential exposure to unethical and unregulated providers. Thus, FI does not typically mean the opening of saving bank account but signifies the creation of awareness about financial products, education and advice on money management and offering debt counseling, etc. by banks (Pearce, 2011).

2.2 FI in literature review

The literature review is enriched with broad concepts, benefits as well as determinants of FI that will be presented in the following points:

As a concept: Han and Melecky (2013) states that FI provides individuals with the appropriate and safe costless mode to save and so can enhance financial stability, as a high level of use of bank deposits contributes to a more stable deposit base for banks in troubled times. Then Atkinson and Messy (2013) argues that FI should be handled in light of a wide process of economic and social inclusion, given that financial education and financial awareness can perfectly foster it and help to achieve its main target of a sustainable financial system.

In addition, FI is defined as the use of formal financial services that crucially determines economic development. Individuals who are not financially excluded are able to invest in education and launch businesses, and this contributes to poverty reduction and economic growth (Beck et al., 2007; Bruhn and Love, 2014).

Awad and Eid (2018) define FI as a convenient and reasonable cost delivery process of financial services for low-income groups. Another specific definition of FI is introduced by

Lenka and Barik (2018) that FI is a process that involves financial access to financially excluded groups in terms of financial services such as savings, payments, credit and Internet banking.

Other strain of the literature has also highlighted the importance and benefits of FI: since the 90s, it is argued that access to finance is a fruitful factor that helps people to exit poverty by enhancing productivity concluding that the basic FI's merits are being an important development tool (Banerjee and Newman, 1993). Since then and ever after, the FI phenomena have revived researchers' interest in investigating the relation between FI, poverty and socio-economic development. Aguera (2015) discussed that FI is often considered as an effective tool that can boost job creation, reduce vulnerability to shocks and increase investments in human capital. Hence, understanding the link between FI, poverty and income inequality at the country level will help policymakers to design and apply programs that will, in turn, widen access to financial services and lead to decreasing the extent of poverty.

Furthermore, Turégano and Herrero (2018) try to empirically assess whether FI contributes to reducing income inequality when controlling for other key factors such as economic development and fiscal policy. They concluded that FI is more attributable to a significant reduction in income inequality rather than the size of the financial and hence it implies that government targeting income equality should let FI at the forefront of its policies. Also Zins and Laurent (2016) state that "in the absence of inclusive financial systems, poverty traps can emerge and hamper economic development".

Moreover, many other benefits accompanied with FI (Demircuc-Kunt and Klapper, 2013) ensures that access to financial tools empowers women, entrepreneurs involved in small- and medium-sized enterprises (SMEs) and individuals involved in the informal sector, allowing them to invest in their education or financial projects and fully utilize their resources. Therefore, FI could work as cost reduction, efficient allocation, business facilitation, supporting capital as well as lower-income inequality.

Based on the importance of FI, *many studies in literature focused on the FI measurement process* that is because a robust and comprehensive measure of FI is very helpful to efficiently guide the government actions and to perfectly monitor the progress of the policy initiatives undertaken to promote FI. Since then, many types of the research proposed FI index (FII) that captures information on several dimensions (availability, accessibility and usage) to measure FI either for a specific country or across a group of them. It was started by Sarma (2008) and followed by many others such as Goela and Sharma (2017), Cámara and Deusto (2014) and Park and Mercado (2018). Most concluded that access to banking services benefits people to park their money in the formal financial institutions in turn it will result in high growth through multiplier effects and helps to achieve inclusive growth (Kim *et al.*, 2018).

Furthermore, *other strands of reviews focused on FI in the Egyptian context* that is for example Nasr (2017), which demonstrated that enhancing the financial sector and expanding access to financial services is the main tool to stimulate both economy and society. Nevertheless, financial indicators in Egypt still put the Egyptian financial sector at a moderate level and need a lot to achieve a higher level of FI. EMNES Studies (2018) the reported positive impact of FI on economic growth. Most MENA region countries; and Egypt is one of them, and will enjoy a high level of economic growth and lower poverty when more attention is given to the financial sector and FI process. Moreover, Awad and Eid (2018) stipulated an urgent need for governments to reach to more people from different levels of education and income, to increase their awareness and importance of FI. That will result in boosting economic growth and improving citizens' standards of living.

2.3 Main dimensions and indicators of FI

Basically, financial inclusive system includes three main dimensions, each contains several expressive indicators. Table 1 summarizes the indicators that are expressing the dimensions of FI as the same as Sarma (2008) and Park and Mercado (2018).

2.4 FI as a demand and supply side

FI is considered as the interaction between demand and supply side together with consumer protection, and these sides can be addressed as follows:

Demand side: It is reported by the end-users of financial services. It includes financial literacy and awareness, knowledge and need of financial products and services, affordability, trust, religious/cultural factors, income level, language, consumer experiences and nature and scale of business (Singh, 2017).

Financial exclusion from the demand side area is a result of lack of awareness, low income, poverty financial illiteracy, and mistrust in the financial system, bad experiences with the financial institutions, location in rural/remote areas and dependence mainly on informal sources of credit (Öncü, 2015).

Dimension	Dimension's reflection	Indicators per each dimension	Source
Availability	The extent by which services of a financial system is easily available to its clients	Automated teller machines (ATMs) (per 100,000 adults) Commercial bank branches (per 100,000 adults) ATMs (per 1,000 Km ²) Commercial bank branches (per 1,000 Km ²)	FAS
Access "Bank Penetration"	The depth of outreach of financial services. (e.g. the penetration of bank branches or point of sale (POS) devices in rural areas, etc. . . .)	% of adults (age 15 years+) Holding an account at a financial institution Having a credit card Owning a debit card	Global Findex Survey
Usage	The actual usage of financial services in terms of frequency and length of time used. It is related to the notion of "underbanked" or "marginally banked" people, as observed by Kempson and Atkinson (2004). They have noticed that "in some apparently very highly-banked countries, a number of people with a bank account are nonetheless making very little use of the services on offer . . ."	% of adults (age 15 years+) who Saved at a financial institution Borrowed from a financial institution Made deposits in the past year Made withdrawals in the past year Used a debit or credit card to make a purchase in the past year Paid utility bills using a mobile phone Received wages into a financial institution account Made or received digital payments in the past year	Global Findex Survey

Source(s): Author development based on Sarma (2008), Sarma and Pais (2016) and Park and Mercado (2018)

Table 1.
Main dimensions and indicators of an inclusive financial system

Supply side: It is reported by financial service providers. It includes distance from the bank branch, branch timings, required documentation and procedures, staff attitudes, financial markets, banks and services, appropriate design of products and services, lending criteria, the infrastructure of financial service providers, transaction cost, required commissions and fees, capital adequacy and the regulatory and legal framework.

In this regard, financial exclusion from the supply side area is a result of long-distance to the branch, routine documentation and procedures, irrelevant products and lack of customized products, inappropriate staff attitudes, the lack of providers serving low-income segments, the unwillingness of banks to lend in certain cases, high commissions and transaction cost, the inefficiency of the legal framework which protects creditor rights and helps in regulating business conduct (Tuesta, 2014).

2.5 Case studies about FI

On the country level, several countries undertook different measures to enhance FI and provide better and diversified services. The following countries took successful steps in this respect. These experiences will help in drawing and conducting some learned lessons in the case of Egypt. Kenya and China are selected as examples for financial technology and financial infrastructure and regulatory improvement respectively, to achieve FI.

Kenya is one of the most successful experiences where it undertook—in the early years of the Millennium—important reform agendas, which accompanied within the **Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) of 2003 to 2007**. This strategy was planned to compensate decades of slow economic growth that had adversely undermined the well-being of Kenyans. The vision was built on three pillars (economic, social and political) and aimed at empowering Kenyans and providing them with ‘a democratic political atmosphere that incentivizes all citizens to work hard and engage in productive activities to improve their standards of living’. In addition to **Vision 2030 (2008–2030)**: that aimed at transforming Kenya into an industrialized, middle-income country providing a high quality of life to all its citizens by 2030 (Mugo and Kilonzo, 2017).

Kenya’s Relevant Financial Reforms: Under Kenya’s strategic agenda, a number of reforms and initiatives were employed, resulting in dynamic innovations and transformations in the financial sector. These reforms included the evolution of digital financial services, agent banking, credit reference bureaus and treasury mobile direct (Amanja, 2015).

As a result of the various laws, policies and tools, Kenya became a global leader in FI with 86%. According to the Washington-based think tank, M-PESA is estimated to have lifted 194,000 households, or 2% of Kenyan households, out of poverty. The impact is more significant in female-managed households and seems to be driven by changes in financial behavior such as increased financial resilience and saving. Between 60 and 73% of the population accessed bank and mobile money agents in 2015, respectively, compared to 53 and 69% in 2013, where lowering barriers to entry and transacting in the banking sector to enhance access increased formal saving to 30% and formal borrowing to 15% in 2016 (<http://bworldonline.com/philippines-tops-asia-financial-inclusion-list/>).

China: To reduce China’s poverty rate and become an advanced country, some reforms have been made in the financial sector trying to achieve FI and thus efficiency as well as comprehensive growth (Fungacova and Weill, 2014).

These reforms are listed by **Reaching the Last Mile:** The Chinese government has invested substantially in expanding and improving China’s financial infrastructure, particularly the retail payment systems. In addition, the People’s Bank of China has encouraged and facilitated the establishment of one of the widest point-of-sale (POS) that significantly increasing the number of physical access points for rural and underserved

populations in villages across China. Moreover, several developments have contributed to strengthening the scope and quality of **China's credit infrastructure**, including a core legal framework and registry system for secured transactions that was established in the mid-2000s, credit reporting regulation and guidelines issued since 2000, the 2006 Enterprise Bankruptcy Law and the 2007 Property Law. China has also made **significant progress toward the development of a comprehensive and robust national payment system infrastructure**. These efforts contributed to the significant expansion and diversification of physical access points throughout China, including commercial bank branches, sub-branches, agents and new-type rural financial service provider branches. The underlying payment systems infrastructure has also enabled the large-scale shift of government-to-person (G2P) payments to electronic instruments, bringing millions of Chinese adults into the formal financial system.

Furthermore, policymakers in China have now moved from the “wait and see” approach toward **establishing a more comprehensive regulatory framework** for new providers and products to ensure the long-term integrity and stability of the financial system and adequate protections for consumers (Fungáčová and Weill, 2015).

As a result of all that, most of the previously mentioned indicators are significantly improved such as a number of adults have accounts in financial institutions, the number of formal savings and formal borrowing, etc. China's experience demonstrates the important value of a regulatory approach that promotes innovation, while also highlighting the need to actively monitor and promptly address risks.

It is pivotal to learn from China's experience that continuous efforts of evolving are vital to keep pace with financial deepening and innovation (World Bank, 2018).

3. An overview of the Egyptian context

As per Egypt, The Central Bank of Egypt (CBE) is leading the country's FI policy process. It joined the Alliance for Financial Inclusion (AFI) in mid-2013 and the network's working groups on data and on financial inclusion strategies ever since.

It is agreed that FI has been broadly recognized as a critical tool in reducing poverty and achieving inclusive economic growth. It is evident that greater access to financial services enables the marginalized groups to lift poverty and reduce inequality in society. It is defined as “*the access of individuals and businesses, to the products and services such as payments, savings, credit, and insurance at a reasonable cost and in a sustainable form*”.

(Alex Bank report on FI, 2017).

However, it is worth noting that – due to the latest figures released by the WB in 2014 –FI performance in Egypt lags the world and the other lower–middle-income countries averages, but it converges with Middle East countries averages, which means that Egypt suffers from high levels of financial exclusion, given that low financial penetration is significantly associated with the presence of a sizable informal sector and the high poverty and unemployment rates.

3.1 Salient features for FI in Egypt

To analyze the main features, indicators and dimensions of FI in Egypt, it is quite essential to note that the problem in Egypt is not only about the availability of ATM and bank branches, but it also includes the lower access of small depositors to banking services especially in poor and rural areas. Banks become reluctant to accept dealing with small depositors or borrowers; that is the same reason for the small depositors to prefer holding their savings in the post offices, and for the borrowers to seek informal finance.

Relating to Egypt's total population, banks have few outlets for basic banking services. Moreover, the number of banks' branches and ATMs per capita is relatively less than countries with similar per-capita income. However, the situation is improved by time.

In general, banks tend to concentrate on the urban population, given that state-owned banks have the most balanced branch networks. However, their existence is still greater in urban rather than rural areas. Private- and joint-venture banks have much less rural coverage, while foreign banks have little physical presence in either urban or rural areas (Allen *et al.*, 2012; Alshabrawe, 2016).

Furthermore, In Egypt, incentives for small firms and households to use deposits and other financial products are not such strong enough. Minimum required deposit amounts are high enough to hinder the poor from involving in the banking system. Although state-owned banks have a comparative advantage in attracting small depositors with their huge branch network in different governorates and villages, and they have instead preferred to focus on large depositors.

Moreover, the financial sector plays a limited role in financing new investments. On average, only 7% of new investments and working capital in Egypt financed through the banking sector, compared to more than 13% in the MENA region, and 18% in the rest of the world by the year 2107. Besides, banks often prefer to extend credit to large corporate clients and connected individuals that are considered less risky, while start-up companies remain financially constrained. As a result, formal financing plays a limited role in financing enterprises, especially SMEs. Only 13% have access to finance, as opposed to 36% for large firms. (EMNES Studies, 2018).

Table 2 summarizes the FI's indicators and dimensions for 2014 and 2017. Indicators' values appear to eventually be improved between both periods. Furthermore, indicators per dimension have a few close values especially for access and usage but it is different for availability. The indicators of ATM and bank branches per 100,000 adults have higher weights than the same indicators per km². This is consistent with Cámara and Deusto (2014), who argues that the ratios associated with the population contain more information than those associated with the location. In addition, the percentage of ATM is significantly larger than that of branches per km² and per adult population for the availability dimension.

It seems that – either for 2014 or 2017 – availability seems to have the greatest importance in explaining financial inclusion in Egypt, followed by access and usage. This reveals that availability is the most important dimension for explaining the degree of financial inclusion. Moreover, the lack of ATMs or branches of commercial banks might be considered as the first reason that generates financial exclusion.

However, it is evident that FI's performance in Egypt lags the world and the other lower-middle-income countries averages, but it converges with Middle East countries averages. Low financial penetration is significantly linked with the existence of a sizable informal sector and the high poverty and unemployment rates (World Bank, 2018).

The following Figures 1–3 represent the evolution – in Egypt – of some selected indicators per each of the three dimensions. Figure 1 highlighted the increase over time in ATMs and the Number of commercial banks per 100,000 adults, which assures the previous result that the availability dimension is the main for constructing an inclusive financial system in Egypt.

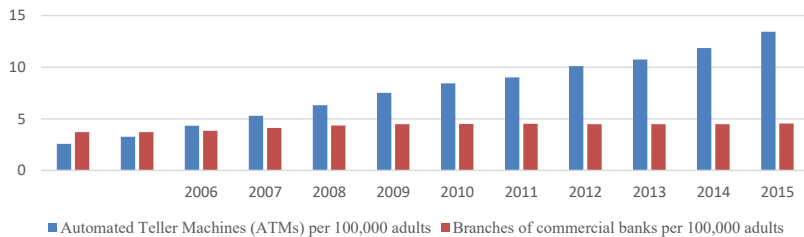
Moreover, Figure 2 sheds light on the percentage of debit and credit cards' ownership as an example of access dimension, it is noted that both credit and debit cards' ownerships have increased and improved by the time, where the increase of debit cards is greater than credit cards. That might be explained due to a higher level of savings throughout the period, in addition, to make most of the wages and salaries cashless through an individual's account directly.

Indicator/dimension	2014	2017
<i>Availability</i>		
Automated teller machines (ATMs) per 1,000 Km ²	7.323,321	11.36069
Branches of commercial banks per 1,000 Km ²	2.769,602	3.128,233
Automated teller machines (ATMs) per 100,000 adults	12.03121	17.6257
Branches of commercial banks per 100,000 adults	4.550,073	4.853,341
<i>Access</i>		
Account at a financial institution (% age 15+)	0.136,518	0.320,714
Credit card	0.01881	0.0333,482
Debit card	0.0958	0.247,565
<i>Usage</i>		
Withdrawal in the past year (% age 15+)	0.660,855	0.666,718
Saved at a financial institution (% age 15+)	0.040831	0.062302
Borrowed from a financial institution (% age 15+)	0.063086	0.062979
Paid utility bills: using a financial institution account (% age 15+)	0.001112	0.001189
Paid utility bills: using a mobile phone (% age 15+)	0	0.005984
Used the Internet to pay bills or to buy something online in the past year (% age 15+)	0.013813	0.034894
Borrowed from a financial institution or used a credit card (% age 15+)	0.076825	0.087601
Borrowed from a financial institution or used a credit card, older adults (% age 25+)	0.098322	0.112,513
Sent or received domestic remittances: through a financial institution (% age 15+)	0.017078	0.046974
Received wages: into a financial institution account (% age 15+)	0.18646	0.33209
Used a debit or credit card to make a purchase in the past year (% age 15+)	0.04289	0.038132
Deposit in the past year (% with a financial institution account, age 15+)	0.618,393	0.651,883
Made or received digital payments in the past year (% age 15+)	0.078781	0.22832

Table 2.
Main indicators and dimensions for FI in Egypt

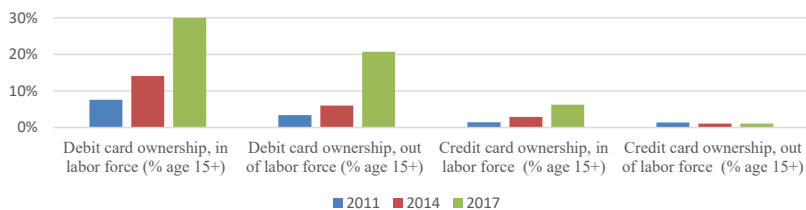
Source(s): Author development grounded on Findex and FAS database

Figure 1.
Example on availability dimension for FI in Egypt: ATMs and branches per 100,000 adults



Source(s): Global FinDex Database 2011:2017

Figure 2.
Example on access dimension for FI in Egypt: debit and credit cards' ownership (%)



Source(s): Global FinDex Database 2011:2017

Figure 3 addressed the evolution in loans and borrowers accounts that revealed more integration in the formal financial sector and hence a positive indicator for an inclusive financial system seemed attainable.

3.2 National policies to promote FI

In July 2017, the WB launched the FI Global Initiative in order to enhance the FI in developing countries. Egypt was one model country along with Mexico and China in this three-year initiative. The WB mentioned that Egypt has the ability to attract more individuals to the formal financial sector because it has the required laws, regulations and ICT infrastructure. However, Egypt does not have the required funding to cover the needed reforms, and based on the Egyptian authorities' belief in the importance of including all society's segments into the formal financial system, the country has taken several initiatives to support the development and achievement of FI (Rhyne, 2013).

The framework could be classified in the light of different types of initiatives as follows.

3.2.1 *Central Bank of Egypt (CBE) initiatives.* In Table 3, the main steps and procedures tackled to improve financial inclusion are demonstrated.

3.2.2 Commercial banks' initiatives.

- (1) **Alex Bank** in Egypt was awarded as the "Middle East's Best Bank for SMEs" and "Best Microfinance Bank". This bank also has different initiatives in terms of achieving FI in Egypt. It signed MoU with the National Council for Women (NCW) in October 2017 to provide FI for women in rural areas. The bank also has an agreement with Vodafone Egypt in November 2017 to boost the mobile money transfer.
- (2) Moreover, **Commercial International Bank (CIB)** has an active role in "the Arab FI Day" by supporting the initiative of "Account for every citizen".
- (3) There are also different cooperation protocols between different banks in Egypt to promote FI. For example, the Agricultural Bank of Egypt signed a cooperation protocol with the National Bank of Egypt (NBE) to benefit from the widespread of the two banks in Egypt and to provide the service of prepaid cards for transfers to its customers.

3.2.3 *The National Council of Payments' (NCP) initiatives.* In 2017, the "National Council for Payments" was established by the Decree No. 89 for 2017, chaired by the President. This council aims at limiting the use of cash as well as encouraging the use of electronic payments.

Accordingly, the mandates of NCP can be illustrated by the following aspects: (1) Integrating the highest number of individuals and entities in the banking system, (2) encouraging the informal sector to join the banking system, (3) reducing the cost of money transfers and (4) guaranteeing the security of electronic payment system, achieving the competitiveness among the providers of the electronic service.



Source(s): FAS Database 2004:2017

Figure 3.
Example on usage
dimension for FI in
Egypt: borrowers and
loans accounts

Procedure	CBE initiatives for financial inclusion	CBE objective
Regulations and Actions	Approving a new version of the regulations for “Mobile Payment Services Regulations”	To serve the creation of a digital economy and allow banks’ customers to transfer or receive funds and remittances via their mobile accounts
	Issuing new regulations for MSMEs	To reduce the capital required to open new small branches to increase the no. of banks’ branches and therefore expanding the provision of retail banking and banking services to SMEs
	Approving rules of “e-banking”	To govern the provision of banking services conducted through the internet and hence help in reducing banking transaction costs by easily addressing risks of online transactions
	Signing a memorandum of understanding (MoU) with Visa, the global payments technology company Establishing the “FI Unit”	To enable digital payment of government subsidies to 22 million Egyptian families
Initiatives	Mortgage Finance Initiative for low and middle-income segments at low rates of return Initiative directing banks to increase finance provided to small- and medium-sized enterprises (SMEs) with the goal	To support and enhance FI in Egypt. Additionally, there will be an independent central administration to help financial services clients To provide funding for the unserved segments in the financial system
	The National Strategy for Financial literacy Initiative, with the participation of the concerned parties (Ministry of Education, Ministry of Higher Education and Universities)	To initially issue a unified definition for SMEs in terms of sales and capital, then have SMEs accounting for not less than 20% of banks’ total loan portfolios within the next short-run associated with a range of interest rates 5% to 7% To deepen financial awareness all over the country among different segments
Innovative tools	Launching new financial services providers such as Fawry, Masary and PayMob. In addition to the many e-wallet services that have also launched, including Phone Cash, Orange Money, Flous and PayFort	To facilitate the spread of digital payments as most of the individuals begin to make and collect payments through their e-wallets
	Intending to create Village Savings and Loans Associations (VSLAs) Creating mobile wallets and card-less ATM	To help participants organize themselves into informal savings and credit groups to accumulate savings To let all disbursements and payments done in/out mobile application wallet

Table 3.

Main procedure and actions for FI by CBE

Source(s): Author’s development grounded by CBE report (2017, 2018), [Khalil \(2018\)](#) and Facilitating Bank Account Transactions: Steps Toward Financial Inclusion in Egypt, Policy Recommendations (2017)

Furthermore, the NCP recommended governmental entities to proceed with a national payment card used by citizens for paying governmental services.

3.2.4 Regional initiatives. The Council of Arab Central Banks Governors determined April 27 of every year to be the Arab day for FI in a bid to boost the adoption of FI in the Arab countries; the CBE directed all banks operating in Egypt to participate in the activities of the Arab FI Week. These activities include approaching remote areas, clubs, and universities by banks to present

their products. Customers were also allowed to open accounts without expenses or a minimum limit under the slogan “account for every citizen”. As a result, 85,000 accounts were opened (30.5% for women) and 290 million pounds were deposited (Alex Bank, 2017).

3.3 FI barriers and challenges in Egypt

The FI process in Egypt is still slow. Some banks still suffer from low efficiency in financial intermediation in addition to high levels of nonperforming loans. As a result, the nonperforming assets and loans restrain their ability to focus on extending credit and innovating new products. On the other hand, they have high operating costs, inappropriate risk management and limited financial products.

Moreover, most of the banks in Egypt, especially state-owned banks, do not evaluate credit risk efficiently as they have centralized credit decisions. Furthermore, the credit market in Egypt is so weak because the lending terms are undesirable, with high collateral requirements. Accordingly, addressing and solving these limitations of the Egyptian financial market was of great importance to ground main challenges toward FI in Egypt (Nasr, 2017; World Bank, 2018).

On the other side and although the implementation of a wide range of policies that aimed at advancing the FI over the last few years, there is still some remaining major other challenges that hinder achieving higher rates of FI as follows (Dev, 2006; Nasr, 2017).

Demand-side challenges and barriers. They could be addressed by (1) a general sense of deep mistrust in the formal financial sector, which is rooted in fears of exploitation, (2) concerns of fraud negate the convenience of cashless transactions and prefer to transact in cash, (3) lack of financial literacy and awareness, which prevented a large segment of people from utilizing the right products and services, (4) the low use of the transaction account: opening a transaction account is the first step, not the end target. It has been noted that most of the adults in Egypt that reported having a bank account, still resort to remitting money by cash or over the counter, and (5) absence of collaterals form households or SMEs that are required from financial institutions and hence collaterals are addressed as major barriers in terms of accessibility to financial services (Mantinez, 2013).

Supply-side challenges and barriers. They could be titled by (1) regulatory and legal framework needs a lot to enhance the FI process in Egypt, (2) the incompatibility between the legislation and laws issued to maintain financial stability, financial integrity, and the requirements of building and implementing the strategy of FI, as well as the lack necessary managerial skills, (3) deficiencies in data that impede evidence-based policymaking. Data are available at various stakeholders but they are incomplete and often incompatible, not allowing their aggregation into measures that needed to monitor FI, (4) limited branch network and a low number of bank branches per capita compared to other nations in the MENA region, with most of the branches located in urban areas of Alexandria and Cairo, and finally, (5) low access for the rural poor and gender inequality as according the most of unbanked individuals in Egypt are women and rural poor. (Ananth and Oncii, 2013; Subbarao, 2013; Collard, 2014).

In this context, it should be noted that formal and informal institutions have a significant effect on the scope of coverage of FI.

Formal institutions are those that reflect different arrangements and actions taken by the regulatory and legal bodies, especially CBE, the banking sector and the Egyptian Banking Institute. It is obvious that they adopted various programs to expand FI's scope and cashless transactions. However, all those arrangements should be extended to encompass a wider scope of citizens and enterprises. The available data reveal a steady improvement over the years; but the achievement is still modest, slow, and needs some improvements to get a significant difference like in the Kenyan case (Miller, 2017).

Informal institutions are those that reflect the inefficiency of the formal financial institutions to reach out to the underprivileged. In addition, the effect of social customs and traditions, religion and individual attitudes is still a hindrance. Some of the end-users may believe that using formal transaction accounts in the way they are currently offered would be inconsistent with some of their cultural or religious traditions or beliefs. Moreover, and unlike men, women are less fortunate to have an account in their own name. Thus, for many women access to financial products is still limited. This can be improved through offering incentives for multiple family members to open accounts, encouraging more alliances with NGOs and development organizations to empower women (Nadine and Navarro, 2017).

4. Research methodology and key findings

The study used an in-depth look into -FI management dynamics and challenges in Egypt – as an investigating tool to approach closely the main stakeholders of FI. Therefore, this section emphasized how FI is conducted in practice by holding several one-to-one meetings with stakeholders in a number of major regulatory and financial entities. It seems that these bodies are touching the base of FI in Egypt and hence their experts will be of great importance. Therefore, these meetings were attempted to investigate closely all about FI in Egypt to ground any more requirements needed to facilitate perfect implementation.

Thereby, the first step in the research methodology is to select the relevant diversified regulatory and financial services providers to shed light on interviewees' beliefs and experiences. Finally, the paper put all recommendations and bits of advice for improving FI's process in the Egyptian case.

Accordingly, the investigation is held basically with representatives, managers and employees from the CBE, the NBE, Banque Misr and Financial Regulatory Authority (FRA) [1], during the period 1–30 September 2018.

The main interview script attached in [Appendix](#) is composed of seven main questions' sections ordered as follows: definition, measurements, initiatives, the road ahead (the outlook and further step), FI challenges, regulatory framework of FI and finally the role of international organization.

The second step was to collect the primary data and pick the main next steps in Egypt's policy to promote FI. Afterward, their findings analyzed and categorized; with no use of software, it is basically grounded on analytical description for the participants' thoughts and opinions. The main figures and outcomes of these interviews are introduced in the following part according to each group of questions.

4.1 Definition

All interviewed institutions' managers CBE, NBE, Banque Misr and FRA have agreed on the definition of the FI as “the ability to provide the banking services for different society's segments and especially for the low-income ones in order to reach a cashless society in addition to the protection of customers' rights through the formal channels”.

By investigating their sources of the definition, the interviews concluded that the source varied according to each institution. Thus, some of the sources are subjective and the others are from the institution's statistical bulletins, international monetary fund (IMF), or from the financial inclusion report issued by the CBE.

4.2 Measuring FI

All respondents have agreed upon the importance of the supply and demand side in addition to the international indicator Findex in measuring FI in Egypt. Moreover, all surveyed

institutions give attention to acquiring data and financial information, and therefore they continuously update statistical bulletins that are issued annually or semi-annually.

As per NBE and Banque Misr, they use the same indicators of measuring FI which is the number of banking accounts relative to the population number, the number of digital accounts and online banking services. However, FRA measures FI through its effect on the national economy while CBE measures FI mainly by analyzing its effect on the market sides (i.e. the demand side and the supply side).

4.3 FI initiatives

There are many initiatives taken recently in Egypt to enhance the FI process, such as CBE initiatives to finance Micro, small and medium size entrepreneurs (MSMEs) those initiatives targeted the most important and influenced groups (the poor, the women, the start-ups, and the youth). Accordingly, all respondents agreed on the significance of the financial sector to promote financial inclusion initiatives.

In addition, the managers have agreed on the availability of innovative products and services over the last year, which are mainly promoted by CBE, FRA and the Egyptian government.

The managers indicated that these initiatives definitely help in promoting FI; for example, CBE's initiative for financing SMEs helps in increasing the number of enterprises of the formal sector in the Egyptian economy by its sound initiative that facilitates the borrowing process and microcredit themes to SMEs.

On the other side, Banque Misr's efforts in financial education have enhanced the demand for financial services, which is in addition to the fruitful consequences of NBE's actions in wide-spreading El-Ahly Net, credit cards and prepaid cards services.

Finally, FRA's efforts in supporting microfinance projects have led to increase the microfinance funds.

Regarding the initiatives devoted to MSMEs, the respondents assured that CBE has launched an initiative to finance SMEs, microfinance projects and mortgage finance. Also, NBE and Banque Misr have participated in the SMEs' initiative. In addition, Banque Misr has made great efforts in enhancing the financial culture and establishing financial education starting from primary schools (which was launched under a slogan of school bank) ending at universities (such as sponsoring student activities, e.g. the Egyptian Banking System Model (EPSM)). While NBE has paid attention to develop a definition of women-owned enterprises and FRA has tried to support microfinance.

Concerning the initiatives to encourage entrepreneurship, the study concludes that CBE has launched many initiatives to support microfinance projects, Banque Misr has established a fund (known as FinTech) to support and finance entrepreneurs and specifically the financial technology entrepreneurs and NBE has participated in an entrepreneurship initiative which has a name of "Nile Preneurs". (Kassem, 2014).

4.4 The road ahead (The outlook and further steps)

Firstly, the CBE manager believes that many efforts should be taken further to improve the financial culture in Egypt, to develop financial products that can be convenient to the Egyptian society needs, and to measure the levels of the FI to determine the actual gap in order to cover it; in addition to developing the regulatory framework of FI to enhance the process ahead. Secondly, NBE's recommendation is to rely more on the media to increase the public awareness of the FI. Finally, Banque Misr recommends cooperation among all sectors to encourage financial inclusion.

Some of the surveyed institutions ascertained that they (especially Banque Misr and FRA) will continue their supporting efforts to FI.

4.5 FI challenges

Interviews have mentioned some of the constraints that are considered as basic challenges on the road of FI in Egypt such as the informal sector, society culture which is still very traditional in dealing with financial transactions, and lack of accurate measurement of FI levels which leads to the disability of providing suitable products and services for individuals and enterprises; in addition to some of the technological infrastructure laws.

On the other side, all surveyed institutions agreed on the importance of financial education to promote FI. That is due to their belief that financial products could not be used efficiently without financial literacy and the required change in the Egyptian society culture.

4.6 Regulatory framework of FI

FRA's opinion is that FI is already regulated enough, and the Egyptian economy should go ahead faster in the process of FI.

CBE, NBE and Banque Misr agreed on that FI should be regulated more strictly and hence CBE proposes the establishment of a supreme committee for FI at a national level while NBE proposes legislative, administrative and technological reforms.

However, all of the surveyed institutions' representatives agreed that there is no need for universal financial services law because every country has its own characteristics and circumstances.

4.7 The role of international organization

All of the surveyed institutions agreed on the important role of the international financial organizations such as WB, IFC, EBRD and EIB as well as the unique role of the European Union.

Regarding the helpful factors of international organizations that might affect the FI process, the interviews concluded that FRA and Banque Misr believe in "sharing of best practices" as an important vehicle, while CBE and NBE think that all of the suggested choices "promotion of projects on FI, international platforms for capacity building, sharing of best practices" are equally important.

5. Conclusion and policy implications

Using in-depth interviews, this paper investigated the case of FI in Egypt. The participants' findings show that Egypt's plan for financial inclusion seemed feasible and attainable, but with the still challenging steps. The movements toward greater rates of FI are sequential, whereas their impact is fairly substantial but still slow and beyond what is required. This could be attributed to the low level of financial literacy, social embeddedness that hinders the use of innovative technology; in addition to the incomplete legal and regulatory framework that helps the FI's pitfalls avoidance. Furthermore, the barriers to gradually transforming the economy to a cashless one and gender inequality access to financial services are expected to weaken the improvement process of FI.

That is why the study tried to demonstrate some measures to promote FI in the Egyptian context, given that until now there is no survey or roadmap representing the actual or potential needs and desires of end-users. Nevertheless, given the meager available data and literature, this study acknowledges the Egyptian FI gap with respect to other countries. Moreover, working on answer **how FI's gap could be narrowed down? And what are the main policy actions and recommendations to expand the FI Umbrella?**

To answer that, it is worth mentioning that The Center for Financial Inclusion has a track record of promoting dialog among decision-makers and developing a shared vision, with an eye toward turning vision into action.

Based on the FI 2020 perspective – that builds a shared roadmap for action, working in partnership with other specialized organizations – that is beside the results of in-depth interviews held to investigate Egypt’s FI level, the study recommends the following policy actions to be tackled by the main stakeholders to enhance FI in Egypt.

5.1 Government’s required policy actions

- (1) The government is required to lead the way and enhance the development and growth of electronic payments as what happened in the case of Kenya. It should support the role of technology and innovation in promoting FI initiatives, given that technical progress should be accompanied by a regulatory environment to secure technology users in financial services, besides regulators must proactively seek to understand emerging innovations, potential risks and how to regulate them.
- (2) Legislating laws or devising tools that can address social barriers to women, the poor income groups’ FI, and all citizens. In addition, it should develop the necessary financial infrastructure that encourages private sector innovation, as well as the creation of collateral registries and credit bureaus.
- (3) Specific broadband infrastructure projects in rural areas, with full stakeholder participation.
- (4) Poverty is a multifaceted challenge that needs a multiplicity of solutions to combat it. Innovative and inclusive finance is not a magic hand to get people out of poverty. However, more efforts by the government should be done through creating employment, additional income along with savings buffers, all can help FI process to play its role in reducing poverty as well as boosting wellbeing. At that time, the impact of FI can be touched by more unbanked and marginal individuals integrated into the formal financial sector (Ravallion, 2004).
- (5) Realizing inclusive finance requires proactive leadership, coordination and sustained effort from governments, the private sector, development partners and even consumers as working together achieves helps in achieving better results.
- (6) Motivating formal institutions that enhance faster implementation of FI by providing access to new types of formal financial services such as payroll, pay bills, deposit or withdraw cash from ATMs, transfer money to any other e-wallet and access several government services without the need to having a bank account. That is in turn will enable easy and quick transfer of funds efficiently, which accelerates sales in SMEs businesses, improves the efficiency of the marketplace and removes barriers to growth.

5.2 CBE’s leading role

CBE is committed to the implementation of training, educational and financing programs that provide more opportunities for Egyptian women and investing in education and financial education programs for women. It established the national steering committee on financial education, which is led by the (EBI) – the CBE’s training arm – to develop the National Strategy for Financial Literacy, especially for the poor and women. In the light of that CBE needs to:

- (1) Shift the paradigm from financial education as knowledge transfer to financial capability as promoting sound financial choices and behavior.

- (2) Approve the opening of less costly “electronic” bank branches in rural areas which allow the remote and poor customers to have more access to financial services. It needs also to establish banks whose main objective is to provide financial services to low-income people who find it difficult to obtain the services provided by other banks, as South Africa did through the establishment of the “MZANSI” bank in 2004.
- (3) Increase and innovate in microfinance products including Islamic microfinance services.
- (4) Establish microfinance banks whose main objective is providing loans for SMEs not only to allocate banks part of their funds for these projects.
- (5) Increase the number of Islamic banks and their branches to cover all individuals who refuse to deal with commercial banks that do not follow Islamic Sharia.

5.3 Commercial banks’ role

- (1) Move from pure financial literacy to building the financial capability of unbanked and underbanked customers by embedding financial capability elements in product design and delivery.
- (2) Use technology to empower customers with more account management tools to make the costs of banking services low.
- (3) Undertake public awareness campaigns as well as dialog on client protection policies that increase customer comfort with new services without creating undue burdens on banks and customers, in addition, to enhance on-line work and reduce paperwork requirements to make the services quicker.
- (4) Improve financial protection for the consumer to support trust in the banking and financial sector.

5.4 International organizations

International organizations have provided continuous support to the Egyptian financial institutions over the years and are offering technical expertise in the area of FI. They need to continue their support to help Egypt make the reforms related to improve FI and to act according to the commitment to implement the G20 principles for innovative FI under a shared vision of universal access.

To sum up, Effective implementation of FI in Egypt would enhance economic growth and facilitate individuals’ smooth bridging to financial services, but some of the challenges remain. Therefore, it is mandatory to have a clear strategic vision, targets and policies, based on the country’s perspective of social and economic development and growth goals. The vision should consider the roles and needs of all stakeholders (supply and demand sides) within the financial space.

It is necessary, that any new FI vision should have a deep understanding of the financial decisions of the poor and low-income groups, including how they acquire, manage and use their money; therefore, financial education and awareness become a must toward full implementation of FI in Egypt.

Finally, Egypt can design an appropriate FI strategy, but the main challenge is how to implement it with the required speed and outreach capacity, especially in underprivileged communities.

Further research studies are recommended to survey the main needs of poor and unbanked segments of the society that might help the sound and targeted implementation of

FI in Egypt. In addition to tackling the correct measurement FII for the Egyptian context to better guide the policymakers for more fruitful FI strategy.

List of abbreviations and acronyms

ADI	The Asian Development Bank
AFI	Alliance for Financial Inclusion
ATM	Automatic Teller Machine
CBE	Central Bank of Egypt
CIB	Commercial International Bank
EBI	Egyptian Banking Institute
ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
FEPS	Faculty of Economics and Political Sciences
FI	Financial Inclusion
FRA	Financial Regulatory Authority
G20	The Group of Twenty
GPFI	The Global Partnership for Financial Inclusion
MFBs	Microfinance Banks
MFS	Mobile-phone Financial Services
MoU	memorandum of understanding
NBE	National bank of Egypt
POS	point of sale
SMEs	Small and Medium Enterprises

Note

1. It was essential to keep the confidentiality and anonymity of the interviewees guaranteed to the maximum possible level.

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Appendix
In-depth interviews: financial inclusion in Egypt

Personal data of the Interviewer:

A	Name	
B	Institution	
C	Position	
D	Contacts	Office Phone: Mobile Phone: E-Mail:

Questionnaire:

Group of Questions	Question	Answer
1. Definition:	1. What definition do you give to financial inclusion? Access, use, availability, other...	1.
	2. What is the source of the definition?	2.
2. Measuring FI:	3. How do you measure financial inclusion?	3.
	4. Do you have updated statistics?	4. Yes <input type="checkbox"/> No <input type="checkbox"/>
	5. If YES, What frequency?	5. Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Annually <input type="checkbox"/>
	6. How does your institution measure the success of financial inclusion and its impact on the economy and "real life"?	6.
3. Initiatives:	7. What are the most recent initiatives undertaken to promote financial inclusion?	7.
	8. How do these initiatives help in promoting financial inclusion?	8.
	9. What are the most important targeted groups?	9. Male <input type="checkbox"/> Female <input type="checkbox"/> Start-up <input type="checkbox"/> Young <input type="checkbox"/> Disadvantaged <input type="checkbox"/> Poor <input type="checkbox"/>
	10. Are there any financial inclusion initiatives addressed to MSME's?	10. Yes <input type="checkbox"/> No <input type="checkbox"/>
	11. If Yes, which ones?	11.
	12. Is there any new offer of innovative products and services over the last year?	12. Yes <input type="checkbox"/> No <input type="checkbox"/>

(continued)

	13. Who promoted these initiatives?	13.
	14. Are there any financial inclusion initiatives to encourage entrepreneurship?	14. Yes <input type="checkbox"/> No <input type="checkbox"/>
	15. If Yes, Which ones?	15.
	16. In your opinion do you see a role for the financial sector to promote financial inclusion initiatives?	16.
4.The road ahead:	17. In your opinion what should be done further?	17.
	18. How do you intend to contribute to financial inclusion in the future?	18.
5.FI Challenges	19. What are in your opinion the constraints to financial inclusion?	19.
	20. Do you think financial education is an important factor to promote financial inclusion?	20. Yes <input type="checkbox"/> No <input type="checkbox"/>
	21. If Yes OR No: state Why?	21.
6.Regulatory framework of FI:	22. Do you think financial inclusion should be regulated?	22. Yes <input type="checkbox"/> No <input type="checkbox"/>
	23. If Yes, State How?	23.
	24. Should there be a universal financial services law to ensure universal access to finance to all?	24. Yes <input type="checkbox"/> No <input type="checkbox"/>
	25. If Yes, State Why?	25.
7.International Organization and FI:	26. Do you see any role for the international finance organizations?	26. Yes <input type="checkbox"/> No <input type="checkbox"/>
	27. If Yes, Which one?	27. WB <input type="checkbox"/> IFC <input type="checkbox"/> EBRD <input type="checkbox"/> EIB <input type="checkbox"/> Others <input type="checkbox"/>
	28. Do you see a role for the European Union?	28. Yes <input type="checkbox"/> No <input type="checkbox"/>
	29. If Yes, in your opinion which of these are the most important?	29. promotion of projects on financial inclusion <input type="checkbox"/> International platforms for capacity building <input type="checkbox"/> sharing of best practices <input type="checkbox"/> Others <input type="checkbox"/>

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