



EGYPT

FINANCIAL SECTOR ASSESSMENT



United Nations Advisors Group on Inclusive Financial Sectors
Private Sector Working Group



Introduction

Achieving economic and social development is greatly facilitated through access to a savings account, credit, and insurance. Financial services and products can minimize unforeseen risks and protect one from economic shocks. Access to a well-functioning financial sector offering a variety of financial products and services can directly provide the tools needed to protect, diversify and increase one's sources of income. Such access thus makes it possible for the poor to make their own economic decisions that can provide a path out of poverty.

Despite the broad consensus of the importance of financial access as a poverty alleviation tool, it is estimated that between two and three billion people around the world have no access to financial services. The majority of the population in developing countries do not have access to formal financial services. The situation is particularly dire in the Least Developed Countries, where more than 90 per cent of the population is excluded from the financial system. This situation has become an international policy concern.

The private sector can and should play a more active role in developing inclusive financial sectors. Some private sector financial institutions have been actively engaged in providing debt and equity capital to increase the provision of financial services to the formerly excluded population. The demonstrated potential for profitable return has encouraged commercial banks and other financial institutions to adopt microfinance as part of their core business strategy. Microfinance provides financial institutions with a way to achieve the double bottom line objectives of sustained profitability and socially responsible investment.

More than 200 commercial banks and other formal financial institutions are now engaged in the provision of financial services to the poor. However, not all attempts have succeeded. There is still a significant gap in the demand and supply of financial services. It is our firm belief that an increasing number of private sector institutions can and should play a more significant role in building well-functioning financial systems across the globe.

In this regard, in 2006, the Private Sector Working Group of the UN Advisors Group on Inclusive Financial Sectors brought together eight major commercial banks working in the provision of financial services to the poor and low-income population in the developing world. These banks include ABN AMRO, Deutsche Bank, Barclays, Citi, Gruposantander, HSBC, ICICI Bank, and Standard Chartered.

The group agreed to select a few countries for in-depth analysis of (the access to) the financial sector, representing the major regions of the world and to work collaboratively with various partners on the ground in 2007. Five countries were selected: Argentina, Egypt, Ghana, Philippines, and Romania. The partner institutions worked together to identify constraints in accessing the formerly un-tapped market of the lower income segment of the population, and the innovative ways some of the challenges are being resolved. The group also worked together with its partners on the ground to identify some possible approaches to tackling the remaining obstacles.

The year-long effort has resulted in individual analyses of the financial sector in each of the five countries and the challenges and opportunities in providing financial services to the previously excluded segment of the population. The findings show how the private sector and all relevant parties can actively contribute to building inclusive financial markets through activities oriented toward the private

sector. These five studies include a description of the enabling infrastructural, legal, technological, and other relevant requirements in the countries and explore how the private sector can best facilitate access to capital for microfinance institutions and other financial service providers as well as promote capacity development. The five studies can be found online at <http://ag.uncdf.org>.

On the basis of these five studies, we have broadly concluded that there is no one winning business model for the private sector to support microfinance solutions. One size indeed does not fit all. We have found that private sector entities can make significant and lasting solutions to the challenges of inclusive finance in different ways. But across the studies, it proved helpful that:

- Microfinance is a part of the core client business - not only an activity designated as Corporate Social Responsibility - and organized in a format suitable to your business model;
- There is a strong, safe and fully accessible payment system;
- There is top level commitment and operational level mandates to take this forward; and
- Original partnerships are forged, with private companies, NGOs, and other actors with local retail presence to ensure innovative solutions are developed and implemented.

No matter how well intentioned a company may be, it will never be able to design appropriate solutions on its own. The private sector should engage broadly with governments, development partners and regulators to create an enabling policy and regulatory environment for expanded provision of financial products and services to the un-banked, and to protect our investments.

In this regard, our Private Sector Group is organizing roundtables in the five countries in 2008 where we have conducted our research, together with local commercial and savings banks as well as regulators and government

officials. We trust such local platforms for collaborative action will create the change needed to ensure widespread access to financial services.

We would like to share the findings of our collaborative efforts with the wider world, especially our fellow private financial institutions. We hope the studies and conclusions will inspire others to continue the work we have started and will develop new findings and activities that will allow the private sector to actively contribute to the development of well-functioning and inclusive financial sectors around the world.

ABN AMRO	Barclays	Citi	Deutsche Bank
Gruposantander	HSBC	ICICI Bank	Standard Chartered

March 2008

Country Profile



Basic Macroeconomic Data	
Population	74 million, (2005) <i>43.9% below poverty line</i>
Gross Domestic Product (2005)	US \$89.3b 4.9% real growth rate \$1265 per capita PPP \$4317 per capita
GDP by Sector (2005)	47.4% Services 38.7% Industry 18.2% Manufacturing 13.9% Agriculture
Inflation (2005)	5.4%

Brief overview of political structure (Head of state, key political parties or government bodies).

- Arab republic with limited democratic characteristics, headed by the president, Hosni Mubarak, who was elected to his fifth six-year term in the country's first multi-candidate election in 2005.
- Government, led by the Prime Minister, Ahmed Nazif, is supported in parliament by the National Democratic Party (NDP).
- 1971 constitution allows for separation of powers between executive, legislature and judiciary.
- Islamic law is officially principal source of legislation, but the Napoleonic Code is a more significant progenitor.
- President is head of state and supreme commander of the armed forces. His executive authority includes the right to veto legislation, and to appoint prime minister, ministers, provincial governors, armed forces/security heads, major religious figures & high court judges.

Brief overview of socio-economic situation.

- A growing population with an annual growth rate at around 2% remains a challenge. Population is expected to exceed 81m by 2010. Reducing the domestic population growth rate, which slowed only slightly in 2005 to 1.91% (compared with 1.93% in 2004), is a major challenge for the government. Nearly 25% of the population is under 14 years old, while only about 3% are over 65. With such a youthful population, the pressures on the labor market and social services are considerable.
- The labor force grew by 6% to 22.3m during 2005—compared with just 2% the previous year. Of this total, some 19.7m are employed, approximately 5.6m in the public sector. As around 600,000 people join the labor market every year, finding employment is a major problem. A long-standing government guarantee to provide work for all university graduates has produced huge waiting lists for state jobs and a surfeit of underemployed, badly paid civil servants. Successive budgets have raised state wages and pensions, but only recently have these gone up by more than the rate of inflation. Private-sector jobs are better paid, but limited in number. Even the highest wages and salaries in Egypt are low by international standards.
- Official numbers show a steady rise in unemployment, up from a low of 8.1% in 1999 to 11.2% at end-2005. Although the trend is plausible, reflecting the country's underlying demographics, most independent estimates put the rate much higher, at around 15-25%. Unemployment among graduates is considered to be even higher, at almost 40% for men and over 50% for women. Underemployment is estimated to affect between one-third and one-half of all workers.
- The government's bias towards high-cost urban and tertiary education has resulted in unequal access to education for different groups within the country, with women in Upper Egypt the most deprived.
- The rigid education system, with its emphasis on rote learning over critical thinking and its ranks of poorly paid and trained teachers, is failing to supply the labor market with the necessary skills. Illiteracy has fallen gradually but is still high, with the adult literacy rate standing at 55.6% in 2003, up from 47.1% in 1990. But within the key 15-24 age group, the literacy rate was still only 73.2%. Egyptian official figures show the total number of illiterate persons falling from 12.7m in 2003 to a still-substantial 10.9m in 2006 (of whom approximately 70% were women).

Demand for Financial Services

Brief overview of the informal economy.

- The informal sector is about 5.3 times larger than the formal sector. It is difficult to obtain accurate and exact estimates on the informal economy, but it is estimated that the majority (82%) of micro and small enterprise are informal enterprises.
- Among all waged workers, 35% are informal, but proportionately more men (39%) than women (17%) are informal workers. It is estimated that informal units alone generate more than 5m work opportunities. But informal workers can be found in private formal sector companies as well as in government and state-owned enterprises, and not just in informal enterprises. Entrepreneurs and workers in the informal economy in Egypt have little access to credit, social security, health insurance or training.
- The causes behind the continuing popularity of the informal sector for employment include:
 - Structural transformation of the Egyptian economy from a primarily public sector-driven economy to more privatization.
 - Ability of the informal sector to generate sustainable growth in employment at relatively low cost per job created.

- Decreasing employment in agricultural activities and reduction in rural to urban migration.
- Burdensome regulatory and institutional environment, where it can take up to a year to fulfill all of the requirements for licenses and permits involving as many as 10 ministries and public bodies.
- Lack of institutional capacity to support, monitor and inspect the millions of micro and small enterprises around the country, even less so in rural than in urban areas.

Estimated number of micro, small and medium enterprises (MSMEs) in the informal and formal sectors.

- Number of informal enterprises (2.8m) in 1998 was 5 times greater than formal enterprises (.550m) or 83.6% of the total number of small enterprises. The formal units increased between the 2 years by 8.7%, while the informal units grew by 14.1%.

Breakdown of MSMEs by industry and region.

- SMEs in the formal sector are dominated by trade (55%), manufacturing (18%), and services (17.5%) industries whereas SMEs in the informal sector are dominated by trade (38%), services (30%), manufacturing (19%), and transport (5%) industries.

Major characteristics of MSMEs in the country.

- Men own the majority of SMEs in the formal (87%) and informal (80%) sectors in Egypt.
- The number of female owners of small formal enterprises has dropped drastically by 32%. Female owners constituted 13% of the formal market, but 20% of the informal market in 1998.
- In view of the easy access, modest resources, limited initial capital, lack of access to formal credit, flexible location and markets, and dependence on family members for support which characterize the informal sector, informal entrepreneurs are likely to be younger.
- Economic activities vary according to formality and gender. While men in formal enterprises are mainly concentrated in 3 main activities—trade, manufacturing and services—informal male entrepreneurs are more dispersed among different economic activities (trade, manufacturing, services and construction). Formal female entrepreneurs are concentrated in 2 main activities—services and trade—and informal females work in trade, services and manufacturing.

Percentage and nature of migrant and immigrant labor (legal and undocumented).

- Trend of movement of small enterprises is more in the direction of rural areas, which is emphasized in the case of informal enterprises. The informal male-owned enterprises have increased by a higher percentage in rural areas in contrast to informal female entrepreneurs.
- Remittances from expatriates are a major source of foreign-exchange receipts. In 2001, 1.9m Egyptians lived abroad as temporary migrants, compared with 2.2m in 1996 and 2.3m in 1986, reflecting the decline in job opportunities in Arab states. The latest available figures show that in 2001, there were 824,000 permanent emigrants.

Estimated demand for Microfinance Services and breakdown of demand.

- Egypt has been seen as the leader of microfinance in the Arab region and while the growth has cooled down somewhat, it is still making headway.
- There is no consensus on the market size. It is estimated that Egypt's microfinance industry currently reaches only about 5% of the more than 2m potential borrowers but some MFIs believe that the market is much larger (up to 4m) when households and underemployed persons are included.

- Maintaining steady growth in its client base is an industry-wide challenge. Observers note that Egypt is characterized by successful but small microfinance programs.

Estimated percentage of demand currently being met by formal and informal sources:

- 86% of the 200 households surveyed by the University of Chicago in 2000 participate in either the formal or informal credit market. While formal collateral is crucial for borrowing in the informal sector, “social collateral” is equally necessary in the informal sector.
- Most common form of informal finance is rotating savings and credit associations (RoSCAs).
- Many households participate in both sectors, since the two sectors serve differing credit demands. The formal sector services loans for investment purposes, while the informal sector provides smaller loans for bridging or consumption smoothing purposes.

Formal financial sector:

- 46.5% of the 200 households surveyed had links to the formal sector (compared to 69.5% to the informal sector). The average size of a formal-sector loan was approximately 4 times larger than the average informal-sector loan.

Informal financial sector:

- Informal finance in the surveyed region took 3 main forms: occasional borrowing from friends and relatives (most prevalent), RoSCAs, and Islamic Investment Companies (IICs).
- 90.6% of the informal loans were implicitly and explicitly interest free. This is attributed to the strong cultural and religious traditions against usury in Egypt. Also 92.6% of informal transactions were undertaken without marketable tangible collateral.

Existing Financial Services Available to the Poor

How many providers of microfinance currently operate in the country?

- 23 known providers of microfinance operated in Egypt as of 2003.
- Two basic models of microfinance: NGO model and downscaling model.¹

What is the composition of these providers?

- Most microfinance services are delivered through NGOs, which are not permitted to take deposits and have trouble accessing other sources of private capital, and government programs. Some

¹ Provision of microfinance through banks.

microfinance is also conducted through business associations, development intermediaries, and public sector and special-purpose banks.

- While public-sector banks have recently begun to engage in micro-lending, private commercial banks are still absent from the sector as they tend to regard microfinance either as too risky or as a developmental function that should be reserved for NGOs and public-sector banks. But some donor funded programs have worked through existing commercial banks. For example, the Principal Bank of Development and Agricultural Credit (PBDAC) provides loans for agriculture and other rural needs.
- The National Bank for Development (NBD) was the first commercial bank to start microfinance operations in Egypt. In 1987, NBD in collaboration with USAID, established the Small and Micro-enterprise Division with micro-lending operations in 4 of its branches.

If there are government initiatives that provide microfinance services, are they at commercial or concessional rates?

- Government-subsidized lending programs continue to provide cheap micro-credit to a vast number of people.

- Most microfinance initiatives (namely financing of working capital) have been donor-driven initiatives aiming to help existing micro-enterprises meet their short-term financial needs.
- USAID has been an active player, with estimates crediting it with financing more than 50% of all activities in the sector.

How does this impact the rest of the microfinance industry?

- Social Fund for Development (SFD) is a large government-subsidized provider that has a negative impact on the industry as a whole. Its objectives are to create jobs and alleviate poverty. Because the SFD's objective is not to provide financial services to the entrepreneurial poor on a sustainable basis, it doesn't apply internationally accepted good practices across its programming. Thus, it doesn't charge sustainable interest rates or measure key performance indicators such as number of active clients, portfolio at risk, efficiency, or profitability.
- The provision of subsidized credit also jeopardizes the microfinance sector as a whole. By sending the borrowers mixed signals as to the true cost of financing and the seriousness of repayment obligations (government programs are often seen by beneficiaries as social welfare

schemes that don't need to be repaid), these kinds of programs undermine other good practice programs striving to be sustainable.

What types of products and services are currently available in the market?

In general, credit has been the main type of microfinance product offered to the Egyptian market. Credit is offered in the form of micro-loans that are predominantly provided through NGOs. In addition to credit, other financial services such as savings, other deposits and insurance are available on a small scale and are restricted to formal financial institutions.

Credit products:

- Credit services provided in Egypt are dominated by 2 types of products: individual loans that provide working capital for existing enterprises and group lending for income-generating activities for women. Non-SFD loans are typically higher than SFD loans. SFD provides credit to either start-ups at an interest rate of 7% per year or to existing MSEs at 9% per year for financing equipment or working capital. NGOs typically provide interest rates between 10 and 12% per year. Commercial banks operate at around 14%.

Savings products:

- Although savings/deposit services are offered by public and private-sector banks to the general public, the National Postal Authority remains the dominant provider of micro-savings due to its extensive outreach and low-cost application procedures. Neither non-bank financial institutions nor NGOs are allowed to capture savings. Low-income savings mechanisms are often informal due to the reluctance of entrepreneurs to deal with the intimidating banking system as well as the banking sector's unwillingness to deal with small savings accounts due to the higher associated administrative costs.

Insurance products:

- Insurance services are mainly provided by the state-owned companies to the poor – namely, Misr Insurance, Al Chark Insurance and AL Ahli Insurance, which together with the private-sector Egyptian Reinsurance Company account for 90% of market share. While some products are affordable for micro-enterprises and micro-consumers, the state-owned companies follow supply driven approaches where the products are neither designed nor marketed to meet the needs of the micro sector.

Remittances:

- New cash-transfer services have also been introduced in collaboration with Western Union to diversify the product portfolio offered to customers. In addition, it has recently signed a cooperation deal with SFD to provide micro-credit services to its clients.

What are the general lending methodologies used?

- Individual loans that provide working capital for existing enterprises.
- Group lending for income-generating activities for women.

Who are the target clients of the existing providers of microfinance services?

- Majority of borrowers live in urban areas. Thus rural finance remains a challenge. In Egypt, rural areas account for 56% of the population but only 14% are reached by the MFIs.
- Women clients have traditionally been underserved by the microfinance market, but recent improvements have resulted in women constituting almost 46% of clients of microfinance services in 2003.

What are the main distribution channels for the provision of financial services to the rural poor?

- PBDAC is Egypt's first specialized bank for rural finance. Today PBDAC covers the country through 18 governorate banks, 1,016 village banks and 312 satellite offices. With its extensive branch network reaching into every remote village, PBDAC has come to be known as Egypt's village bank. The PBDAC network effectively provides services to every community in Egypt. PBDAC has 3 different microfinance programs.
- The National Postal Authority remains the dominant provider of micro-savings due to its extensive outreach and low-cost application procedures. It is a significant player in the microfinance sector because it offers savings accounts with competitive interest rates and controls a formidable national network of facilities, thus reaching the grassroots in both urban and rural areas. The Postal Authority has nearly 10,000 outlets throughout Egypt and serves 11m Egyptians who maintain EGP 22.5b (approx. US \$4b) in postal savings accounts.

Are there any particular groups being excluded by the existing MFIs? If so, why?

- Microfinance programs are generally executed in urban areas and are additionally concentrated around Egypt's larger cities particularly in the Nile Delta region.
- Although the situation for female entrepreneurs is improving, microfinance programs still demonstrate a bias for men.
- MSEs belonging to the informal sector are also excluded from many microfinance programs due to their lack of registration.

Is there competition between MFIs for clients?

Information not found.

If so, on what factors do they currently compete?

Information not found.

Under what accounting standards do MFIs operate? Do they have their own accounting standards or are they held to standard practice?

MFIs face certain challenges with respect to auditing and reporting requirements. The MFIs' nature requires a different accounting and financial system than that of the other types of NGOs. Yet, MSS auditors ask for financial statements that reflect revenues versus expenses only.

Moreover, the financial auditors do not approve reports extracted from computerized accounting systems, instead requiring hand-written GLs.

Enabling Environment and Support for Microfinance

1. Regulatory Framework and Government Support of Microfinance

Is there a limit on interest rates financial institutions can charge? If so, what is it?

While it hasn't been a significant problem in practice, the Civil Code prohibits lenders from charging above certain established interest rates. Under the Law on the Central Bank, this restriction does not apply to commercial banks; but there is no law exempting NGO MFIs from the Civil Code provision.

Does any legislation specifically regarding MFIs exist in the country?

- Law No. 88, the Unified Banking Law, was ratified by parliament in June 2003. Under this law, the banking sector is supervised by the Central Bank of Egypt (CBE). The required paid-in capital has been increased from US \$8.5 to 85m with foreign bank branch operation required to have local paid-in capital of

no less than US \$50m. The required increase in paid-in capital is expected to lead to consolidation in the sector.

- Law No. 141, the Small Enterprise Development Law, is also referred to as the SME Law and was passed in 2004. The most important subject that relates to regulation and supervision is that it defined the role of the Social Fund for Development (SFD) as the body responsible for coordinating between the relevant stakeholders in delivering financial services to the poor.
- Law No. 84, passed in 2002, regulates the incorporation and operations of NGOs, business associations, and foundations which are the main providers of microfinance services in Egypt. Under this law, the Ministry of Social Solidarity (MSS) is designated as the official governing body for NGOs.
- Informal financial service providers such as rotating savings and credit associations, operate beyond any regulatory framework.

Is there a regulatory body to oversee MFIs? If so, do they only regulate MFIs or do they perform other duties?

Different authorities/entities are responsible for regulation and supervision of institutions involved in delivery of services to the poor, depending on the legal identity of the institution. Another aspect that affects regulation and supervision is the type of financial

services that the institution offers. For example, MFIs wishing to capture savings and/or other deposits should be duly incorporated as a formal financial institution (bank), while only an insurance company may offer life, accident and disability insurance. These services are not allowed to be offered by NGOs.

- Banks are regulated by CBE. The CBE performs a full range of supervisory functions over banks, including the initial licensing, performance monitoring and requirements for maintaining legal reserves at the CBE and minimum cash reserves to meet clients' demands for withdrawals from savings, current, and other deposit accounts. The CBE also maintains a unified database for banks' client credit history for clients taking individual loans of over EGP 30,000 (approximately US \$5,200) but since bank MFI clients don't take out loans of this large of an amount; banks don't maintain this information for MFI clients.
- The MSS oversees NGO MFIs by conducting routine checks on their financial statements (limited to Income/Expense accounts) and requiring that an MSS Representative be permitted to attend General Assembly meetings and extraordinary meetings of the Board of Directors, as well as to retain a copy of the minutes. The main problems with MSS oversight are:

- Limitations of applying to MFIs a law that is intended for NGOs; and
- The MSS auditors' lack of professional training in microfinance.
- The SFD has no regulatory or supervisory authority by virtue of law.

Can MFIs legally accept deposits?

Neither non-bank financial institutions nor NGOs are allowed to capture savings.

If so, what types of legal entities are permitted to take deposits (e.g. NGOs, Co-ops, etc.)?

Only commercial/public-sector banks and the National Postal Authority/distributional channels.

Are there any restrictions on the types of credit products MFIs are allowed to offer?

Simple credit continues to be the main product offered by MFIs but there are no formal restrictions on the types of credit products that MFIs are allowed to offer.

What other type of financial services are MFIs allowed to offer (insurance, remittances, etc.)?

Only insurance companies may offer life, accident and disability insurance. These services are not allowed to be offered by NGOs. Some microfinance programs, like NBD, provide life insurance to their clients to cover part of the amount lent in case of default due to death. However, these insurance

packages are only provided embedded with credit packages to reduce MFIs' risk of default, not offered as a stand-alone product.

Briefly outline the tax laws for NGOs. Focus on withholding tax and income tax.

Information not found.

Is there a limit to foreign borrowing?

Information not found.

If so, outline (a) the amount of the limits and (b) the process for obtaining permission to borrow from abroad.

Information not found.

Does the government recognize microfinance as an important development tool?

The government has been an active promoter of microfinance, which it considers as tools to generate employment and to reduce poverty and has established the SFD and Egyptian Microfinance Network.

Briefly describe anything else that is relevant to the regulatory environment.

Major regulatory and supervisory impediments to MF sector development (for NGO MFIs) include:

- Limited access to funds.
- Requirement of check endorsements by the NGO treasurer.
- MSS requirement of approval of decisions made by the Board of Directors.

- Cumbersome MSS auditing and report requirements.
- Interest rate restrictions could be a problem.²

2. International and Local Support for Microfinance

Which international development agencies are promoting microfinance in the country?

- Most microfinance initiatives have been donor-driven initiatives aiming to help existing micro-enterprises meet their short-term financial needs.
- USAID has been an active player, with estimates crediting it with financing more than 50% of all activities in the sector. It operates on the basis of grants of the US government, which enables it to directly contract with NGOs without the requirement of a sovereign guarantee. USAID so far supported the establishment of most microfinance NGOs related to business associations in addition to the microfinance program of BdC and the Credit Guarantee Corporation. Support is granted in the form of refinance facilities and technical assistance both at zero costs. The refinance facility is usually placed as a US \$ guarantee deposit at a local bank and used as collateral for a commercial EGP line of credit to the NGO.

- The Swiss Fund allegedly comprises a debt to grant swap of Swiss loans to Egypt capitalized at EGP 700m, to be used for microfinance refinance and technical assistance measures at zero costs for NGOs.
- Other international donors who have provided funds for small & micro enterprise development are CIDA, Danida, GTZ, Ford Foundation Catholic Relief Services, UNICEF, UNFPA & ILO.

Are there any locally sponsored programs promoting microfinance?

Information not found.

Briefly outline their programs, how long they have been active, and from where their support comes (i.e. technical assistance, advocacy, grants, loans, etc.).

N/A

Is there a national or regional association of MFIs in the country? If so, how many members?

Sanabel Microfinance Network is a regional network with a membership of more than 50 MFIs representing 11 Arab countries. These members collectively serve more than 85% of the total active microfinance clients in the region.

² As mentioned above, while it has not been a significant problem in practice, the Civil Code prohibits lenders from charging above certain established interest rates. Under the Law on the Central Bank, this restriction does not apply to banks; however, there is no law exempting NGO MFIs from the Civil Code provision.

Is membership limited to certain types of microfinance providers?

Membership in the network is limited to the founders and any MFI who applies for membership and fulfills certain criteria. Full membership is limited to MFIs that focus on lending to microentrepreneurs, are located and operating in one or more Arab countries, have a minimum of 3 years of operations as an MFI, and a minimum of 5,000 active clients (with special consideration for some countries).

How was the association originally formed and by who?

In September 2002, 17 organizations from 7 countries (Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia, and Yemen) launched Sanabel.

What type of activities does it undertake?

Sanabel provides training to build the capacity of the Arab microfinance industry, serves as a forum for networking where microfinance practitioners in the Arab region can share information, advocates to promote transparency and accountability and to promote conducive laws and regulatory environment.

3. Sources of Funds

What are the main sources of funds for MFIs? (Please check all that apply).

- ☒ Government programs
- ☒ International donors or concessional lenders

- ☐ Local donors or concessional lenders
- ☒ International commercial specialized MF funds
- ☐ Local commercial specialized MF funds
- ☐ Local banks
- ☐ Other.
Please describe:

Which international microfinance funds work in the country?

12 known international microfinance funds operate in Egypt. These include AccessHolding, BIO, Dexia Microcredit Fund, Dignity Fund, L.P., DOEN, Gray Ghost, MicroVest I, Oikocredit, responsAbility Fund, Rockdale, St. Honore Microfinance Fund, and USAID Credit Guarantees.

With which institutions have they worked?

Information not found.

Are there any local funds or funds with local orientation (i.e. Oikocredit in Uganda)?

Information not found.

With which institutions have they worked?

Information not found.

4. Telecommunications Infrastructure

What is the number of fixed telephone line subscribers?

9.6 million fixed telephone line subscribers.

What is the number of mobile broadband subscribers? What is the ratio of mobile broadband subscribers to the total population?

8.6 million mobile broadband subscribers. 12.3 per 100 people have mobile broadband access.

What percentage of the population has internet access?

4 million people had access to the internet in 2005. 57 per 1000 people have internet access.

Who are the local telecommunications services providers?

- Fixed lines and cellular services: Telecom Egypt (holds a state monopoly in the market)
- Two mobile operators: Mobinil and Vodafone
- Internet services: Orascom

Who are the local technology providers in the financial field)?

EgyNet is installing a US \$600m Asynchronous Transfer Mode (ATM) network connecting financial institutions. It will allow them to connect their branch offices and provide home banking.

What is the number of payment cards currently being used? How are payment cards used? What is the relationship between the usage of payment cards to the overall population?

Credit cards are not widely used in Egypt. And there are limitations to Egyptian websites accepting credit card payments. Although there are over 100 licensed banks in Egypt, the total number of credit cards in use is less than half a million (.8% of the population). This low number is attributed to a cash-based culture and stringent requirements to get credit cards.

What is the number of existing Point of Service (POS) systems and what is the extent of their outreach in rural areas?

Information not found.

What is the geographic and demographic outreach of ATMs? What fees do the ATMs charge? Are these fees too high for the customer base?

- Automatic teller machines (ATM) have spread in Egypt during the last years. There are now 850 automatic teller machines in Egypt and most of the banks in Egypt are connected now to a network of ATM, although not all banks are connected to the same network of teller machines which leads electronic telling cards not to work on all teller machines.
- Only 10% of Egyptians have bank accounts.

Existing Private Sector Involvement in MF

Banking Sector Overview.

What are the major commercial banks in the country?

Who owns them?

The banking sector remains characterized by heavy state involvement.

- Banks in Egypt are state-owned, private, joint-venture, foreign or specialized (such as real estate, industrial, or agricultural). The majority of banks are joint venture and private banks.
- Until very recently, the banking sector was dominated by four state-owned banks, which held 45% of loans and 55% of deposits between them. These banks were BdC, Banque Misr, Bank of Alexandria and National Bank of Egypt.

What types of products are offered by the commercial banks?

- Egyptian commercial banks offer a broad range of banking services comprising retail, corporate and investment banking covering both sides of the balance sheet.
- Specialized institutions such as the industrial, real estate or agricultural banks are also counted as commercial banks yet offering additional services to the market.

- A number of commercial banks have established non-bank subsidiaries to expand their range of financial products (leasing, fund management, insurance).

Which of these banks has any current involvement with microfinance? What type of involvement?

- Only 3 banks execute microfinance programs: The National Bank for Development (NBD), BdC and the state-owned PBDAC.

Provide a brief overview of the performance of the commercial banking sector in general.

The Egyptian financial system is dominated by the banking sector, which is the oldest and largest in the region, and a much smaller but sizable capital markets sector. As part of the financial sector reform process, Egypt has begun privatizing the state-owned banks.

- Bank of Alexandria, the smallest of the four big state-owned banks, began the final steps of the privatization process in September 2006.
- The Ministry of Investment started to restructure two of Egypt's other public sector banks, the National Bank of Egypt and Banque Misr in 2006. This has involved selling non-performing loans (NPLs) in public sector enterprises to the National Investment Bank, the government's investment arm, for Eoe5.9 bn.

- Banque Misr and BdC merged in 2005, creating Egypt's largest bank.

Government shares in joint venture banks are also being sold in a bid to reduce the state-owned share of banking assets from its current level of 58% to a more acceptable 40%.

Are commercial banks familiar with microfinance? In general how receptive are they towards microfinance?

To date there has been no substantial breakthrough in the acceptance of microfinance within the banking sector; the main reasons being:

- High transaction costs
- Perception of high risk of microfinance credit
- Lack of microfinance specific delivery and controlling technology.

Is there any legislation which prohibits / encourages commercial banks to engage in MF?

CBE mandates that full provisioning must be made to cover the gap between the amount outstanding and collateral.

Has the formal financial sector been opened up to international players? What restrictions continue to exist on foreign firms?

Some 21 foreign banks, such as CitiBank Egypt and Arab Bank (Amman), have been allowed, since

1992, to offer full ranges of commercial banking services in local and foreign exchange.

Is there a surplus or dearth of liquidity in the local banking sector?

Information not found.

Do most nationals keep their savings at home or abroad?

- Savings by medium and small entrepreneurs is done on a very informal basis. The informality of saving mechanisms among small entrepreneurs is a reflection of the unwillingness of the formal banking sector to deal with small savings due to the higher administrative costs associated. Moreover the reluctance of entrepreneurs to deal with the banking system, which can be rather intimidating, also contributes to the informality of MSE savings.
- It is estimated that less than 50% of MSEs use formal channels for savings. Some estimates are that 95% of MSEs do not even maintain a bank account.

Non Bank Participation in Microfinance.

How is microfinance perceived by the upper and middle classes in the country?

Information not found.

Are private sector individuals with relative experience involved in the BODs of MFIs or in other advisory capacity?

The business associations (e.g. ABA) are trying to build a more dynamic private sector.

Have private sector players invested in microfinance directly or through funds? To what extent?

Information not found.

Constraints

Summary of any constraints to the enabling environment for microfinance identified.

Policy Level

- In spite of the government's repeated emphasize on the importance of the MSE target group all policy efforts so far have been scattered and are often conflicting with a minimal impact on MSEs as well as on the economic growth of the country. A workable policy framework is also required for concerted actions between the governmental, NGOs and donors.
- Micro sector needs more support with regards to access to training facilities, credit, serviced land and extension services.

- Donor programs focusing on small and micro enterprise activities are numerous and uncoordinated. There is no mapping of microfinance programs in order to avoid duplication of donor efforts. In addition some donors allow the on-lending of their funds at terms and conditions below market level thereby contributing to both the distortion of market mechanisms as well as fostering bank's prejudices towards the non-bankability of the target group. Final borrowers and NGOs entertaining such subsidized programs continue to depend on donor funds thereby providing the donors no opportunity to exit.

Legal / Regulatory Level

Banks, non-bank credit institutions and to a limited extent also leasing companies would usually be the suitable lending organizations within the formal financial sector to satisfy MSE's finance needs. But the legal/regulatory setup in Egypt is a major constraint to the provision of access to finance.

- Egyptian banks with the exception of NBD, BdC and PBDAC are neither capable nor interested in serving MSEs. Their negative perception of the non-bankability of MSEs is continuously reaffirmed by government policies to define MSE as poor and furnish them with subsidized lending facilities via SFD.

- Non-bank credit institutions, if allowed, would be a good alternative to providing financial services to the MSEs.³ They have an institutional set up similar to banks and operate along comparable prudential regulations. But non-bank credit institutions are not permitted in Egypt. Allegedly CBE's reluctance to license such institutions stems from the disastrous effect of the Islamic investment companies, which mushroomed in the 1980s and operated without any regulation. In addition to the prohibition of credit companies, CBE stopped licensing new banks since 1983. Any new microfinance program therefore can't be introduced to the market unless through collaboration with an existing bank or through establishing a new NGO.
- By their very nature. NGOs face limits in terms of outreach, professional governance, refinance and competitive sustainability. It's not easy for NGOs to become microfinance banks given that the minimum capital required to get a banking license is high at around US \$30m. Also, in their current legal form, NGOs find it difficult to borrow from banks for on-lending since they are thought to lack transparency and accountability. NGOs can't mobilize savings.
- So NGOs and banks have so far proven inadequate to service MSEs on a sustainable basis.
- The restricted MSE access to banks has produced a situation where a very small percentage of private enterprises enjoy access to banks, whereas the majority of private sector enterprises are excluded from the formal banking sector and obtain loans from small NGOs or other informal sources or have no access at all.

Summary of other constraints to the growth of the microfinance sector.

Major regulatory and supervisory impediments to microfinance sector development (for NGO MFIs) include:

- Limited access to funds.
- Requirement of check endorsements by the NGO treasurer.
- MSS requirement of approval of decisions made by the Board of Directors.
- Cumbersome MSS auditing and report requirements.

³ Contrary to banks, non-bank credit institutions would be rather uncomplicated to establish. They require only a limited amount of capital and their operation costs are considerably lower given the limited prudential regulation requirement compared to banks. Moreover such credit institutions are ideally suited to test the market and gradually expand in a demand-oriented manner to eventually transform to fully licensed banks. As a result credit companies offer private investors a substantially reduced risk compared with equity participations in banks and as such lower the hurdle for private investments in the financial sector.

- Interest rate restrictions. While it has not been a significant problem in practice, the Civil Code prohibits lenders from charging above certain established interest rates. Under the Law on the Central Bank, this restriction does not apply to banks; however, there is no law exempting NGO MFIs from the Civil Code provision.

Summary of constraints to private sector involvement in microfinance.

Commercial banks are reluctant to lend to micro entrepreneurs for the following reasons:

- High costs and small profits associated with small loans.
- The perceived high risk associated with microlending.
- Inadequacy of the present methodologies used to assess the creditworthiness of their clients adopted by banks. For this reason, the creation of effective credit bureaus is highly needed.
- The banks' lack of marketing, appraisal and supervision capacity for microenterprises lending. Until liberalization, the banking sector worked under a system of credit allocation that favored large public sector enterprises. As a result, banks have developed no marketing, appraisal or supervision capacity to lend to smaller clients. At present, anyway, the liberalization of the banking sector is introducing these new skills, still centered around larger institutions.
- Inadequacy of current lending terms and conditions for small business lending, especially because these businesses are obliged to establish credibility for borrowing under the currently prevailing, and inadequate, credit evaluation criteria.
- The inadequacy of collateral-based lending techniques for the SME market. At this point it is very important to underline that most of the times collateral is not lacking: the problem does not lie in the physical absence of guarantee. Rather, the problem lies in its official invisibility, given to the fact that holdings possessed by the majority of potential micro clients are not registered so they cannot prove the ownership or use them as collateral in any case.

Opportunities

Identify potential solutions to the constraints above and the principal actors of each solution.

- CBE should be encouraged to adopt a more demand oriented licensing policy, which acknowledges the realities of the Egyptian economy and enables the creation of such financial institutions that can fulfill a proper intermediary function targeting the bulk of the private sector.
- The enabling environment should also be subject to improvements to allow the financial intermediaries to capitalize on the MSE demand as well as to enhance their full operational potential. CBE should benefit from the substantial experience of other countries, which have already tailored their legal and regulatory environment to the financial requirements of MSE.

TABLE 1: Performance Indicators for MFIs Operating in Egypt

Name	Type	Year est.	Select Performance Indicators ⁴					
			Gross Loan Portfolio (US \$)			# of Active Borrowers		
			2004 ⁵	2003	2002	2004	2003	2002
ABA	Non-Profit (NGO)	1983	12,860,373	8,971,071	8,393,594	49,642	40,041	43,256
Al Tadamun	Other	1996	1,266,676	831,668	493,734	11,028	9,232	7,203
CEOSS⁶	Non-Profit (NGO)	1950	1,400,893	885,486	N/A	12,896	7,136	N/A
DBACD⁷	Non-Profit (NGO)	1995	8,875,224	6,307,684	3,876,526	56,370	32,699	19,606
ESED⁸	Non-Profit (NGO)	1988	N/A	N/A	16,276,200	N/A	N/A	20,035
Lead Foundation	Non-Profit (NGO)	2003	3,208,890	1,089,153	N/A	39,375	12,730	513
SBACD⁹	Non-Profit (NGO)	1995	4,359,370	8,682,573	7,924,955	26,568	19,449	13,227

Source: MIX Market

TABLE 2: Performance Indicators for Banks Operating in Egypt

Name	Year MF program est.	Select Performance Indicators	
		Outstanding Portfolio (US \$)	# of Active Clients
		2004	2004
NBD	1987	N/A	19,000
Banque du Caire	2001	19,087,341.77	63,426

Source: "Banque Du Caire of Egypt: A State-Owned Retail Bank Case Study," USAID.

⁴ The chart above does not capture saving information because NGO MFIs are not allowed to mobilize savings.

⁵ All years indicate fiscal years.

⁶ Coptic Evangelical Organization for Social Services

⁷ Dakahlya Businessmen's Association for Community Development. In FY2005: gross loan portfolio = 9,690,056 and no. of active borrowers = 63,288.

⁸ Egyptian Small Enterprise Development foundation

⁹ Sharkeya Businessmen Association for Community Development

TABLE 3: International Funds Operating in Egypt

	Fund Name	Country of Incorporation	Fund Assets (US \$)	% of Fund Assets Allocated to MF Investments	# of Active MF Investments	Projected new Funds allocated to MF Investments
1.	Access Holding	Germany	1,280,000 (31/10/06)	16.80% (31/10/06)	1 (31/10/06)	4,450,000 (31/10/06)
2.	BIO	Belgium	- (30/06/04)	N/A (30/06/04)	16 (30/06/04)	- (30/06/04)
3.	Dexia Microcredit Fund	Luxembourg	125,916,120 (01/11/06)	72.11% (01/11/06)	100 (01/11/06)	- (01/11/06)
4.	Dignity Fund, L.P.	United States	5,400,000 (30/06/06)	92.59% (30/06/06)	4 (30/06/06)	3,000,000 (30/06/06)
5.	DOEN	Netherlands, The	64,674,337 (31/12/04)	95.25% (31/12/04)	13 (31/12/04)	20,300,850 (31/12/04)
6.	Gray Ghost	United States	75,000,000 (30/09/06)	100.00% (30/09/06)	16 (30/09/06)	- (30/09/06)
7.	MicroVest I	United States	24,230,000 (30/09/06)	93.15% (30/09/06)	25 (30/09/06)	7,500,000 (30/09/06)
8.	Oikocredit	Netherlands, The	304,242,000 (31/12/05)	41.47% (31/12/05)	219 (31/12/05)	82,475,000 (31/12/05)
9.	responsAbility Fund	Luxembourg	94,022,726 (31/12/06)	91.59% (31/12/06)	114 (31/12/06)	- (31/12/06)
10.	Rockdale	United States	8,262,477 (31/12/02)	9.35% (31/12/02)	7 (31/12/02)	760,000 (31/12/02)
11.	St. Honore Microfinance Fund	Luxembourg	15,874,783 (01/08/06)	53.54% (01/08/06)	6 (01/08/06)	15,000,000 (01/08/06)
12.	USAID Credit Guarantees	United States	- (30/09/04)	N/A (30/09/04)	25 (30/09/04)	- (30/09/04)

Source: MIX Market

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