Building Resilience Through Digital Financial Services

Africa COVID-19
Digital Finance Market Impact Series

Egypt

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavours to share the insights gathered through this work.

With a 95%[1] mobile phone and 90%[2] smartphone adoption rate, a flourishing fintech sector and government regulation and initiatives to build a cashless society, **Egypt** is well positioned to grow its status as a fintech leader in the Arab World. However, despite impressive progress in building its DFS ecosystem since 2019, many fintech solutions are designed for Egyptians who are already financially included. With a strong cash culture and minimal DFS uptake in rural areas, there is a financial exclusion rate of 44 percent among Egyptians 16 years and older.[3]

IFC identified an opportunity exists to leverage mobile phone technology to build digital financial literacy and trust in DFS among underserved and financially excluded segments.

EGYPT: KEY COUNTRY STATISTICS

109.3 million
Population

15% growth
in ICT sector
(2019/2020 fiscal year)

US $404 billion
GDP

72%
Internet penetration

44%
Financial Exclusion rate

Phone ownership:
95% Mobile
90% Smartphone

Sources: WBG 2021

Sources:
1 *Statista, Quarterly penetration rate of mobile phones in Egypt, 2021*
2 *Data Reportal, Digital 2020: Egypt, 2020*
3 *This financial exclusion figure is from the Central Bank of Egypt, referenced in their March 2022 Fintech landscape report. The 2017 Findex has a higher financial exclusion figure of 67%.*

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IMPACT OF THE COVID-19 PANDEMIC

The Covid 19 pandemic intensified existing economic challenges in Egypt and resulted in new ones. The slowdown in economic growth, reduced tax revenues and increased spending on health and social protection negatively affected the country's fiscal targets and external balances. There was also a drop in foreign currency, largely due to a decrease in tourism, Suez Canal revenues and remittances from the oil-exporting countries of the Gulf Cooperation Council. Many businesses were affected by shocks to supply and demand, which was particularly felt among informal firms and workers. This resulted in an increase in unemployment from 8 percent prior to the pandemic to 9.6 percent by Q2-2020.[4]

The pandemic, however, also highlighted the importance of information and communication technology (ICT) for remote work and education, highlighting a clear need for the country to develop a faster and more reliable internet service.

Measures by banks, MFIs and Government to mitigate effects of Covid-19

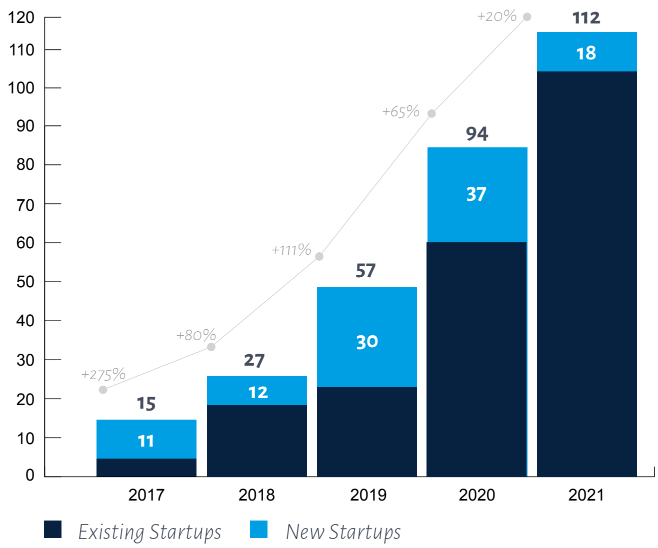
• Central Bank of Egypt reduced policy interest rates by 400 basis points (deposit rate cut from 12.25 to 8.25 percent). • Increased access to credit at preferential interest rates and introduced a six-month debt moratorium on existing credit. • The hard hit tourism, agriculture and construction industries received access to credit at preferential interest rates.	• Central Bank's SME initiative, launched in 2020 included payment deferrals for a further six months to the tourism sector and other distressed firms with loans of under EGP 10 million. Bank loan portfolios that must be allocated to SMEs increased from 20 to 25 per cent. (IMF, 2021) • To ease transactions, the limits on electronic payments via mobile phones were raised and ATM withdrawal fees were cancelled (Raman, IMF, 2021)

DFS MARKET OVERVIEW

In 2014, there were only two fintech start-ups operating in Egypt, by 2021 this number had grown to 112. Altogether $250 million was invested in the domestic fintech industry from 2016 to 2021, with a 300 percent increase of $159 million in 2021 alone.[5] The Central Bank of Egypt remains a key enabler in expanding the use of DFS, and launched a new open banking system in March 2022. This facilitates immediate transfers and payments between account holders of participating banks. The Central Bank waived transactions fees until June 2022 to incentivize use and 10 banks have already joined the open banking system. Beyond infrastructure, the government pushes payments to digital platforms. In September 2021, a law went into effect requiring most payments (salaries, insurance, bill payments, government to person) to be made digitally.

The government is the key driver of growth in ICT and DFS, while the Central Bank is an active regulator ,dedicated to closing the financial inclusion gap. This is evident in the government's support of the fintech sector and several regulatory initiatives since 2017 that aim to make DFS mandatory and more accessible to financially excluded Egyptians.

Figure 1. Evolution of Fintech Startups, number of existing and new startups



Source: Central Bank of Egypt, Fintech Landscape Report, 2021

Policy and Strategic Initiatives	Key Developments	Legal and Regulatory
• Central Bank introduced simplified know-your-customer (KYC) requirements for mobile wallets and allowed unregistered micro entrepreneurs to open bank accounts.	• Meeza card, introduced in 2019, has propelled prepaid card adoption with 23 million cards issued so far, of which 10 million are active.[6] • Farmer Smart Card, launched in 2017 to digitize farmer data, allow farmers to pay for inputs digitally, and eventually access finance. As of August 2021, three million Farmer Smart Cards were issued with one and a half million actively used.[7]	• The Cashless Transaction Law (2021) requires salaries, loans, donations, subsidies, rent or land expenses, government payments and insurance premiums to be paid digitally. Failure to do so results in a fine. • Central Bank of Egypt released an updated version of the Mobile Payments Regulation in 2021 to include wallet and transaction limits for mobile wallet transactions.

Sources:

4 *World Bank Group, Country private sector diagnostic, Realizing the full potential of a productive private sector, December 2020*
5 *Central Bank of Egypt, Egypt Fintech Landscape Report, 2021*
6 *Key Informant Interviews, 2021*
7 *Alahy Gate, "Only 48% of farmers received a "farmer card," 2021*

DFS SUPPLY

Banks	Microfinance Institutions	Mobile Money
• 38 licensed banks. • Three of the five largest banks are state-owned (National Bank of Egypt, Banque Misr and Banque du Caire). • Mobile wallets can be accessed via smartphone applications and are regulated under the mobile payments regulation. • Users can link their bank accounts to deposit money or use ATMs, fintech agent points, or bank branches. • Users can generate temporary virtual cards through their mobile wallets to pay for goods and services online.	• Total of 1,010 MFIs operating 3,070 branches. • 3.3 million clients, many of whom were previously financially excluded. • 62 percent of clients are women. • Offer a range of financial and nonfinancial services such as loans, financial literacy training, and technical skills training. • Cashless Transaction Law requires all MFIs to digitize their loan disbursement and collection, however barriers remain.	• Mobile money is offered by Vodafone, Orange, Etisalat, and Telecom Egypt. • Vodafone holding a 65 percent market share19. • Person-to-person (P2P) transfers are the most common transactions with 35.2 million transfers made in the first half of 2021. • Mobile money operators also provide bill payments, airtime top-up, facilitate donations, offer QR code payments, issue temporary virtual cards to make online payments, and CICO at ATMs, telecommunications stores and Fawry/ Masary CICO agent points.

GAPS AND CHALLENGES

Egypt has a vibrant DFS and FinTech market, regulated by a government that is prioritizing financial inclusion through digitization.

Despite having only 3 percent farmable land, Egypt is a major global agricultural player with top exports in oranges, onions, tomatoes, and potatoes. Smallholder farmers (SHFs) represent the backbone of Egypt's agricultural economy but lack:

1. access to information,
2. access to market, and
3. access to finance.

SHFs are the major agricultural players in Egypt and are largely excluded from the formal financing sector. Women also face constraints to digital financial inclusion and economic empowerment.

Financial literacy remains a key barrier to closing Egypt's financial inclusion gap. Other challenges include:

1. A strong cash culture,
2. Minimal uptake of DFS in rural areas,
3. Lack of products targeting the needs of financially excluded people.
4. Issuance of smart cards for payments face low usage from both clients and vendors.
5. Lack of ATMs, banking branches and overall infrastructure in rural areas.

- A strong cash culture,
- Minimal uptake of DFS in rural areas,
- Lack of products targeting the needs of financially excluded people.

RECENT IFC WORK TO ENHANCE DFS IN EGYPT

Recently completed and active projects include:

- DFS and Agri market assessment
- Mozare3 upstream project ($793,000 with $300,000 equity right)
- Egypt MSME 2.0 which provides new financial technology and data to increase MSME Finance through a Loan Matching Marketplace e-Platform (MSME LMMeP) including the automation of pre-approval process, using alternative data and scores, + oversight. Modules for the platform include bidding, loan origination, alternative scoring and educational chatbots.
- Part of a project to facilitate access to finance to MSMEs and women entrepreneurs included working with the Dakahlya Businessmen' Association for Community Development (DBACD) to strengthen its lending methodology, risk and internal audit functions, and to enhance institutional capacity on DFS and transformation.

OPPORTUNITIES FOR MARKET GROWTH

To further Egypt's opportunities for DFS growth, IFC's future activities include:

- Focusing on financial institutions and governmental support to scale adoption of digital financial services.

Business development activities:

- Enhance digital financial services among key clients.
- Support MFIs in matchmaking with fintechs, or in creating digital MFI wallets.
- Regulation allowing for agency banking and mobile money agents.
- Identify other players in the agri value chains to digitize payments.

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