

Market Bite Egypt

*Growth in Digital Financial Services
Still to Increase Financial Inclusion*

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01

Executive Summary

Egypt's Digital Finance Sector is Diverse and Growing

Egypt's digital finance transformation began in earnest in 2019 when the government launched several initiatives to build a cashless society and foster a competitive domestic financial technology (fintech) sector. By issuing regulation that mandates the use of digital financial services (DFS) and supporting the fintech industry through a sandbox, hub and \$63.5 million fund, Egypt has positioned itself as one of the region's fintech leaders. Among the 22 Arab world countries¹, an estimated 75 percent of fintech innovations are found in six countries, with Egypt third behind the United Arab Emirates and Morocco².

Despite progress in building the DFS ecosystem, however, many of the fintech solutions are designed for Egyptians who are already financially included. The increase in DFS product offerings and usage has not, so far, closed the financial inclusion gap for some marginalized groups. A strong cash culture, minimal uptake of DFS in rural areas, low digital financial literacy, and a lack of products targeting the needs of financially excluded people contribute to a financial exclusion rate of 44 percent of Egyptians 16 years and older³.

To understand Egyptians' financial needs, preferences, perceptions and habits, IFC conducted a survey of about 2,000 respondents in 2021, capturing data from four categories: micro, small and medium enterprises (MSMEs), female headed households⁴, smallholder farmers, and youth. The survey data shows that 95 percent of Egyptians still make everyday payments and receive their salaries in cash. Furthermore, 30 percent of survey respondents do not know what a mobile wallet is, and 22 percent have never heard of basic financial products such as loans or savings accounts. Lack of awareness is highest among female headed households, with only six out of 10 aware of basic financial products.

Government efforts to digitize agricultural value chain payments are primarily led by the Ministry of Agriculture and Land Reclamation. In 2017, the Ministry in collaboration with the Agricultural Bank of Egypt launched the Farmer Smart Card – a prepaid card farmers can use to purchase inputs, develop digital identities, and eventually access finance. Still, the use of cash is nearly ubiquitous among surveyed

smallholder farmers, in line with the overall population where 98 percent receive payments in cash and 99 percent pay for farm inputs in cash.

Despite these challenges, Egypt is well positioned to make the transition from a cash dominated economy to a digital one. High mobile phone adoption (95 percent)⁵ and high smartphone penetration (90 percent)⁶ together with a flourishing fintech sector show promise for digital transition. In 2014, only two fintech startups were operational in Egypt, but by 2021 there were 112 (including early-stage startups). From 2016 to 2021, \$250 million was invested in the domestic fintech industry. In 2021 alone, investment in the fintech sector increased 300 percent to a total of \$159 million⁷.

The Central Bank of Egypt continues to be a key enabler in expanding the use of DFS. In March 2022, the Central Bank launched a new open banking system that facilitates immediate transfers and payments between account holders of participating banks. Ten banks have already joined the open banking system, allowing their customers to perform banking operations after hours. The Central Bank waived transactions fees until June 2022 to incentivize use.

Beyond infrastructure, the government is also pushing 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. Payees who continue to use cash for these transactions are subject to a fine. While the mandate is a key component of the government's DFS agenda, implementation poses challenges particularly for underserved and financially excluded segments.

Reaching Egypt's financially excluded population will require additional investments in building digital financial literacy and trust in DFS. Key priorities include increasing mobile wallet and payment transaction limits to encourage meaningful adoption, adopting agent banking legislation, broadening both the number and gender diversity of cash-in-cash-out (CICO) agent points, leveraging existing distribution networks of trust to deliver DFS, and supporting the creation of products to specifically meet the needs of financially excluded people.

¹ Arab World (League): Algeria, Comoros, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Palestine, Somalia, Sudan, Syria, Tunisia, and Yemen. Including 6 Gulf Cooperation Council Members: Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Bahrain, and Oman.

² CGAP, *Fintechs across the Arab World*, December 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% and IFC survey findings indicate a financial exclusion rate of 65% but the methodology differ between the three studies and the figures are not necessarily directly comparable

⁴ Female headed households are defined here as women who are single, divorced or widowed

⁵ Statista, *Quarterly penetration rate of mobile phones in Egypt*, 2021

⁶ Data Reportal, *Digital 2020: Egypt*, 2020

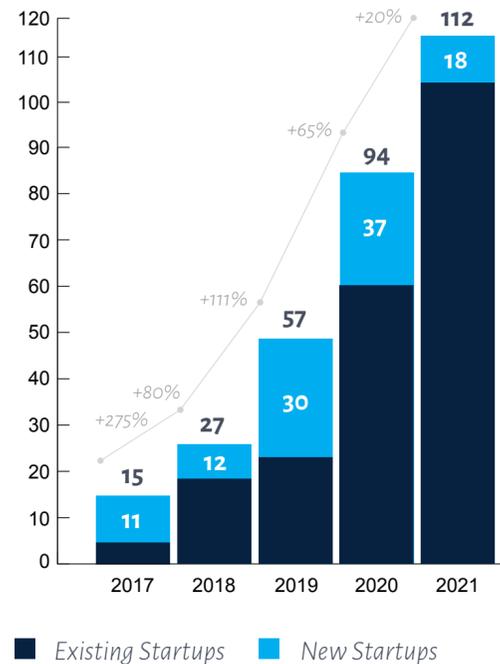
⁷ Central Bank of Egypt, *Egypt Fintech Landscape Report*, 2021

02

Enabling Environment

Government and Central Bank are Proactive Champions of Digital Finance

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



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

⁸ International Trade Administration, Egypt - Country Commercial Guide, 2021

⁹ Exchange rates as of June 9, 2022

¹⁰ Key Informant Interviews, 2021

¹¹ Alahy Gate, "Only 48% of farmers received a 'farmer card,'" 2021

¹² Central Bank of Egypt, Egypt Fintech Landscape Report, 2021

The government is the key driver of growth in information and communication technology (ICT) and DFS, and the Central Bank of Egypt 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, aiming to make DFS mandatory and more accessible to financially excluded Egyptians. Egypt's ICT sector grew 15 percent in the 2019/2020 fiscal year, exceeding the country's overall GDP growth rate of 3.6 percent⁸.

The Cashless Transaction Law, passed in 2019, and in effect since September 2021, requires salaries, loans, donations, subsidies, rent or land expenses, governmental payments, and insurance premiums to be paid digitally. Failure to comply results in a fine of not less than 2 percent and not exceeding 10 percent of the total value of the cash payment, with a cap of 1 million Egyptian pounds (\$53,525 as of June 2022).

In 2021, the Central Bank of Egypt released an updated version of the Mobile Payments Regulation that includes wallet and transaction limits for mobile wallet transactions at 100,000 pounds (\$5,355) and 30,000 pounds (\$1,606) respectively⁹. The Central Bank also introduced simplified know-your-customer (KYC) requirements for mobile wallets and allowed

unregistered micro entrepreneurs in the informal sector to open bank accounts with lower account limits and transaction limits than full financial wallets.

A key element to achieving the cashless transaction vision is the Meeza card, which the government introduced in 2019. Meeza is a highly accessible prepaid or debit card (the prepaid version is more popular) available to any Egyptian with a national ID and access to a bank branch. The Meeza card has propelled prepaid card adoption since its introduction in 2019 with 23 million cards issued so far, of which 10 million are active¹⁰. All public sector employees are receiving their salaries through the Meeza card.

The agricultural equivalent to the Meeza card is the Farmer Smart Card, which launched in 2017 in an effort to digitize farmer data, allow farmers to pay for inputs digitally, and eventually access finance through the development of a new agricultural marketplace called e-Aswaaq Misr. The Farmer Smart Card is primarily used in the field crop value chains where the Ministry of Agriculture and Land Reclamation plays an important role in input distribution through cooperatives. As of August 2021, three million Farmer Smart Cards have been issued and one and a half million are actively used¹¹.

In 2019, the Central Bank of Egypt launched a suite of support services for the fintech sector, including:

1. **Fintech sandbox**, which allows selected companies to test new business models not currently authorized due to regulatory requirements or uncertainty. The Central Bank of Egypt launched its first cohort in 2019 focusing on innovation for e-KYC and the remote opening of mobile wallet accounts.
2. **Fintech fund**, which is a 1 billion Egyptian pounds (\$53.5 million as of June 2022) investment vehicle to support fintechs by public banks, including the National Bank of Egypt, Banque Misr, and Banque du Caire.
3. **Fintech hub**, opening in 2022, is a physical space in downtown Cairo that provides office space, conference rooms, and auditoriums to host fintech startups from Egypt and across the region.

Accordingly, the fintech sector is growing and attracting investment. The number of fintechs has increased from two in 2014 to 112 in 2021 (including early stage startups), as seen in figure 1¹². Egyptian fintechs are securing increasing levels of investment from across the Arab world (e.g. MNT - Halan raised

\$120 million in 2021)¹³. The most popular category is payment processors and aggregators that allow enterprises to receive online or in-store payments, or allow individuals to pay for goods and services, utilities, government payments, and similar.

Most fintechs, however, are creating products targeted at financially included Egyptians who use smartphones and have access to reliable connectivity. Per desk research analysis in 2021, only 28 percent of Egyptian fintechs sought to drive financial inclusion¹⁴. Lending fintechs were the most likely to have a financial inclusion focus (41 percent).

Fintechs are the only entities in Egypt that operate CICO agent points, under a Central Bank regulation that describes the terms and conditions for fintechs using point of sale devices to process transactions¹⁵. While there is no regulation that explicitly prohibits banks or mobile money providers from operating CICO agent points, they are unwilling to establish CICO agents without expressed authorization from the Central Bank. Egypt's limited authorization of CICO agents is unusual and the market anticipates that the Central Bank will release regulation allowing banks to operate CICO agent points.

All mobile money operators and some banks, have agreements with the fintech operated CICO agents to facilitate CICO services for their customers through interoperable point of sale devices. The market leaders in CICO agent networks are Fawry, Masary, Aman and Paymob.



Most fintechs, however, are creating products targeted at financially included Egyptians who use smartphones and have access to reliable connectivity.

¹³ Reuters, Egyptian Fintech MNT Halan secures \$120M investment, 2021

¹⁴ A financial inclusion focus is defined here as a service that can be accessed without having a financial account or an expressed mandate to reduce the financial inclusion gap

¹⁵ Central Bank of Egypt, <https://www.cbe.org.eg/en/Pages/HighlightsPages/Regarding-interoperability-cash-in-and-out-services-for-agents-regulations.aspx>

03

Supply of DFS

Regulatory Pressure to Digitize Set to Grow Market

Banks

With 38 licensed banks, Egypt has the largest and most stable banking sector in the Arab world¹⁶. Three of the five largest banks are state-owned (National Bank of Egypt, Banque Misr and Banque du Caire).

Across the three surveys, Banque Misr and the National Bank of Egypt are overwhelmingly the most popular among banked respondents, with 48 percent holding a financial account with the former and 47 percent with the latter. Bank accounts (current and savings) were the most popular type of financial account for household survey respondents, representing 90 percent of all accounts owned (figure 2).

DFS offerings from banks are primarily used for cards (debit, prepaid and credit), online banking, and mobile wallets. The mobile wallets offered by banks are regulated under the mobile payments regulation. Banks' mobile wallets can be accessed via smartphone applications only (not through USSD, which is still relevant to some rural populations, those who are less financially and technologically included, and as a back-up solution in areas with poor connectivity). Users can link their bank accounts to deposit money or use ATMs, fintech agent points, or bank branches. Users can also generate temporary virtual cards through their mobile wallets to pay for goods and services online.

Household respondents indicated higher trust levels with banks versus mobile money providers, with 23 percent trusting banks much more, 32 percent trusting banks somewhat more, 8 percent trusting both equally, and 16 percent unsure. Despite this, most households surveyed (56 percent) believe there are no advantages to obtaining a loan from a bank due to expensive/high interest rates (34 percent), time-consuming processes (32 percent), and collateral requirements (27 percent).

Microfinance Institutions

Egyptian MFIs serve 3.3 million clients, many of whom were previously financially excluded and live in rural areas, are low-income households, smallholder farmers, youth, women (62 percent of MFI clients), and micro-enterprises. They are non-deposit taking institutions and offer a range of financial and non-financial services such as loans, financial literacy training, and technical skills training. There is a total of 1,010 MFIs in Egypt, operating 3,070 branches. MFIs provide financing to four key sectors including trade (65.3 percent), agriculture (16.1 percent), services (12.42 percent), and industry (6.8 percent)¹⁷.

As part of this assessment, IFC engaged with nine MFIs to better understand their challenges and the opportunities in delivering DFS. On average, 74 percent of their customer accounts are inactive. Women

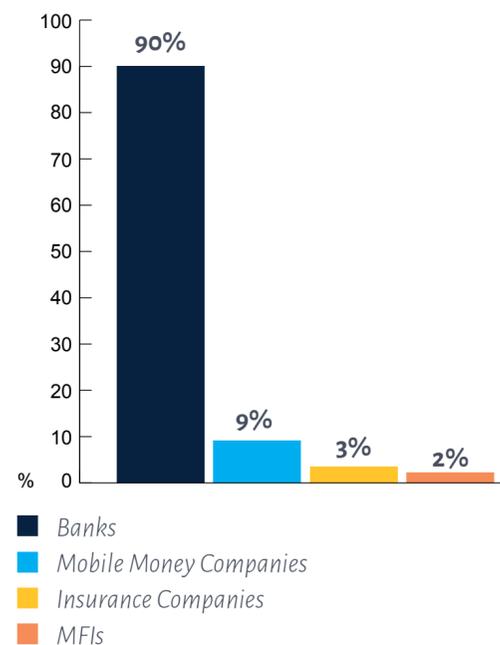
represented 39 percent of their total active and inactive customer count on average. Their portfolios ranged from 2 - 400 million pounds (\$106,918 - \$21.4 million¹⁸) with typical annual percentage rates (APRs) ranging from 18 to 24 percent.

With the enactment of the Cashless Transaction Law, Egypt now requires all MFIs to digitize their loan disbursement and collection. Only four of the MFIs engaged in this study were offering DFS for loan collection and disbursement through the Meeza card. Three organizations have recently signed agreements with fintech companies to transition their loan payments from cash payments to digital.

The primary barriers to digitization cited by the MFIs included:

- Mobile wallet daily transaction limits require clients to visit CICO points multiple times in the week to cash out their full loan value.
- Smart Card adoption and usage is minimal among both clients and vendors.
- Low digital financial literacy among clients and limited digital capacity of some MFIs.
- Lack of CICO infrastructure in rural communities (ATMs, CICO agent points).

Figure 2. Account Type, Households, % of banked respondents

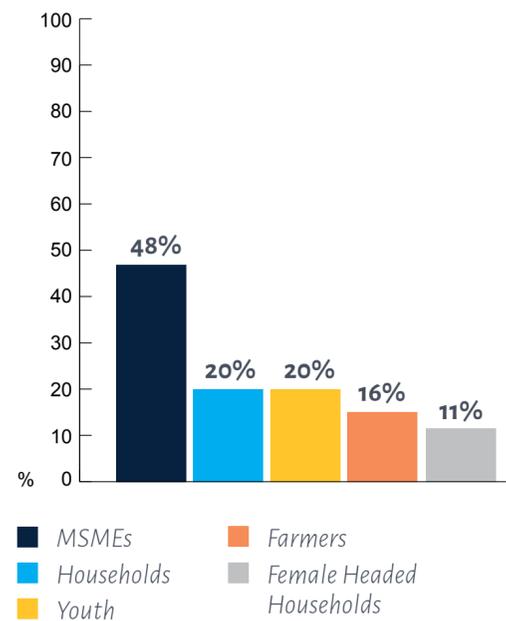


¹⁶ Oxford Business Group, *Egypt Financial Services COVID-19 Recovery Roadmap*, May 2021

¹⁷ Financial Regulatory Authority, *Website*, 2021

¹⁸ Based on exchange rate in June 2022

Figure 3. Mobile Money Users by Survey Category, % of respondents



19 National Telecom Regulatory Authority, NTRA issues its 2021 Sem-Annual Report on usage indicators of mobile wallets provided by telecom operators, August 2021
 20 Daily News Egypt, Mobile wallets increase to 16.3 million in Egypt in H1 2021: Telecom Regulator, August 2021
 21 Based on exchange rate in June 2022

The MFIs also indicated several opportunities for measures to support digitization, including:

- Allowing MFIs to issue Meeza cards rather than relying on bank branches, to create more convenient access points for rural Egyptians to register for prepaid cards.
- Allowing MFIs to register informal micro enterprises through a digital process.
- Expanding digital financial literacy education and awareness.

Mobile Money Operators

The Egyptian mobile money industry has witnessed significant year-on-year growth. In the first half of 2021, there were 16.3 million mobile money accounts and 81 million mobile money transactions – an increase of 175 percent from the same period in 2020. Mobile money is offered by the four licensed telecommunications providers in Egypt: Vodafone, Orange, Etisalat, and Telecom Egypt. Vodafone is the mobile money market leader holding a 65 percent market share¹⁹.

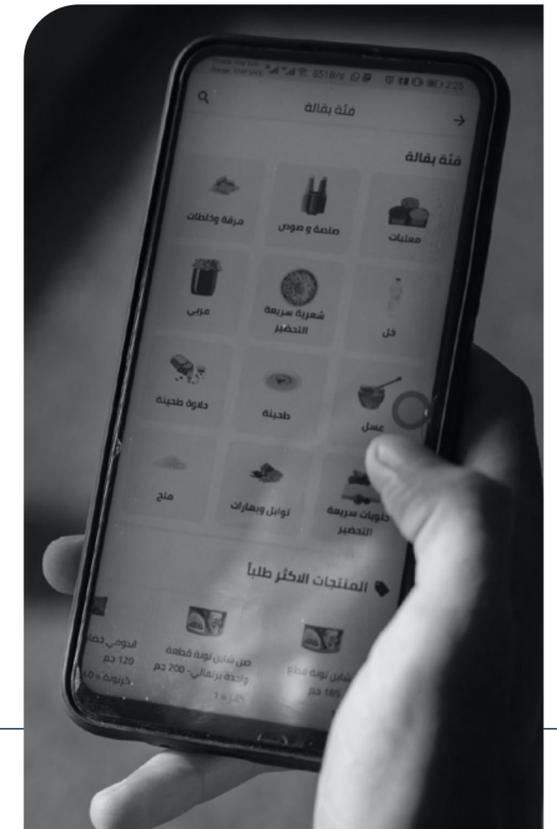
Across all surveys, 23 percent of respondents had a mobile money account. In addition, 40 percent of all survey respondents used Vodafone as their mobile network provider and of those that did have a mobile money account, 58 percent had Vodafone Cash,

followed by Etisalat Cash (23 percent) and Orange Cash (16 percent).

Person-to-person (P2P) transfers are the most common mobile money transactions with 35.2 million transfers made in the first half of 2021, a 300 percent increase from the same period in 2020. The average transaction value for mobile money transfers in 2021 was 1,203 pounds (\$64) while the average deposit value was 1,580 pounds (\$84)^{20 21}.

In addition to P2P transfers, mobile money operators 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.

Across all surveys, there was low adoption of mobile money (figure 3). Of all respondents, 37 percent agree somewhat that mobile money makes it tempting to spend money and hard to save, followed closely by 32 percent who neither agree nor disagree, and 20 percent who somewhat agree. To grow DFS will require a shift in this mentality through greater digital financial literacy and in innovations around digital savings products such as automated savings or savings by goals.



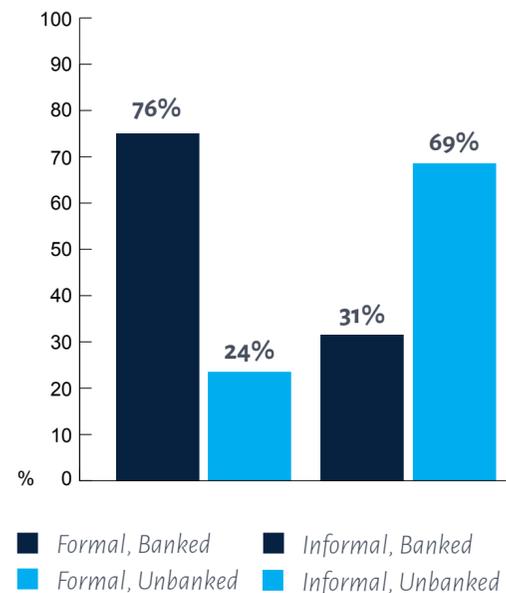
Across all surveys, 23 percent of respondents had a mobile money account.

04

Demand for DFS

Financial Literacy is a Key Barrier to Closing Financial Inclusion Gap

Figure 4. Banked And Unbanked MSMEs by Level of Formality, % of respondents



■ Formal, Banked ■ Informal, Banked
■ Formal, Unbanked ■ Informal, Unbanked

22 The methodologies differ between the three different studies and the headline numbers are therefore not necessarily comparable

23 PwC, *Shedding light on Egypt's Shadow Economy*, 2019

24 *Egypt Today, Total output of MSMEs hits LE1.2T: CAPMAS*, 2020

25 *European Commission, Micro, Small and Medium Enterprise Promotion Programme*, 2018

26 *Central Bank of Egypt, Circular dated 22 February 2021 regarding some amendments on the MSME initiative*, 2021

Across all three surveys, 65 percent of respondents do not have a bank account. This is closely aligned with the 2017 Findex data showing that 67 percent of Egyptians are financially excluded, but higher than the Central Bank of Egypt's 2021 financial exclusion rate of 44 percent²². Across all IFC surveys, 77 percent of respondents do not have a mobile money account.

Survey data demonstrates a gender gap in both bank and mobile money account ownership. There is a 6-percentage point difference between men and women in bank account ownership with 37 percent of men banked versus 31 percent of women.

Despite low levels of financial inclusion, Egyptians are digitally included. Mobile phone adoption across all surveys is high, with 98 percent of respondents owning a mobile phone and 20 percent indicating feature phone adoption. There is a four-percentage point difference between smartphone ownership for men and women based on data across all three surveys, with 77 percent of women owning smartphones compared with 81 percent of men.

Digital financial literacy, however, remains a crucial barrier for both men and women. Survey data demonstrates that 22 percent of Egyptians have never heard of basic financial products such as insurance, credit and savings. For female-headed

households this figure nearly doubles to 40 percent. E-wallet awareness is even lower, with 35 percent of all households unaware of what an e-wallet is. This figure jumps again for female-headed households, of which nearly half (49 percent) were unaware. Even among youth (who are generally assumed to be more technologically literate), 34 percent were unaware of e-wallets.

MSMEs

Informal and formal micro, small and medium enterprises are estimated to account for 70 to 80 percent of Egypt's GDP²³. The total number of formally registered MSMEs in Egypt as of the latest CAPMAS fiscal census (2017/2018) is 3.65 million, employing 9.7 million people. Most of these are micro enterprises²⁴. Informal enterprises are the most common form of MSMEs and are estimated to represent about 90 percent of Egypt's MSMEs²⁵.

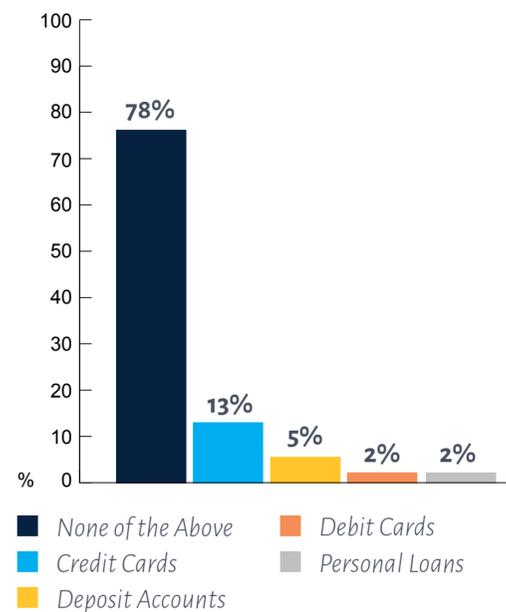
Of the MSMEs surveyed by IFC for this report, 44 percent operate in the informal sector. Surveyed micro enterprises are more likely to be in the informal sector, with 66 percent of all micro enterprises in the survey identifying as informal. Business owners in the formal sector are significantly more likely to have bank accounts than business owners in the informal sector, as shown in figure 4. The majority (76 percent)

of business owners in the formal sector are banked, while only 31 percent are in the informal sector.

The Central Bank of Egypt requires banks to provide financing to MSMEs. In 2016, the Central Bank issued a circular requiring all commercial banks to dedicate 20 percent of their lending portfolio to MSMEs in four years, at a reduced interest rate of 5 percent. In February 2021, the Central Bank issued an updated circular increasing the required funding of MSMEs by banks to 25 percent of their loan portfolio by December 2022. Banks can meet the circular requirement by providing direct financing to MSMEs or through MFIs. Small enterprises alone should represent at least 10 percent of banks' lending portfolios. The circular further states that banks are required to design their own behavioral credit scoring models and not purely rely on financial statements for businesses with annual sales less than 20 million pounds (\$1.07 million)²⁶. Of the MSMEs surveyed however, 74 percent did not borrow money from either informal or formal sources. Of those that did, banks were the most popular sources of financing followed by family and friends.

MSMEs were the segment most likely to be digitally financially included and aware, compared with the other survey categories (female headed households and farmers). Despite this, 92 percent of MSMEs are

Figure 5. Female-headed Households' Usage of Financial Products, % of respondents



still receiving payments for their goods and services in cash. More than half (64 percent) however expressed readiness to use DFS, thus indicating a strong opportunity to advance DFS for merchant payments.

Female Headed Households

Despite gender parity in the population, there is a 12-percentage point gender gap in financial inclusion with 27 percent of women financially included compared with 39 percent of men²⁷. There is an estimated \$283 million unmet credit demand from female-owned businesses²⁸. Women have low labor force participation rates, representing only 23 percent²⁹ of the labor force and 7.4 percent³⁰ of managers in Egypt. Assuming female employment at parity with male, there would be an estimated 34 percent increase in GDP³¹.

The government is supporting increased financial inclusion among women by, for example, backing Banking on Change which seeks to scale savings groups across Egypt. Recognizing that savings groups can act as the first point of entry to financial services for women, the program leverages savings groups to promote women's entrepreneurship and savings. The program formalizes savings groups and connects them with banks to build a credit history and become more independent. Under a sandbox structure,

Vodafone Cash designed a digital group savings wallet to pilot among 2,100 women in the program. The CBE is scaling the initiative in collaboration with international non-governmental organization CARE with the goal of reaching millions of women³².

Close to 80 percent of the female-headed households surveyed by IFC do not use any financial products. Credit cards were the most popular financial product among women (13 percent) followed by deposit accounts (5 percent), as shown in figure 5.

Altogether 40 percent of female-headed households indicated they somewhat agree that they are so used to cash that nothing can replace it, as compared with 36 percent of men. Female-headed households were also the segment most likely (66 percent) to indicate they were not ready to send or receive money using DFS. This, coupled with the fact that nearly half (49 percent) of female-headed households are unaware of what an e-wallet is, demonstrates the need for women-centric digital financial literacy campaigns.

Smallholder Farmers

Smallholder farmers are the backbone of Egypt's agricultural sector and control almost 35 percent of all agricultural land in Egypt³³. There is a total of 7.2 million small-scale farmers in Egypt, representing 87

percent of all agricultural landholders according to the latest agricultural census (2010). Of the farmers surveyed by IFC, 96 percent own their land.

Comparisons from the latest two agricultural censuses (1990 and 2010) show that the number of small-holder farmers operating on less than one feddan³⁴ has increased from 36 percent in 1990 to 48 percent in 2010³⁵. As the average land size shrinks, it significantly reduces the capacity of small-holder farmers to scale productivity and increase income.

Smallholder farmers face three primary challenges according to survey results: the cost of labor (41 percent), difficulty in finding customers (19 percent) and the inability to raise required capital/funds (18 percent). Of the farmers surveyed, 35 percent are banked, and 16 percent have a mobile money account.

Despite an indicated need for access to capital, 82 percent of farmers had not borrowed money in the past five years and 63 percent indicated they saw no advantages to obtaining a loan from a bank. Nearly half (49 percent) of farmers cited high interest rates as the primary disadvantage of formal financing, followed by time-consuming processes (39 percent) and collateral requirements (33 percent).

²⁷ World Bank, *Findex*, 2017

²⁸ *Daily News Egypt*, IFC, *Banque Misr sign Egypt's first women banking agreement*, 2018

²⁹ World Bank, *Unemployment, female*, 2015

³⁰ World Economic Forum, *Global Gender Gap Report, Insight Report*, 2021

³¹ Arab Women Enterprise Fund, *Gender-Smart Investing in MENA*, 2021

³² Alliance for Financial Inclusion, *Gender Savings Groups*, January 2021

³³ FAO, *Small-Scale Family Farming in the Near East and North Africa Region Focus Country: Egypt*, 2018

³⁴ One feddan = 1.03 acres or 0.42 Ha

³⁵ *Ibid*

However, banks were the most likely financial provider to be perceived as accessible and affordable among smallholder farmers. Of the 35 percent of farmers with a bank account, 45 percent had accounts at Banque Misr, 41 percent with the National Bank of Egypt, and 25 percent with the Agricultural Bank of Egypt.

MFI services are used by 6 percent of smallholder farmers surveyed, and 47 percent of surveyed farmers believe MFIs are both easy to access and, to some extent, trustworthy.

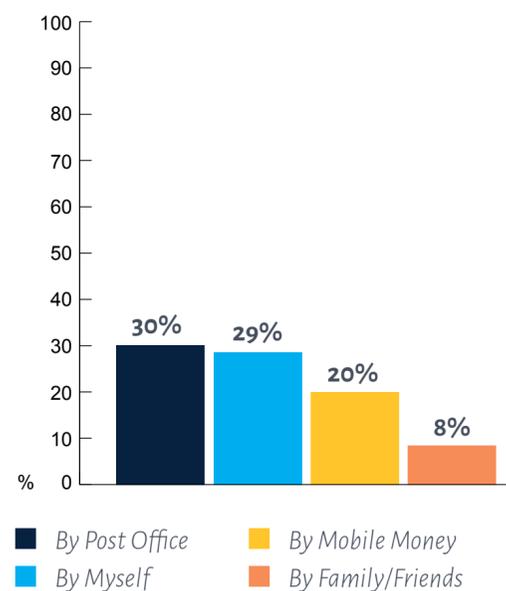
The most common way to send money among smallholder farmers is through the post office (30 percent), followed by “myself” (29 percent), mobile money (20 percent) and by family and friends (8 percent), as shown in figure 6. This demonstrates the relevance of Egypt Post as a key deliverer of DFS in rural areas. Most farmers save money in cash or gold which they keep at home (59 percent).

Awareness of the Farmer Smart Card is primarily limited to smallholder farmers who work in the grain value chains where the MALR plays an important role in input distribution. Altogether 85 percent of farmers use the smart card to receive inputs from the government, 22 percent do so to provide proof of land ownership, and 8 percent use the card to receive

subsidies. Of those smallholder farmers surveyed that are aware of the smart card, 34 percent actively use the card.

According to survey data, smallholder farmers are somewhat more likely to trust banks than mobile money operators (36 percent). Nearly half (47 percent) trust MFIs to some extent.

Figure 6. Most Common Way to Send Funds, % of farmers



The most common way to send money among smallholder farmers is through the post office.

Youth

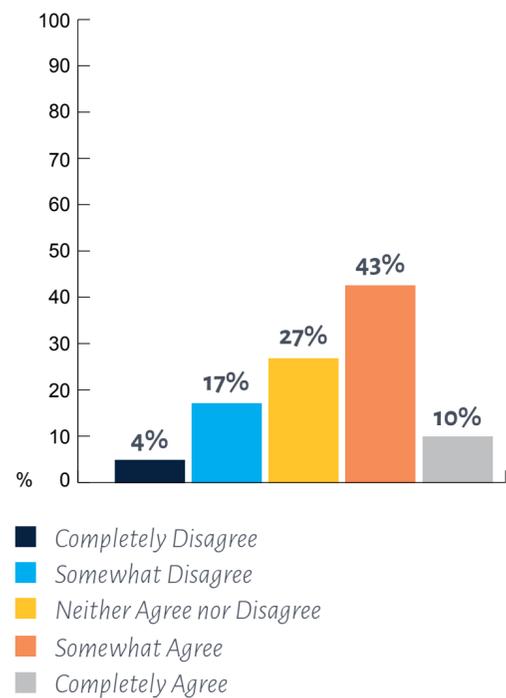
Youth, defined as people under the age of 30, represent approximately 60 percent of Egypt's population with 40 percent of the population between the ages of 10 and 29 years. For the purposes of this assessment, youth are defined as women and men between the ages of 16 and 25. A total of 277 youths were surveyed, of which the vast majority (81 percent) do not use any financial products or services.

Youth are also less likely to use deposit accounts, debit cards, credit cards, and personal loans than men and the total household sample. Of the youth that use financial products, the most popular products are credit cards (13 percent) and deposit accounts (4 percent).

Surprisingly, the surveyed youth represented the segment of the household survey (as compared to female headed households and general households) that somewhat agreed that the use of cash is so engrained in Egyptian culture that nothing can replace it (figure 7). This challenges a popular perception that youth are generally more receptive to DFS.

Digital financial literacy proved a barrier among the youth surveyed, with 34 percent of respondents unaware of what an e-wallet is and only 7 percent having used an e-wallet before. Over half, 52 percent, of youth indicated they would not be prepared to use mobile banking to send or receive money. This can be attributed to low digital financial literacy, trust, and/or the convenience of cash. Youth's preference for cash is further evident in their form of payment, 76 percent of whom receive their salaries in cash.

Figure 7. Youth: Do You Agree, "We are So Used to Paying in Cash, Nothing Can Replace It?,"%



Of the youth that use financial products, the most popular products are credit cards.

05

Recommendations and Opportunities

Egypt's market conditions are a conducive foundation to transition the country's cash-based economy to digital and advance financial inclusion. The 2019 Cashless Law is an important first step and its implementation must be accompanied by additional investments to build awareness, literacy, and interest in DFS, given the population's continued use of cash as the preferred mode of transacting.

Also central to the transition is the need to leverage existing networks of trust to deliver DFS, particularly for women, smallholder farmers and youth. This could include expanding savings groups and accelerating their digitization, viewing Egypt Post as a key enabler of DFS in rural areas, and supporting the recruitment of trusted community leaders as CICO agents. For smallholder farmers, in particular, access to DFS should be bundled with other services such as digital extension tools or insurance, to incentivize adoption.

i. Making it easier for financially excluded Egyptians living in rural areas to access formal financial services

Key finding: Rural Egyptians have few options to access financial services. Bank branch penetration is limited outside of urban and peri-urban locations, CICO agent points offered by banks and mobile money operators are not yet permitted, and the requirements to open a current or savings account at some banks may restrict rural and urban Egyptians who cannot provide proof of income or residence or meet the minimum balance requirements.

Opportunities:

- **Regulators:** Issue regulations allowing for non-exclusive agency banking, mobile money and fintech agents to scale the number of financial service access points across the country, particularly in rural areas..

- **Regulators and Commercial Banks:** Reduce or remove the minimum balance requirements for bank accounts to encourage low-income earners to open accounts.
- **Regulators:** Set incentives to encourage the deployment of CICO agents in underserved, rural areas to ensure equitable access to financial services outside the urban and peri-urban locations.
- **Regulators:** Expand and leverage Egypt Post's existing mobile post offices to reach rural Egyptians by establishing a set weekly schedule for visiting rural villages. Leverage Egypt Post as digital financial literacy champion and as agent locations, given the existing trust Egyptians have with Egypt Post and the breadth of their branches across the country.

ii. Catering to women's financial needs

Key finding: The persisting gender gap in women's access to financial services, regardless of their status as heads of household, needs to be addressed. Findex data shows that 39 percent of men have an account at a financial institution, compared with only 27 percent of women. Furthermore, survey findings demonstrate that female headed households are less likely than men to have mobile phones or use basic financial services and are more likely to lack digital financial literacy. There are currently no fintech solutions specifically catering to women. Women also have lower trust levels in DFS than men.

Opportunities:

- **DFS Providers:** Design products that are specifically tailored and marketed to meet the financial needs of women. The survey findings indicate that women could benefit from automated savings, automated insurance, and savings by goals.

- **DFS Providers:** Establish specific targets for female CICO agents. Cross-market data demonstrates that in some markets (as seen in India through Bank Sakhis) with socio-cultural norms around agency in financial services, women are more likely to use DFS if they are serviced by trusted agents.
- **Agribusinesses:** Encourage the digitization of wages in value chains where women are primarily engaged, such as in citrus farming and garment factories. This will improve women's agency over their income, which, in some value chains, is collected on their behalf by their male representative.
- **Regulators:** Continue to support the digitization of savings groups.
- **MFIs:** Deliver women-centric digital financial literacy through savings groups or other community groups.

iii. Creating opportunities and incentives for smallholder farmers through DFS

Key Finding: A transition to DFS for smallholder farmers will require clear incentives given the low adoption of DFS and the entrenched use of cash within agricultural value chains. Digital payments alone are often not enough motivation to sustain use of DFS beyond cashing out.

Opportunities:

- **DFS Providers and Agribusinesses:** Pilot value chain digitization between larger agribusinesses that have existing digital capacities and source directly from smallholder farmers (based on this assessment, this could be in the tomato, potato, and onion value chains). These payments could be made through Smart Cards, Meeza Cards or mobile wallets. Bundling these payments with digital extension services through agricultural production support services, driven by artificial intelligence (AI), can support potential improvement in yields.

- **DFS Providers:** Pilot solutions with mobile money providers, in collaboration with insurance companies, to allow automatic deductions of airtime to pay premium payments for crop or weather indexed insurance.
- **Financial Institutions and Regulators:** Create a farmer application as a companion to the farmer smart card that can support the centralization of the Ministry of Agriculture and Land Reclamation's data collection efforts. Through an API, the app can grant banks access to farmers' data that can be leveraged as collateral for loan facilities. The farmer app can also allow farmers visibility over their loan terms and payments due, and repayments can be made through the app.
- **DFS Providers and Off-Grid Energy Companies:** Pilot pay as you go solar solutions with irrigation capacity. Solar home systems have yet to take off in the Egyptian market. Piloting solutions that allow a combination of a solar home system unit with an automated irrigation system, and weather insights features, can provide smallholder farmers with a sustainable energy source to irrigate and manage water resources more efficiently. Repayment through mobile money would allow farmers to build a digital credit history.

iv. Supporting MSMEs through access to finance and formalization

Key finding: 90 percent of Egypt's MSMEs are in the informal sector, and most are unbanked micro enterprises that lack access to capital. MFIs are the primary organizations providing financing to this sector and have potential to influence financial inclusion if empowered to offer additional services. MFIs are struggling to meet the cashless transaction mandate, as a result of weak digital financial literacy among their customers, daily mobile wallet transaction limits, and limited digital capacity.

Opportunities:

- **Regulators:** Allow MFIs to issue Meeza and Farmer Smart Cards, to provide a more convenient opportunity for MSMEs to register for these services.

- **Regulators:** Create a digital business registration application for MSMEs that MFIs can use to register informal enterprises. Given their close relationships with informal enterprises, MFIs can offer a convenient location to register businesses and support complete registration applications.
- **MFIs:** Expand and scale the digital financial literacy training offered by MFIs.
- **MFIs and DFS Providers:** Support MFIs in partnering with fintechs to meet the cashless transaction mandate, or in designing a distinct MFI mobile wallet infrastructure accessible through USSD.
- **Regulators:** Increase the mobile wallet transaction limits for loan issuance to allow MFIs to issue larger loans, while complying with the digital transaction mandate.
- **Banks:** Design youth-specific products and promotions such as reducing the minimum balance requirements for account openings or providing rewards systems for youth-centric activities.
- **Universities:** Mandate the use of digital payments for goods and services at educational campuses, such as in cafeterias, bookstores, etc.
- **Fintechs and DFS providers:** Establish youth ambassadors who can educate and encourage their peers to sign up for DFS products and services, such as digitized savings groups or savings by goals.

v. Empowering Youth to Access Financial Services

Key Finding: Despite representing 60 percent of Egypt's population, our survey findings indicate that 81 percent of youth respondents do not use financial products or services. Surprisingly, youth were the segment of household surveys most likely to somewhat agree that the use of cash is so engrained in Egyptian culture that nothing can replace it. Furthermore, only 7 percent surveyed have used an e-wallet and over half (52 percent) indicated they would not be ready to use mobile banking to send or receive money.

Opportunities:

- **DFS Providers & Regulators:** Design a digital financial literacy campaign specifically targeting youth that can be facilitated and discussed in classrooms and universities. The curriculum could also be delivered through an app that uses gamification.

06

How the Research Was Done

A total of 2,018 Egyptians were surveyed in this assessment across 18 governorates in the four regions of Alexandria, Delta, Greater Cairo, and Upper Egypt. Three different surveys were conducted with households, MSMEs and smallholder farmers. Across all surveys, 713 traditional households, 568 farmers, 308 MSMEs, 277 youth and 152 female-headed households were engaged.

In this report, smallholder farmers are defined as farmers cultivating on land sizes of less than 3 feddan (acres) according to the FAO's definition of smallholder farmers in Egypt. Female-headed households are defined as women who are single, divorced, or widowed. Youth are defined as women and men between the ages of 16 and 25. Medium size enterprises are defined as businesses with 50-200 employees, small enterprises as businesses between 10-49 employees, and micro enterprises as businesses with less than 10 employees.

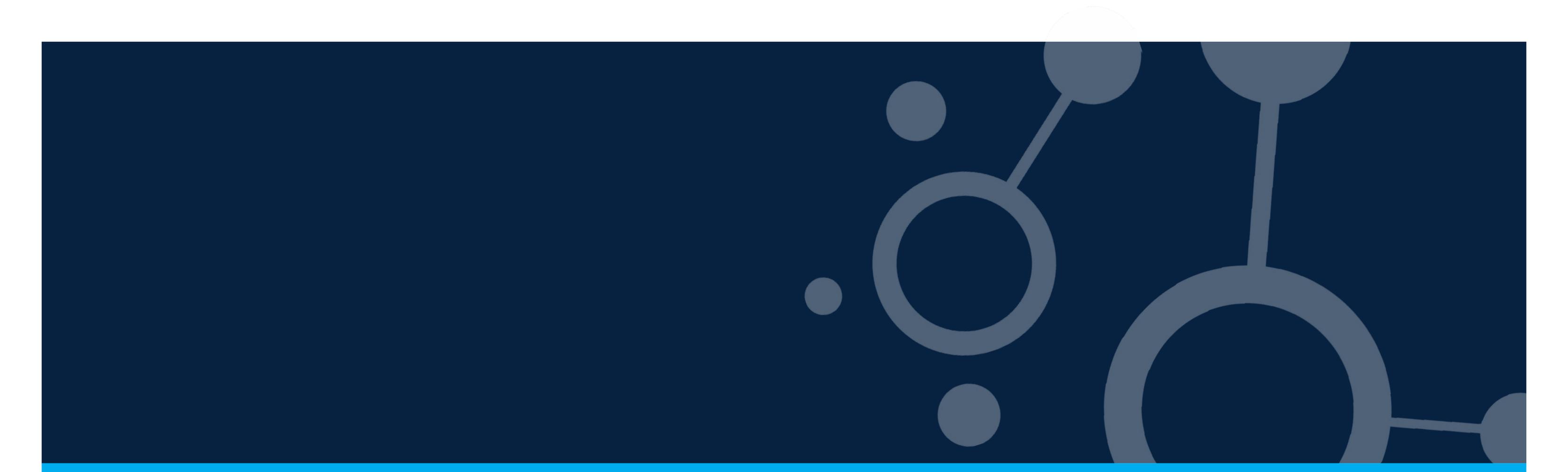
In addition to the survey, IFC conducted 42 interviews with stakeholders from financial institutions, fintechs, agribusinesses, development organizations and regulators. A comprehensive literature review of over 150 publications was also completed ranging from regulatory guidance, research publications, and reports.

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Acronyms

	DEFINITION
CAPMAS	Central Agency for Public Mobilization and Statistics
CICO	Cash In Cash Out
DFS	Digital Financial Services
Fintech	Financial Technology
IFC	The International Finance Corporation
KYC	Know Your Customer
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprise
SME	Small and Medium Enterprise
USSD	Unstructured Supplementary Service Data



IFC Market Bites

IFC Market Bites is a series of reports based on comprehensive market assessments conducted by IFC's Financial Institutions Group to provide market knowledge and support financial inclusion.

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