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Financial Inclusion in Egypt: Opportunities and Challenges

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FINANCIAL INCLUSION IN EGYPT: CHALLENGES AND OPPORTUNITIES

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List of Acronyms:

AFI	Alliance for Financial Inclusion
AML	Anti Money Laundering
AB	Agent Banking
ATMs	Automated Teller Machines
BNM	Bank Negara Malaysia
CBE	Central Bank of Egypt
CGC	Credit Guarantee Company
ENPO	Egyptian National Post Office
IMF	International Monetary Fund
GoE	Government of Egypt
MFI	Micro Finance Institutions
NCP	National Council of Payments
NPLs	Non-Performing Loans
FRA	Financial Regulatory Authority
FI	Financial Inclusion
OECD	Organization for Economic Cooperation and Development
SMEs	Small and Medium Enterprises
(SDGs)	Sustainable Development Goals
MSMEDA	Micro, Small, Medium Enterprises Development Agency
WB	World Bank

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FINANCIAL INCLUSION IN EGYPT: CHALLENGES AND OPPORTUNITIES

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Abstract

Financial inclusion in Egypt has been placed as a top priority on the government's agenda during the last few years as an integral part of Egypt's 2030 Vision. Financial inclusion could help Egypt with different aspects that include supporting Small and Medium Enterprises (SMEs), attracting the informal sector, increasing job creation, achieving sustainable growth, and realizing a higher level of financial stability. Despite the fruitful outcomes of financial inclusion, there are many supply and demand barriers that hamper the promotion of financial inclusion. Supply side barriers are closely related to the regulatory and legal constituents, and pitfalls of market structure. Demand side barriers are users' limited financial ability, low level of financial literacy, and cultural barriers. The regulatory bodies represented in the Ministry of Finance, Central Bank of Egypt, and Financial Regulatory Affairs have taken important practical steps in the different national policy levels to advocate for financial inclusion. The implemented policies targeted many segments of the financially excluded groups of individuals and SMEs. Despite the positive outcomes and good results in terms of financial inclusion level, the different stakeholders need to continue addressing the pitfalls and challenges that encounter achieving an inclusive financial system in Egypt. This research tries to address and pinpoint the different supply and demand side barriers, and analyze the different policies that the Government of Egypt (GoE) pursued throughout the last five years. Qualitative research approach was used in this study by conducting interviews with different stakeholders of financial inclusion. The study endorses the continuous role of the different regulatory bodies in targeting the financially excluded groups by creating a better regulatory and legal framework, introducing better market development practices, embarking on financial institutions capacity building to offer more tailored financial services and address the needs of the citizens and small businesses with limited or no access to financial services. Achieving financial inclusion in Egypt will take time to be progressed in reaction to tackling the supply and demand side barriers. Better financial inclusion could help Egypt in achieving part of its SDS 2030 vision.

Key Words: Financial Inclusion, Financial Development, Access to Finance, Supply Side Barriers, Demand Side Barriers, Inclusive Growth, Regulatory and Legal Framework, Micro Finance, Financial Market Development.

Chapter One: Introduction

1. Finance and Development

In a dynamic world, finance comes at the heart of development and growth framework. Many researchers showed that there is a direct relationship between financial systems and economic growth. Finance helps in information dissemination for investment, accumulating savings, smoothing trading businesses, enabling risk management, and increasing diversification of risk and reward (Blancher 2019; Levine, 2005).Demirgüç-Kunt, Klapper (2013) explained that formal financial services create privileges and enthusiasm for both individuals, entrepreneurs, and enterprises to produce new opportunities in different fields such as education, entrepreneurship, and Small and Medium Enterprises (SMEs).

As there is a continuous job creation, there is a high probability of enhancing the standard of living where the growth gap could be diminished by increasing access to finance (Ayyagari et al., 2014). According to Demirgüç-Kunt et al. (2008, p 383), “Countries with deeper financial systems grow faster and reduce income inequality and poverty headcounts faster”. To elaborate, having and using financial services help both individuals and companies reap the benefits of funds available in terms of savings, credit, payments and loans that could create growth, employment, and labor. Besides, if poor people are not capable of accessing or using, or having financial services, they cannot accumulate savings or borrowings during difficult times. The same rule applies for future savings, needy groups will not be able to afford education or health care expenditures because of their inability to resort to financial services which might expose such marginalized groups to “poverty trap” where there is no optimal access or usage for building ups saving or utilizing finance schemes (Awad and Eid, 2018). Khan (2011) highlighted that an inclusive financial system is offering a great mechanism of including many different segments to move from informal economy to formal economy, sound effective monetary, reinforcing AML.

If financial institutions do not exist or do not function well, individuals as well as firms will suffer to gather savings, honor payments or secure loans for businesses, which could create deficiencies and obstacles to development and growth. Demirguc-Kunt and Levine (2007) argued that a sound financial system should help in alleviating inequality and poverty through better income distribution. There is a positive correlation between poverty rates reduction and financial development where 30 % of a country variation in poverty rates is associated with progression in financial systems (Mohieldin, et al., 2011). Also, Demirguc-Kunt and Levine (2007) conducted empirical research concludes that well established financial systems have a positive impact in decreasing percentage of people under the poverty line, offering equal opportunities, and reducing income inequality.

According to Awad and Eid (2018, p 11), “a growing recognition that access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, supporting inclusive and sustainable development.” To achieve financial stability and development, improvements should be made in terms of protecting consumer rights, enhancing financial education, and improving financial inclusion (Atkinson and Messy, 2013).

Financial inclusion has become a topic of ongoing discussions, essential agenda, and considerable interest among different countries, international development organizations, financial regulatory bodies and policymakers while financial inclusion has become also correlated with the Sustainable Development Goals (SDGs) (World Bank, 2014). Having a strong market structure could spur growth where financial intermediaries could offer finance for different businesses which creates development and growth respectively (Greenwood, and Smith, 1997). “Theory suggests that financial exclusion acts as a brake on economic development" (Demirgüç-Kunt, Beck, 2008, p 384). Christine Lagarde, IMF, Managing Director, stressed that financial inclusion has an amplified impact over countries' growth as well as the development in the global level (Lagarde, 2016). A global consensus has emerged that financial inclusion should be placed on the top of the development agenda since more than 1.7 billion people are not having access or account with formal financial institutions (World Bank, 2017).

1.1 Financial Inclusion Definition:

Different definitions for FI were introduced and the definition has been redefined and developed several times. According to OECD, "Financial inclusion refers to the process of promoting affordable, timely and adequate access to a wide range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education with a view to promote financial well-being as well as economic and social inclusion." (Atkinson and Messy, 2013). Another perspective introduced about the definition of financial inclusion is delivering financial services for the low-income groups in a convenient way and reasonable cost (Awad and Eid, 2018). Lenka and Bariq (2018) introduced a tailored definition of financial inclusion which entails offering different financial products of savings, payments, credit, internet banking to low -income citizens at an affordable cost as a means for connecting financially excluded groups to the scope of financial services. Global financial development report issued by (World Bank, 2014) introduced financial inclusion as "the proportion of individuals and firms that use financial services". The different definitions of financial inclusion have emerged through time, but there are certain fundamentals that every definition approached which are the access, the ability, the low- income groups, the quality of financial services, and different needs of the financially excluded groups.

In order to have an effective financial inclusion environment, there are four elements which are the foundations of stable financial institutions governed by sound regulatory bodies, the availability and easiness of access to finance for different individuals and firms irrespective to the income groups, the long term sustainability of the different financial intermediaries, and finally the ongoing competition among those financial intermediaries in terms of offering premium financial products that match the needs of different groups (Mohieldin et al., 2011)

1.2 The motive behind pursuing this study

Financial inclusion is placed as a top priority in Egypt's national agenda as a cornerstone in Egypt's 2030 Vision and Sustainable Development Goals (SDGs). In addition, the number of Egyptians who are having access to financial services is around 30 % in 2017 compared with 14% in 2014 (CBE, 2018) while 47 % of SMEs are having access to financial services, there is only 22.4 % of SMEs have access to banking finance (El-Said et al, 2013). It is very crucial to analyze the barriers, and recent policies are taken to support financial inclusion.

In this study, a focus will be on analyzing the different stakeholders (CBE, FRA, and the Ministry of Finance) in promoting financial inclusion for different targeted beneficiaries that include households, SMEs, women, entrepreneurs. The study is intended to assess the efforts initiated by the government and its different policy tools because great progress and contribution had been taking place during the last three years and noticeable results are achieved. The importance of the study comes from the wide-ranging outcomes that financial inclusion can have over Egypt's economic growth on different potential beneficiaries. The thesis general framework tries to bridge the gap about financial inclusion in Egypt through an exploratory study to identify the current status quo of financial inclusion in Egypt, the barriers and obstacles, and the recent progress achieved towards realizing inclusive financial system.

1.3 Research Objective

This research aims at exploring and contributing to the growing knowledge about financial inclusion in terms of impact on households, and SMEs, entrepreneurs, and women and lessons learnt from the successful experiences of other countries that could help Egypt in its current ongoing plans. The purpose of the study is to achieve identifying the barriers encounter Egypt to advocate financial inclusion, the current national policies to combat such barriers. Identification of barriers and implemented initiatives could help to conclude recommendations to promote financial inclusion in Egypt. The goal of this study is to understand the barriers to financial inclusion in Egypt for both households and SMEs and assess the current implemented policies by the CBE, FRA, and Ministry of Finance to promote financial inclusion. In addition, identifying and analyzing the reasons for financial exclusion could help in providing and articulating policies as well as the significance of FI in the different aspects of growth and development.

1.4 Research Question:

- The Main research question is: "To what extent are the policies adopted by GoE helping to improve financial inclusion, overcome barriers, and capitalize on opportunities in Egypt?"

  Sub Research Questions:

- What are the challenges that Egypt encounters to implement financial inclusion in Egypt?
- What are the opportunities and outcomes that could be realized from having inclusive financial system?
- What are the policies (initiatives and programs) that Egypt is doing to support the prevalence of financial inclusion?
- How are these policies perceived by the different stakeholders?
- What are the lessons that Egypt could learn from successful international experiences?

1.5 The Structure of the Thesis:

The thesis is divided into the seven following chapters:

Chapter 1: gives a glimpse about the topic, the relationship between finance and development, the motive for extending further research about FI, and introducing the structure of financial markets in Egypt.

Chapter 2: presents the literature review that closely explores financial inclusion in terms of different definitions offered, the barriers that encounter financial inclusion whether supply or demand constraints and the positive outcomes realized from implementing FI.

Chapter 3: discusses the different theoretical frameworks with the real implementation of financial inclusion in Egypt through the different stakeholders.

Chapter 4: explores the status of financial inclusion in Egypt, the structure of the financial market in Egypt, and the policies, and initiatives that are implemented by the different regulatory bodies.

Chapter 5: explores the research methodology showed in this research, the steps followed in conducting research design, the selection of the sample, data collection and the analysis of data, as well as limitations and delimitations of the study.

Chapter 5: presents the analysis of the collected data from primary resources to be aligned with the literature and results found from secondary data while the end of chapter touches upon the key findings.

Chapter 6: it summarizes the main concepts that were discussed and presented throughout the study as offering policy recommendations.

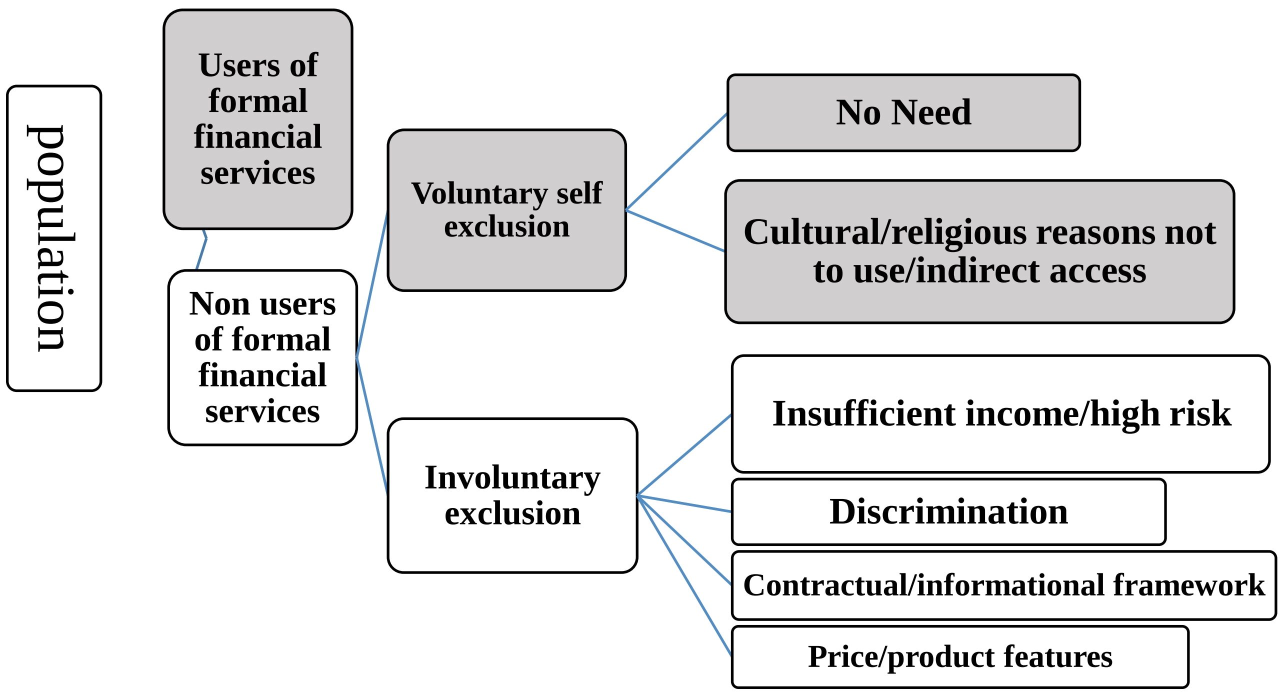
Chapter Two: Literature Review

2.1 Reasons for Financial Exclusion

2.1.1 Difference between use and access:

Since the research focuses on promoting and supporting financial inclusion, it is important to examine and analyze the roots and the reasons beyond financial exclusion which can be divided into demand side factors and supply side factors which could represent different market failures.

Figure No 1: Distinguish Between Access to Finance and Use:



Source: The World Bank (2008)

Beack et al, (2007); Honohan et al, (2008) introduced the concept of use and access in terms of financial inclusion that two groups are users and non-users for financial services where non users do not have access to financial services. Non users group could be divided into two subgroups which are voluntarily excluded group and involuntarily excluded group. Voluntarily excluded group are not using financial services because there is no need for using such services or having their own cultural, religious, or social beliefs (World Bank, 2008). Involuntarily excluded groups are divided into four segments which are the un-bankable of individuals or companies because of not having enough funds to save or invest, the un-bankable because of discrimination, the financially excluded because of the rigid regulations of financial institutions in terms of needed documents or geographic existence, and finally the un-bankable segment because of the higher costs associated with opening accounts, applying for credit, or transfer costs (World Bank, 2008).

2.2 Supply Side Barriers

OECD (2013) initiated another classification of financial exclusion as supply side factors include regulatory constraints, geographical barriers, and financial markets structure barriers, prohibitive market aspects while demand side factors are financial illiteracy, cultural barriers, technological barriers, and financial inability.

2.2.1 Regulatory and Legal Barriers:

In many cases for financial exclusion, regulations and rules of financial institutions could motivate households or businesses to resort to informal financial services (Atkinson & Messy, 2013). IFC (2010, p 28) puts the definition of the legal and regulatory framework as "the collection of laws and regulations that define the scope and depth of all the financial institutions, and markets operating in a given country". Legal and regulatory limitations could be provisions, laws (or absence of laws) that encounter the financial provider's ability to offer financial services to different potential beneficiaries of households or businesses (World Bank, 2014). Supply side factors represent the different obstacles for not having access to the wide array of financial services. A senior expert of IMF explained that low capacity or weak financial infrastructure is a major factor for having lower levels of financial inclusion (Ahmed, 2013). IFC (2011) report draws a conclusion that the weak capacity of the regulatory and legal framework is a major challenge for supporting financial inclusion in developing countries. Ruling regulations such as "Know Your

Customer" (KYC) limits the bank's ability to attract new customers to be included in the financial system. In addition, the high costs of opening accounts as well as less tailored financial products, are also factors that might refrain clients from opening accounts (World Bank, 2008). Moreover, there are some financial market deficiencies such enforcement of a contract, and credit history databases which create barriers to financial institutions membership (Demirgüç-Kunt, and Beck, 2008). The tight or imperfect regulations set further barriers for individuals, women, entrepreneurs, and small business to use and have access to financial services.

To have a solid well-functioning framework of financial market, it is pivotal to have reliable, good quality information about the different stakeholders which helps in alleviating the possible asymmetric information among lenders and borrowers (Fleisig et al., 2006). The report issued by World Bank (2014) highlighted the different barriers for having sound credit information in financial markets which could be:

- The available credit information spectrum covers only banks to a large extent while less credit data available for non-banking financial intermediaries such as microfinance and insurance companies;
- Many financial institutions might be unwilling to share or conceal their credit information data to be exclusively used;
- Absence of a strong legal framework that protects the rights of different stakeholders or users of financial markets such as borrowers or lenders in terms of credit information privacy, and the long process in case of dispute settlement;

2.2.2Prohibitive Market Aspects:

A major aspect of financial exclusion is the rigid regulation barriers represented in the internal rules that are set by financial institutions. "Financial institutions do not have a clear framework, markets are inefficient, services offered are not diversified and are limited to certain services, and women inclusion to financial services are limited" (Ahmed, 2013). For example, the prior credit history is a requirement for companies and individuals to apply for loans which impose a barrier for new companies to have access or to apply to loans for their business needs (Blancher, 2019). In addition, the high minimum balance requirement is another requirement to open an account which discourages many citizens from resorting to financial institutions (Atkinson and Messy, 2013). Beck et al. (2008) concluded based on a study that covered 62 countries that price barriers such as minimum balance and fees are major factors for not having formal accounts in Cameroon and South Africa while there are no price barriers such as waiting for long time to get a business loan approval in Pakistan and Philippines.

In many scenarios, financial institutions opt from lending to small businesses because of the low profitability realized from that kind of loans (Demirgüç-Kunt , Beck, 2008) or due to the difficulty of collecting information such as credit history about SMEs that operate in informal sector (World Bank, 2014). In addition, there is always a discrepancy between the availability of financial institutions' services as a supply side factor and the needs of SMEs businesses as a demand side factor. For SMEs finance, World Bank (2014) named three major underlying factors that let commercial banks to be reluctant to finance small businesses which are missing adequate collaterals, relatively high operational costs associated with microfinance loans, and insufficient documents. There are certain financial market imperceptions such as information asymmetries and transaction costs that represent major obstacles for financial inclusion and access to financial services (Beck, 2007). The assessment of credit applications, monitoring, and follow up existing loans represent major parts of transaction costs for households, businesses that the financial institutions incur especially for SMEs (OECD, 2015). Financial institutions are very picky and cautious in financing SMEs due to the probable risk of default especially when there are information asymmetries between the lender and borrower. In some cases, the borrower does not share all the required information about his project to the financial institution that creates two types of risks, which are moral hazard and adverse selection (Beck and De La Torre, 2007). Adverse selection happens ahead of extending credit to borrowers where financial institutions are in a difficult position to collect credible credit history about the client and choosing acceptable clients from a credit risk perspective. Moral hazard entails the inability of the borrower to abide by the terms and conditions of the loan contract. Higher finance costs are placed to households, entrepreneurs, and SMEs due to the high transactions costs and asymmetric information (Beck, 2007).

Financial institutions always demand from SMEs the documents that prove the financial performance for either individual or entrepreneurial project as part of the application requirements. Individuals who are working in temporary casual jobs find difficulty in proving their average monthly salary or income. SMEs also are not always being able to present a proof for their financial performance or present financial statements because of being part of the informal sector or lacking the technical knowledge of doing financial performance indicators (World Bank, 2014). Moreover, women entrepreneurs who are having a low level of financial literacy encounter difficulty in filling banks applications, applying for credit, offer a proper presentation to their business or understand the financial products offered (Blancher, 2019).

2.2.3Financial Markets infrastructure barriers: (geographical and financial technology):

The major foundations of financial intermediations include contracts and transactions that pave the way for the financial markets structure (IFC, 2010). Examples of financial markets imperfections are the absence of sound credit information systems, and the lack of secured payment frameworks (IFC, 2010). The main role of financial market solid infrastructure is to minimize the level of financial markets imperfections. A major supply factor for financial exclusion is geographical representation or presence of financial intermediaries in cities and villages. Most of the financial institutions place their branches and services in main cities and prime locations while those institutions rarely exist or focus on having branches in remote areas, countryside, and low profit cities (Morgan and Pontines, 2014). As a result, individuals and companies that live or operate in remote areas do always encounter difficulty in finding close financial intermediaries to deposit their savings or apply for financial services and they would incur extra transaction costs to go where financial institutions operate (Prina, 2015). For women entrepreneurs, it was found that financial institutions are not considered helpful environment because neither their working hours nor geographical proximity is found suitable or appealing to the needs of women's enterprises (IFC, 2011) .

Nowadays, although there has been a tendency in many countries to offer financial services through financial technology such mobile banking to compensate for the physical existence of financial institutions, other countries still lack the developments of having a strong technology infrastructure that supports financial services. The Weak infrastructure of electricity or the internet impede for attracting financially excluded citizens or firms (Atkinson and Messy, 2013).

2.3 Demand Side Barriers:

2.3.1 Financial Ability: Lack of Collateral and Credit History

In some cases, low- income, no credit history, or unemployment could be explanations for citizens not to be able to afford access to formal financial services. An Important definition is financial capability which is "principal knowledge, skills, attitude, and behavioral constraints to greater uptake and usage of appropriate financial services by individuals and MSMEs" (Gradstein et al., 2018). Financial capability entails a fair understanding and comprehension about financial services and the mechanism of using such services.(Demirgüç-Kunt, Klapper, 2013) explains that "worldwide, by far the most common reason for not having a formal account—cited as the only reason by 30 percent of non-account-holders—is lack of enough money to use one". In addition, many loan application requires collaterals as part of the requirements which represents another barrier in terms of affordability ((Fleisig et al. 2006). To reduce the potential default risk of borrowers caused by asymmetric information such as no credit history, financial institutions ask for collaterals that work as an insurance instrument against the probability of default of the borrower. The collateral can be sold in case of default to compensate the financial institutions for the defaulted credit exposure.

Less fortunate groups who are not having steady jobs may not assure or fulfill the loans installments because of their job nature. According to (Atkinson and Messy, 2013, p13), "Some individuals also prefer to operate in cash in order to control their budget, particularly when income and outgoings are unpredictable". As a result, individuals prefer to use informal financial services to avoid account costs or the need to fulfill perquisites such as credit history or collateral requirements.

There are certain barriers encounter SMEs from resorting to financial services such as low solvency, absence of collaterals, unavailable credit history that urge those small firms to look for other sources of finance through informal channels to support their growth even with a higher cost of fund (Triki & Faye, 2013). Furthermore, banks always need a different form of securities such as collaterals from SME businesses because such type of firms are not always capable of providing detailed financial performance or credit history which could explain why many SMEs are not encouraged or motivated to go for financial institutions asking for financial advisory services or credit facilities. Small businesses were very reluctant to apply for credit application because they expected that their loans requests would be rejected due to the absence of collaterals or credit history (Fleisig et al. 2006). In case of the availability of collaterals, SMEs would have better finance tools supported by financial institutions that could use the collateral as a caution against default which decreases potential losses.

One emerging tool for financing SMEs is using movable assets as collateral for financing the projects since movable assets are more available for SMEs than immovable assets. Examples for movable assets are cars, machines, and inventory other than fixed assets such as land and buildings. Fleisig et al. (2006) show that in the fragile financial market infrastructure of a weak legal framework, movable assets are not utilized as collaterals for lending which prevents different firms of using their movable assets in financing their needs, which turn that kind of assets into dead capital. On the other hand, financial institutions are unwilling to use movable assets as collateral in the absence of a sound legal framework that helps financial institutions to reclaim the ownership of the movable assets in case of the borrower's default.

2.3.2 Low Levels of Financial Literacy:

Another major factor that explains financial exclusion is the level of financial literacy which could be defined as "'a combination of awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" (Atkinson and Messy, 2012, p14). Financial knowledge involves the ability of households and businesses to identify and understand the basics of the different available financial services, financial products, and the role of financial institutions in an attempt to serve their needs in an optimal way in their best interest. In addition, financial knowledge includes the ability to calculate interest rates on loans or deposits. According to research conducted by AFI and WWB (2016), low levels of financial awareness and financial literacy are one of the main underlying factors that constitute barriers for women to be actively using financial services. In many cases, individuals do not have enough awareness or knowledge about the existence or role of financial institutions, financial products, or there is a low level of confidence in using financial intermediaries. Low levels of financial literacy increase the probability of less financial inclusion (World Bank, 2008).

SMEs limited financial literacy about the different financing schemes, the conditions of loans, and presentation of financial statements might exploit different opportunities or rooms for growth for small businesses in response to the absence of access to financial services (IFC, 2010). Different surveys were conducted by OECD (2013) that the results showed women's level of financial knowledge is lower than their counterparts of men with less ability to choose the optimal financial services suitable for their needs. In addition, low levels of financial literacy are attributed to be one of the main reasons that create barriers for SMEs in general and women specifically in terms of access to financial services.

2.3.3 Educational and Language Barriers:

Individuals, as well as, companies do encounter the difficulty of having a full understanding of financial services provided. Difficulty of understanding the financial services could be attributed to the use of other languages in marketing or selling financial services if the financial intermediaries target certain market segments such as large companies or high net worth individuals (Atkinson and Messy, 2012). Furthermore, financial institutions frequently use financial or sophisticated terminologies that might not be easy to understand for the average user. That being said, individuals or low educational levels or banking knowledge might not be able to see the feasibility of the financial services to satisfy their needs

Financial exclusion could also be attributed to barriers associated with certain cultural and religious beliefs that discourage or prohibit individuals to use formal financial services channels.

In many countries, banking services are not used by it is not appropriate from a religious perspective. According to (Demirgüç-Kunt, Klapper, 2013, p35), “Distrust in formal financial institutions is also a nontrivial barrier to wider financial inclusion”. To elaborate, there is a cultural barrier represented in low levels of mutual trust between individuals and companies from one side and financial institutions from the other side that users of financial services question the ability to get their savings in a timely manner which touches upon the credibility of the financial institutions (Prina, 2015). Furthermore, savings clubs are being used in large scale in developing countries as a means for savings and credit services especially in Sub- Saharan Africa (Aterido et al., 2011). Although those savings clubs support saving and credit schemes, they are still informal financial institutions that are subject to default or fraud.

2.4 The Positive Outcomes of Financial Inclusion:

Different authors and economists explained that positive outcomes for financial inclusion in the macroeconomic and microeconomic levels. There are benefits that the government and private sector could reap from supporting financial inclusion. On the governmental level, a comprehensive financial inclusion can help in delivering the different welfare programs and social safety nets to the actual beneficiaries who get used to being financially excluded. This step can help the Ministry of Social Solidarity to build reliable databases for beneficiaries and estimate the poverty line percentage for future plans and programs (Awad and Eid, 2018). On the private sector dimension, an inclusive financial system can help in attracting new enterprises and entrepreneurs to be part of the formal sector since those enterprises are in urgent need for having financing solutions for their businesses and having secure payment systems for their daily operations (Cull, Ehrbeck, Holle, 2014). In the next section, the positive outcomes of financial inclusion will be discussed by different stakeholder or beneficiaries.

2.4.1 The Impact of Credit and Micro Finance

Different economic theories support the idea that access to credit will have positive repercussions on entrepreneurs. A small enterprise could reap the benefit of having access to credit to enlarge their existing small businesses or to start new businesses which encourage entrepreneurial spirit which has a progressive impact on the investment and business environment. Indeed, households do benefit from accessing credit that assists households to afford current and future family wishes such as housing, health insurance, educational tuition or any potential risks.

Microcredit has positive outcomes on combating poverty as well as exploring the potential ambitious entrepreneurs' ideas especially among the marginalized groups or communities. In addition, microfinance loans are classified with very low default rates since such type of loans is tailored to the borrower needs in terms of installments and loan size (Campbell, 2006). Besides, low rates of default, group lending mechanism paved the way for many small businesses to success because of the peer pressures and group's oversight over the project implementation (Morgan and Pontines, 2014). There has been a new tendency in microfinance towards individual lending instead of group lending to cope with the needs of entrepreneurs .Several studies have examined the positive results of microfinance on creating self-sufficiency, enhancing the wellbeing of needy groups as well as embarking on women empowerment (Prina, 2015). In measuring the effect of microfinance on different stakeholders, microfinance represents the ultimate means to reach the financially excluded groups in remote areas where financial services are limited. The most prevailing success story of microfinance during the last decades is Grameen Bank in Bangladesh initiated by Nobel Laureate Mohamed Yunus. Many growth opportunities were leashed and great potential was created for many households by offering micro loans in different fields such as education, health, and agriculture (Karim, 2008). It can be concluded that microfinance has positive results on women empowerment, technology advancements, and combatting poverty, and supporting social enterprises.

2.4.2 The Impact on Payments and Savings:

Different research explains that there is a positive correlation between having a bank account for savings and payments purposes and the growth of the economy where saving accounts triggered growth in different levels. “Saving promotes asset accumulation, helping to create a buffer against shocks and relax credit constraints” (Prina, 2015, p1). The contribution of financial inclusion to inclusive growth was part of a randomized controlled experiment in the United States. The outcomes of the research were about creating a high level of financial inclusion that was a lucrative factor in terms of creating jobs, increasing competition, offering new opportunities to less advantageous households through better income distribution; such confident outcomes could lead to inclusive growth (Beck et al. 2010). In addition, a better inclusive financial system is having positive impacts on better financial intermediation between depositors and lenders, giving different finance alternatives for households and small businesses with lower cost compared with informal economy financing schemes (Khan, 2011). It can be said the basic services offered by financial intermediaries such as savings and payments would ultimately have a growing positive impact on prosperity, job creation, and inclusive growth.

2.4.3 The Impact on SMEs:

Small and Medium Enterprises could be described and defined according to the number of employees or sales volume. According to the World Bank (2014), SMEs are firms that have from 5 to 99 workers. SMEs are always a key trigger for growth in different economies since they constitute a large portion of private operating businesses as well as a catalyst for job creation and demand for labor. SMEs are considered cornerstone in Middle East economies since they are considered the main employer and contributor to job creation. Nasr and Pearce, 2012 estimated that SMEs employ around 30 % of private sector staff and around 4 to 16 percent of the total workforce. It was found that SMEs are capable of creating a larger number of jobs than large companies either in developed or developing countries especially startup businesses as creating rooms for competition and innovation (IFC, 2010).

In addition, around 90 percent of the registered companies are considered SMEs in the MENA region (Blancher, 2019). Despite the key role played by SMEs, there are many challenges and constraints that encounter SMEs' potential productivity and growth. Stringent regulatory requirements, weak financial infrastructure, difficulty to have access to financial services are the main barriers that hamper the success and sustainability of SMEs (Ayyagari, et al., (2011). Access to finance to small businesses helps in better sources allocation and the ability to face any liquidity shortages (Demirgüç-Kunt and Beck, 2008). There are higher financing barriers and costs for businesses that operate in informal sector (Triki and Faye, 2013). A field study conducted by McKenzie and Woodruff (2008) measured the impact on SMEs having access to finance showed the positive outcome in achieving 20-33 % higher return on capital compared with no prior access to finance. It is estimated that successful inclusion of SMEs in the MENA region could help in creating around 16 million jobs by 2025 (Blancher, 2019). It can also be said that better access to finance encourages startups business and entrepreneurs to offer their new business ideas which encourage innovation and creativity in business environment. Offering a healthy investment environment and lucrative financial inclusion strategies could help SMEs to grow, expand, get into formal sector, and have access to finance.

2.4.4 Women Empowerment:

Most of women entrepreneurs are found in informal sector where the business has a few numbers of working employees since women's micro businesses are emerged and managed from home (Swamy, 2014). In addition, women face more difficulty in securing finance or access to financial services because of lower ability than their male counterparts in providing collaterals because of discrimination in inheritance in many communities due to cultural norms (World Bank, 2012). Moreover, women are encountering more problems in terms of the legal framework (World Bank, 2012) that women have less ability in owning, inheriting, or managing collaterals in different cultural and legal contexts. Swamy (2014) showed that women are better in terms of resources utilization and maximizing utility while women empowerment could be achieved through financial inclusion. In a study conducted by Swamy (2014), it was found that household income witnessed a growth of 8.4 % after a woman has access to finance. By offering microfinance credit to women, they can contribute to economic growth by being an effective member in terms of decision making process as well as owning and running their businesses through formal financial system.

2.4.5 Financial Stability:

In reaction to the 2008 global financial crisis, a consensus has emerged for the need of having a more stable sound financial system by imposing reforms and policies in the global financial system (Khan, 2011). It is argued that there is a correlation between financial inclusion and financial stability where G-20 advocated universal assurance to support financial inclusion (Awad and Eid, 2018). Financial stability could be attained through inclusive financial system which urges financial institutions to diversify its operational risks among broader number of clients. According to Khan (2011, p1), "The developments in the recent years have ensured that the pursuit of financial inclusion and the pursuit of financial stability are no longer policy options but policy compulsions". Moreover, the trust in the financial system happens when there is financial stability that appeals to households and companies to accumulate savings and extends credit because of the mutual trust resulted from the soundness of the financial system (Khan, 2011). In addition, Christine Lagarde (2016) emphasized the positive outcomes of access to financial services and financial stability. On a macroeconomic level, financial inclusion could be a catalyst for the role of the Central Banks of embarking on financial stability. The first dimension is that increasing number of the user of the formal financial system will increase national aggregate savings as well as increasing the bank's clientele base of depositors. Mehrotra and Yetman (2015). Besides, the resilience of financial institutions is on an upward trend with the increase of depositors' savings. Another important finding of the impact of financial inclusion is the potential stability of financial institutions during crises. The rationale behind that is low-income households are inclined to hold their savings with less probability of withdrawal either in good times or even in financial crises because of the confidence in financial institutions. After the global financial crisis, it was found out that the percentage of deposits withdrawal was way less in economies that have a high level of financial inclusion (Khan, 2011, Han and Melecky, 2013).

Another perspective for the relationship between financial stability and financial inclusion is the bank's ability of credit portfolio diversification. In response to higher financial inclusion, more households and enterprises are shifting to formal sector and resorting to applying for credit loans from financial institutions. Increasing the number of client's who are getting loans is a positive factor for banks as it is considered a diversification of loan portfolio across a larger number of clients. In addition, SMEs especially new enterprises and entrepreneurs are found to be less likely to default in honoring it loan commitments which assure banks of lowering its Non-Performing Loans (NPLs) (Morgan & Pontines, 2014). Financial regulatory bodies and Central Banks need to set prudential rules and regulations that assure a smooth and convenient for individuals and firms transition shifting from informal economy especially with no prior credit history or potential unknown sources of deposits.

2.5 International Experiences of Achieving Financial Inclusion:

It is pivotal to learn about the experiences of other countries in promoting financial inclusion. The successful international experiences could help in approaching and drawing learnt lessons and from those successful experiences and how other countries could replicate different dimensions in other countries. Three successful models of Kenya, Malaysia, and India are to be discussed and analyzed.

2.5.1 Kenya: Financial Technology Example (M-Pesa)

The literature discussed the role of financial technology as an integral part in reinforcing having inclusive financial system. Kenya is regarded one of the successful countries of achieving higher financial inclusion through (M-Pesa) as an example of financial technology solutions. M-Pesa is a mechanism for doing money transfers through a mobile application that was launched in 2007 and its impact was reflected in increasing the number of Kenyan users to record 8.5 million with total number of transaction worth USD 3.7 billion in 2009 (Mbiti and Weil, 2015). M-Pesa has created a momentum in Kenya that there is a noticeable growth in terms of remittances transfer, savings schemes, and created good diversified solutions for small businesses. It is important to understand the mechanism and philosophy of M-Pesa. The main theme of M-Pesa is that Kenyan citizens can deposit money, execute transfer, honor payments, and withdraw money through retail stores upon presenting national identification card (Mbiti and Weil, 2015). M-Pesa could offer different advantages in the households and small business levels (Jack and Turi, 2011). M-Pesa is offering convenient payment mechanism for different services and utility bills. Different institutions such as hospitals, schools, and retail stores accept payments through M-Pesa that expanded the scope of M-Pesa from a transfer solution into a full-fledged payment mechanism. In addition, M-Pesa gives the opportunity for individuals and businesses to accumulate their savings without being subject to loss or theft. Also, M-Pesa opens the chance for attracting different groups who operate and work in the informal sector by offering them less risky payment and saving schemes. It can be said M-Pesa money transfer had a great impact on Kenya's financial inclusion strategy.

2.5.2 Malaysia: Regulatory and Legal Reform Example

Malaysia is considered as inspiring story when it comes to achieving financial inclusion where 92 % of adult populations are having and actively using the different array of financial services of savings, loans, and payment solutions (Martinez, 2017). In addition, 70 % of the adult workforce are actively investing their savings in mutual funds. It is worth mentioning that Malaysia is one of the few emerging countries that did not experience banking crises like the other Asian countries in the 1990s as it followed an economic policy based on achieving financial inclusion and financial stability which are "compulsory policies" after the 2008 financial crisis (Khan, 2011). According to Martinez (2017), to realize success in terms of accomplishing inclusive financial system, Malaysia embarked on a great plan that depends on certain factors:

- Consolidation of banking sector where banks are merged or acquired which led to having less number of banks in order have sound financial institutions that are capable of competing and offering a wide tailored array of financial services.
- Introducing a national payment system that helped in reducing cash based transactions
- Presenting the policy and procedures for "Basic Banking Services" that sets the rules for offering banking series for low- income groups. The main features of "Basic Banking Services" are no minimal balance is required to open current account, banks are entitled to

offer interest at the saving accounts, and there are no book keeping fees or commission for that type of accounts.

- Expanding the spectrum of tailored financial services and Islamic Finance products
- Introducing "agent banking model" to promote the usage of financial technology solutions

Malaysia tried to bridge the gap by addressing the supply and demand side barriers by offering policies that could help to accomplish financial inclusion. By offering "Basic Banking Services" by Bank Negara Malaysia (BNM), supply side barriers of the lack of collateral and high minimal balance requirements are tackled because banks offered financial services at an affordable cost for less fortunate groups (Martinez, 2017). In addition, the implemented policies offered a solution for one of the supply side barriers that coincide with financial infrastructure by offering" agent banking model" and establishing "national payment systems". As many authors argued that low level of financial literacy is a main driver for financial exclusion, Malaysia introduced a plan to increase level of financial knowledge among different users of financial services. The financial education campaigns were led by BNM where commercial banks are entitled to offer a detailed explanation for the customers about the different financial products and the different associated risks.

As part of the second reform phase in 2012, Malaysia introduced "Agent Banking" (AB) initiative (Martinez, 2017). The main philosophy of AB is that financial institutions could do partnerships with retail stores and post offices to offer some financial services for the non-users of financial services on behalf of financial institutions where banks do not have a presence in those remote areas. Financial services offered by AB could be offering to clients the payment of different utility bills, loan installments, and doing transfers. The AB mechanism achieved its mandates by attracting different informal segments to use formal financial service without the presence of banks in addition to increasing the profits of Abs. Malaysia sets an impressive example of the successful implementation of financial inclusion strategies by offering innovative policies such Abs and “Basic Banking Services” to encounter different supply side barriers.

2.6 Conclusion:

Although there is a growing literature about the financial inclusion for different societal segments of households, women, entrepreneurs, small businesses, more literature is needed to tackle the demand and side barriers, and address the role of the government alongside its policy maker’s arms in supporting financial inclusion especially in developing countries. The literature focuses primarily on the accessibility to finance with less emphasis on the other parameters that affect the level of financial inclusion such as the quality of financial services or the borrower’s usage patterns. Moreover, there is a literature gap about considering the financial inclusion in Egypt, especially it is considered a new research topic in the Egyptian context, in terms of barriers and the recent developments with regards to promoting it in Egypt from policy makers to offer the tailored needs of the financially excluded groups of individuals and businesses.

Chapter Three: Conceptual Framework:

3.1 Theoretical Framework:

This study aims for identifying the different dimensions of financial inclusion in Egypt in terms of the barriers for individuals and businesses, and the policies that were implemented recently. Moreover, to analyze the ongoing initiatives and policies launched by different regulatory bodies to include households and SMEs into the financial system by encountering the barriers of financial inclusion to achieve Egypt's national strategy.

There has been different studies that approached financial inclusion, the approach used in this study will depend on the World Bank approach that sheds light on financial inclusion strategies (Pearce & Ortega, 2012). The pursued financial inclusion approach focuses on three major dimension which are the accessibility of the different financial services, the mechanism of using the wide array of the financial services, and the quality and soundness of the available financial services. According to IFC (2010, p 8)," Increasing access to finance can only be successful if qualitative aspects are taken into account". The below diagram below could show or visualize the different dimensions that are closely related to the inclusive financial system.

The first and the most pivotal word is "access" which means the ability of the financial services' users to reach the financial intermediaries in a convenient way (World Bank, 2012). There are various obstacles that encounter financial intermediaries of offering or reaching the less fortunate groups in the remote or disconnected areas. The second parameter is "use" which measures the frequency or number of transactions performed by users of financial services. The third factor is "quality" which touches upon the quality of the financial services and its convenience for the users in terms of time and cost.

The approach used by Pearce & Ortega (2012) is reasonable because it addresses the financial inclusion from qualitative aspect rather than just focusing on the quantitative dimension in terms of the number of the financial intermediaries; it goes beyond this as it tries to identify the different intangible factors related to financial exclusion. Inclusive financial system does not focus only about the number of financial access points, but it attempts to foresee and analyze the users of financial services, their level of satisfaction of the quality of financial services, and see the roots and motives that let other societal segments to avoid using financial services. The conceptual framework attempts to include the different stakeholders involved in financial inclusion represented in financial institutions, the users of the financial services, in addition to the regulatory and supervisory entities that could work in articulating effective strategies to bridge the gap between the supply and demand barriers to achieve the ultimate goal of reinforcing financial inclusion in Egypt.

3.1.1 Individuals and SMEs financial inclusion:

The level of inclusive financial system varies across the globe where more discrepancy exists in developing economies. It is imperative to highlight the role of SMEs in different economies in terms of job creation, and financial stability, but the positive impact or growth of SMEs is hampered by unsustainable growth due to barriers of finance (Ayyagari, et al., (2011). Despite the importance of SMEs, they encounter many challenges when it comes to finance especially in emerging markets where the finance barriers for SMEs are higher than their counterparts from large firms (IFC, 2010) as a result of the discrepancy between the finance needs of SMEs and the supply of financial services. According to Blancher (2019, p 3), "SMEs in the Middle East have the largest gap in financial inclusion in the world". It is vital to highlight that is estimated that one percent increase in SMEs credit leads to one percent decrease in unemployment in the MENA (Blancher, 2019). It is important to differentiate between SMEs that operate in formal sector and informal sector where it is much feasible to reach formal SMEs through banks while informal SMEs could be reached through Micro Finance Institutions. In addition, the inclusion of SMEs would happen in the well-developed financial markets.

According to IFC (2010), the Financial Inclusion Experts Group (FIEG) provided certain policy recommendations for G-20 to promote SMEs financial inclusion which are:

- Developing countries should establish policies that create healthy environment for SMEs through:
- Enhancing the infrastructure of financial information, overhaul of the regulatory and legal setup, establishing support inter-governmental bodies, offering capacity building to financial institutions
- Establishing a platform that is entitled with collecting data about SMEs finance across different countries.
- Establishing a "global funding platform" that works in creating bilateral cooperation between emerging economies to offer incentives for SMEs, technical assistance, and offering sustainable financial services for SMEs.
- Designing "Global SME Finance Forum" that works on sharing the best practices and successful experiments of countries in offering solutions to SMEs financial inclusion.

3.2 The role of Government and policy makers in advocating financial inclusion:

In order to build, enhance, develop inclusive financial system to reap the benefits of financial inclusion, the government as a policy maker should address the deep roots of financial exclusion symptoms and failures (World Bank, 2014). The different public policy makers should articulate national strategy that touches upon market regulations, legal framework, and financial market infrastructure, financial awareness and education, and protection of the rights of lenders and borrowers to be able to measure the positive outcomes of financial inclusion. Pearce and Ortega (2012) defined financial inclusion strategies as “road maps of actions, agreed and defined at the national or subnational level that stakeholders follow to achieve financial inclusion objectives”. The implementation of financial inclusion national strategy should work and be based on addressing the different stakeholders of financial services, the current level of financial market’s development, the financially excluded groups, the informal sector, the entrepreneurs in general and female business women specifically.

There are multidimensional roles for regulators of the financial markets that include central banks, ministry of finance, and regulators of non-banking financial services in building inclusive financial system (IFC, 2010; World Bank, 2014). The first mandate for regulatory bodies is to create lucrative legal and regulatory framework that enables financial institutions of offering convenient access to financial services for households and small businesses. The second mandate is reducing market imperfections and enhance market infrastructure through offering convenient payments channels, and reduce the transaction costs. The third mandate is a government intervention to help financial institutions with respect to capacity building of financial intermediaries to offer financial awareness and literacy among individuals and SMEs.

In response to such challenges and barriers, Egypt has taken many stimulating policies, initiatives, steps to achieve higher rate of financial inclusion towards achieving Egypt’s Vision 2030 where financial inclusion comes as integral part of the vision as a national priority (Nasr et al., 2018). In addition, financial inclusion could support Egypt in achieving inclusive growth, enhancing the lives of less fortunate groups, and better women empowerment (CBE, 2018). To implement such important mandate, the different financial decision maker’s represented in Central Bank of Egypt, Ministry of Finance, and Financial Regulatory Authority are working collectively to adhere with the national strategy of FI to move towards more cashless society and enhance electronic payment services. It is obvious that institutional overhaul is needed to support financial inclusion. The two main pillars of Egypt's national strategy are strong financial infrastructure backed by sound regulatory entities and investing at the new financial technology channels.

3.3 The application of Conceptual Framework on the Egyptian Context:

Below diagram shows a representation for the conceptual framework for this research

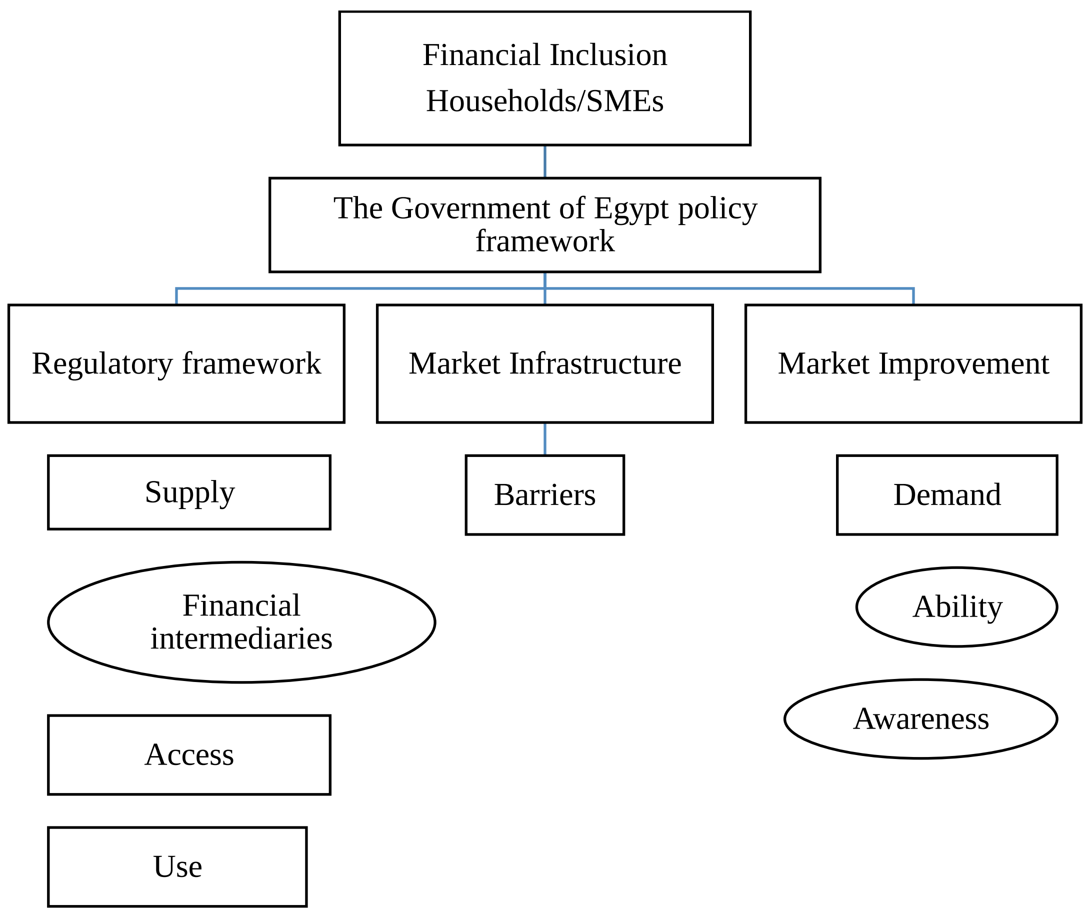


Figure 2: Conceptual Framework

Source: Researcher's Analysis grounded on World Bank (2012), World Bank (2008) Develop

To conclude, financial inclusion is placed as an important part of Egypt's SDGs in the economic dimension. The research shows that realizing inclusive financial system could be primarily driven by the collective efforts of the regulatory bodies in terms of offering prudential legal framework, enhancing market structure and better strategies of market development.

Chapter 4: Egypt’s Experience of Financial Inclusion

4.1 Egypt’s Financial Market Structure

To understand the status of financial inclusion in Egypt, the starting point should be identifying and analyzing the structure of financial market and its constituents. The regulatory bodies of financial markets in Egypt are Central Bank of Egypt (CBE) and Egyptian Financial Regulatory Authority (FRA). CBE is supervising all commercial and specialized banking institutions with main mandates that include over sighting, regulating banks in addition to setting monetary policy. FRA was established in 2009 and it is the regulatory body for all non-banking financial services in Egypt which include investment banks, stock market, insurance, leasing, microfinance, brokerage, mortgage finance and factoring services (FRA, 2019).

According to Alshyab et al. (2018, p 7), “Egypt has a bank-based system with assets representing 120% of GDP” and most of the credit extended is directed to governmental bodies such as ministries of Electricity, Energy, and Finance while less percentage of credit is directed to private sector including SMEs.

Most of the transactions made in Egypt are done through banking institutions rather than non-banking sector. To look further at the banking sector structure, it is important to know that the banking sector has gone through different reform plans executed by CBE since 2003 where many banks went through mergers and acquisitions (Alshyab et al., 2018). The number of licensed banks in Egypt decreased from 52 in 2005 to be 38 banks with more than 3,800 branches by end of 2015 where state banks (National Bank of Egypt and Banque Misr) are market leaders in terms of assets and market share (CBE, 2018). Banks in Egypt have been in good standing in terms of assets growth, Non-Performing Loans (NPLs) and profits since the reform plans in 2003 (CBE).

In the report titled "Financial Inclusion and Development in MENA" (Alshyab et al., (2018), many important information and data were introduced about the financial sector in Egypt. First, the non-banking services are considered to be less developed or in its development phase recently. Egypt has one stock exchange that has an index for large companies (EGX 30) and another index for SMEs called Nile Index that has witnessed a gradual growth in terms of listed companies since its inception. Second, the number of insurance companies are more than 30 companies where the number of users of insurance schemes are around only 1 percent of population. Third, microfinance agencies are estimated to be around 450 institutions that include banks, private banks, and NGOs that offer tailored loans and credit to households and SMEs. There are new MFI companies that joined the microfinance business recently such as Reefy, Tanmeyah, Tasaheel, and Aman that were established between 2015 and 2018 are considered market leaders in the microfinance market in Egypt (FRA, 2018).

There are other financial institutions which have special nature as state owned bodies such as Egyptian Agriculture Bank, Egyptian National Post Office (ENPO), and the Micro, Small, Medium Enterprises Development Agency(MSMEDA) (Gueguen,2018). ENPO has a high market share for savings of low -income classes since it is accessible in rural and remote areas. MSMEDA used to be an independent institutions, but it became under the supervision of the Ministry of Trade and Industry recently with it main mission of giving hand to SMEs in terms of access to finance as well as consultations if needed (MSME,2018).

4.2 The status of Financial Inclusion in Egypt:

In Egypt, a huge progress has been achieved towards having inclusive economy and realizing financial inclusion, but there is more plans to take place for realizing higher levels of financial inclusion. There are certain statistics that need to be analyzed and mentioned about level of financial inclusion in Egypt to assess the current level of financial inclusion in ground. With regards to SMEs, the informal sector represents around 40 % of Egypt's GDP, and 85 % of SMEs highly depend on informal sources of finance while 40 % of their business transactions are on cash basis (PWC, 2019). According to the World Bank Survey (2016), only 12 % of firms in Egypt have access to finance. According to Nasr et al., (2018), there is around 70,609 Point of Sales (POS), more than 15.9 million debit cards, 32 % of adults have an account with ENPO, while only 10 percent of women have access to financial services. Although public servants as well as cash transfer program beneficiaries are receiving their salaries or benefits through bank cards, there is still passive usage for financial services and incline towards cash and informal transactions. The parallel informal sector exploits many opportunities for increasing taxes revenues, increasing GDP, and achieving inclusive growth in Egypt and "tax evasion in the informal economy hurt public finances and the government's ability to invest in development, infrastructure and essential services such as health, education and law and order" (PWC, 2019, p 2).

4.3 Barriers for financial inclusion in Egypt:

As it has been elaborated in the literature review section about the demand and supply barriers of financial inclusion, same barriers do prevail in Egypt. The supply side factors are the barriers that encounter financial intermediaries to offer their financial services to different beneficiaries in an optimal means. The first impediment for financial inclusion is access to financial services, which is related to the capability of financial institutions to offer financial services in alignment with the regulatory framework, and legal environment. Regulatory constraints constitute a major factor where opening accounts requirements such as KYC and minimum balance discourage Egyptians to open accounts (Nasr et al., (2018). The second obstacle is the financial markets deficiencies symptoms such as geographical presence of banks that exist mainly in major cities with total number of branches 3,800 with very limited access in villages except for Agriculture Egyptian Bank that has presence in villages. Another example of under developed financial markets is the lack of stable internet and mobile networks that hampers the growth of using digital payment channels such as mobile banking and e-wallets (Nasr et al, 2018).

Demand side barriers are factors related to the customer's capacity of using financial services. The quality of financial services are meant to offer financial solutions that respond to the needs of the consumers, the level of financial literacy and awareness, and the tailored financial solutions ((Pearce & Ortega, 2012) .The financial inability comes as the first barrier to financial inclusion when there is a fair percentage of people under poverty line who can afford access to formal financial services because of the absence of prior credit history or lack of collateral. Furthermore, there is a common culture and tendency among Egyptians to use cash based transaction**s** because of cultural inherited legacies. For example, many households and small businesses prefer to stay in informal sector to avoid paying taxes which is called "tax evasion" (PWC, 2019). The low level of financial literacy comes as the second demand side barrier where the households or small businesses are not familiar or used to the financial terms, different loan applications, and different financial calculations (OECD, 2013).

4.4 Policy Interventions to promote financial inclusion:

4.4.1 Regulatory and Legal Framework:

CBE Policies for advocating Financial Inclusion:

Monetary policy makers represented in Central Banks should play a pivotal role in endorsing financial inclusion because of the positive outcomes such as financial stability and price stability achieved through having an inclusive financial system (Blancher, 2019) .In 2013, CBE joined the membership of the Alliance for Financial Inclusion (AFI) which has given CBE the privilege to learn and benefit from the international experiences of FI in other countries. CBE has committed in achieving progress in terms of FI that touches upon different dimensions that include e-money, women’s financial inclusion, Digital Financial Services (DFS), SME finance, and National Payment Systems (Nasr et al., 2018). CBE issued a recent “Financial Stability Report” in 2018 that explained the different dimensions that were pursued in an attempt to achieve FI. The first step that the CBE made was establishing a financial inclusion unit within CBE where the unit’s mandate and role include but not limited to coordinate the FI policies with different stakeholders as well as setting Key Performance Indicators (KPIs) to measure level of FI periodically (CBE, 2018).

Promotion of financial inclusion can be achieved by the governmental bodies by offering incentives for SMEs in terms of reforming the legal and regulatory framework (World Bank, 2014). In order to motivate SMEs businesses to go into formal business and use banks as major source of finance, the CBE established Credit Guarantee Company (CGC) which gives a guarantee to cover potential risks for SMEs businesses for bank’s finance especially for enterprises that lack collaterals or prior credit history which smooth the lending procedures. The CGC is owned by CBE and commercial banks and it has extended guarantees worth of EGP 1.8 billion till 2013 (Alshyab et al., 2018). In addition to CGC, the CBE established ”I-Score” company that offers credit history for existing clients and add the new borrowers to the credit databases which is very conducive for minimizing credit defaults and identifying clients with no prior credit history.

On the other hand, in 2016, CBE launched a profound initiative to support SMEs businesses especially the informal business by issuing a unified definition for SMEs in terms of sales and capital. According to CBE (2016), SMEs finance initiative, all banks have to dedicate 20 % of its lending portfolio to SMEs by 2020 with subsidized interest rate of 5% and 7% (CBE, 2016). The outcomes of the initiative is very encouraging that the total loans extended to SMEs is EGP 110.8 billion since January 2016 till June 2018 (CBE, 2018).

Companies	Existing Businesses	New Businesses/Start Ups
	Value of Revenues	Paid In Capital*
Micro	Less 1 Million EGP	Less 50,000 EGP
Small	Sales vary from 1 Million EGP to 50 Million EGP	From 50,000 EGP to 5 Million EGP (Industrial Companies)
Medium	Sales vary from 50 Million EGP to 200 Million EGP	From 5 Million EGP to 15 Million EGP (Industrial Companies)

Source: CBE (2017), SMEs Definition

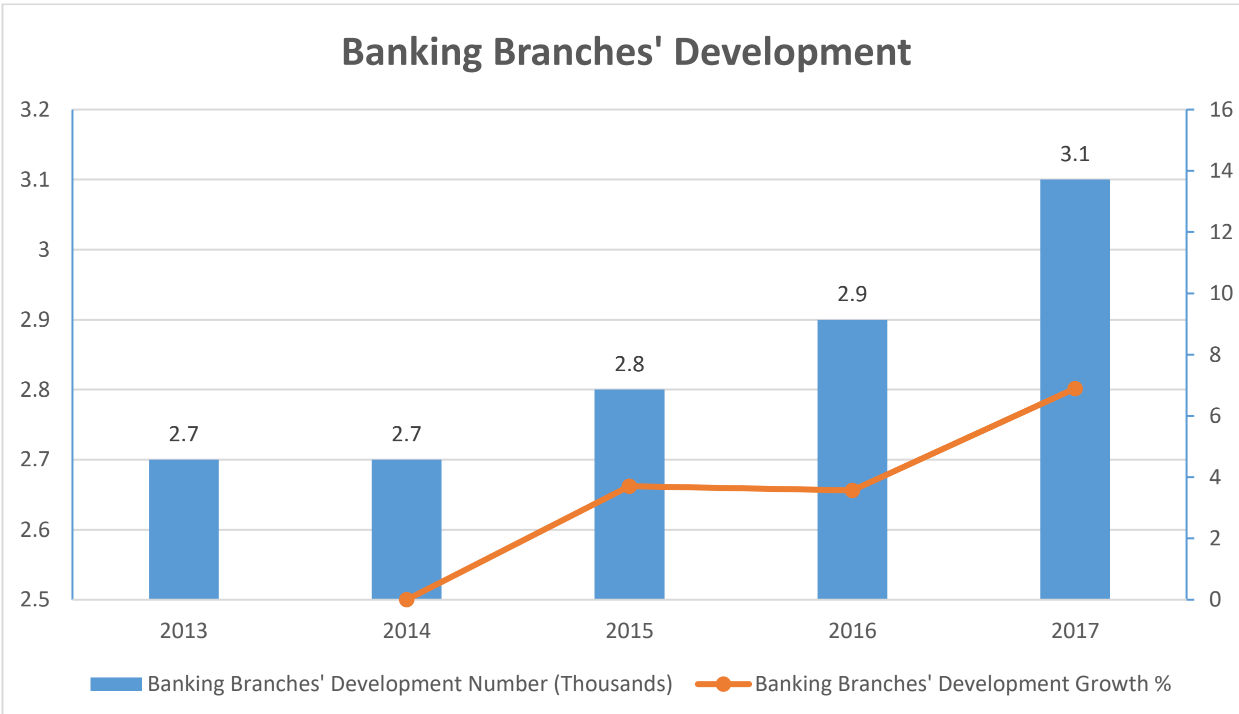
*The paid in capital is used as a definition for startup business for the first year only till the company achieves actual sales.

In the individuals and retail level, the CBE cooperated with the MoF to offer the salaries and different benefits of public servants through bank payroll cards to attract a good percentage of citizens and decrease transaction costs of disbursing salaries in cash. The public servants receive advantages of having access to banks such as applying for personal loans with low interest rates in addition to offering secure payments and less probability of losing cash (Alshyab et al. (2018). Another important initiative that was launched recently to attract individuals who are working in the informal sector is "Aman" insurance policy that offers insurance policy for labor working in temporary jobs. The CBE offered the "Aman" insurance policy throughout the public banks where the insurance scheme offers a bank account for beneficiaries as well as pension fund in retirement. The "Aman" policy is good tool to let individuals in informal sector have access to formal financial services with very low minimum balance requirements that starts from 500 EGP (CBE, 2018).

4.4.2Enhancing Financial Market Infrastructure:

As it was discussed earlier that the supply side factors of financial exclusion include financial infrastructure, the CBE urged banks to open mini branches in remotely located areas since one of the reasons for financial exclusion barriers was the financial institutions outreach in such areas. According to CBE, number of branches, ATM, and POS witnessed a great leap between 2013 and 2017 that branches number recorded more than 3,100 and ATMs number recorded more than 11,400 by 2017.

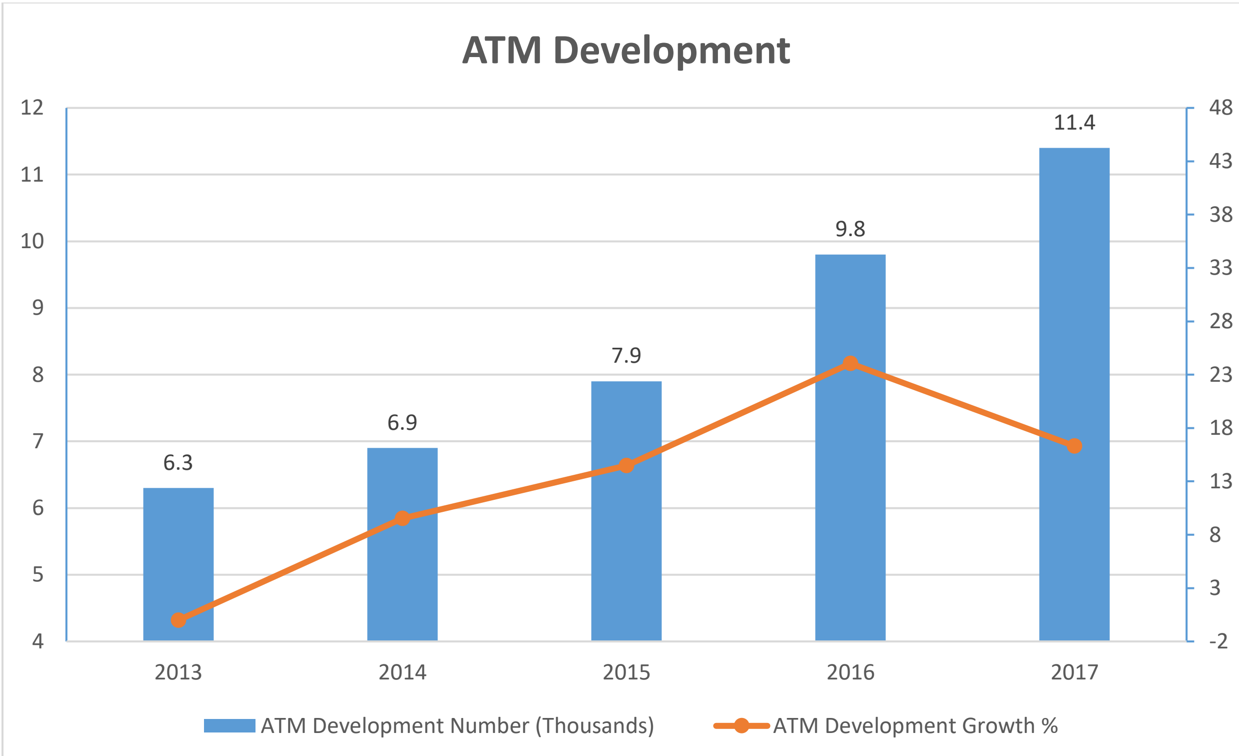
Figure 3: The Development of Banks' Branches



Source: Central Bank of Egypt, 2018, "Financial Stability Report"

In addition, CBE has given a priority to offering new convenient timely secured payment solutions that could attract new segments to FI and offer very safe channels for doing financial transactions between different parties. Payment solutions examples could be ATMs, online banking services, POS, and mobile banking services such as mobile wallets. According to a 2017 CBE report, "Electronic payment services achieves financial stability where financially excluded groups could be reached which decreases financial exclusion since electronic payment services attract new segments and increase the geographical outreach to the remote areas".

Figure 4: The Development of Number of ATMs



Source: Central Bank of Egypt, 2018, "Financial Stability Report"

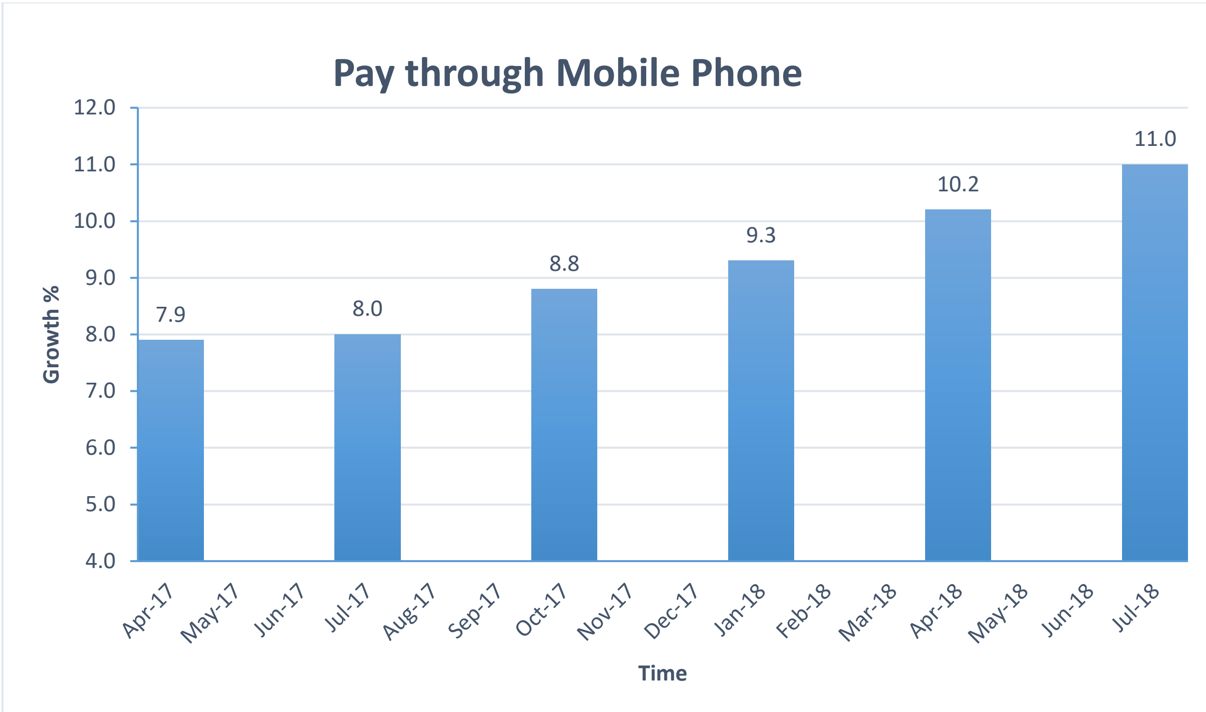
In an attempt for offering secured stable payment services in the macro level, the CBE introduced Real Time Gross Settlement System (RTGS) that helped in settling payments between banks worth of EGP 3.5 Trillion in 2017 in addition to other payment systems such as Automatic Clearing House (ACH) that offers easy means for settling payments and transactions. Furthermore, CBE urged banks to offer financial technology solutions such online banking services, and mobile wallets that include online transfers and payment solutions (Alshyab et al., 2018).

Another payment system that helps in offering secured non cash payments is "ARPS" in cooperation between the CBE and Arab Monetary Fund. ARPS helps in establishing payments, and settlements between Arab countries with minimal costs and ARPS is beneficial for Egypt because of the Egyptian's remittances working in Arab region that accounts for 72 % of Egyptian labor working abroad.

According to CBE, number of banks that offer online banking services has increased in 2018 to reach 32 banks out of 38 banks. Those technology based solutions lead to an increase in number of mobile wallets to record 3.8 million with 6.7 million executed transactions in 2015 (CBE). The emergence of using mobile banking and similar applications has a profound impact on enhancing financial inclusion level that mobile wallets subscribers reached 11 million with a growth rate of 32 % by 2018 with more than 2 million transactions monthly (CBE, 2018). The mobile banking or wallets have received a sound response from different segments because it could be used in different purposes.

Mobile wallets can be used to pay different kinds of bills, receive international funds "remittances" in Egyptian pound through wallet, transfer payments to the beneficiaries of social security programs of around 11.5 million citizens "Social Funds". In 2017, the CBE in cooperation with Banks of Egypt Company introduced "Ta7weel" mobile application which gives the users the flexibility to transfer funds directly given through banks. To assure the resilience of electronic payment channels against any cyber or fraud attacks, the CBE announced in 2017 launching Computing Security Incident Response Team (CSIRT) to help and protect financial institutions against different types of security attacks (Nasr et al., 2018).

Figure 5: Payments through Mobile Banking



Source: Central Bank of Egypt, 2018, "Financial Stability Report"

Financial Regulatory Authority (FRA) Policies:

Access to financial services for SMEs and households does not necessarily depend on banking services, but it could be attainable through using non-banking services (IFC, 2011). Non-banking service such as microfinance, leasing, and factoring are important financing tools for SMEs because those finance tools offer more tailored solutions for small businesses to enlarge the size of business and support their growth opportunities. In the not well-established financial markets, leasing offers good financing tools for small businesses to acquire different types of assets that could generate sufficient future cash flow while factoring gives the privilege of financing working capital needs of small businesses by discounting their receivables.

As FRA is a major stakeholder in promoting financial inclusion and since its main mandate is supervising all non-banking financial services including insurance, microfinance, leasing, factoring and stock market, FRA In cooperation between with CBE has issued the regulating law of microfinance in November 2014 (CBE, 2018). The outcomes of the new law of microfinance reaped its benefits where the beneficiaries of microfinance loans exceeded 2.3 million citizens with total loans worth of EGP 7.1 billion where microfinance lending agencies reached 842 with 1657 outlets that cover most of Egypt's governorates (CBE, 2018). FRA has also offered microfinance insurance schemes that helped insurance companies to offer insurance policies against potential risks of SMEs default of micro loans that resulted in covering more than 513 thousand borrowers. Microfinance companies and credit guarantee companies have obvious outcomes on SMEs that helped many small businesses to have access to finance (Alshyab et al., (2018). To attract another important segment of society to be financially included, the CBE alongside the FRA formulated mortgage finance loans to low- income retail clients which are important constituents of FI national strategy.

IFC (2011) showed that the imperfect financial market infrastructure does not organize, help, or regulate the adoption of suing movable assets as collateral for secured lending or encourage financial institutions to accept movable assets because of weak regulations or rigid judicial system. As it has been explained earlier that SMEs have access to movable assets more than immovable assets which may help in securing finance for small businesses, the FRA cooperated with the ministry of Investment and Cooperation, and the CBE to establish Egyptian Movable Collateral Registry system that helps small business to use their movable assets as collateral against their credit exposure. The law no 115 for 2015 sets the directives, rules, and regulations for using movable assets as collaterals for SMEs credit exposure from financial institutions. According to FRA, the new law of movable assets registry will help in having active non-banking active market lending for small businesses such as microfinance and leasing. The movable assets registry system has been active since March 2018 in cooperation with I-score Company that lists the movable assets as collateral in company's commercial register. There are many positive outcomes for such law such as decreasing the SMEs default and lending risk, increasing mutual trust and confidence between financial intermediaries and SMEs, attracting SMEs to formal sector by seeking finance, supporting the leasing financial market in Egypt, and sets clear map about the legal ownership of the movable assets between the financial intermediary and the company. The ultimate outcome will be very conducive in creating more finance options for SMEs with lower interest rate with the existence of collateral.

National Council of Payments:

A very ambitious step towards FI was taken in 2017 when a presidential decree number 89 for 2017 was ratified by the Egypt's president to establish National Council of Payments (NCP) where the core of the mandates of NCP include pursuing different policies to decrease cash transactions outside the banking system, incline towards new electronic payment services, attract informal sector to formal economy, and reduce the cost and risks of money transfer (Nasr et al., 2018). The NCP issued its main mandates and goals, which includes but not limited to the following:

A- Working on the development of national payment system that offers reliable, secured payments with low operational risks

B- Realizing progress in terms of financial inclusion by working on attracting the unbanked segments to the banking system.

C- Creating incentives for informal sector to be financially included, reducing the transaction costs, and increasing tax revenues.

To achieve NCP mandates, certain requirements, and regulations were put to achieve its goals which include the following:

A- All governmental bodies, and local administration have to honor their commitments to suppliers through checks or banks for any transactions that are more than EGP 20,000 by 2018.

B- All governmental authorities that offer public services which deal with citizens are ought to develop non-cash internal payment systems such as POS within two years.

C- Mobile Banking services openings fees are free and transfers are 50 % less till March 2019 (CBE, 2017)

D- Issuing more than 4.5 million cards for more than 2,800 ministries, and governmental institutions civil servants, as well as around 7 million pensioners.

E- Issuing a national payment card "National Card Scheme" that citizens could use in paying any fees due to different governmental bodies. The card was successfully launched in December 2018 under the brand name "Meeza Card".

Ministry of Finance:

The ministry of finance has stated some steps to support financial inclusion as part of its mandates as fiscal policy caretaker. Since January 2019, the MOF has built a digital platform for taxation filing system has become online for taxpayers and no more paper tax files accepted (PWC, 2019). In cooperation with the CBE, MOF introduced Government Fiscal Management Information System (GFMIS) that all government entities to honor their payments through banks electronically. Also, the Egyptian Taxation Authority is working on establishing POS platform for schools and restaurants so that parents and clients can pay their fees or dues and such future practice can help citizens to move gradually to less cash transactions and help the government to estimate the actual value of taxes that should be paid by different entities. In a newspaper interview, one of the heads of the taxation authorities said that “More than 365,000 tax files have been introduced since January 2019 after applying the electronic tax filing system” highlighting the increase in number of tax files (MOF, 2019). In March 2019, the parliament has ratified the law of “Non Cash Payments” which aims for decreasing the volume of cash transactions. The main articles of the new law works on increasing the non-cash transactions for major payments such taxes, customs, donations, salaries, and all utility and governmental payments (FRA, 2019).

Future Plans:

To continue the national efforts of achieving financial inclusion, the different stakeholders have embarked on an ambitious plan in the near future that contains different policy tools (Nasr et al., 2018). First, the CBE is studying the feasibility of introducing electronic KYC (e-KYC) in accordance to opening accounts rules and Anti Money Laundering (AML) which could help in attracting new entrants to the financial services without having to be physically present. Second, the CBE is working on establishing a fund worth of EGP 1 billion to support “innovative ideas with respect to financial technology and payment systems” and companies who are operating in financial technology industry. Third, the CBE is preparing a study of the soundness of establishing a fully-fledged electronic banks that offer all services offered by normal banks and only requires smart phones and a personal photo to perform the financial services needed. E- Banks will be able to attract good segments of society such as youth and entrepreneurs to the financial sector. Fourth, the CBE governor explained recently that the CBE is considering the feasibility of having full-fledged SMEs banks in Egypt

Chapter Five: Research Methodology and Key Findings

5.1 Methodology, Data Collection, and Sample Design

The research applies a qualitative approach, depending on both primary sources and desk research. Qualitative research through using interviews helps the researcher to get into human interaction and open rooms for exploring different dimension of the topic with interviewees. Data is gathered from reviewing the national and international reports, in addition to conducting in-depth interviews. The qualitative approach is used to be able to find out the barriers that face promoting financial inclusion in Egypt for SMEs and individuals, in addition to describing and analyzing the different policies that are implemented by regulatory bodies and other stakeholders.

In depth interviews were conducted through one to one meeting with the targeted sample of interviews. The process of data collection timeline took around one month of contacting and taking appointments from the participants while the duration of the interviews varied from 45 to 60 minutes. The questions were structured to explore the views of the interviewees about financial inclusion in Egypt, the obstacles encountered by both providers and users of financial services (individuals and SMEs), the perception of experts about regulatory framework, and their different suggestions for better inclusive financial system. The list of questions were different based on the background of the interviewees where questions for policy makers, experts, and financial institutions were different than the questions addressed for the beneficiaries of the financial services. Approaching the interviewees was not an easy job especially when it comes to approach regulatory representatives.

5.2 Sample Selection

The study uses a purposeful sample for conducting in-depth interviews with different stakeholders of financial inclusion that include decision makers, policy makers, financially excluded segments, and beneficiaries of financial inclusion. Interviews were to be designed in a way to get valuable data that could be used later to conduct the key findings of the study. In order to have a rich content that can be analyzed in later stages, interviews were designed to target different segments of involved stakeholders of financial inclusion to get a broader scope of knowledge and experience of the informants.

The first step was the interview selection process strategy through picking and selecting people from diversified backgrounds to get the thoughts, insights, life experiences, recommendations of the interviewees that represent experts, regulatory bodies, users of financial services, and providers of different financial services. The second step was to align the primary collected data from interviews with the available literature about the financial inclusion in terms of supply and demand barriers, and Egypt's policy to promote it to assure the alignment between the accuracy and reliability of primary research data. Based on the classification and selection criteria of interviewees, nine interviews on one to one basis were conducted.

- Interviews with decision makers or providers of financial services at Commercial Banks: (regulatory representatives)

Throughout this research, it has been obvious that one of the major supply barriers closely related with financial exclusion is the limited capacity of the legal and regulatory framework. As a result, it was important to reach and interview representatives from the regulatory bodies to their different views about the financial inclusion, their policy framework. The interviews were useful and informative about giving an introductory background about financial market structure and their action plans for promoting financial inclusion

- Interviews with Micro Finance Institutions (MFIs):

The literature review highlighted the importance of MFIs in offering micro loans for households and small businesses especially for informal sector and women. There was a pressing need to interviews representatives of MFIS about their views of the demand barriers of financial inclusion, their own experiences with users of micro loans, and their perception about the banking services versus the non-banking financial services in terms of convenience to the users. The informant sample included representatives for four different MFIs who are working in Upper Egypt with an emphasis on rural areas.

- Interviews with citizens who are not having access to financial services:

Part of the study aim was to explore the views of the financially excluded groups about their motives not to be part of the formal financial system and their level of awareness about financial systems. One interview was conducted with a man in rural areas about his own experience in dealing with financial services.

-Interviews with citizens who are having access to financial services through MFIs:

There is a fair percentage of the citizens who prefer to finance their micro projects through MFIs rather than banking products. The two conducted interviews were great means to find out how citizens differentiate about non-banking financial services versus banking financial services.

-Interview with a representative of Non- Governmental Organization (NGO):

The policy interventions made by different regulatory bodies are coordinated and collaborated with NGOs that work in financial inclusion of SMEs. The expert gave a good explanation about the collaborative efforts between governmental bodies and civil society in promoting financial inclusion.

- Interview with university professors in the fields of economics and public policy:

University professors in the field of economics and public policy are part of the interviewing process to get their insightful feedback and assessment about the official policy intervention and the positive outcomes of financial inclusion as well as exploring the experiences of other countries.

5.3 Data Analysis:

Most of the interviews were transcribed and the analysis of the transcription was done without software usage. The conceptual framework sets the guidance and roadmap for data analysis that interviews questions and answers were matching the different dimensions of the conceptual framework. The interview results were categorized in terms of supply and demand side barriers of financial inclusion, and government's policy framework in terms of financial market structure and overhaul of regulatory and legal framework.

5.4 Ethical Considerations:

It was important to keep the confidentiality and anonymity of the participants preserved and guaranteed to the highest possible level with no kind of harm. The AUC Institutional Review Board (IRB) approval was received on the 26 of March 2019 before any data collection activity. The different possible ethical considerations were put as top priority before collecting data. To ensure voluntary participation, oral and written informed consents were received from the participants prior to interviews.

5.5 Limitations and Delimitations of the Study:

There are many limitations that evolved during this research framework where the main challenge was the access to information from key regulatory bodies due to the confidentiality of information. In addition, it was hard to reach out regulatory bodies' representatives because of their limited time or the confidentiality of the financial inclusion future policies. Moreover, there is a little literature available about assessing Egypt's experience in promoting financial inclusion because it is a new area of research. In addition, it is very hard to see the overall impact or the fruits of the financial inclusion in the short term especially with the new emerging laws and policies yet to be reinforced.

Chapter 6: Data Analysis and Findings:

The conducted interviews were very helpful and insightful in terms of the richness of information about financial inclusion status in Egypt, the different barriers that hamper having inclusive financial system that could attract different excluded groups and the CBE, FRA, MOF efforts to advocate financial inclusion through various policy interventions. The collected data from primary resources were articulated into two main categories that match with the conceptual framework which are the supply side and demand side barriers of financial inclusion that encounter individuals and SMEs from one side and the implemented policies and initiatives by policy makers from other side.

Barriers that hamper the financial inclusion of Individuals and SMEs:

The classification and distribution of financial inclusion barriers was introduced in the conceptual framework. The respondents have classified the barriers as demand and supply side barriers when it comes to their own different experiences with financial inclusion. The supply side barriers that were mentioned interviews are related to the limited capacity of the regulatory and legal framework as well as the deficiencies of the current financial market structure. The participants have highlighted that the supply side barriers for individuals or SMEs comes with little differences. One of the interviewees who works at a commercial bank (Interviewed in April 2019) explained that "*The different financially excluded groups whether households or SMEs encounter the same level of difficulty when they apply for a saving account or loan application*". Another representative for MFI said that *"Many citizens are very reluctant to resort to banking services because of the different rigid requirements such and the personal beliefs of users of financial services".* It was obvious that a gap still prevails between the financial institutions and the users of financial services.

6.1 Demand Side Barriers:

A- Absence of Collateral:

The literature highlighted that most of the financial institutions require collaterals form households or SMEs to be secured against potential probability of default. The different participants agreed that collateral constitutes a major barriers in terms of accessibility to financial services. A non-user for financial services (Interviewed in March, 2019) explained that "*Although I have my own small business that needs more capital for growth, I will not apply for banking finance because they will ask for collaterals".* In addition, an NGO manager who works with SMEs added that *"One of the major challenges for SMEs finance is the unavailability of collateral"*. A senior SMEs manager in a private bank (Interviewed in April, 2019) stressed that *"Many banks' internal loan procedures require collaterals to lend individuals or SMEs especially if they are new entrants to banking".* The absence of collateral decreased the opportunity of individuals and SMEs to apply for credit solutions or resort to other finance options with a higher relatively interest rate.

B- Financial Illiteracy or Low Financial Awareness:

One of the main demand side barriers discussed in the literature review is the low level of financial awareness of the users or clients about different financial terminologies, and financial products offered by different financial intermediaries. The participants in this study have a complete agreement that there is high discrepancy in the financial awareness level in Egypt about the financial markets. A senior manager in NGO (Interviewed in April, 2019) said" *many citizens and SMEs are having minimal level of knowledge about the existence and products of the financial institutions".* In addition, the NGO manager added that "*SMEs are having low capacity in terms of offering their financial performance or presenting their business idea to financial institutions".* A credit application manager in microfinance company (Interviewed in March, 2019) said that

"Many individuals and small businesses prefer to borrow from microfinance firms with higher interest rates rather than borrowing from banking institutions because of cultural barriers".

A user for financial services through microfinance agencies explained that *"I am not familiar with the financial services offered by banks and I prefer to use micro loans because they are simpler in requirements and reachable for me"*. A senior credit manager in private commercial bank assured the same remarks by saying that "*Banks encounter many difficulties to convince individuals and small businesses to use savings schemes or loans because many clients find difficulty in comprehending the financial terminologies, filling the bank forms or the sophisticated calculations of interest rates and maturity*. Based on the explanations of the participants, low levels of financial awareness comes in the heart of the demand side barriers.

Many individuals and SMEs are facing difficulties in adhering to financial institutions requirements due to the high percentage of informal sector in Egypt where around 40 % of Egypt's economy is estimated to be informal with high dependence on cash basis transactions (PWC, 2019). In addition, the different potential beneficiaries of financial system depend primarily on using informal channels for savings and borrowing activities (IFC, 2010). A credit manager in MFO (Interviewed in March, 2019) said that "*Different households and small businesses are less acquainted with the different financing schemes available other than banking channels*". In addition, individuals and households are having relatively limited financial skills in terms of presenting their financial performance proof (OECD, 2013). A senior manager in a government affiliated training agency said that "*There is low level of mutual trust between citizens and SMEs from one side and the financial institutions from other side."*

A general consensus among interviewees that limited financial awareness represents a major barrier for individuals, entrepreneurs, women, and small businesses. Financial illiteracy includes either limited understanding for the financial service and products or filling the financial application forms in addition to the limited capacity of beneficiaries to offer proper presentation about their projects or business needs.

6.2 Supply Side Barriers

A- Regulatory and legal Framework

Many studies stressed that regulatory and legal barriers is a major supply side factor when it comes to the promotion of financial inclusion. An expert in NGO (Interviewed in April, 2019) explained that "*Banks's requirements such as KYC deprive many clients from being able to open a bank account to save or get a loan because KYC requires to have a profession or business in accordance to the Anti-Money Laundry practices which represents a barrier for citizens who are working in causal jobs*". Another participant who does not have a bank account said "*I tried to open a bank account several times, but I could not because the bank's representative told me that I should have a written profession in my National ID*". It can be concluded that rigid requirements set by regulatory bodies discourage many households or small firms to get into formal sector because it is hard to abide by such inflexible requirements (Ahmed, 2013).

In addition, most of the financial institutions prefer to work and extend loans to beneficiaries who are having prior credit history to be able to assess the creditworthiness of the households or small businesses. A senior manager in private commercial bank explained that *"Banks set priority for the customers who have credit history that could help banks to see the client's conduct and firmness in paying their dues in a timely manner*". Financial institutions' main mandate is increasing profits with the minimal level of risk exposure. A manager in MFI explained that" *I-Score system helps our company to measure the creditworthiness of the loan applicants and we are inclined to lend clients who have prior credit history".*

B- Financial Market Pitfalls

Limitations of the financial markets are considered cornerstone in the supply barriers. Part of the financial market limitations is the capacity of the financial institutions. The participants explained the financial markets lack many essential factors that could help in offering diversified financial services for the less fortunate groups. A manager in MFI (Interviewed in March, 2019) said that" *Most of the financial institutions do have tailored programs that match the need of households or SMEs where few financial institutions can offer flexible saving or finance schemes*". A senior manager in commercial bank stated that "Banks were not familiar with SMEs in terms of their definition, scope of work, or their needs till 2009".

Another aspect of financial market limitations is the availability of unified aggregated databases that can create credit history for clients. A manager in an NGO said that "*Kenya overcame the problem of the need of credit history by designing databases for all citizens based on their consumption patterns and their behavior and conduct in paying the utilities such as water and electricity bills which helped Kenya to successfully include around 70 percent of the financially excluded groups*". There is a need for having well-connected governmental databases similar to the experience of Kenya that could support financial institutions in assessing the credit history of the new users of the financial services.

An expert in financial markets (Interviewed in April, 2019) explained that "*Small businesses believe that credit application can be done only through banks or microfinance*". Non-banking financial markets in Egypt such as factoring, leasing, bonds market are less developed compared with banking intermediaries (Alshyab et al., 2018). Furthermore, the participants agreed that the existence of financial institutions are not evenly dispersed across Egypt's governorates. A credit manager in MFI said that "*Financial institutions lack presence in remote areas and villages* *which makes citizens are less motivated to incur extra effort and costs to use financial services. On the other hand, "MFIs are having better presence in villages close by the less fortunate households and small firms."* It was explained in chapter four of the financial market background in Egypt, total number of commercial banks is around 3,800 branches while the only bank that has presence in countryside is Egyptian Agriculture Bank (CBE, 2018; Alshyab et al., (2018).

6.3 Assessment of Different Stakeholders to Egypt's financial inclusion policies

One set of the interview questions addressed the different policies and initiatives that are launched and implemented by regulatory bodies such as MOF, CBE, and FRA to promote financial inclusion. An essential part of this research is the identification, measurement, and assessment of the soundness of the Government of Egypt's financial inclusion policies. The conceptual framework has divided the role of government as policy maker into three main mandates which are enhancing the regulatory and legal framework, better financial market infrastructure, and offering market developments.

Contributors to this study expressed different views and perceptions about their level of satisfaction about the implemented policies of financial inclusion in Egypt where some participants agreed that the financial inclusion policies started to realize its outcomes, other disagreed that more inclusive and innovative policies should be presented. When asking about SME's inclusion, a financial expert works in a governmental affiliated agency explained "*The CBE made a successful leap in including many informal businesses through the 5 % interest initiative which created good incentives for informal sector to go formal and apply for a finance with low interest rate*". A senior SMEs manager in a private bank (Interviewed in March, 2019), highlighted and praised the collaborative efforts between FRA and CBE in establishing Movable Assets Registry by saying that "*Movable Assets Registry will help many SMEs and open the room for many finance* *opportunities because banks and leasing companies can lend SMEs against movable assets which are considered collaterals now; using movable assets as collateral will gradually eliminate the absence of collaterals".* As it has been explained earlier that FRA ratified a new law in 2018 that organizes the usage of movable assets as collateral and offered the mechanism of listing the movable assets in the company's commercial register in cooperation with I-score Company. When asking about the new laws of factoring and leasing, a manager in an NGO said "*There is an expectation that the new issued laws of factoring and leasing will help in offering different financing solutions to SME*". When asking about the major policies that were taken recently to support financial inclusion, financial expert works in a governmental affiliated agency explained "*establishment of National Council of Payments remains the major policy framework since NCP gathers the different regulatory stakeholders and it has clear mandates of shifting towards to cashless economy".* When asking about Egypt's experience in using financial technology, an expert in financial technology who was interviewed, "Egypt *has a great change in achieving financial inclusion by encouraging financial technology solutions and Kenya is a successful example for the positive outcomes of financial technology on having inclusive financial system*". "*Kenya implemented M-Pesa mobile payment application that encourage many citizens to use financial services*".

6.4 Positive Outcomes of financial inclusion

Case Study: Impact of Access to financial services

Two of the inspiring participants have shared their project's success story through having access to financial services by having a microfinance loan. The first success story is for a man (M.F) who is living in a country side. M.F explained that (Interviewed in March, 2019) "*I had very minimal income through working in agriculture and receiving my income on daily basis that varies based on the different agriculture seasons in the village*". He added that "My friends advised me to apply for a microfinance loan worth of 1000 EGP to buy one goat through Micro Finance Agency". M.F added that" *I was not quite positive about how successful will be the business and I was afraid of getting the micro loan as I have never applied to bank loan*". He continued by saying "*I am selling the dairy products of milk from the goat to different neighbors to increase my income*." In assessing the impact of the micro loan on M.F's financial status, he added that *"I successfully repaid my loan in a timely manner, and I got another loan while the number of goats increased from one to three goats*". This inspiring story shows the fruitful results of increasing access to financial services especially for financially excluded groups on their well-being and income. M.F finalized the interviews by saying" *Microfinance agencies helped many unemployed youth to find jobs or have their own small business; unemployment in our village decreased significantly*". The first case study validities the finding of the literature that the financial inclusion could trigger growth for small businesses through microfinance (Nasr & Pearce, 2012).

The second case study is for a woman (S.N) who is living in the same village. The woman started her interview (Interviewed in March, 2019) by saying that "I *used to be a housewife with no job with no other source of income*". S.N elaborated latter that "*My relatives urged me to apply for a micro loan through a certain microfinance company that gave many loans to other neighbors and to my close relatives to open a mini marke*t". Later, S.N explained that *"I applied for a micro loan worth 500 EGP to buy small dairy products to be sold in the mini market located in our house*". S.N ended her story by proudly saying" *I was fortunate to increase the sales of my own mini market to repay the loan and get a higher loan worth EGP 3000; and I am currently a working woman"*. The second case study coincides with literature findings that women have good financial and managerial skills (Swamy, 2014) while access to finance helps indirectly in women empowerment by having their own project (Prina, 2015).

Chapter 7: Conclusion and Recommendations:

Based on the analysis that has been done throughout this research, it is pivotal to try to draw policy recommendations that could help policymakers in reinforcing financial inclusion and higher level of awareness about it across different stakeholders in Egypt. Although the Government of Egypt are taking many ambitious steps to promote financial inclusion, there are more policies, plans, and actions to be implemented for further developments.

Legal and Regulatory Framework: (CBE, and FRA)

There is a strong need from the governmental side to advocate financial inclusion awareness in the educational curriculum in different stages of education to work on tackling the low level of financial awareness among citizens that has been identified as part of the demand side barriers. The CBE should continue providing the subsidized lending interest rates initiatives for households and SMEs to attract larger segments of the informal sector which is the major segment of the financially excluded groups. Low interest rates will create motive for SMEs and households to apply for different array of loans schemes. In addition, commercial banks should create tailored lending programs that could fit the needs different groups of households and SMEs. Furthermore, the CBE should encourage banks to accept movable assets as collaterals in wider scale which open many growth opportunities for many businesses especially in informal sector with minimal physical assets. Acceptance of movable assets will help alleviating one of the major demand side barriers.

The FRA should initiate and draft new laws with regards to the creation of micro saving agencies which will be a great step towards having active market for micro savings that belong to informal sector individuals and small businesses. An expert in financial industry was interviewed explained that "*Micro Saving agencies will help in attracting the savings of the informal businesses, and building a mutual trust between financial institutions and the users of financial* *services. In addition, micro saving agencies will help in lowering the interest rates of microfinance loans"*

Although many developments have been introduced to the banking sector, the non-banking sector is still relatively underdeveloped. Microfinance, leasing, and insurance services could trigger the growth in financial inclusion level in Egypt. Also, the newly issued laws of factoring and leasing should be reinforced and be active in place as factoring and leasing offer very active and innovative short and long term financing schemes for small businesses. As it has been found in the primary research that MFIs are key player in reinforcing financial inclusion in less fortunate areas with respect to outreach and efficiency, the FRA needs to offer different tailored financing programs for households especially women and small firms. In addition, FRA should offer capacity building technical and marketing trainings for the staff who work in MFIs

Regulatory bodies represented in CBE, MOF, and FRA need to continue its mission of advocating financial inclusion through urging its different groups such as commercial banks, microfinance agencies, leasing, factoring, and insurance firms to invest, build, and support different existing and innovative financial products, financial technology, financial infrastructure.

Market Development:

The literature have shown the growing importance of financial technology in achieving progress in financial inclusion. The CBE and the MOF should embark and invest on Financial Technology Solutions. "The success of mobile money illustrates the transformative potential for technical progress and innovation on financial. Mobile money—sometimes a form of branchless banking—has allowed people who are otherwise excluded from the formal financial system to perform financial transactions" (Demirgüç-Kunt and Klapper, 2013). Regulators of financial market in Egypt has to urge banks and non-banking institutions in investing in financial technology solutions and offering online financial services for the vast majority of the clients which will have an optimal result in financial inclusion (Alshyab et al., (2018) . In 2019, banks such as National Bank of Egypt and Credit Agricole opened E-branches which offer full-fledged electronic services. The Government of Egypt should benefit from Kenya's experience in using financial technology implementation through M-Pesa.

One of the key supply side barriers that was addressed in the literature is the market structure imperfection and the low capacity of financial institutions in offering tailored financial services to financially excluded groups. It is imperative that the financial institutions work on enhancing the capacity of its staff as well as the internal procedures in order to offer tailored financial products as well as offering and marketing financial services in simple convenient way that could be easy to comprehend for different targeted groups. In order to tackle the geographical outreach of financial institutions, the different regulatory bodies should make a better utilization for the Egyptian Post Offices. As it has mentioned earlier that the number of post offices in Egypt is almost the number of commercial banks collectively. That being explained, commercial banks and MFIs should cooperate and coordinate with the Egyptian Post in offering co-branded financial services.

Conclusion:

There is a global agreement that financial inclusion is a great tool for development and growth across different countries especially in the MENA region where financial inclusion is placed a top priority in the SDGs. Access and use of finance has positive outcomes in the macro and micro economic levels. Inclusive financial system helps less fortunate groups to accumulate savings, honor their payments, and secure finance for their different needs of healthcare, education, and housing. In addition, access to financial services help in better women empowerment by starting, running, and achieving success for their startup businesses. Also, entrepreneurs could benefit from using different finance schemes to support their entrepreneurial projects. SMEs are also major beneficiary for sound financial system as access to finance represented the major obstacle for SME's to grow, succeed and to be part of formal sector. There are barriers for achieving higher level of financial inclusions that include supply side and demand side barriers. Supply side barriers include legal and regulatory framework, market structure imperfections, and limited capacity of financial institutions. On the other hand, demand side barriers include financial inability of users of financial services, and low level of financial literacy among users of financial services. Reinforcing financial inclusion policies are benefiting different stakeholders in the society from policy makers, women, youth, SMEs, and entrepreneurs in terms of having sound financial stable system, accumulating savings, offering convenient safe payment solutions, bridging gender gap, offering good investment and finance schemes, job creation, decreasing unemployment, reducing inequality, combatting poverty, and achieving inclusive growth.

The Government of Egypt represented in its regulatory bodies CBE, FRA, and MOF initiated many encouraging steps in terms of establishing friendly environment, sound regulatory framework that includes many financially excluded segments of the society. The Government of Egypt has achieved a progress in terms of promoting financial inclusion in the policy making level. Although a noticeable progress has been achieved, more policies and programs are to be continued developed in the short and long term run. The successful international experience of Malaysia in using Agent Banks to attract informal sector and less fortunate groups as well as Kenya's experience in using M-Pesa to use financial technology payments to tackle financial inclusion barriers are good examples that should be followed and tailored in the Egyptian context.

To have a financial inclusive system, more investments should be directed to financial awareness education and campaigns especially in educational curriculum, supporting financial technology mechanisms, having better dispersed geographical presentence to financial institutions of banks and MFIs. Furthermore, financial institutions should work on capacity building of its human resources and financial infrastructure to offer better tailored services to clients and to deal with clients with limited financial literacy. Since MFIs are good tool for reaching out financially excluded groups, MFIS should be having a wider role in reaching out less fortunate groups be by offering tailored finance and saving schemes. Financial inclusion is not only about the presence of financial institutions and having access to financial services, but also with the quality of financial services offered as well as offering tailored financial services that fit the needs of different groups of youth, SMEs, women, entrepreneurs.

Annexes

Annex 1: Interview Questions

A. Questions for the Regulatory Bodies and Financial Institutions

(Central Bank of Egypt and the Ministry of Finance, Commercial Banks

1. What are the main programs that were launched during the last two years for supporting financial inclusion?
2. What are the next steps that are planned during the current phase of reinforcing financial inclusion?
3. Who are the targeted group to be part of the Financial inclusion?
4. What are the main challenges that encounter the application of financial inclusion in Egypt in response to your policies?
5. Do we have any aggregated data on targeted groups and accurate percentage of the current level of financially included people?

B. Questions for Beneficiaries from Financial Inclusion:

1. How did you get to know the financial services offered?
2. How do you see the definition of financial inclusion
3. What was the motive for exploiting such benefit?
4. What was the impact of having access to financial services on your personal or professional life?
5. How does your friends or relative perceive financial services?
6. What was the best way for saving your money/ means to support your business before microfinance agency finance?
6. What was the best way for saving your money/ means to support your business before microfinance agency finance?
7. Why have not you thought before of using the different financial services offered (i.e having a bank account, getting a perusal or business loan?

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