Role of the financial sector

by Noha Emara

Amira Boshra, Research Analyst
Yunshan Qin, Research Assistant

07

> A major driving force is the development of digital technology, bringing about critical changes to both banking and non-banking institutions.

A. An overview of the financial sector in Egypt

The development of the banking system in Egypt can be traced back to the mid-nineteenth century, when the growth of the cotton industry and the opening of the Suez Canal led to an inflow of foreign capital. In response, a few local banks were established, including the National Bank of Egypt, which was founded in 1898 with the assistance of the British. It was also a time when foreign banks emerged and grew. Their business depended heavily on crop export finance, agricultural credit and mortgage facilities for residential buildings with high interest rates. Nevertheless, there were almost no instruments provided to small businesses, so the informal financial market (also known as the "non-organized" market), with its punitive interest rates, was their only option for access to funds.

The financial sector of Egypt was largely influenced by the transition from socialism (1959–1972) to capitalism (beginning in 1973).

Between 1960 and 1990, the Egyptian financial economy was heavily repressed by frequent government intervention in the market mechanism. In particular, the Government formed the CBE and drew a clear distinction between commercial banks and special institutions. It also set ceilings for nominal deposit and lending interest rates, enforced a high ratio of required reserves and decided the allocation of credits to different projects. In 1991, however, Egypt began an economic reform programme, including a financial liberalization policy, following the recommendations of the World Bank and the IMF. This decision improved the efficiency and transparency of the financial sector, and it gradually stabilized. It now enjoys a more solid foundation.

Moving forward to 2030

The financial sector has undergone significant changes since the 2015 Addis Ababa Action Agenda. A major driving force is the development of digital technology, bringing about critical changes to both banking and non-banking institutions. Despite raising concerns in terms of cybersecurity, the broad use of digitization enhances financial inclusion and increases the efficiency of financial activities with lower transaction costs. As Egypt works to achieve the SDGs by 2030, the unexpected outbreak of COVID-19 has imposed greater challenges, both locally and globally. Taking into account the current situation, the sections of this chapter will elaborate on the role of the financial sector in Egypt concerning the six aspects listed below. The main objectives of this chapter are to analyse the performance of the banking and non-banking financial sectors, assess the role of informal finance and the private sector, and discuss the challenges as well as new opportunities to finance sustainable development and close financial gaps.

(a) Dominance of the banking sector

In Egypt, banks play a dominant role in the formal financial sector, and the efforts of the CBE to strengthen the banking sector and achieve financial inclusion cannot be overlooked. Nevertheless, the current size of the banking sector does not entirely meet the demands and needs of all people and businesses in Egypt. This section will discuss traditional sources and the relatively low cost of finance, the limited access to finance and the way in which traditional banks tend to favour large firms and ignore the financial needs of SMEs.

(b) Limited role of non-banking financial institutions

The non-banking financial sector in Egypt is relatively small in market size and highly underdeveloped. It has a small insurance sector; limited private equity, hedge fund and pension fund activity; and underdeveloped capital markets. This section will discuss the features of the current non-banking financial sector and analyse the potential role of pension schemes and contractual savings institutions.

(c) Informal finance

To address the undersupply of financial services in the formal financial market, informal finance has emerged and thrived in Egypt. It has become quite popular among households and SMEs, which have limited or no access to formal finance. This section aims to explore the role of informal finance in Egypt by analysing the way in which low financial inclusion contributes to the growth of this sector and how informal finance operates to provide financing to its target population.

(d) Financing for sustainable development

Egypt must develop a financing strategy to implement the 2030 Agenda in order to promote inclusive economic growth, protect the environment and enhance social inclusion. It is worth noting that the CBE issued specific guidance on promoting FFD. Several sources of finance to consider are taxes, domestic investment, foreign direct investment, portfolio investment, remittances, loans and ODA. This section introduces the situation in Egypt since the Addis Ababa Action Agenda, potential financing sources and estimates of financing gaps.

(e) Potential role of the private sector in closing financing gaps and supporting development objectives

The private sector can play a crucial role in ensuring that there are sufficient funds to close the financing gaps in Egypt. Securitization, a process of transforming an illiquid asset or group of assets into a security through financial engineering, is one of the ways to attract private investment. This section will focus on using financial leverage through securitization, blended finance and public-private partnerships to boost private sector contributions to financing development projects. It will also address non-banking financial development.

> Egypt has one of the lowest ratios of private credit to GDP in comparison with other countries in the MENA Region.

(f) Unique financial challenges and policy implications

Given the current situation in Egypt, the financial challenges must be acknowledged. Only when the challenges and problems are addressed can Egypt move towards achieving the SDGs. This section is therefore dedicated to identifying the challenges of financing gaps, understanding the role of non-traditional financial sources in meeting the Goals and exploring the role of financial technology.

Before addressing these topics, the next section will introduce a simple conceptual 4x2 framework that lays out the basic structure of the financial sector in Egypt. This framework serves as a baseline to facilitate an understanding of the later sections.

B. The 4x2 framework

The financial sector in general has two components: financial institutions and financial markets. Financial institutions are corporations dealing in financial services and monetary transactions, such as deposits, loans, currency exchange and investments. Commercial banks, investment banks, trust companies, brokerage firms, investment dealers and insurance companies are examples of financial institutions. They function as intermediaries of financial markets. Financial markets, on the other hand, are any markets in which the trading of securities occurs. Examples include the bond market, stock market, foreign exchange market and derivatives market. The two components combined provide a holistic view of the financial sector.

There are three main types of financial institutions: depository institutions, contractual institutions and investment institutions. Depository institutions refer to deposit-taking institutions in charge of deposits and loans, including commercial banks, credit unions, trust companies and mortgage loan companies. Contractual institutions generally include insurance companies and pension funds. Long-term liabilities and stable cash flows are characteristics of contractual savings institutions that make them ideal providers of term finance. Investment institutions include investment banks, underwriters and brokerage firms.

There are various ways to understand and categorize financial markets. One is to divide the markets into primary and secondary markets. Primary markets create securities, and newly formed securities are bought and sold. A classic example is the initial public offering. In contrast, secondary markets handle the buying and selling of existing securities, with transactions occurring among investors instead of between issuers and investors. Another way to view the financial market is to divide it into capital markets and money markets, the former referring to long-term finance such as bonds and stocks and the latter concerning short-term debt financing and investment.

An in-depth analysis of financial institutions and financial markets is required to fully examine the financial sector. In order to measure financial development more accurately with respect to economic growth and poverty reduction, the World Bank Global Financial Development Database has developed a 4x2 framework, which consists of four dimensions: financial depth, access, efficiency and stability. Applying these four dimensions to both financial institutions and financial markets should, in theory, provide a holistic view of the level of financial development in a specific economy.

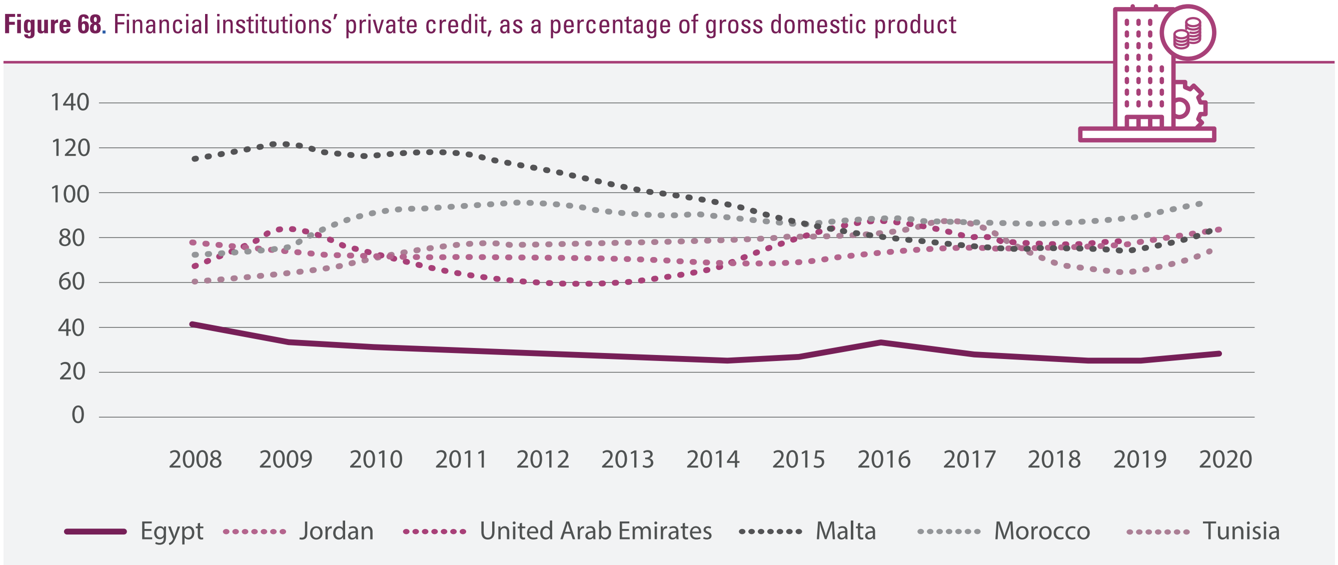
1. Financial depth

Financial depth generally captures the financial sector relative to the economy in terms of size and level of economic output. For financial institutions, some key measurements include private sector credit, financial institutions' assets, M2, deposits and gross value added by the financial sector as a percentage of GDP. In particular, a higher proportion of private credit to GDP is an indicator that the economy has a relatively deep financial system. According to the latest available data, as presented in figure 68, Egypt has one of the lowest ratios of private credit to GDP in comparison with other countries in the MENA Region, at 27 per cent in 2020. Jordan has a ratio of private credit to GDP of 83 per cent; Malta has approximately 84 per cent. This disparity highlights the fact that Egyptian financial institutions still need to work harder to achieve greater financial depth. Furthermore, as shown in figure 69, towards the end of 2020, the proportion of private business sector credit to total credit decreased to approximately 20 per cent, nearly half its level in 2010. This decrease in private sector credit can be attributed to the impact of the global financial crisis of 2007 to 2009, the 2011 Arab revolution, the floating of the Egyptian pound and the impact of COVID-19.

“

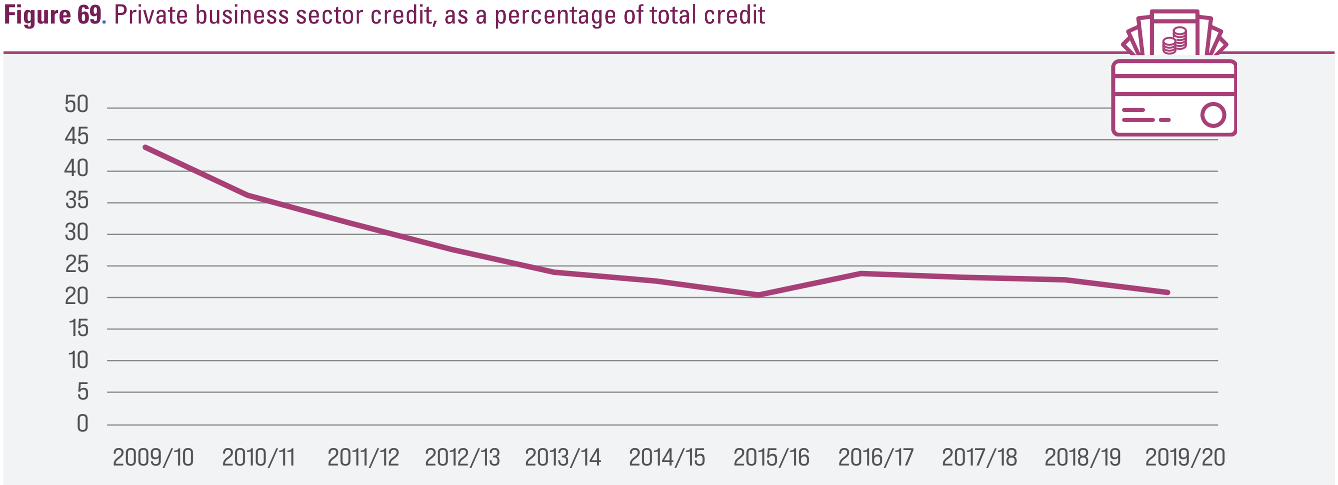
In particular, a higher proportion of private credit to GDP is an indicator that the economy has a relatively deep financial system.

Figure 68. Financial institutions' private credit, as a percentage of gross domestic product



Source: Author, based on GFD, 2019

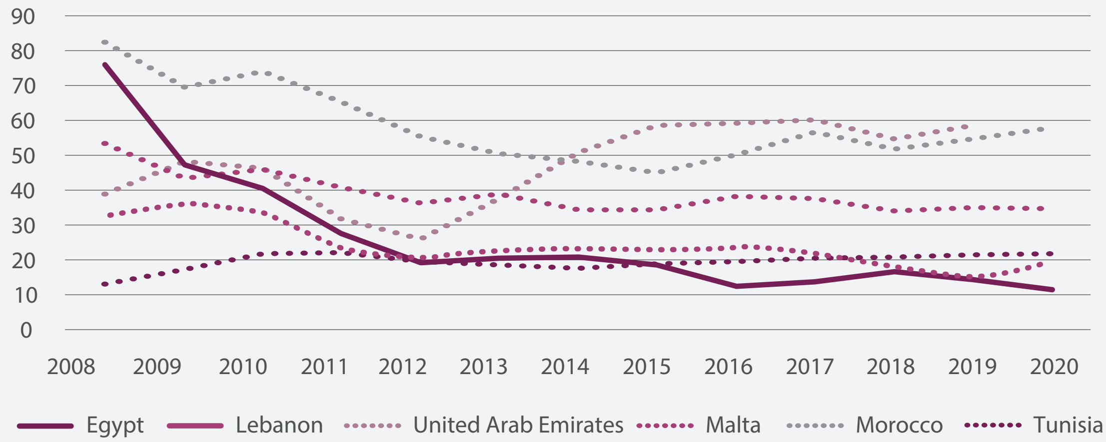
Figure 69. Private business sector credit, as a percentage of total credit



Source: Author, based on the annual reports of the Central Bank of Egypt.

For financial markets, some key measurements of financial depth include stock market capitalization and the ratios of outstanding domestic private debt securities to GDP, public debt securities to GDP, international debt securities to GDP and stocks traded to GDP. Of those, the stock market capitalization-to-GDP ratio is the most common way to approximate the size of stock markets, while the ratio of outstanding volume of private debt securities to GDP is the most frequently used indicator to measure the size of the bond market. Countries with deep financial systems tend to have larger percentages. The stock market capitalization-to-GDP ratio of Egypt was one of the highest in 2008, but it quickly dropped significantly and is currently one of the lowest in the MENA Region (figure 70). Such a significant drop in the size of the stock market may be attributed to the global financial crisis in 2008, which largely reduced both the value and volume of traded stocks in the main market. Moreover, due to political uncertainty, the Egyptian stock market experienced an absence of initial public offerings and private placements during the period 2011–2013. Nevertheless, although the stock market size reflects the possibility of a

Figure 70. Stock market capitalization, as a percentage of gross domestic product (2008–2020)



Source: Author, based on TheGlobalEconomy.com (2021). Global Economy database. Available from https://www.theglobaleconomy.com. Accessed December 2021

lack of financial depth, in terms of the M2-to-GDP ratio, Egypt actually outperforms comparator countries in financial depth.[1] Although the lack of data on bond market size makes it difficult to draw a definitive conclusion, the lack of depth in the stock market and financial institutions provides meaningful insight, which indicates that Egypt must improve its financial depth to catch up with other MENA countries.

2. Financial access

Financial access is an important dimension since it is a strong indication of financial inclusion, or the use of financial services by individuals and firms. Access to financial services is different from the use of financial services. Those who have access may have the ability to use such services but actively choose not to, while those without access have no means to use any financial services, regardless of their desire. Improvement in access to finance by both individuals and firms has proven to reduce poverty and increase economic growth in the MENA Region.

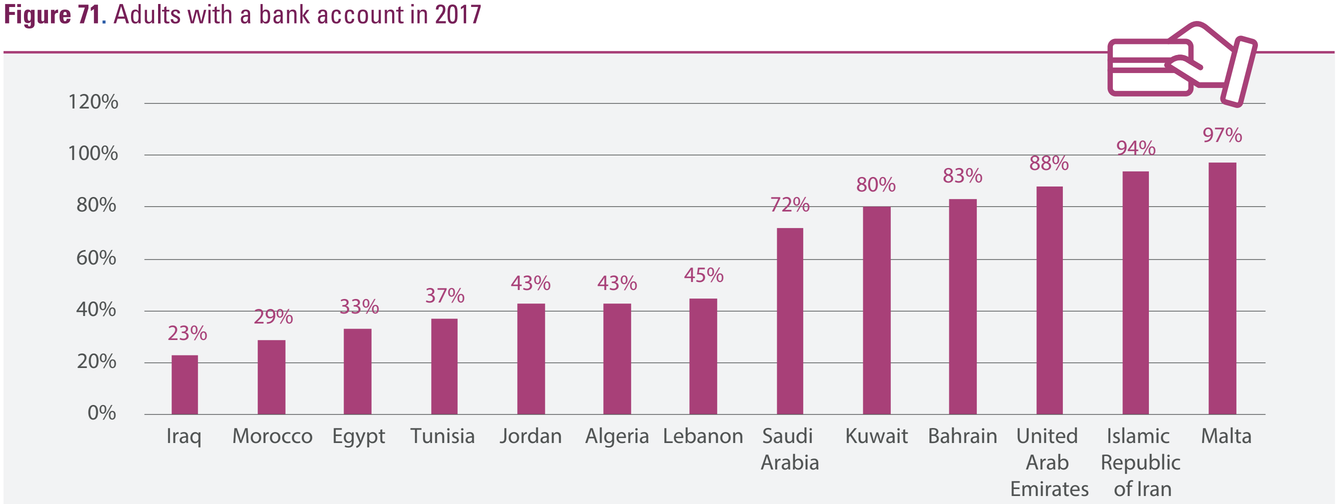
For financial institutions, some key indicators of financial access include the number of accounts and branches per thousand adults (for commercial banks), the percentage of people who have a bank account and the percentage of firms holding lines of credit. According to the latest available data, only 33 per cent of adults in Egypt had a commercial bank account in 2017, which is one of the lowest proportions among all MENA countries. In contrast, over 90 per cent of adults in countries like Malta and the Islamic Republic of Iran have basic access to banking services (figure 71). This figure, however, demonstrates that Egypt has taken initiatives to improve its financial inclusion, as only 14 per cent of adults had a bank account in 2014.[2] The outbreak of COVID-19 has further motivated the CBE to increase the use of electronic channels by abolishing the fees and commissions applied when using electronic points of sale and by issuing electronic wallets and prepaid cards for free for six months.[3]

For financial markets, some key indicators of financial access include the percentage of market capitalization excluding the top 10 largest companies, the percentage of value traded outside of the top 10 traded companies, government bond yields (3 months and 10 years), the ratio of domestic to total debt services, the ratio of private to total debt securities (domestic) and the ratio of new corporate bond issues to

GDP. These variables serve as the estimation of market concentration. These variables serve as the estimation of market concentration. As shown in figure 69, Egypt's ratio of market capitalization excluding the top 10 companies to total market capitalization was 55.2 per cent in 2018, one of the highest in the MENA Region. This percentage implies that financial markets in Egypt are relatively more accessible, especially compared with the accessibility of financial institutions. Although it is clear that the proportion of market capitalization in Egypt is relatively high, it has not yet stimulated real investment opportunities that contribute to economic growth. Figure 73 shows that the market capitalization of listed domestic companies as a percentage of GDP exhibits a falling trend over the period 2011–2020. In 2020, market capitalization reached 11.4 per cent, after a low of 10 per cent in 2016.

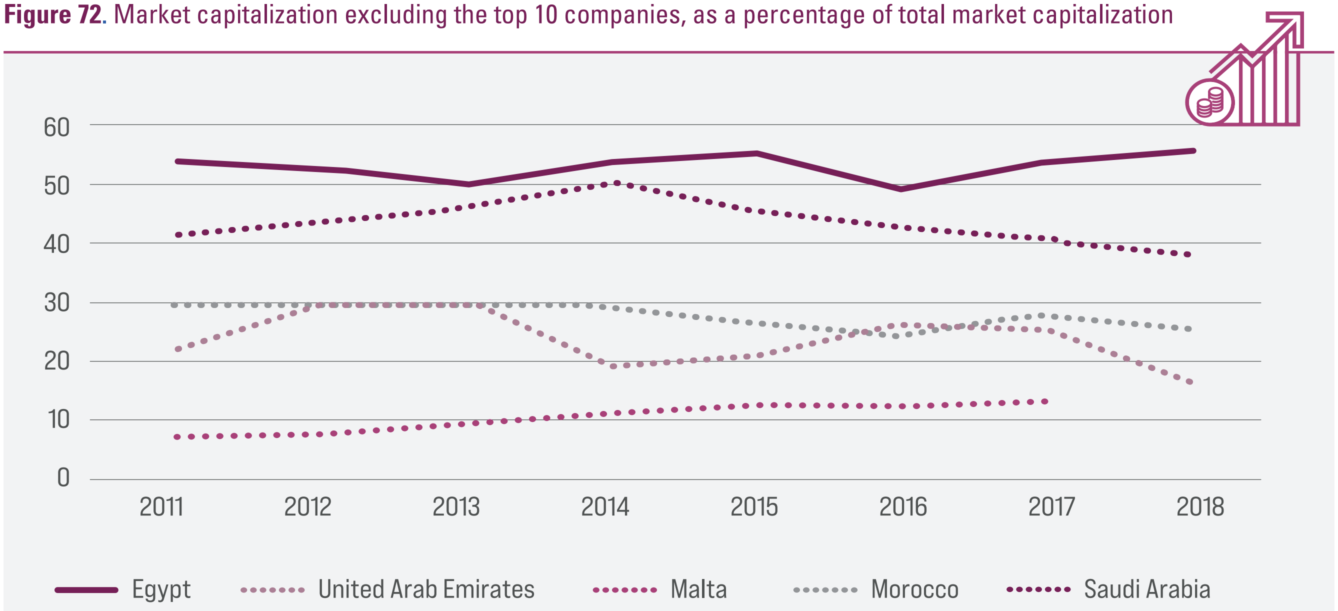
To achieve significant improvements in financial inclusion in Egypt, the national financial inclusion

Figure 71. Adults with a bank account in 2017



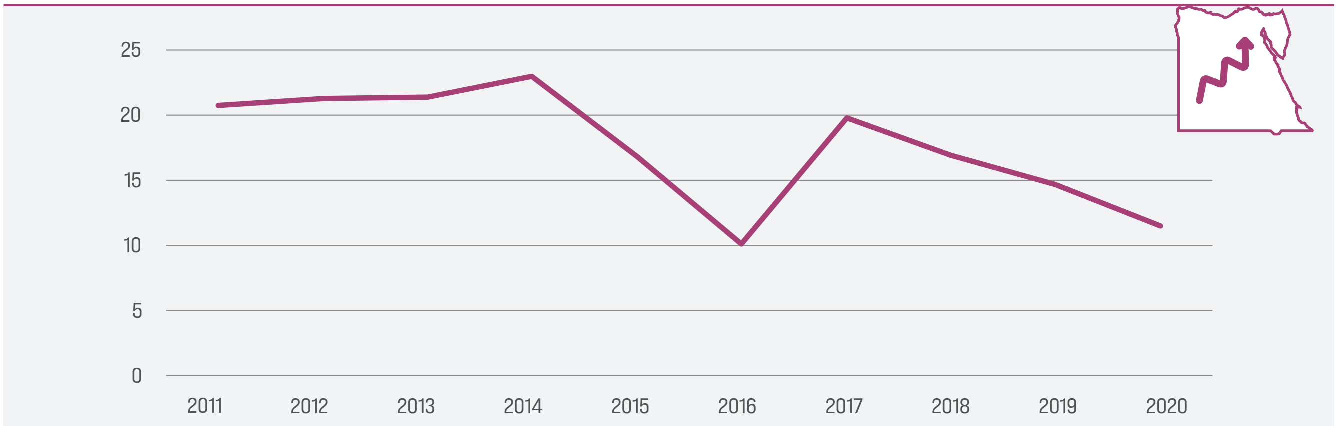
Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

Figure 72. Market capitalization excluding the top 10 companies, as a percentage of total market capitalization



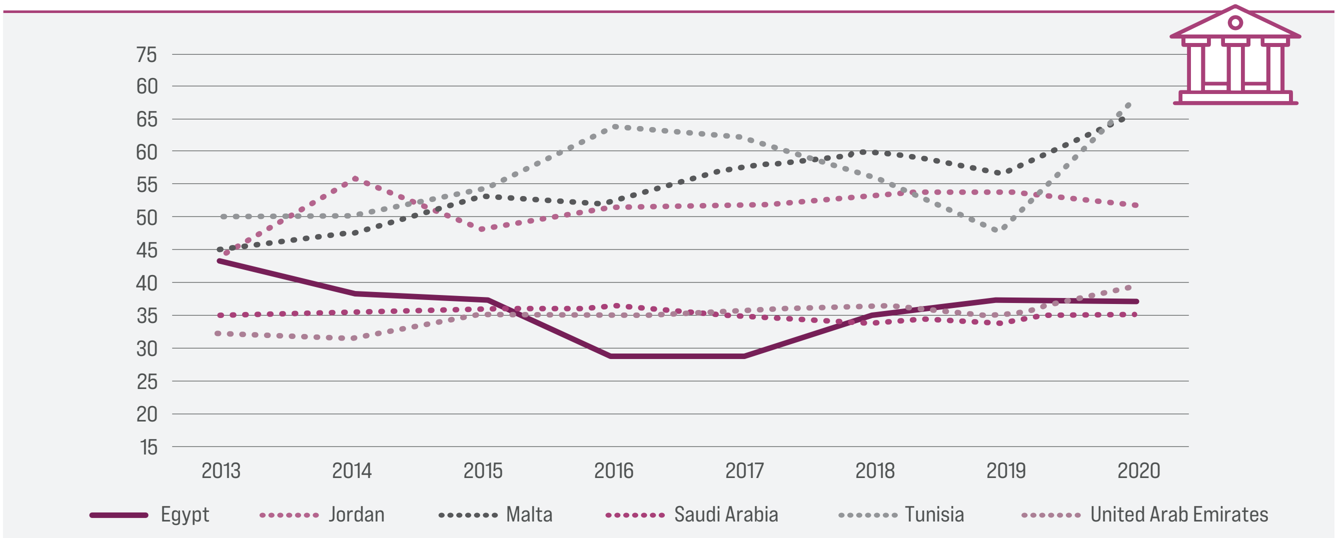
Source: Author, based on GFD, 2019

Figure 73. Market capitalization of listed domestic companies in Egypt, as a percentage of gross domestic product



Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

Figure 74. Bank cost-to-income ratio (percentage)



Source: Author, based on World Bank (2021). Global Financial Development database. Available from https://databank.worldbank.org/source/global-financial-development#. Accessed January 2022.

strategy framework was crafted in consultation with a wide range of national stakeholders and aligned with the Egypt Vision 2030, particularly its third objective concerning a competitive and diversified economy. The vision for financial inclusion in Egypt focuses on formal financial inclusion for all segments of society to achieve sustainable growth.[4]

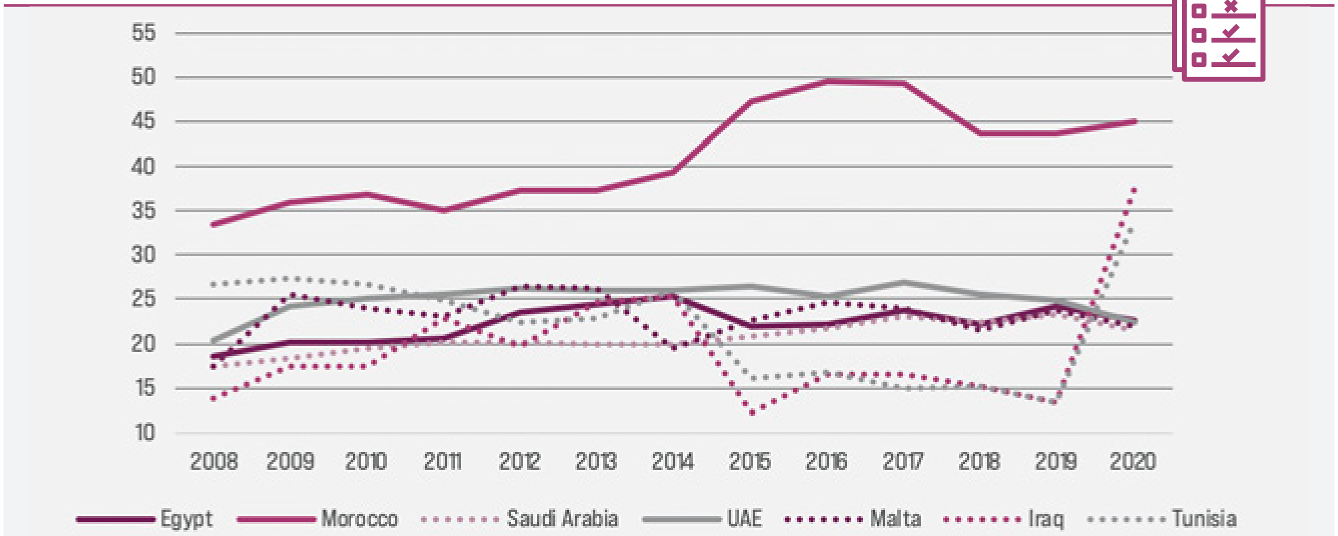
3. Financial efficiency

Financial efficiency measures the overall efficiency of the financial sector. For financial institutions, these measurements include net interest margin, lending-deposits spread, non-interest income to total income, overhead costs (as a percentage of total assets), profitability (return on assets, return on equity) and Boone indicator or H-statistics. Specifically, the bank cost-to-income ratio in Egypt was 37 per cent in 2020 (calculated as the operating expenses of a bank as a share of the sum of net interest revenue and other operating income), which is considered low and generally efficient compared to the operational efficiency of banks in other MENA countries (figure 74). For financial markets, measurements of financial efficiency include share turnover ratio, stock price synchronicity, private information trading, price impact, liquidity/transaction costs, quoted bid-ask spread for governmental bonds and turnover ratio of bonds on securities exchanges.

4. Financial stability

A stable financial system is capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy's natural rate and eliminating relative price movements of real or financial assets that would affect monetary stability or employment levels. For financial institutions, a common measure is the z-score, which compares returns and capitalization with their associated risks. A higher z-score, therefore, corresponds to a lower probability of insolvency. The z-score of banks in Egypt was 22.59 in 2020, which is not far from the average z-score of banks in the other MENA countries (27.87) listed in figure 75. This implies that banks in Egypt are relatively stable. Other measurements of financial stability include capital adequacy ratio, asset quality ratio and liquidity ratio. For financial markets, the volatility of stock price index and/or sovereign bond index, the skewness of the index, the ratio of short-term to total bonds and the correlation with major bond returns are all proper measurements of market financial stability. In the case of Egypt, since the CBE requires all banks to comply with the updated international regulatory framework for banks (Basel III, soon to be Basel IV), its attempt to buffer against systemic risks may positively contribute to financial stability. The Basel III standards are a set of micro- and macroprudential measures aiming to strengthen the regulation and risk management of banks. Macroprudential measures are financial policies targeting the stability of the financial system as a whole, such as promoting the establishment of buffer capital. Microprudential measures, on the other hand, emphasize the soundness and stability of individual financial institutions, with requirements including raising the minimum common equity capital from 2 per cent to 4.5 per cent. While microprudential measures are strongly required for maintaining financial stability, relying only on microprudential oversight could make the system less stable. With the effective implementation of the Basel framework, Egypt is expected to see an improvement in the resilience of its banking system, an increase in confidence in prudential ratios and a more transparent and predictable

Figure 75. Bank z-score



Source: Author, based on GFD, 2019

a

regulatory environment for the banking sector.[5] Nevertheless, some studies claim that the impact of Basel III on Egyptian banks is relatively limited and that it plays a positive yet less definitive role in financial stability.[6] The facilitation of a stable financial environment, therefore, still depends on other previously mentioned factors, as well as the effectiveness of Basel IV.

C. Dominance of the banking sector

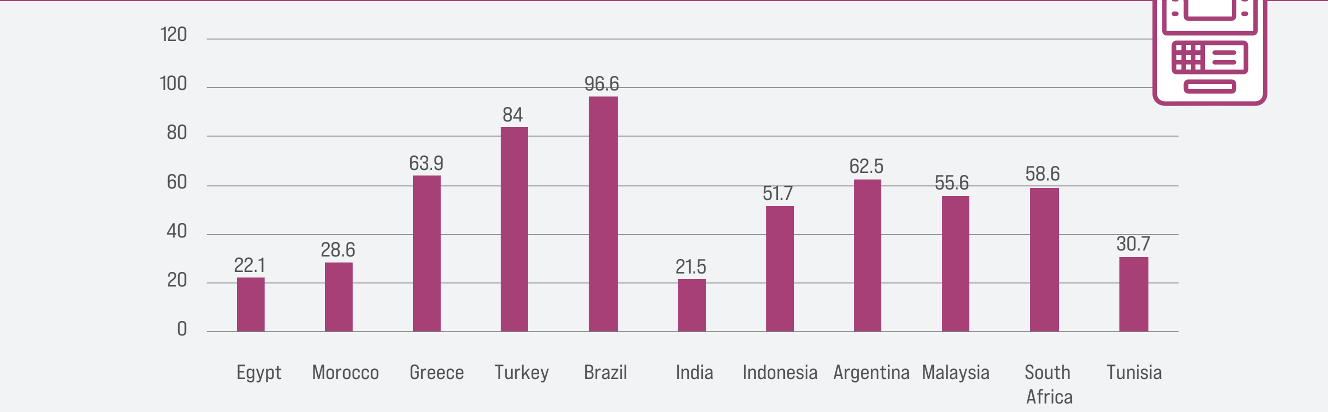
Within the formal financial sector of Egypt, traditional providers of finance (i.e. banks) are remarkably dominant, which is a typical trait of developing countries. In 2020, bank assets accounted for approximately 89.7 per cent of GDP,[7] whereas the size of non-banking financial institutions has been considerably smaller. According to the Oxford Business Group, the non-banking financial segment in Egypt is widely seen as underpenetrated. Consequently, the Egyptian Government and the CBE are embarking on initiatives to incentivize non-banking financial institutions to grow.

1. Limited access to finance in general

The relatively large size of the banking sector is still insufficient; the banking sector, as well as the financial sector as a whole, underserves the Egyptian market. There is a shortage in the provision of financial services, exhibited by deficient access to finance. Egypt continues to lag behind in access to finance measures. For instance, as shown in figure 76, in 2020 Egypt had the lowest number of ATMs, approximately 22 per 100,000 adults, among selected emerging economies. In addition, the Egyptian banking sector provides extremely limited credit to the private sector, which should be the main driver for economic growth and employment, as illustrated by figures 74 and 75, even when compared to similar oil-importing countries in the MENA Region (e.g. Morocco and Tunisia). To increase access to finance, the CBE and other banks have begun to expand their mobile wallet service and implement e-banking methods to digitize transactions. They also allow remote self-registration of wallet accounts to promote access to financial services for all people. Furthermore, in the wake of the pandemic, the CBE launched further initiatives to install 6,500 new ATMs across the country and issue digital lending and savings regulations through mobile wallets.[8] These efforts are expected to improve financial inclusion and convenience for individuals and MSMEs.

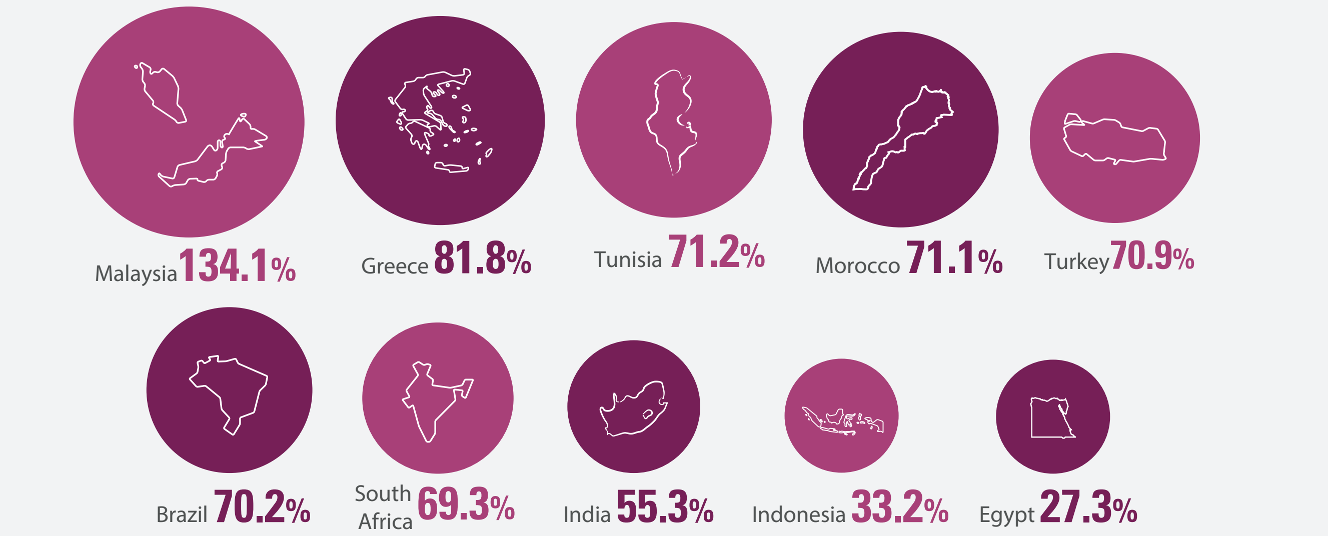
According to figure 78, it is evident that the demand for private borrowing has decreased since 2001. This is a result of the disruptions in the investment environment following the 2011 Arab revolution, as well as the higher interest rates following the flotation of the Egyptian pound in 2016, which made it costly for businesses and individuals to obtain funding from Egyptian banks. Moreover, according to the World Development Indicators, the percentage of the Egyptian firms using bank credit to finance investment was approximately 10 per cent in 2020. This number is startlingly low, particularly given the underdeveloped non-banking financial sector. It means that approximately 90 per cent of Egyptian firms have almost no access to credit for financing investments, which impacts their ability to grow and compete. Similarly, individuals in Egypt also face exclusion from the banking system, with over 50 million people relying heavily on cash for daily transactions. In fact, 84 per cent of private sector workers still earn cash wages, and for this reason in particular, 5 per cent of Egyptians have access to private health insurance.[9]

Figure 76. Number of automated teller machines, per 100,000 adults (2020)



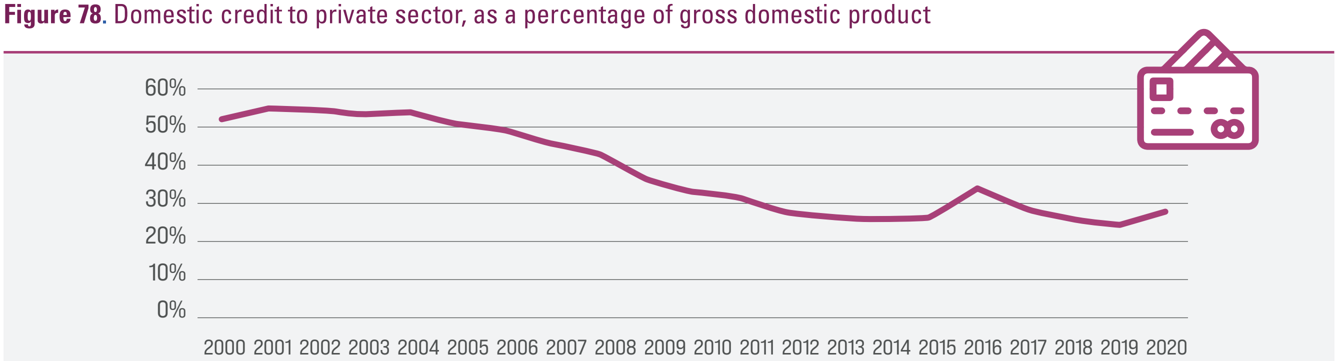
Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

Figure 77. Domestic credit to private sector by banks, as a percentage of gross domestic product (2020)



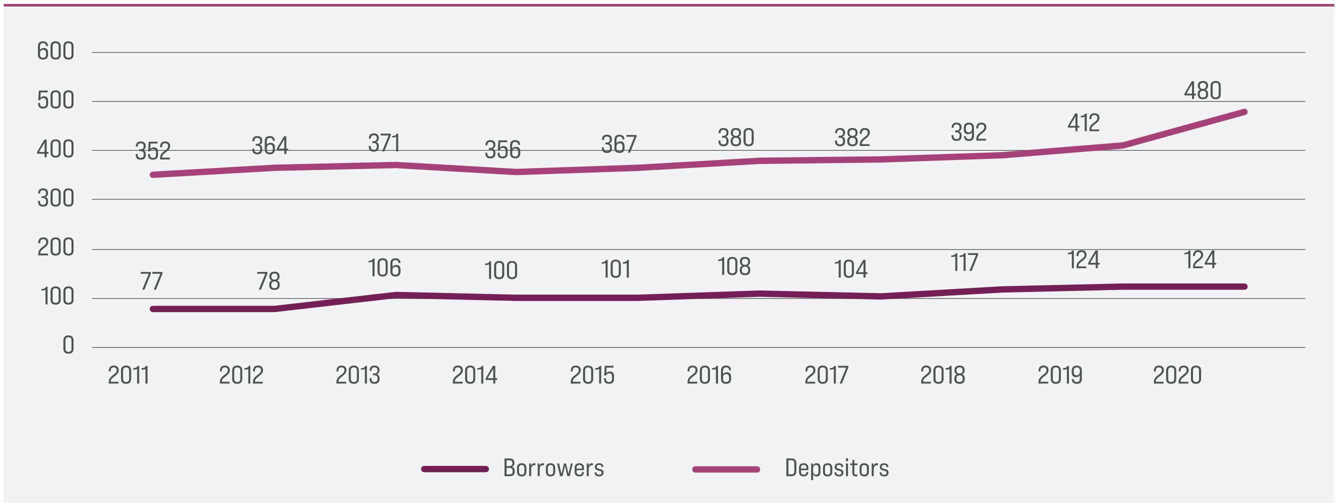
Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

Figure 78. Domestic credit to private sector, as a percentage of gross domestic product



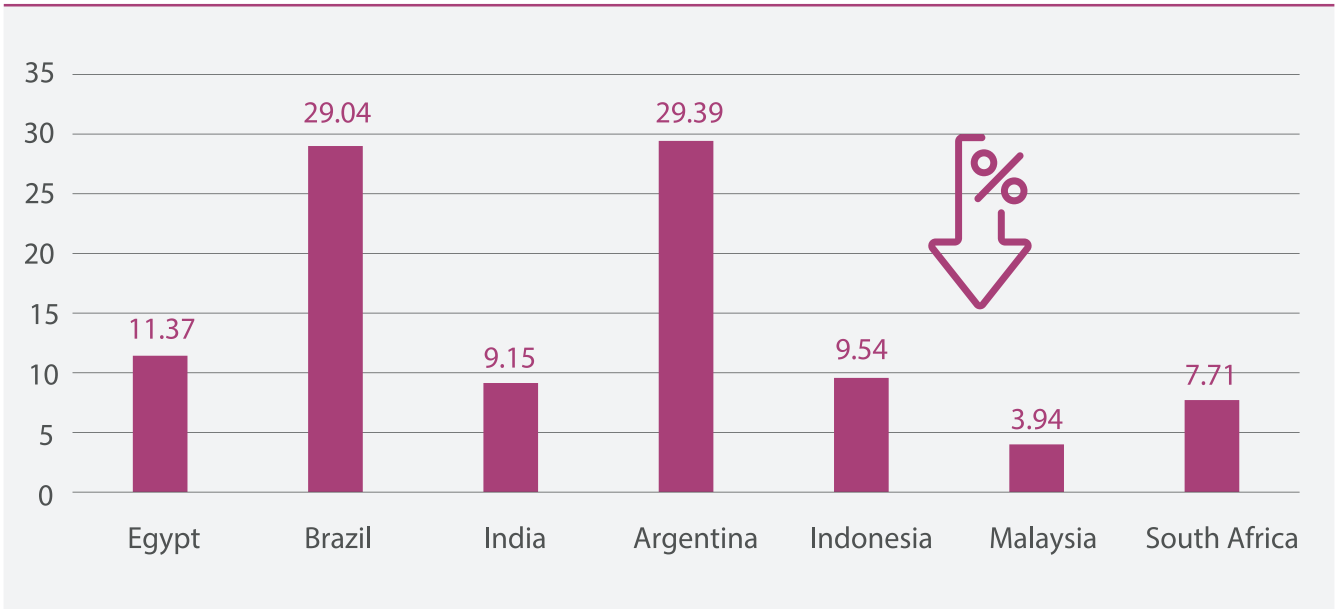
Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

Figure 79. Depositors and borrowers with commercial banks, per 1,000 adults



Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

Figure 80. Interest rates on bank credit to the private sector, as a percentage (2020)



Source: Author, based on TheGlobalEconomy.com (2021). Global Economy database. Available from https://www.theglobaleconomy.com. Accessed December 2021.

The use of finance, on the other hand, has shown a sharp increase in recent years. In figure 79, for every 1,000 adults in Egypt, there were 480 depositors with commercial banks in 2020; this number was only 352 in 2011. Likewise, the number of borrowers with commercial banks had increased to 124 per 1,000 adults, a 61 per cent increase from 2011.

2. Negative effect on economic growth

Without a doubt, low access to finance represents a major obstacle for economic growth in Egypt. Emara and El Said illustrate empirically that increased access to finance positively impacts economic growth.[10] According to impulse response studies, the GDP of Egypt is highly responsive to a reduction in the costs of credit participation, implying that limited credit availability is a major growth obstacle.[11] A strong connection prevails between real per capita growth and financial development. Achieving high growth momentum requires more bank financing for the private sector, while well-developed institutions are a precondition for economic growth. Interestingly, while the percentage of private credit to nominal GDP in Egypt dropped to a record low of 24.15 per cent, it began to increase in January 2020 and reached 27.45 per cent by December 2020.[12] This pattern highlights that more credit can be directed to the private sector.

3. Low cost of finance

Interestingly, Egypt exhibits a relatively low cost of finance. Based on data from the Global Economy database, the interest rate on bank credit to the private sector is 11.37 per cent, which is not particularly high compared to other emerging countries in 2020 (figure 80). According to Moody's credit rating agency, in 2020, the CBE continued to reduce interest rates and the domestic cost of its borrowing as a result of the declining inflation and a credible monetary policy.[13] Hence, one implication of this pattern could be that the low access to finance in Egypt is not driven by the high cost of finance so much as by the limited availability of credit.

4. Good stability and efficiency

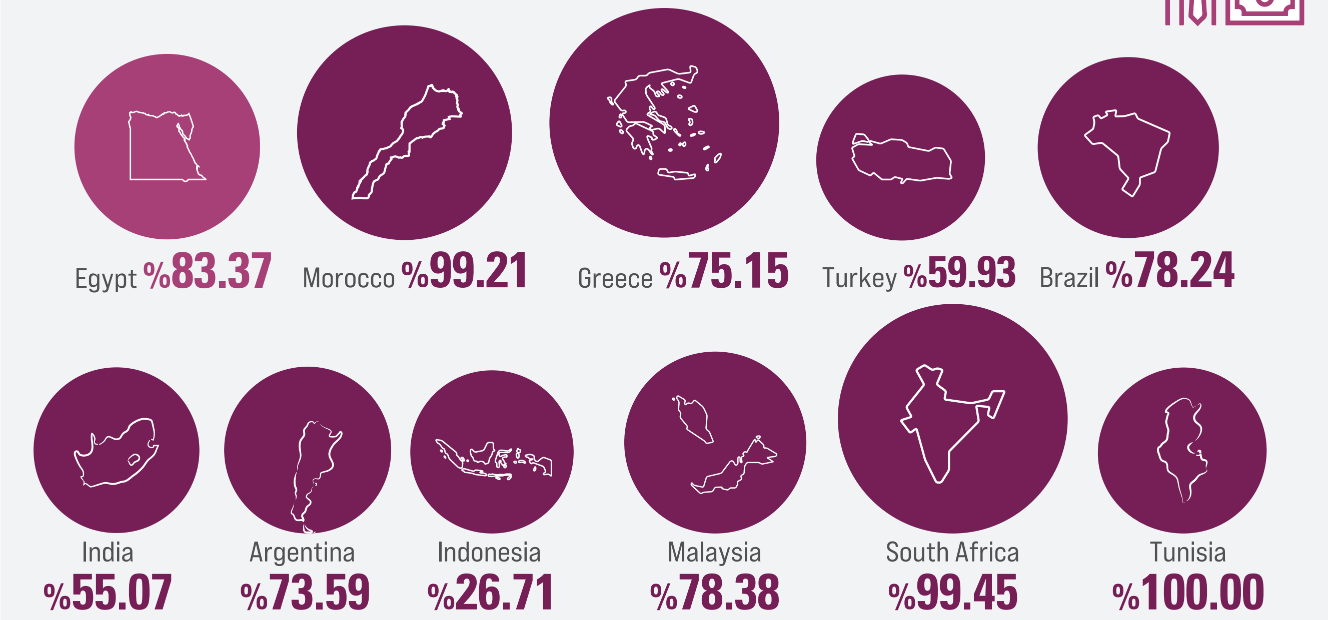
The Egyptian banking sector is performing relatively well in terms of stability. Bank liquidity in local and foreign currencies was recorded as 54 per cent and 72 per cent, respectively, as of December 2020, compared to 44 per cent and 68 per cent in December 2019. Similarly, the liquidity coverage ratio was 1,017 per cent for the local currency and 170 per cent for foreign currency as of December 2020, compared to 757 per cent and 201 per cent in December 2019.[14] Additionally, table 19 shows that Egyptian banks score higher than the average z-score for the selected group of emerging economies, signaling a relatively stable sector for the year 2020. This is expected, given the dominance of public banks and the clear preference for lending to the public sector. The cycle of dependence between the Government and the banking sector is discussed further in the next sections. Although such a cycle is often unhealthy from the perspective of economic growth, it does help maintain the solvency, and thus the stability, of the banking sector.

Table 19. Z-score and return on assets and equity (2020)

Country	Z-score	Return on assets (percentage after tax)	Return on equity (percentage after tax)
Brazil	15.44	1.01	9.61
Egypt	22.59	1.01	12.91
India	19.36	0.21	2.16
Indonesia	4.52	0.91	6.68
Malaysia	31.18	0.66	4.47
Morocco	44.99	0.67	5.87
South Africa	14.25	0.62	8.03
Tunisia	33.93	0.04	0.60
Turkey	12.33	1.31	9.11
Average	**22.07**	**0.72**	**6.60**

Source: Author, based on World Bank (2021). Global Financial Development database. Available from https://databank.worldbank.org/source/global-financial-development#. Accessed January 2022.

Figure 81. Percentage of bank assets held by the top 3 banks (2020)



Source: Author, based on World Bank (2021). Global Financial Development database. Available from https://databank.worldbank.org/source/global-financial-development#. Accessed January 2022

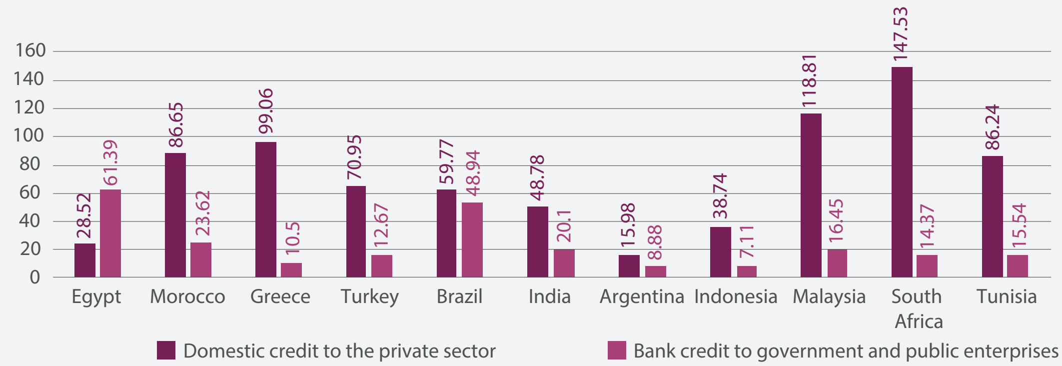
Despite support from the Government, private banks (unlike public banks) face certain barriers limiting their development. Poshakwale and Qian find that private banks earn lower abnormal profits and are more competitive than public banks, since public sector banks in Egypt are significant players that can use their dominant position to their advantage.[15] The results show that while private banks are more profit-efficient than public banks, the latter are more cost-efficient. The National Bank of Egypt, Bank Misr and Banque du Caire, which are large public banks, control 40 per cent of the banking sector.[16] Nevertheless, the imbalance between the development of public and private banks has been improving in recent years. According to statistics published in the CBE statistical bulletin from 2021, the percentage of loans by private banks to total loans has reached approximately 59 per cent.

In addition, the Egyptian banking sector exhibits relatively desirable efficiency and profitability, shown by above-average returns on both assets and equity. This can be explained in part by the relatively low cost of finance. Kohlscheen and others provide empirical evidence that there is a negative relationship between short-term interest rates and bank profitability.[17] Thus, as the interest rate in Egypt remains relatively low, it is reasonable to observe a higher profitability of banks. Additionally, other factors such as improving governance and legal frameworks in the banking sector could be contributing to the observed favourable efficiency and profitability.

5. High bank concentration ratio and dominance of public banks

In comparison with other emerging countries, Egypt has an average bank concentration ratio when measured by the percentage of bank assets held by the top three banks; however, in an absolute sense, Egypt exhibits a high concentration of banks. The top three banks hold almost 83 per cent of bank assets in 2020. This indicates insufficient competition within the banking sector, as shown by figure 81.

Figure 82. Credit to public versus private sectors, as a percentage of gross domestic product (2017)



Source: Author, based on GFD, 2019

The problem of high bank concentration, however, becomes worse when coupled with the dominance of the public sector in banking. The banking sector in Egypt has evolved over the past decades and undergone many reform programmes in the direction of privatization. The most influential programme was the Economic Reform and Structural Adjustment Programme launched by IMF in 1991. Under the Programme, a number of steps were taken to shift ownership within the banking sector towards private parties and to maintain independent supervision of State-owned banks. Despite the largely successful efforts of the Egyptian Government and international financial institutions to privatize and liberalize the banking sector, public banks still dominate the scene.

Public banks suffer from the inefficiencies that tend to prevail in public enterprises in general, which negatively affect their profitability and credit availability. It is important to note that the Egyptian banking sector immensely favors public enterprises. In general, Egyptian banks make significantly more credit available to the Government and public enterprises than they do to the private sector. As illustrated by figure 82 for the year 2020, Egypt is the only country among the selected group of emerging countries in which bank credit to the Government and public enterprises exceeds domestic credit to the private sector (expressed as a percentage of GDP). There is also a significant gap between the two figures. This is a clear manifestation of the crowding-out phenomenon that typically hinders the economy's growth potential.

6. Lower access to small and medium-sized enterprises

In addition to the general deficiency in financial access faced by Egyptian firms, there is a positive correlation between the size of the firm and its access to finance. Small Egyptian firms with bank credit represented less than 4 per cent of the total number of small firms in 2020.[18] When compared to the 10 per cent reported when firms of all sizes are combined, this number indicates that smaller firms face more difficult conditions in seeking financing. This is particularly alarming bearing in mind that those small enterprises make up most of the Egyptian private sector and could have a remarkably positive impact on the country's economic growth. According to the economic census, there are 3.65 million MSMEs in Egypt, including 3.4 million micro enterprises (94.3 per cent), 216,000 small enterprises (5.6 per cent), and 2,181 medium-sized enterprises (0.1 per cent).[19] Moreover, increased access to finance raises the probability of small firms becoming exporters, thus improving the country's trade balance and boosting the diversification of the export basket.[20] Additionally, increased access to finance reduces the relative volatility of gross capital formation between sectors with low and high research and development intensity, taking into account labour productivity.[21]

The CBE is requiring commercial banks to increase lending to SMEs to 20 per cent of their portfolio

20%

of their portfolio

It is worth mentioning, however, that the Egyptian Government is directing considerable efforts and resources towards developing SMEs. For example, it is providing lucrative free zone offerings. Additionally, the CBE is requiring commercial banks to increase lending to SMEs to 20 per cent of their portfolio; in 2018 alone, EGP 30 billion were set aside for loans to SMEs.[22] As announced on its website, the CBE has also embarked on several initiatives to support SMEs in particular and better financial inclusion in general. These initiatives include low-interest loans (7 per cent and 12 per cent) to medium-sized enterprises to finance machinery, equipment and working capital; low-interest loans (8 per cent) for private industrial and agricultural sectors; mortgage finance for low-income groups (with interest rate as low as 3 per cent); low-interest loans (5 per cent and 8 per cent) for tourism companies embarking on hotel renovations and purchasing vehicles; and support for small players struggling to repay their debts. Those initiatives have resulted in granting EGP 213 billion in credit facilities from December 2015 to September 2020; 81 per cent of funding has already been used for 126,000 SMEs in the industrial, agricultural and service sectors, as well as over 900,000 micro clients.[23]

Moreover, in June 2020, the CBE announced its EGP 100 billion financing initiative to support SMEs in the industrial, agricultural and construction sectors. The volume of funding for the initiative to support MSMEs amounted to approximately EGP 180 billion, from which approximately 120,000 companies and 1 million borrowers benefited. Additionally, the Micro, Small and Medium Enterprise Development Agency plays a significant role in providing financial instruments to SMEs and helping them to reach needed funding. Over the last seven years, the Agency has pumped EGP 36 billion into over 1.4 million MSMEs.[24]

D. Limited role of non-banking financial institutions

The non-banking financial sector in Egypt is underdeveloped; non-banking financial institutions' assets represented 11.6 per cent of GDP in the fiscal year 2018/19.[25] Despite the improvement over previous years, there is still significant potential for advancement in the non-banking financial segment. The Financial Regulatory Authority has set a number of strategic objectives for non-banking financial markets to help achieve the Egypt Vision 2030. In particular, the Authority aims to enhance the sector's legislative framework and prepare the infrastructure needed to introduce new financial instruments and structural reforms. Although there have been many improvements over the past few decades, the size of non-banking financial institutions did not increase much compared to the size of the banking sector, as evidenced by the small differential between financial system deposits and bank deposits (referred to in the previous section).

According to the Authority's official website, investment funds in 2019 totaled 110 and are categorized as follows: 89 funds established by banks, 3 funds established by insurance companies and 18 investment funds established in the form of joint stock companies. Once again, this signals the dominance of the banking sector. This section provides an overview of the performance of the most important non-banking financial institutions in Egypt.

1. Non-banking financial services and the microfinance market

Arguably, one of the most dynamic non-banking financial services is microfinance, which has thrived exclusively after the promulgation of a new microfinance law in 2014. According to available data from the Financial Regulatory Authority, the microfinance loan portfolio of Egypt grew at a three-year compound annual growth rate of 54 per cent, reaching EGP 16.5 billion ($1 billion) in 2019. The average loan size doubled from 2016 to 2019, increasing from EGP 2,463 ($151.18) to EGP 5,304 ($326.89). The number of beneficiaries grew at a compound annual growth rate of 19 per cent over the same period, to 3.1 million.[26] Population growth and the relatively low banking sector penetration rate served as a strong catalyst for microfinance market growth.

Aiming to facilitate the growth of the non-banking financial services segment, the Egyptian Government, the Financial Regulatory Authority, and the CBE put forth several strategies, which included setting a minimum paid-in capital for companies financing SMEs and those offering microfinance lending worth EGP 20 million ($1.2 million) and EGP 5 million ($308,000), respectively; urging NGOs and lending companies offering microfinance loans to provide insurance coverage for their borrowers equivalent to their outstanding loans; and obliging leasing companies to abide by nine financial solvency standards, such as a minimum capital adequacy ratio of 10 per cent with a three-year target of 12 per cent.[27]

Other popular non-banking financial services include securities, insurance, consumer finance and mortgage finance, some of which are discussed in depth in the following sections.

2. Securities market

The Egyptian stock market has undergone substantial developments since the 1990s, mainly through the Economic Reform and Structural Adjustment Programme and the “Egypt capital markets development project” in the 1990s. Such developments included automated trading, better transparency and disclosure procedures, and enhanced flexibility and diversity of the market. Currently, the Egyptian Exchange records 224 listed stocks, according to its official website. Figure 83 is a time series of the stock market capitalization index. There is a notable upward trend lasting until the global recession, from which recovery took several years, especially given the political turmoil in the country beginning in 2011. The index, as expected, subsequently took another downturn with the COVID-19 crisis.

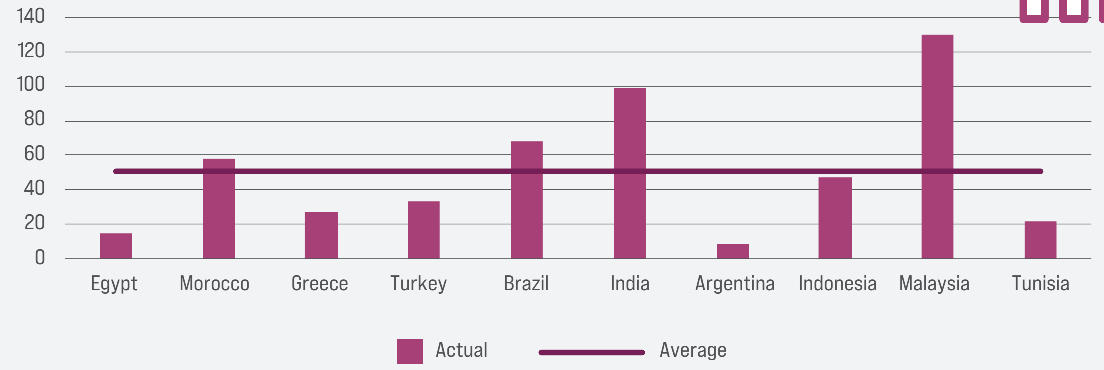
When compared to other emerging economies, Egypt is lagging behind in the capitalization of its stock market. As shown by figure 84, stock market capitalization as a percentage of GDP is significantly below average.

Aggravated by regional turmoil, the market liquidity continues to be low. This signifies the immaturity of the market. According to the official website of the Financial Regulatory Authority, the total value of trading during 2019 increased by 14.3 per cent compared to 2018; however, as a percentage of GDP, the stock market value traded remains extremely low, at 4.43 per cent in 2020.[28] The result of poor stock market liquidity is a waste of potential financial leverage. ElBannan provides empirical evidence that stock liquidity increases leverage in the case of Egypt as an emerging economy, unlike in a developed economy like the United States of America.[29]

Figure 83. Market capitalization – Egyptian Exchange index

Source: Trading Economics (2021). Trading Economics Database. Available at https://tradingeconomics.com. Accessed December 2021.

Figure 84. Stock market capitalization, as a percentage of gross domestic product (2020)



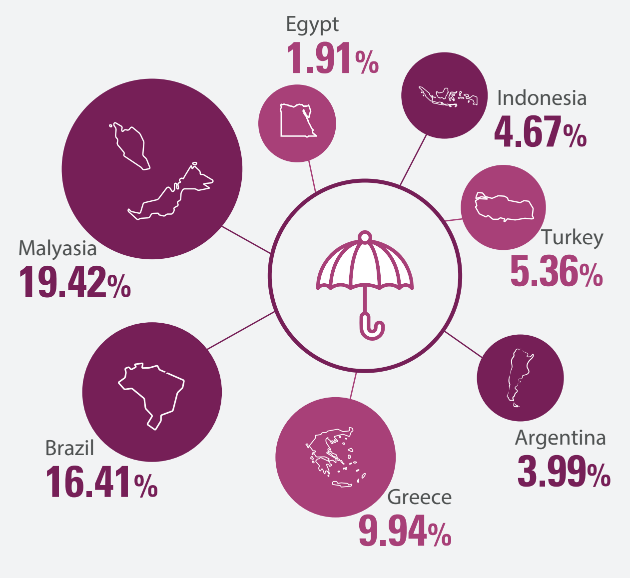
Source: Author, based on TheGlobalEconomy.com (2021). Global Economy database. Available from https://www.theglobaleconomy.com. Accessed December 2021.

In general, the development of the Egyptian securities market remains considerably below its potential. According to the available data, the bond market also exhibits immaturity and poor capitalization; the corporate bond issuance volume to GDP amounted to approximately 0.3 per cent in 2010. Furthermore, investment financed with equity or stock sales represented 1.2 per cent of total investment in 2013.

3. Insurance sector

The insurance sector of any economy has the capacity to function as a growth driver, mainly through providing risk alleviation and loss indemnification to production activities. The empirical analysis presented by Chang also suggests that in developing economies, private credit from the financial sector responds positively to the size of insurance assets.[30] This means that increased insurance activities could enhance access to finance for the private sector and thus improve capital formation in the MENA Region. This finding is particularly relevant in Egypt, where credit to the private sector is largely constrained. Furthermore, an enhanced insurance sector would help increase financial resilience. Insurance has proven to lessen the damage sustained by a financial disaster and increase the corresponding speed of recovery.[31] That is the basis for the recent global initiatives for disaster risk reduction, launched primarily by the World

Figure 85. Insurance company assets, as a percentage of gross domestic product (2019)



Source: Author, based on TheGlobalEconomy.com (2021). Global Economy database. Available from https://www.theglobaleconomy.com. Accessed December 2021.

Bank in partnership with the governments of some developed economies. Despite the lack of a clear national strategy, Egypt has been a beneficiary of the global Disaster Risk Financing and Insurance (DRFI) in an attempt to improve the country's risk management capacity and financial resilience.

Similar to the securities market, the size of the insurance sector in Egypt is also limited. As shown in figure 85, in 2019, Egypt lags behind in terms of the volume of insurance company assets, compared to other emerging countries.

Table 20 also shows that Egypt exhibits the lowest figure for insurance premiums as a percentage of GDP among the selected group of emerging economies. This is certainly an indication of wasted potential for growth, especially given the large market stemming from the country's massive population, which is also gradually ageing. Nevertheless, this also shows that there is significant potential in the insurance sector in Egypt.

The COVID-19 crisis is seemingly causing insurance sectors worldwide to expand, as individuals, companies and governments increasingly prioritize resilience and agility. This is particularly true for insurtech companies, which are positioned for success. Consequently, the pandemic could be an extra driver for the Egyptian insurance sector to flourish.

Table 20. Total volume of insurance premiums (2020)

Country	Total volume of life and non-life insurance premiums (percentage of GDP)
Brazil	1.41
Egypt	0.68
Greece	2.00
India	3.31
Indonesia	1.68
Malaysia	3.48
Morocco	3.34
South Africa	12.67
Tunisia	1.98
Turkey	1.20

Source: Author's calculations, based on World Bank (2021). Global Financial Development database. Available from https://databank.worldbank.org/source/global-financial-development#. Accessed January 2022.

4. Mutual funds

Relative to other non-banking financial institutions, mutual funds have been growing in Egypt. Mutual fund assets made up almost 5 per cent of GDP in 2009.[32] Youssef and Zhou provide empirical evidence that greater independence of fund directors, as well as fund directors being different from equity owners, would further improve the performance of mutual funds in Egypt.[33]

On a related note, Kordy and others show that money market funds in Egypt, and in emerging economies generally, do not provide investors with the desired safety usually present in this type of investment. They recommend the use of floating net asset value instead of amortized net asset value to counterbalance market disruptions signaled by severe interest rate volatility.[34]

5. Pension funds

Unlike mutual funds, the size of the pension funds market in Egypt is currently extremely small; nevertheless, it has tremendous potential. Pension funds' assets amounted to 1.5 per cent of GDP in 2019.[35] The Egyptian pension funds market is almost all public, and the percentage of Egyptians covered by the public pension system is estimated to exceed 80 per cent of the employed population, one of the highest levels among developing countries. Every employer is obligated to enroll in the relevant public pension scheme via the social security authority. Although most private companies provide private insurance for their employees as part of their benefits package (private insurance is typically more generous), which makes them legally eligible to opt out of the public pension scheme, it is common for such companies to continue enrolling all their employees in public pension schemes.

It is worth noting that Egypt is undergoing a pension system reform, moving away from a clear-cut, pay-as-you-go scheme to a scheme closer to a fully funded system. Under the new regime, a unified retirement fund is being established for all categories and all types of insurance, as opposed to separate funds for civil servants and employees in the private sector. The new scheme also covers new categories of employees who were not covered by the old regime. All of these developments suggest that the pension funds market in Egypt is likely to grow and witness major changes in the coming few years, which could be a great opportunity for the Egyptian Government. In light of the urgent need for more capital to finance the SDGs, pension funds could contribute to reducing financing gaps. The real challenge would be for development organizations to develop methods to attract this typically risk-averse capital and strike a balance between development impact and risk-adjusted returns.

6. The potential role of the non-banking financial sector in fostering economic growth

Although the role of non-banking financial institutions in Egypt is currently limited, there seems to be great potential for insurance companies, pension funds and investment institutions such as mutual funds to have a meaningful contribution to economic growth. Zhou and Dev find a bidirectional relationship between shadow banking and economic growth. Rateiwa and Aziakpono also show that there is a long run equilibrium relationship between economic growth and the development of non-banking financial institutions. They demonstrate

"Pension funds market in Egypt is likely to grow and witness major changes in the coming few years."

that a bidirectional causal relationship exists between both variables.[36] The finding that the causality is bidirectional is double-edged. On the one hand, promoting the development of non-banking financial institutions can enhance economic growth; on the other hand, poor economic growth can negatively affect the development of non-banking financial institutions and lead to slower growth.

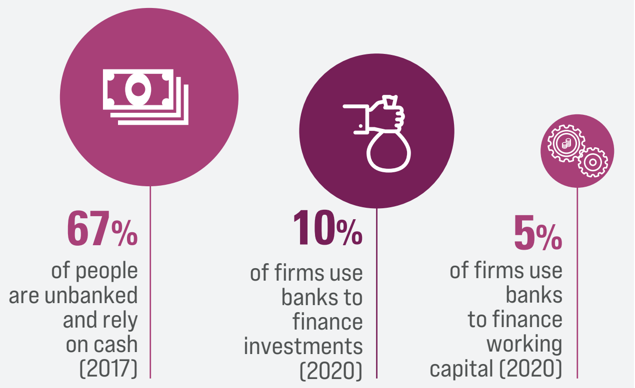
There is generally a strong trend in the literature to promote non-traditional banking in order to foster economic growth. More interestingly, agent banking enables non-banking formal services to represent a significant driver for formal financial inclusion. In Egypt, the CBE empowers mobile network operators and other non-banking financial sectors, leveraging them as bank agents to reach out to different segments in the Egyptian market in order to provide various financial services. Nevertheless, an equally strong trend highlights the risks that accompany the growth of shadow banking activities.

As in the case of the Great Recession, the problem was aggravated by the unanticipated behaviour of investors in shadow banks removing their funds all at once. Further issues with shadow banking continue to prevail for many reasons, but primarily because of the difficulty in estimating the size of the shadow banking sector and insufficient transparency and disclosure obligations. Zhou calls for targeted functional regulation to encourage shadow banking activities while limiting the corresponding potential risks by way of solid macroprudential policies.[37] This leads to the belief that good governance is key for financial development and inclusion. Emara and others illustrate that in order for macroprudential policies to have a positive impact on financial inclusion, good institutional quality must prevail.[38] In addition, Lemma argues that caution must be exercised when implementing expansionary monetary policies since they generally increase the liquidity available on the market, thereby reducing flows that feed the shadow banking sector with secure loans.[39]

E. Informal finance

Informal finance refers to contracts or agreements on financing sources conducted without recourse to the legal system. Typical forms of informal finance include trade credit, pawnshops, community cooperatives, private moneylenders and interpersonal borrowing, such as from family members or friends. Although informal finance provides financial services to people who otherwise have limited access, improving access to finance has empirically been proven to minimize the size of the informal sector in the MENA Region and thus reduce the likelihood of moneylenders exploiting market power with usurious interest and unfair seizure of collateral. Difficulties in regulating and monitoring the informal financial market have also raised concerns.

Figure 86. Access and use of financial services

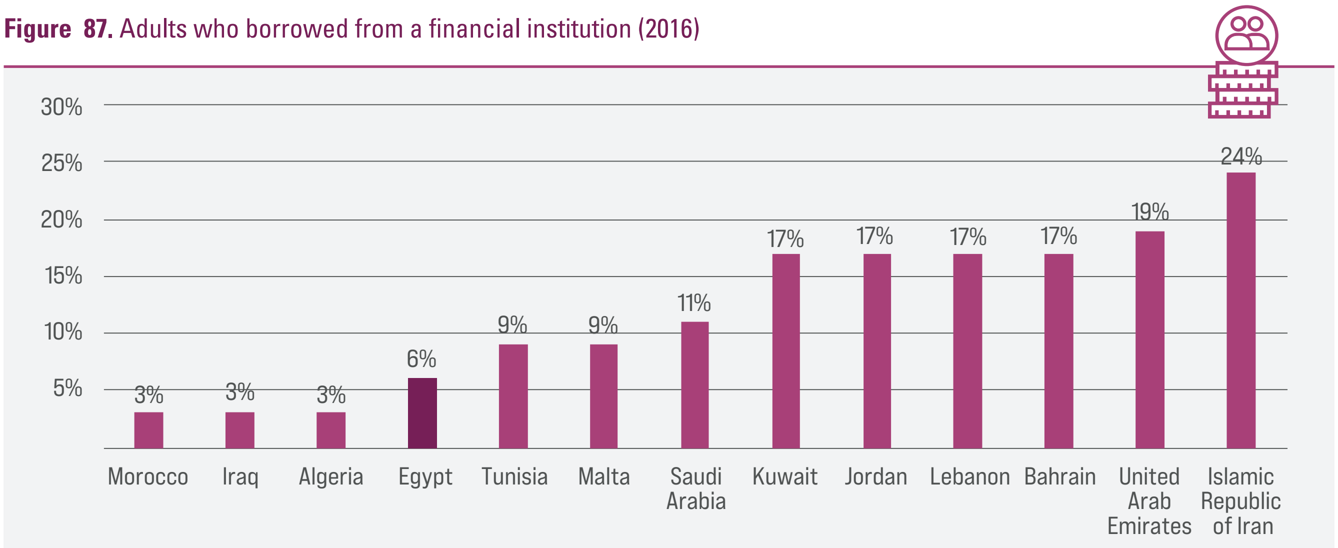


Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

1. The informal financial market in Egypt

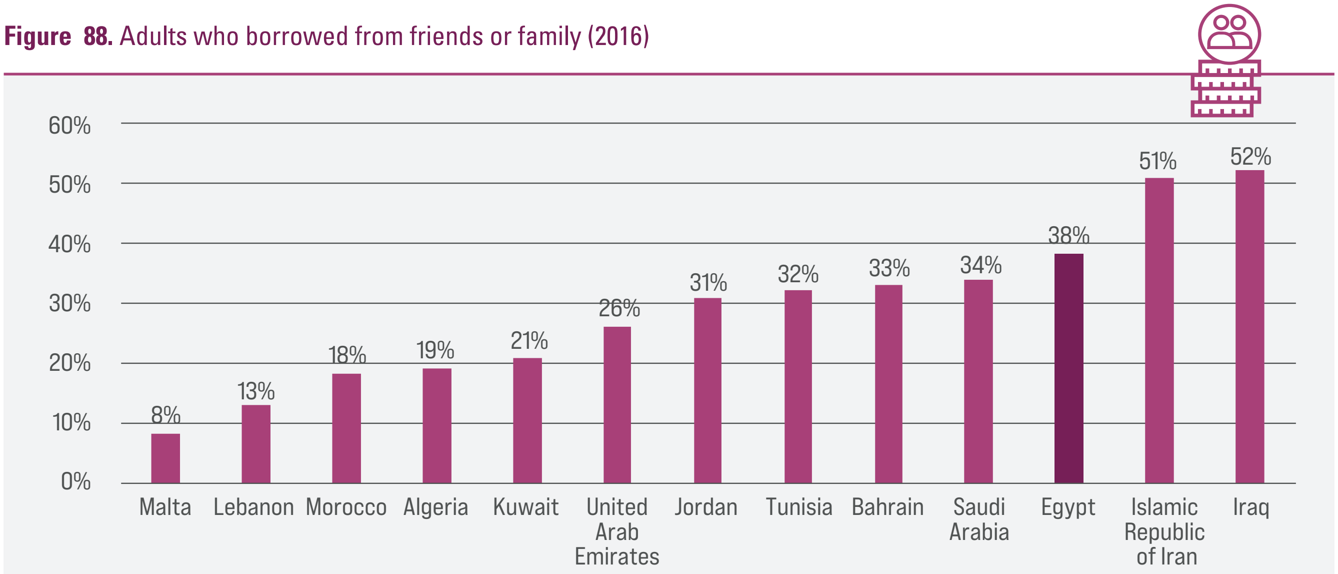
Egypt is one of the countries where the informal financial economy thrives, and the most common forms of informal finance are rotating savings and credit associations, village savings and loan associations, accumulating savings and credit associations and occasional borrowing from relatives and friends. According to World Bank data, 49.1 per cent of people in Egypt who are aged 15 years or older borrowed money in 2016. Among those who borrowed, 77.4 per cent borrowed from family or friends while only 12 per cent borrowed from a financial institution. Similarly, 30.6 per cent of people saved money in 2016, but only 6.2 per cent saved at a financial institution. The data reflect the extent to which people in Egypt have relied on informal finance. Moreover, a survey by the University of Chicago in 2000 shows that among the 86 per cent of households that participated in either the formal or informal credit market, 69.5 per cent reported links to the informal sector, while only 46.5 per cent had links to the formal sector.[40]

Figure 87. Adults who borrowed from a financial institution (2016)



Source: Author, based on GFD, 2019

Figure 88. Adults who borrowed from friends or family (2016)



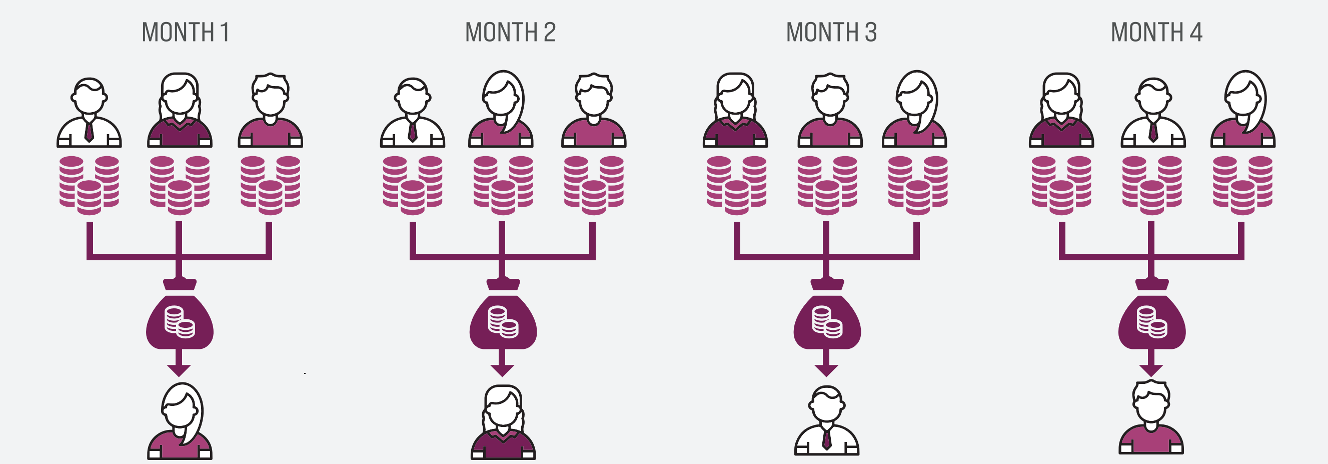
Source: Author, based on GFD, 2019

Table 21. Comparison of rotating savings and credit associations and Principal Bank for Development and Agricultural Credit services

Rotating savings and credit associations (informal finance)	Principal Bank for Development and Agricultural Credit services (formal finance)
Flexible loan contracts	Less flexible loan contracts and deposits
Lower transaction costs for institutions and agents	Higher transaction costs for institutions and agents
Resolves problems with asymmetric information and agency directly	Resolves problems with asymmetric information and agency at some cost
Immediate matching of surplus and deficit units (discontinuous intermediation)	Flexibility in matching surplus and deficit units (continuous intermediation)
Limited scale and scope of financial services	Large scale and scope of financial services
Concentrated portfolio (higher risk)	Diversified portfolio (lower risk)
Liquidity problem	More available liquidity
Compulsory saving (social obligation)	Voluntary saving (no social obligation)
Credit reserves	No credit reserves
No explicit interest payments on loans or deposits (consistent with Islamic principles)	Interest payment on loans and deposits (offers some types of Islamic financial services)

Source: Author, based on Baydas, M. and others (1995). Informal finance in Egypt: "Banks" within banks. *World Development*, vol. 23, No. 4, pp. 651–61.

Figure 89. The rotating savings and credit associations model



Source: Shameseya.org. Available from: https://shamseya.org/. Accessed JANUARY 2022.

2. Low financial penetration and financial access

The pervasion of informal finance in Egypt reflects a fundamental issue: low financial penetration and limited access to finance. Despite efforts to prioritize financial inclusion over the last several years, Egypt has one of the highest levels of financial exclusion compared with other countries in the MENA Region. An improvement of 10 per cent in financial access measures leads to an increase of 0.03 per cent in GDP growth in the region.[41] According to the most recent data from

2017, 67 per cent of people in Egypt are unbanked and rely primarily on cash, which means that two thirds of the population is cut off from formal banking and financial services (figure 86) and only 3.3 per cent of people own a credit card.[42] A similar situation is also evident at the corporate level. The 2020 World Bank Enterprise Survey indicates that only 10.3 per cent of Egyptian firms surveyed claimed to have access to financial instruments. In addition, 18.3 per cent reported encountering significant constraints in access to finance, which is proven to reduce economic growth, particularly in the presence of weak governance measures.[43] Moreover, in 2020, the number of borrowers from commercial banks amounted to only 124 per 1,000 adults. With such a low financial penetration rate, it is not surprising to observe the growing trend in the informal financial market.

3. Other historical reasons for thriving informal finance

Nevertheless, financial exclusion is not the only reason for the development of informal finance. During the 1990s, the overall repression of formal financial markets, large inflows of overseas workers' remittances and other distortions in the economy fostered the growth of informal finance. The growth of the private sector in agricultural markets at the time further stimulated the expansion of the informal financial market. Owing to the privatization of the farm marketing system, the market has more power in determining interest rates, and credit subsidies have reduced dramatically. These changes resulted from various reforms and increased the farmers' incomes, enabling them to engage in financial activities such that the demand for rural financial services grew sharply. In the early 1990s, however, villages generally lacked banks, and the Principal Bank for Development and Agricultural Credit became a monopoly, with approximately 900 banking units within the country.[44] In response to the insufficient provision of rural financial services, informal finance has grown to become one of the financial arrangements in which many Egyptian rural firms and households regularly participate (compare figures 87 and 88).

4. Rotating savings and credit associations

Rotating savings and credit associations, called "gam'iyas" in Egypt, are self-help financial groups that are popular and widely used in Egypt to address financial needs, including new births, deaths, marriages and health concerns. Under a gam'iya, each member of the group periodically contributes a given amount or share to a pot, and the funds from the pot are distributed in turn to one or more of the members. Once every member has received a share, the group can either disband or adjust its members and continue. Since it is a form of informal finance, there are no legal contracts, and it relies heavily on mutual trust and the fulfilment of mutual interest within the group (figure 89). Village savings and loan associations use the core structure of rotating savings and credit associations and add greater flexibility in savings and loans, while reinforcing the accountability elements. Accumulating savings and credit associations, unlike rotating savings and credit associations, allow the savings to be accumulated rather than redistributed instantly, with a member appointed to manage an internal fund.

Although policymakers often assume that the emergence of rotating savings and credit associations and other forms of informal finance is due entirely to limited access to finance, the research of Baydas and others shows that even among those who are well educated and have ready access to formal financial institutions, many still prefer informal finance because formal finance in Egypt does not provide the types of financial services they require.[45] Formal institutions are attractive in their liquidity, efficiency and security; nevertheless, certain unique features of informal finance cannot be substituted. These include flexibility, a social reserve that can be called upon in times of emergency and consistency with Islamic laws on interest payments. Table 21 depicts some major differences between Principal Bank for Development and Agricultural Credit services and rotating savings and credit associations.

5. Characteristics of the informal financial market

Generally, people in Egypt prefer to fund themselves whenever possible, so they are unlikely to choose borrowing from the informal financial market unless they run down their savings. This can be beneficial, as the informal financial market bears the risk of encountering loan sharks, or people who lend money at an unreasonably high interest rate that goes against legislation. Although a representative of the Egyptian Organization for Human Rights claims that this practice is not a widespread phenomenon in Egypt, some studies describe the informal financing system as "costly, risky and inconvenient".[46]

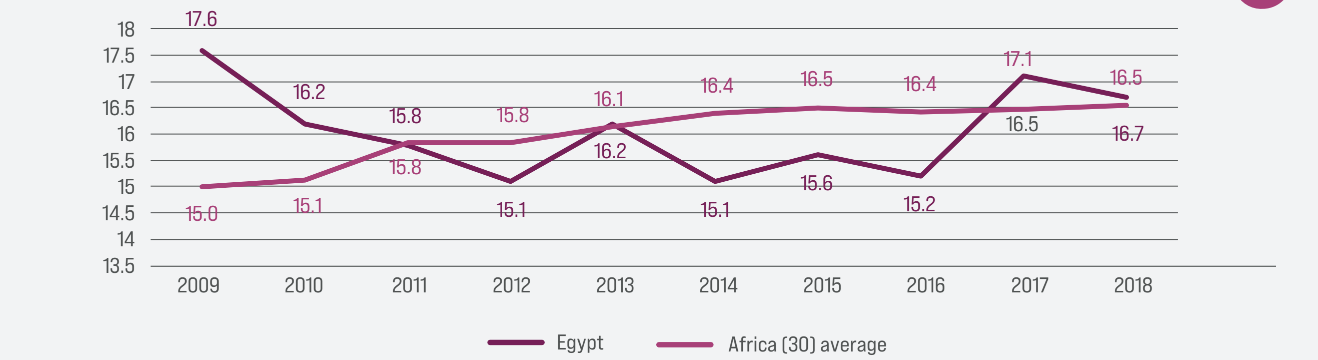
Moreover, according to a study by Mohieldin and Wright, income has a positive and increasing impact on the probability of taking out an informal loan, since informal professional moneylenders would believe they have a greater chance of recovering the principal.[47] Hence, unless the moneylenders are their relatives or good friends, people who live in rural houses or separate rooms in shared houses are less likely to borrow successfully from the informal financial market, since they are considered as having low wealth and income. The same study also shows that individuals who have a waged income are less likely to borrow from informal finance because their income source is relatively secure and stable, and they have a low chance of unexpected shortfalls in income.

F. Financing for sustainable development

As countries grow and strengthen their economies, it is important to assess whether the growth is sustainable in the long run. International organizations such as the United Nations and the World Bank have increasingly become more concerned with this concept of sustainable development. According to the World Bank, a financial system has key functions such as producing information about investments and distributing capital; facilitating the exchange of goods and services; and mediating trading, diversification and risk management.[48] There are costs associated with these functions that are critical to determining the efficiency and development of the financial system. In fact, the World Bank defines financial development as overcoming costs that are products of the financial system. Financial development therefore occurs when financial instruments, markets and intermediaries (which improve the capability of key functions) facilitate information, transaction costs and enforcement of monetary policy. Financial sector development is an important concept because it plays a significant role in economic development. It assists with capital accumulation and technological progress, increases access to information and enhances investor confidence. Additionally, it expands access to finance to poor and vulnerable groups, which aids in reducing poverty and inequality. Given the benefits of developing the financial sector, it is clear why international organizations are becoming increasingly interested in assisting developing countries with sustainable development.

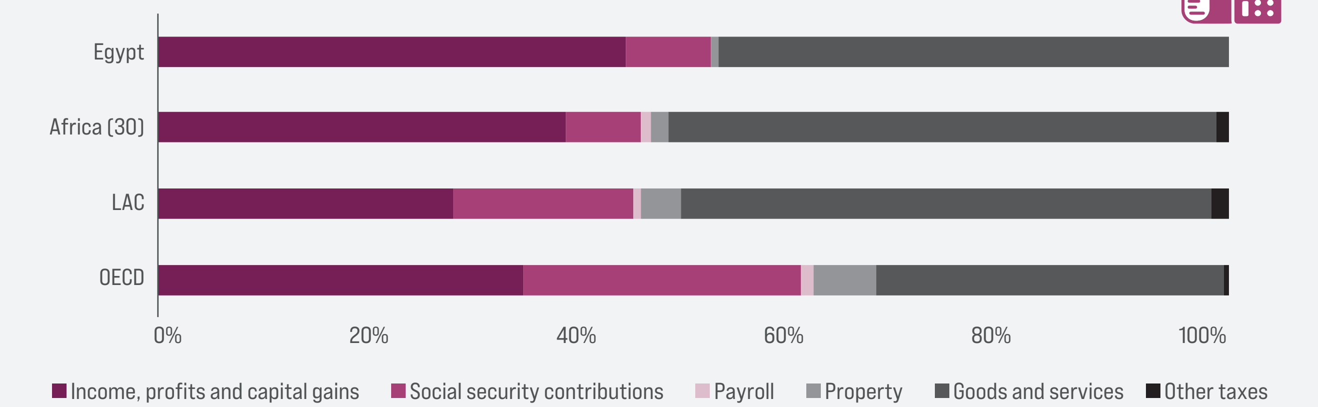
It is also important to discuss the concept of FFD. The World Bank has formulated an approach called "maximizing finance for development" to support developing countries' sustainable development by leveraging all sources of finance. Essentially, this approach uses a variety of financial infrastructure and monetary policy to improve the lives of people in developing countries. Unfortunately, many of

Figure 90. Tax-to-gross domestic product ratio over time (percentage)



Source: Author, based on the Organization for Economic Cooperation and Development (2020). Revenue Statistics in Africa 2020: 1990–2018. Paris.

Figure 91. Structure of tax revenues, as a percentage of total taxation (2018)



Source: Author, based on Organization for Economic Cooperation and Development (2020). Revenue Statistics in Africa 2020: 1990–2018. Paris.

the countries in need of FFD would not be able to source these funds themselves, which is where international organizations play an important role.

1. The situation since the Addis Ababa Action Agenda

In 2015, the Addis Ababa Action Agenda created a global framework for financing development based on the SDGs and indicated important aspects of financial systems for further focus. In an attempt to promote inclusive economic growth, protect the environment and promote social inclusion, the 193 Member States of the United Nations reached an agreement to focus on seven action areas: domestic public resources; domestic and international private business and finance; international and development cooperation; international trade as an engine for development; debt and debt sustainability; addressing systemic issues; and science, technology, innovation and capacity-building. In the present report, special attention is given to domestic public resources and domestic and international private business and finance, since they involve major sources of finance.

As a result of the Addis Ababa Action Agenda, international organizations such as the World Bank and the United Nations have been diligently working towards sustainable growth for developing countries; however, these goals would not be possible without sufficient financing to achieve them. In fact, the World Bank estimated the global cost of achieving the SDGs to be $4 trillion to $4.5 trillion a year through 2020.[49] Even when combining development aid, remittances, foreign direct investment and philanthropy, the world still has a $2.5 trillion financing gap every year. This is one of the main reasons why "maximizing finance for development" proposes increasing the role of the private sector and relying on it as a source of finance, innovation and expertise to help countries reach their development goals.

"Maximizing finance for development" plans to utilize public resources and garner private resources to assist with development while not encumbering those countries that have unsustainable debt or liabilities. For example, Indonesia struggled with a significant lack of access to electricity, despite having 40 per cent of the world's geothermal reserves. One reason they were originally unable to access these reserves was due to the high cost. Fortunately, the World Bank created an innovative credit facility to assist with financing to provide more access to electricity.

2. Domestic public resources

Domestic public resources cover the quantity and quality of domestic resource mobilization, including taxation and budgeting and the use of resources. They play a significant role in FFD by increasing equity and ensuring macroeconomic stability. Since the Addis Ababa Action Agenda, the tax-to-GDP ratio of Egypt has shown an upward trend, from 15.6 per cent in 2015 to 16.7 per cent in 2018 (figure 90), indicating greater domestic resource mobility. This ratio is calculated on the basis of a calendar year using tax revenue figures submitted by focal points from Ministries of Finance, tax administrations or statistics offices and GDP figures from the IMF World Economic Outlook.[50] Coinciding with the global trend of developing countries relying more on corporate income taxes than developed countries, the corporate income tax in Egypt accounted for 28 per cent of its total tax revenue in 2017, followed by other taxes on goods and services (23 per cent) and VAT (21 per cent) (figure 91).

Having greater tax mobilization, however, is far from enough, since maintaining this upward trend and using resources effectively are equally important. Potential tax avoidance and evasion and corruption must be evaluated to ensure that the system is fair and provides stable public and social welfare in order to achieve the SDGs. According to PricewaterhouseCoopers Middle East, the informal sector in Egypt accounts for 40 per cent of the country's GDP. In particular, 85 per cent of SMEs are considered informal and 40 per cent of cash-based transactions take place in the informal sector.[51] It follows that the thriving informal economy in Egypt should also be regulated and absorbed into the formal economy to prevent further loss of tax revenue. In terms of tax administration, efficient tools like the Tax Administration Diagnostic Assessment Tool (TADAT) can be adopted to measure key components of tax administration and assist in decision-making regarding tax administration reform.[52]

The Government should also consider investment in technology and digitization to support all parts of the fiscal system, such as e-filing of tax returns, to make the entire process simpler and faster. This would also help avoid any potential tax revenue loss, which occurs when tax returns are transferred physically, since it is easier to make mistakes when returns are processed manually. Since 2015, digital technologies have played a significant role in FFD, particularly in financial markets, public finance and development pathways (i.e. trade and investment). Key digital technologies include cloud computing, big data, artificial intelligence and distributed ledger technology. Digitization fosters financial inclusion, enabling more individuals to access financial services in an increasingly convenient way. Actions currently being taken by the CBE include the release of new versions of regulations governing mobile payments, technical payment aggregators and payment facilitators, internet banking, quick response code standards and prepaid cards. During the COVID-19 pandemic, the unique benefits of a digital economy have become more evident, as it facilitates the normal operation of financial activities, such as transferring money and making payments, with minimal human interaction.

Another major advantage of digitization is the creation of more effective flows or exchanges of information, goods and services, which makes e-government extremely beneficial. E-government refers to the use of ICT by government agencies that are responsible for transferring information between people, businesses and all other governmental stakeholders. Interaction with e-government takes several vivid forms, such as government-to-citizen, government-to-government, government-to-employee and government-to-business. In addition to e-filing for tax returns, as mentioned previously, other examples of e-government include sending information on general holidays and other notifications via the Internet, as well as allowing citizens to apply for services or grants and engage in dialogues with governmental agencies online.

While the Egyptian Government is considering expanding the development of e-government, it is equally important to note that there are certain associated disadvantages, such as the lack of equal public access to the Internet and electronic devices, which are essential to e-governance. The digital divide can be a problem if there are relatively high poverty rates in certain regions of the country, where low-income people either cannot afford or have limited or no access to the Internet, computers or mobile phones. Another drawback is the lack of reliability of information posted online, as well as vulnerability to cyberattacks and fraud.

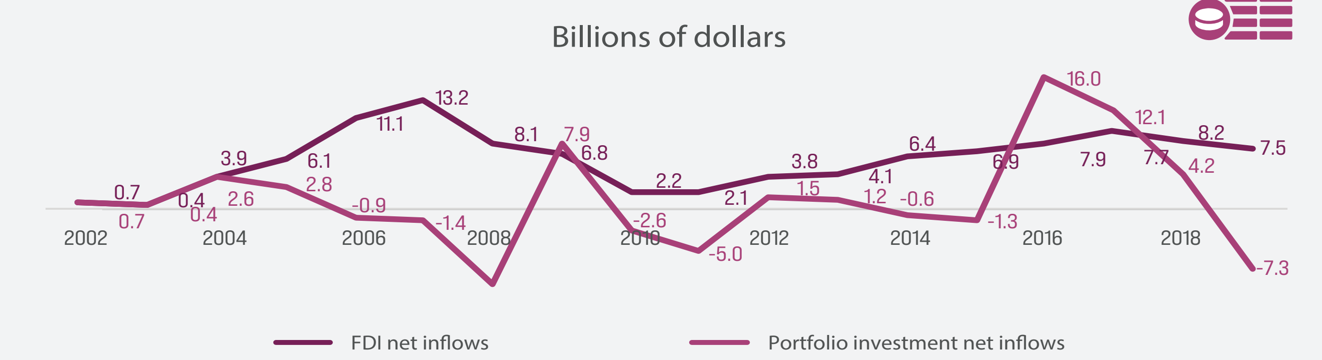
Moreover, as the public sector accounts for a large portion of FFD, their indicators could be sensitive to adaptation with Basel III, which imposes certain standards on bank capital adequacy and market liquidity risk. With a much larger capital base, the banking sector is more resilient to any potential financial crisis, such as the economic breakdown during the COVID-19 pandemic. The decrease in the volatility of the banking sector ensures the stable financing of domestic public resources for the SDGs. In particular, Basel III allows banks to continue providing credit to individuals and businesses despite the ongoing crisis, thereby enabling firms to continue normal operations and preventing the risk of a significant drop in tax revenue.

3. Domestic and international private business and finance

Another crucial aspect of FFD is to foster an economic environment that allows private businesses to engage in activities and investment with their innovation. The investment trends of Egypt over the past decade reveal the following features: (i) a gradually increasing trend of foreign direct investment net inflows, which reached $7.5 billion in 2019; (ii) low and fluctuating portfolio investment net inflows, revealing a falling trend and reaching a deficit of $7.3 billion in 2019; (iii) a relatively stable cost of business start-up procedures of an average of approximately 29 per cent of GNI per capita over the period 2009–2019; and (iv) a decrease in the ratio of remittance inflows to GDP over the past three years.

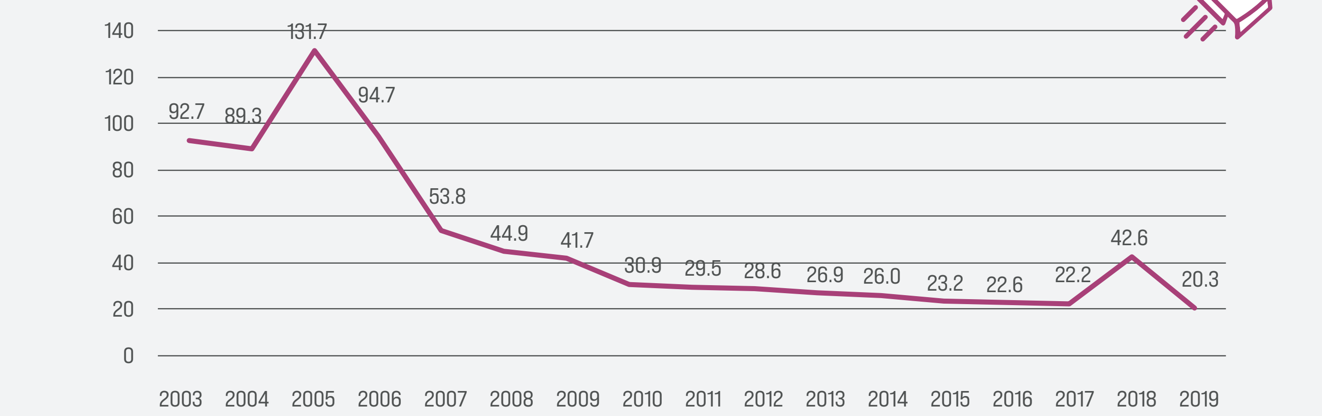
Egypt was the largest foreign direct investment recipient in Africa in 2018, with a significant amount of investment skewed towards the oil and gas industry. Several large investment projects are also taking place in other sectors, such as a $2 billion project to improve grain storage infrastructure by Nibulon, a Ukrainian agricultural company, and a $1 billion project for the construction of a medical city with Atraba Integrated Holding, a Saudi Arabian company.[53]

Figure 92. Investment of Egypt



Source: Author, based on annual reports from the Central Bank of Egypt from 2002 to 2020.

Figure 93. Cost of starting a business in Egypt, as a percentage of gross national income per capita



Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

As a more stable source of external finance, foreign direct investment enhances productive capacity, creates employment and fosters globalization by facilitating the integration of domestic Egyptian companies into the international value chain. Acknowledging these benefits, the Government announced Law No. 72 on investment in 2017, which simplified the incorporation process and provided additional incentives to attract foreign investments such as tax exemptions, unified customs rates and free land.[54] The increase in foreign direct investment from $6.9 billion in 2016 to $8.2 billion in 2019 partially demonstrates the effectiveness of this new policy.

The trend in the portfolio investment of Egypt is less optimistic. Portfolio investment generally covers transactions in equity securities and debt securities. In 2019, the net inflows of portfolio equity, including equity securities other than those recorded as direct investment, reached -$12 billion, and the portfolio investment was -$7.3 billion (figure 92). This area therefore requires careful management and strategic planning in FFD, especially given the volatile nature of these types of investments.

In terms of private sector development, although the general trend reflects a slowly falling cost of starting a business, as shown in figure 93, the average cost of 27.28 per cent of GNI per capita over the period 2009–2019 is still relatively high compared to 2019 data from some other MENA countries like Morocco (3.6 per cent), Saudi

Arabia (5.4 per cent) and Tunisia (2.9 per cent).[55] Such costs and other barriers to entry should be reduced in order to encourage domestic entrepreneurship. As explained in chapter 3, the increased fiscal consolidation is expected to facilitate greater participation by the private sector.

Other ways to foster the private sector include lowering the administrative burden of regulatory compliance and improving the efficiency of business facilitation measures, which includes providing comprehensive online information portals to increase transparency and prevent asymmetry in terms of access to information. To maximize the private sector's contributions to sustainable development, strategies concerning the private sector must be coherent with the SDGs.

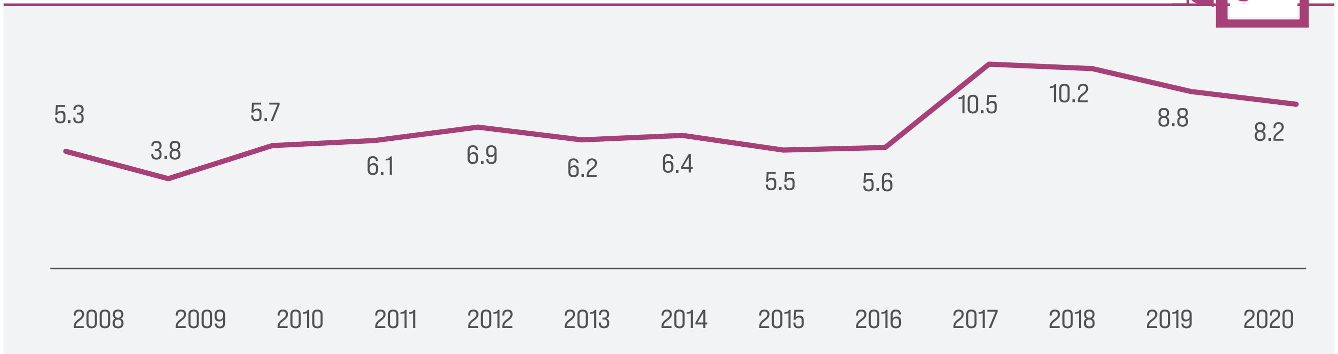
As it did for Indonesia, the World Bank explored opportunities and barriers to expand commercial finance and private investment in Egypt. The Government selected four priority sectors: energy, transport, water and sanitation and agriculture. The energy sector consists of oil and gas transmission and distribution, as well as electricity generation, transmission and distribution.

Transport includes multimodal freight transport and logistics, which cover airports and railways. Water and sanitation cover bulk water supply and distribution, as well as wastewater treatment. Lastly, agriculture covers value addition and transformation, enhanced efficiency of value chains, and sustainable water and land resource management. Each of these sectors has costs associated with its development, much like Indonesia and its geothermal reserves. In these cases, there are clearly ample opportunities to introduce new and improved technologies in order to increase private funding and utilize public resources to fund these developments.

Thus far, the World Bank has made strides within Egypt through the International Finance Committee, which has invested $723 million in Egypt to promote investments, increase standards of education and create jobs. Additionally, the Committee has provided advising services to improve access to finance and assist in the development of SMEs and public-private partnerships[56]. While these are efforts currently being undertaken, tapping into the private sector's potential will generate sustainable growth and improve the lives of people in the country.

In terms of creating jobs, the Committee plans to focus on creating jobs for young people, given that unemployment is a significant issue in Egypt and for this demographic in particular.[57] In fact, the youth unemployment rate in Egypt in 2020 was 29.96 per cent. While it is important to consider the impact of COVID-19 on unemployment, it is also important to note that youth unemployment has trended above 20 per cent since at least the early 1990s[58].

Figure 94. Remittance inflows for Egypt, as a percentage of gross domestic product



Source: Author, based on World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed October 2021.

As mentioned in chapters 3 and 6, public-private partnerships also provide Egypt with significant opportunities to expand the role of the private sector to improve FFD. Egypt has established a number of such partnerships throughout its history, some of which culminated in success while others were unsuccessful. Kamel and others examined public-private partnerships in Egypt, including previous case studies, and the way in which they should function in the present day to increase the probability of success. They determined that the Government must treat such partnerships with professionalism and take a holistic approach to avoid the factors that led to failure in the past.[59] Samir and Maher also explored the history of public-private partnerships in Egypt and found that environmental factors, specifically political and economic stability and the legal framework, are key to success.[60]

Beginning in 2017, the inflow of remittances, including personal transfers and employee compensations, increased in Egypt (figure 94). In light of the COVID-19 pandemic, however, there was a 0.6 per cent decline in remittance inflows to GDP. While GDP experienced an increase of 19.8 per cent in 2020, overall remittance inflows shrank, partially because of weak economic growth and employment levels in migrant host countries.[61] The higher ratio of remittances to GDP underscores the importance of managing and reducing associated transaction costs. Emara and Zhang show that an improvement of 10 per cent in digitization measures increases remittance inflows by 0.14 per cent in emerging countries.[62] In the MENA Region, the average cost of sending $200 in 2019 was 7 per cent, much higher than the target of 3 per cent set in the Addis Ababa Action Agenda and the 2030 Agenda. Fintech companies tend to charge lower transaction fees than conventional money transfer service providers like banks. Thus digitization plays a critical role in increasing efficiency, leading to reduced transaction and production costs.

According to the United Nations, fintech solutions and digital channels can be utilized to reduce overall costs to meet the 3 per cent goal[63]. Digitization shortens the processing time such that the transfer process becomes almost instantaneous and is very low in cost, maximizing both effectiveness and efficiency. The Egyptian Government should therefore invest more in technology and digitization and implement policies to encourage the ICT industry to expand research and development to digitize the financial sector. Although the state of digitization in Egypt, and digital banking in particular, still has a long way to go, the past few years have shown remarkable improvement, especially with the onset of the COVID-19 crisis and the need for reduced physical interaction. For instance, the Ministry of Finance will replace five million payment cards used for disbursing dues to government employees with free “Meeza” payment cards, which offer some banking services. In addition, the new law for central bank and banking activities, approved by the Prime Minister in July 2020, aims to follow recent banking trends such as e-payments, fintech businesses and cryptocurrencies. In addition, the Egyptian Sovereign Wealth Fund has made significant efforts and deployed resources in this regard. Many fintech start-ups have flourished over the past couple of years, such as Prime Fintech, which was established during the COVID-19 pandemic. Funding has also been received by several newly established fintech accelerator hubs, such as Startupbootcamp and Flat6Labs, and numerous fintech businesses, such as Paymob, ElGameya, Shahry, Fatura and MoneyFellows.

Nevertheless, the Egyptian Government should also bear in mind the potential risks associated with a digital economy, including cybersecurity and fraud. The CBE is already working on developing a computer security incident response team for the banking sector and is providing support to commercial banks to enhance their anti-money-laundering systems.

G. Potential role of the private sector in closing financing gaps and supporting development objectives

In view of the persistent development needs and prevailing financing gaps, it is becoming apparent that more efforts are needed to solicit funds from the private sector. For the SDGs to be achieved, available resources must be utilized more efficiently and more financing must be sourced from the private sector.

1. Financial leverage through securitization to attract private investment

Many discussions are now being held within the development community about securitization and whether it could be the way forward in terms of incentivizing the private sector to participate in development financing. Securitization refers to a process of transforming an illiquid asset or group of assets into a tradable security via financial engineering. Securitization can promote sustainable assets and create investable opportunities by de-risking development projects to better fit the desired risk/return profiles of institutional investors; however, it requires multilateral development banks to play a stronger role as catalysts for private investment by securitizing their loans. It also requires and supports the further maturation of capital markets.

It is also worth noting that there might be room for Islamic banks, which are abundant in Egypt, to engage in securitization with a less risky approach. Drawing on lessons from the Great Recession, Islamic securitization involves lower bank risk than bank securitization, owing to the stricter monitoring conducted under the Islamic model.

2. Foreign direct investment

Another typical but central means of FFD is foreign direct investment. Egypt has been successful in encouraging foreign investors to invest in the country, achieving favourable results in the wake of the global financial crisis and the subsequent local and regional political turmoil.

In order to further encourage foreign direct investment in the country, the financial sector must make advancements. Makoni suggests that there is no evidence that foreign investors are coming to Egypt for its natural resources; however, financial market development plays a crucial role in channeling inward foreign direct investment. Emara and El Said show that a one-notch increase in sovereign ratings enhances foreign direct investment by approximately 0.33 per cent of GDP for a sample of emerging countries, including Egypt. It is promising that Standard and Poor's sovereign credit rating for Egypt has improved over the past few years; it was upgraded from B- to B in 2018 and currently remains at a B with a stable outlook, despite the COVID-19 crisis. Makoni therefore recommends that the Egyptian Government should open the economy by removing trade barriers and continue to provide a welcoming environment to investors.

> Despite efforts to prioritize financial inclusion over the last several years, Egypt has one of the highest levels of financial exclusion compared with other countries in the MENA Region.

3. Blended finance

Blended finance represents another creative way to encourage the private sector to view investing in development goals as more lucrative. Basile and Neunuebel argue that there is a positive connection between blended finance and political and macroeconomic stability and higher national income. The European Network on Debt and Development highlights the importance of ODA in removing investment barriers, which has a positive impact on private investment in developing countries in situations in which purely commercial motives would have precluded such opportunities.

The efforts made in Egypt should make it an excellent candidate for receiving FFD from the private sector in the form of blended finance. In fact, some successful blended finance projects have already been implemented in the country. In a recent speech, the Minister of International Cooperation mentioned several infrastructure projects that have been executed on a blended finance basis in the COVID-19 era, which helped the economy of Egypt maintain a high growth rate during the global economic slowdown.

4. Public-private partnerships

To reiterate, public-private partnerships are another, more typical form of financing sourced partly from the public sector and partly from the private sector. Egypt has a long history of public-private partnership projects. In the 1990s, several sizeable infrastructure projects were implemented under the scheme, such as Al Alamain International Airport and El-Faum/Aswan Highway.

Previous public-private partnerships encountered issues, mostly stemming from administrative mismanagement, and many unfortunately did not reach the financial closure stage. Egypt then implemented a series of reform measures, which included issuing a special law regulating the public-private partnership scheme (Law No. 67 of 2010) and establishing a special public-private partnership unit within the Ministry of Finance. According to the World Bank report entitled Benchmarking Public-Private Partnerships Procurement 2015: A Pilot in 10 Economies, Egypt must enhance the gatekeeping process for such projects and further clarify the role of the Ministry of Finance throughout the entire process, not only during the project solicitation stage. The benefits of the recent reforms to the scheme need more time to develop, following years of political turmoil and global economic crises.

5. Comparative advantages of the public and private sectors

There is no doubt that channeling private investment in a way that better serves development goals is no less challenging than obtaining more private investment in the first place. Table 22 below lists foreign direct investment to Egypt by sector in 2019/20. As mentioned in chapter 6, the oil sector receives the most investments by far, despite being one of the sectors furthest from achieving the SDGs.

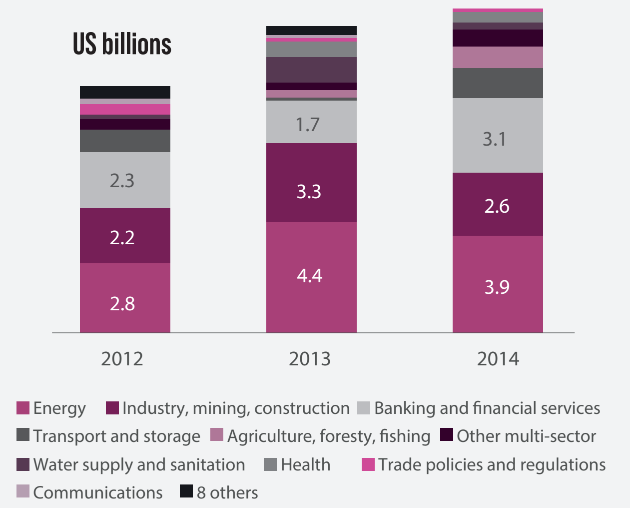
Table 22. Foreign direct investment to Egypt by sector (2019/20)

Main invested sectors	Fiscal year 2019/20 (percentage of total foreign direct investment inflows)
Oil	45.9
Financial services	14.1
Manufacturing	12.0
Construction	5.6
Real estate	4.2

Source: Author, based on data from the Central Bank of Egypt. Accessed 2021.

Even in the context of joint financing between the public and private sectors, it is hard to funnel private investments towards more development-oriented sectors. Although blended finance might allow for better channeling of private capital, private investments tend to concentrate in sectors with clearer revenue streams, such as the energy sector, with an even higher concentration in more fragile economies (figure 95).

Figure 95. Private finance mobilized through infrastructure, by sector



Source: Basile, I. and C. Neunuebel (2019). Blended finance in fragile contexts: opportunities and risks. OECD Development Co-Operation Working Paper, No. 62. Paris: OECD Publishing.

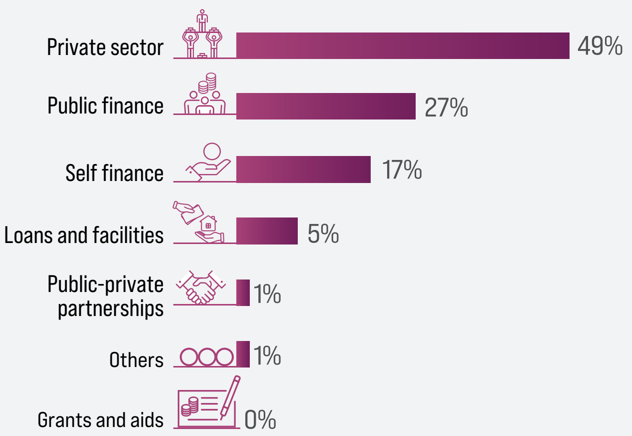
Humphrey illustrates that, for instance, a financing gap of approximately $1 trillion per year exists in the infrastructure of developing countries, while $100 trillion of institutional investor resources await allocation each year. He emphasizes the role of multilateral development banks in ensuring better allocation of institutional investor funds through the design of tailored and country-specific investment packages and the mitigation of some of the corresponding deterring risk factors. Nevertheless, he also stresses reasonable management of expectations and suggests that, while there is room for better channeling of private credit, a sizeable role for direct financing by governments and ODA will remain. This statement leads to the important observation that having the right mentality is key, even when attempting to revolutionize the development scene. To expect that private credit will close the current infrastructure financing gap is largely unrealistic; nonetheless, it is crucial to provide more development-centred incentives for the private sector while maximizing the private credit benefits to sectors that are already popular.

H. Unique financial challenges and policy implications

Ratha and others show that the developed world's commitment to provide ODA to developing countries continues to decrease, whereas ODA previously constituted up to 70 per cent of financial flows. Moreover, the persistent recession in many European Union countries and the United States, as well as the relatively slow growth in China and South-East Asian countries, makes it more important for developing countries to better mobilize domestic resources and implement out-of-the-box measures to finance the SDGs. This is even more true in the wake of the COVID-19 public health crisis and the resultant global economic recession. As a result, non-banking financial institutions could play an extremely important role in closing the financing gap for sustainable development projects.

Additionally, the structural ranking analysis conducted by Buletova and Stepanova shows that the position of Egypt in the world rankings in terms of both economic growth and financial development is largely dependent on the level of digitization to be achieved. The Government clearly realizes the importance of digital transformation and has recently made significant efforts to that end. For instance, the Egyptian Ministry of Communications and Information Technology launched a campaign to promote the development

Figure 96. Average funding for sustainable development in Egypt (2011–2017)



Source: Author recreation from Ashour, A. and D. Ibrahim (2018). Financing the SDGs in Egypt: evaluating the current practices and challenges. Cairo: United Nations Economic Commission for Africa. Based on data from the Egyptian Ministry of Planning and Economic Development.

of the ICT infrastructure and digital services for government entities. Although much more needs to be done in this regard, it is clear that Egypt has acknowledged the importance of e-government since 2004 when it launched the e-government portal. This transformation has also taken place on the financial front; according to its website, the CBE allocated $1 billion for a fintech fund. Moreover, several fintech startups have been launched in Egypt over the past few years. These include mobile wallets and payment platforms, as well as microcredit and "buy now, pay later" solution providers. This trend has only accelerated with the outbreak of COVID-19. Fintech platforms constitute a revolution in economic development through financial inclusion.

1. Financing for development in previous years

Figure 96 illustrates the distribution of FFD among different financing parties between 2011 and 2017 in Egypt. On average, nearly half of the investment in Egypt comes from the private sector. The public sector accounts for 27 per cent, with the majority of public investment flowing into infrastructure sectors and human development. While this shows that Egypt has been performing relatively well in relation to obtaining funds from the private sector, public investment still depends on the budget deficit allocated to cover investment finance.

2. Forecast for Egypt to achieve the Sustainable Development Goals by 2030

Nevertheless, it is important to note that the overall "pie" (i.e. the absolute amount raised for development financing) must increase significantly in order to achieve the SDGs by 2030. There is also a need for a larger relative contribution from the private sector, whether foreign or domestic. It can also be independent or joint funding with the Government in the form of public-private partnerships or blended finance. According to Ashour and Ibrahim, the Egypt Vision 2030 forecasts that LE 7.5 trillion in investments is needed over the period 2015–2030; two thirds of that amount must be financed by the private sector. Ashour and Ibrahim present different FFD scenarios in Egypt to achieve the SDGs. In the moderate scenario, which is neither optimistic nor pessimistic and assumes a partial macroeconomic reform, 30 per cent of FFD will be obtained from the State budget, 60 per cent will come from the private sector and the local community and the remaining 10 per cent will come from loans and grants. Under that scenario, achievement of the SDGs is estimated to reach 63 per cent: full coverage in urban areas and 38 per cent coverage in rural and deserted areas. Unique financial challenges and policy implications.

EGP7.5
Trillion

in investments is needed over the period 2015–2030

I. Conclusion and policy recommendations

In conclusion, achieving the aggressive FFD goals as they currently exist will require Egypt to undertake a series of progressive measures. The most important will be to increase access to finance for the private sector, and SMEs in particular; improve the capacity of non-banking financial institutions; facilitate securitization; better channel foreign direct investment and domestic private capital towards development-centred investments with the proper incentives; and encourage joint financing between public and private parties.

Additionally, Egypt must improve the mobilization and use of domestic resources rather than continue its overreliance on ODA. The fact that Egypt established the Sovereign Wealth Fund in 2018 is a positive step towards attracting more private capital and perhaps increasing the domestic savings rate, which is currently extremely low. Interestingly, Emara and Kasa provide empirical evidence on a sample of emerging countries, including Egypt, which shows that a one-unit improvement in the financial access index leads to a 0.04 per cent increase in domestic savings accumulation as a percentage of GDP. Additionally, Hussein and others suggest that financial development is one of the key determinants for real private savings in the long term.

Other available methods for mobilizing domestic resources include more efficient tax administration and greater efforts to formalize the massive informal sector in the country, possibly by making compliance less costly and offering tax holidays. Furthermore, digitization and new technologies should be utilized to improve FFD. Digitization fosters higher productivity, spurs economic growth and increases employment through the adoption of digital services that connect Governments, enterprises and consumers. Nevertheless, it is important to consider that the impact of digitization may vary significantly depending on the nature of the sector and the economic structure. For instance, tradable sectors benefit more in terms of employment, while non-tradable sectors enjoy benefits to productivity and growth. Policymakers should create and implement digitization plans for targeted sectors to maximize its impact. Moreover, macroprudential regulations should be solidified, particularly in emerging economies, to allow for the development of non-traditional banking, including more innovative financing techniques. It is also important to note that the financial sector ranks behind only telecommunication companies in relation to investing in ICT. This means that financial development is crucial for the development of the digital economy and, consequently, for economic growth.

> As countries grow and strengthen their economies, it is important to assess whether the growth is sustainable in the long run.

In view of the analysis of the Egyptian financial sector in this chapter, the following policies and strategies are recommended for improving the sector's capacity and enhancing its contribution to achieving the SDGs.

Short-term

1 Streamline the informal sector: in addition to the benefit of mobilizing domestic resources, this would empower players in the informal sector and enable them to have a financial footprint and benefit from literacy efforts usually offered by formal providers.

2 Encourage inclusivity in promoting financial inclusion: this would ensure better allocation of the benefits to be reaped from greater access and usage of financial services. A concrete example would be formulating a strategy for increasing access to the Internet in parallel with promoting digitization and Internet banking to ensure that no one is left behind.

Medium term:

1 Expand the uses of e-government: in line with measures already being adopted, the Government should seize the opportunity to increase awareness of the efficiency of services provided through the Internet. It should also widen the scope of services offered through its e-portal to include paying for taxes and government services, among other options.

2 Increase touch points by financial service providers: this is particularly important given the high population density in urban areas. The introduction and improvement of branchless banks, mobile banking services, agency banking and other emerging technologies is expected to significantly increase banking penetration and access to finance.

3 Digitize cash payments: Egypt is still relatively far from the goal of a cashless economy, and the use of cash remains prevalent. Building a strong financial services sector provides tremendous opportunities that stem from digitizing payments, such as utility and merchant payments. A good starting point would be to target the 84 per cent of wage payments made in cash within the private sector, which could be digitally disbursed through diverse financial service providers. The Government has taken the initiative in this regard by introducing Meeza cards to a significant portion of government employees. Incentives should be given to the private sector to embark on similar initiatives under the umbrella of financial inclusion. The new cashless payment law, signed in April 2019, indicates another good initiative to promote a cashless society. Under the law, the public and private sectors must disburse and receive a certain volume of payments through digital channels. The strict implementation and adaptation of the law should improve the efficiency of payment systems and boost digital financial inclusion.

Long term:

1 Invest in innovation ecosystems: it is critical to support fintech companies and other financial innovation ecosystems, given that this sector is already extremely promising. While initiatives undertaken by the CBE and the Egyptian Sovereign Wealth Fund are important, they remain insufficient. The Government must spend more on fintech and incentivize the private sector to invest in it.

2 Embark on regulatory reforms: it is obvious that without the appropriate legal and administrative frameworks, it is difficult to achieve goals related to financial penetration and financial inclusion, which are key to achieving the SDGs. Accordingly, the Egyptian Government must focus on gradually improving the regulatory landscape to make it more friendly, for example, in relation to licensing diverse providers. This will encourage strong participation from non-banking financial providers, such as insurance providers, mobile money providers, fintech companies and monetary financial institutions, which have proven to be effective drivers of economic growth.

> Another major advantage of digitization is the creation of more effective flows or exchanges of information, goods and services, which makes e-government extremely beneficial.

Endnotes

1. Mohieldin and others, 2019.
2. World Bank, 2021b.
3. Mounir, 2020.
4. Ministry of Planning and Economic Development, Egypt, 2021b.
5. Bank for International Settlements, 2017.
6. Soliman and Zaky, 2017.
7. Based on World Bank (2021). Global Financial Development database. Available from https://databank.worldbank.org/source/global-financial-development#. Accessed January 2022.
8. Mounir, 2020.
9. Abouelmagd et al., 2019.
10. Emara and El Said, 2021.
11. Dabla-Norris and others, 2015.
12. CEIC, 2020.
13. Kamel, 2020.
14. CBE, 2020b.
15. Poshakwale and Qian, 2011.
16. Export.gov, 2019.
17. Kohlscheen and others, 2018.
18. Based on TheGlobalEconomy.com (2021). Global Economy database (GED). Available from https://www.theglobaleconomy.com. Accessed January 2022.
19. CAPMAS, 2018.
20. El-Said and others, 2015.
21. Emara and Rojas, 2020.
22. Oxford Business Group, 2020.
23. Mounir, 2021.
24. CBE, 2020b.
25. CBE, 2019.
26. Oxford Business Group, 2020.
27. Ibid.
28. TheGlobalEconomy.com, 2021.
29. ElBannan, 2017.
30. Chang, 2018.
31. Kousky and Shabman, 2016.
32. Based on World Bank (2021). Global Financial Development database. Available from https://databank.worldbank.org/source/global-financial-development#. Accessed January 2022.
33. Youssef and Zhou, 2020.
34. Kordy and others, 2020.
35. GFD, 2019.
36. Youssef and Zhou, 2020.
37. Based on World Bank (2021). Global Financial Development database. Available from https://databank.worldbank.org/source/global-financial-development#. Accessed January 2022.
38. Youssef and Zhou, 2020.
39. Emara and others, 2020.
40. Lemma, 2017.
41. United Nations Advisors Group on Inclusive Financial Sectors Private Sector Working Group, 2008.
42. Emara and El Said, 2020.
43. World Bank, 2017.
44. Emara and El Said, 2020.
45. Nagy and Adams, 1996.
46. Baydas and others, 1995.
47. Immigration and Refugee Board of Canada, 2009.
48. Mohieldin and Wright, 2000.
49. World Bank, 2020b.
50. World Bank, 2018c.
51. OECD, 2020b.
52. PricewaterhouseCoopers, 2019b.
53. International Finance Corporation, 2020a.

54. World Bank, 2020a.
55. Makoni, 2018.
56. Emara and El Said, 2021.
57. Trading Economics, 2021.
58. Emara and Kasa, 2020.
59. Hussein and others, 2017.
60. Schepinin and Bataev, 2019.
61. United Nations, 2020b.
62. UNCTAD, 2019.
63. IFC, 2020b.