Microfinance in Egypt: An Overview

Ghada Waly
Advisor to the Chairman for Microfinance
EFSA
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Definition of MF

• Microfinance is the provision of financial services to the poor and low-income clients: i.e. Credit, Savings, Insurance and Remittances

• The Poor and Low-Income Clients do not have access to formal financial institutions

• Micro-credit – one of the Microfinance Products - is the provision of micro-loans to the poor and low-income clients
In 2004, law 141 on MSE Development was enacted, which assigned the SFD the role of coordination and promotion of MSEs in Egypt.

Law defined MSEs as follows:

- **Micro enterprises** – less 50,000 EGP as working capital irrespective of number of employees
- **Small enterprises** – between 50,000 and one million EGP as working capital and less than 50 employees
Historical Background

• Till the 1950s, the only source of financing to poor and low-income were individual money lenders charging exorbitant interest rates.

• Between 1950s & 1970s, the subsidized loan programs occurred (particularly in agri-sector)

• In 1970s, the Grameen Model of Solidarity Group Lending to Poor Women in Bangladesh occurred and proved to be successful

• Afterwards, donors led the duplication of the Grameen Model in under-developed countries
MF Evolution In Egypt

• In late 1980s, ABA and NBD introduced the first micro-loan program to Small Enterprises in Egypt with the support of USAID.

• In the early 1990s, Solidarity Group Lending was introduced through NGOs to economically active poor women.

• During the following two decades, many NGOs and banks launched MF programs.
National Strategy for MF

• The National Strategy was developed in 2004 and launched in 2005 with the objective of “developing a microfinance industry in which sustainable financial services for lower market segments are integrated into the overall development of a broad, inclusive, and diverse financial sector”

• The Strategy set a number of recommendations on the institutional, supporting infrastructure and regulatory environment levels
Among Key Recommendations:

- **Regulations** - Revise legislation to allow for the establishment of non-bank commercial MFIs, and the transformation of successful NGOs into commercial MFIs.

- **Infrastructure** - Support the establishment of an MFI network (EMFN already established – 12 MFIs and SFD)

- **Institutional** – Support product development and diversification; and standardization of reporting
MF Industry In Egypt
(USAID’s MF Programs Map - As of June 30th 2008)

• Around 280 MF Programs (NGOs and Banks) serve 1.13 million active clients with a total outstanding portfolio of 1.8 billion EGP.

• Average loan size is estimated at approximately EGP 1,600

• The estimated penetration rate is 6%

• Almost 50% of the active clients are poor women
MF Industry In Egypt

(USAID’s MF Programs Map - As of June 30th 2008)

- Upper Egypt, 499,088, 44.2%
- Lower Egypt, 395,029, 35.0%
- Urban, 217,621, 19.3%
- Frontier, 17,384, 1.5%
MF Industry In Egypt
(USAID’s MF Programs Map - As of June 30th 2008)

- IL (SME); 49.7%
- GL (Women Only); 47.3%
- Other Products; 3.0%
• Market share of NGOs in terms of number of active clients is almost 80%
• Largest MFIs in terms of outreach are NGOs (namely, ASBA, LEAD, ABA, DBACD) in addition to one bank (BdC)
• Reefy and Tanmeya (service companies) were established in 2008 and 2009 respectively.
## Impact of MF In Egypt

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<th>Area of Impact</th>
<th>Key Findings</th>
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| Business Growth and Development        | Old clients earn 25% more in monthly profits than new clients  
Old clients invest in their business twice as much as new clients  
Old clients have an increased level of employment than new clients |
| Contribution to Household Budget       | Old clients contribute to household budget 20% more than new clients                                                                      |
| Household Well-Being and Poverty Levels| 76% of clients declared a positive impact on their “sense of autonomy”  
50% of clients declared positive change in quality or quantity of food  
40% of clients perceived a positive change in the education of children  
40% of clients indicated a positive change in their health  
46% of clients indicated an improved respect of their spouses |
| Savings                                | 31% of clients save every month and 10% use formal savings account                                                                       |
| Business Development Services          | 63% of clients who already received BDS were willing to participate in other trainings and 48% of them were willing to pay for them.       |
Needs of Target Clients

According to the National Impact Survey for MF Clients (June 2008):

• 64% need health insurance and retirement fund
• 51% need credit insurance
• 34% need consumption loans
• 37% need savings account
MF Regulatory Environment

• NGOs are governed by NGO Law (Law 84 of 2002) and supervised by MSS (More than 350 NGOs)

• Banks are governed by Banking Law (Law 88 of 2003) and supervised by CBE (Four Banks)

• Service Companies offering MF services on behalf of banks (two companies)
MF Regulatory Environment

• NGOs face constraints accessing different commercial sources of funding (e.g. no access to equity, difficulty accessing commercial loans from banks without guarantee lines)

• Banking Law and policies are silent on MF and most banks do not have required institutional and human capacities
New Regulations for MF

A new Draft Law has been developed to allow for the establishment of MF companies offering microfinance products and services except savings and remittances.

The new companies will be supervised and regulated by EFSA.

The Draft Law is based on the international good practices of regulation and supervision of non-bank microfinance companies.
New MF Draft Law aims at:

• Increasing the access to financial services to low-income and the unbanked
• Attracting more foreign direct investment
• Organizing the MF industry and supervise the practices of MF providers to ensure an efficient and transparent performance
• Developing the performance standards of the MF providers according to international best practices
Importance of Micro-Insurance to Micro-Borrowers

- Protects the poor – more vulnerable – from different risks
- Helps the client repays the loan in case of disability or property damage
- Protects the client’s family in case of death / disability from loss of breadwinner / debt
- Helps the clients to initiate small savings
- Protects the MFI in case of death / disability of the client
Thank you