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Financial Inclusion in the MENA Region: A Case Study on Egypt

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Abstract: *As the world economy became integrated, a great attention has been given to financial inclusion, which became since then a trending topic not only for global financial institutions as the World Bank and the IMF, but also for governments and regulators. The World Bank has defined the concept* ***"financial inclusion"*** *as "enabling all individuals and businesses to have access to useful and affordable financial products and services that meet their needs in which to be delivered in a responsible and sustainable way". In addition to that, the Sustainable Development Goals (SDGs) have included financial inclusion as one of the goals that need to be maintained by 2030. On the other hand, as financial inclusion is gaining that level of attention worldwide, implementing it in the developing countries and more specifically in the Middle East and North Africa (MENA) region may be that challenging. This paper is interested in explaining the concept of "financial inclusion" and in studying the relationship between financial inclusion and economic development from one side, and financial inclusion and financial stability on the other side. The paper is also interested in studying the behavior of financial inclusion in the MENA region to clarify the main challenges and opportunities faced by the countries in the region. In addition, the paper is focusing on Egypt as one of the largest countries in the MENA region as a case study for measuring the level of individual accessibility and awareness of financial services. This is done through a survey conducted on a random sample of the people living in Cairo. Finally, the paper will suggest a road map; for the MENA region generally and for Egypt specifically; to achieve higher levels of financial inclusion and better awareness of the concept.*

Keywords: *Financial Inclusion, Financial Literacy, Financial Stability, Economic Development*

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I. Introduction

"Financial inclusion" as typically defined as the proportion of individuals and firms that use financial services, it has become a subject of considerable interest among policy makers, researchers, and other stakeholders. In international forums, such as the Group of Twenty (G-20), financial inclusion has moved up the reform agenda. At the country level, about two-thirds of regulatory and supervisory agencies are now charged with enhancing financial inclusion. In recent years, some 50 countries have set formal targets and goals for financial inclusion. (The World Bank, 2014)

The heightened interest reflects a better understanding of the importance of financial inclusion for economic and social development. It indicates a growing recognition that access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, supporting inclusive and sustainable development. The interest also derives from a growing recognition of the large gaps in financial inclusion. For example, half of the world's adult population—more than 2.5 billion people—do not have an account at a formal financial institution. (The World Bank, 2016)

The share of informal employment is mirrored in the estimates for financial access. Globally, about half of all working-age adults are excluded from formal financial services. For the lowest income quintile, 77 percent are excluded. Without access to formal financial services, poor families must rely on age-old informal mechanisms: family and friends, rotating savings schemes, the moneylender, money under the matters. At times, these informal mechanisms represent important and viable value propositions. However, sometimes they are insufficient and unreliable and they can be very expensive. Financial exclusion tends to impose large opportunity costs on those who most need opportunity. (Cull, Ehrbeck, & Holle, 2014).

This paper is interested in explaining the concept of "financial inclusion" in part two. In part three and four consecutively, the paper studied the relationship between financial inclusion and economic development from one side, and financial inclusion and financial stability on the other side. The paper studied in part five, the

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behavior of financial inclusion in the MENA region to clarify the main challenges and opportunities faced by the countries in the region. In addition, in part six, the paper focused on Egypt as one of the largest countries in the MENA region as a case study for measuring the level of individual accessibility and awareness of financial services. This is done through a survey conducted on a random sample of the people living in Cairo. Finally, in part seven, the paper suggested a road map; for the MENA region generally and for Egypt specifically; to achieve higher levels of financial inclusion and better awareness of the concept.

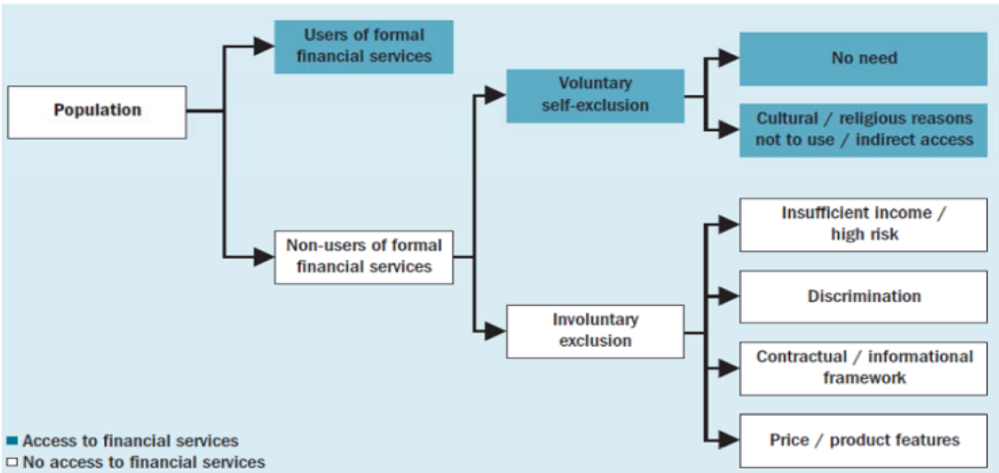
II. Overview of the concept of "Financial Inclusion"

"Financial Inclusion" as a concept has many definitions that deal with different dimensions of the concept. One definition of financial inclusion is a situation where financial services are not only readily accessible, but also widely used by the majority of the population in meeting all or most of their financial needs. Going beyond providing access to enabling increased usage of services such as bank accounts requires, in addition to dealing with obstacles such as cultural barriers, an extensive and efficient retail payments infrastructure. (Malaysia: Sustainable Adoption of Innovative Channels For Financial Inclusion, January 2013)

Another definition of the concept of financial inclusion referred to the delivery of financial services to low-income segments of society at affordable cost. During the past decade, the concept of financial inclusion has evolved into four dimensions: easy access to finance for all households and enterprises, sound institutions guided by prudential regulation and supervision, financial and institutional sustainability of financial institutions, and competition between service providers to bring alternatives to customers. (Mohieldin, Iqbal, Rostom, & Fu, 2011)

Traditionally, the financial inclusion of an economy is measured by the proportion of population covered by commercial bank branches and ATMs, sizes of deposits and loans made by low-income households and SMEs. However, availability of financial services may not equal financial inclusion, because people may voluntarily exclude themselves from the financial services for religious or cultural reasons, even though they do have access and can afford the services. (Beck & Demirguc-Kunt, 2008)

Figure 1– Factors of Financial Exclusion



Source: The World Bank (2008) Finance for All? Policies and Pitfalls in Expanding Access, A World Bank Policy Research Report, World Bank, Washington, DC. USA

Figure 1 above illustrates the difference between access to and use of financial services. The users of financial services can be distinguished from non-users, who either cannot access the financial system or opt out from the financial system for some reason. Within the non-users, first, there is a group of households and enterprises that are considered unbankable by commercial financial institutions and markets because they do not have enough income or present a high lending risk. Second, there might be discrimination against certain population groups based on social, religious, or ethnic grounds (red-lining). Third, the contractual and informational framework might prevent financial institutions from reaching out to certain population groups because the outreach is too costly to be commercially viable. Finally, the price of financial services may be too high or the product features might not be appropriate for certain population groups.

While the first group of involuntarily excluded cannot be a target of financial sector policy, the other three groups demand different responses from policy makers. In addition, there could be a set of users who voluntarily exclude themselves from the system due to conflicts with their religious, ethical, or moral value system.

III. Financial Inclusion and Economic Development

Economists suggest that the lack of access to finance for the poor deters key decisions regarding human and physical capital accumulation. For example, in an imperfect financial market, poor people may find themselves in the "**poverty trap**", as they cannot save in harvest time or borrow to survive a starvation. Similarly, without a predictable future cash flow, the poor are also incapable of borrowing against future income to invest in education or health care for children.

Without inclusive financial systems, poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities. Financial market imperfections, such as information asymmetries and transactions costs, are likely to be especially binding on the talented poor and the micro- and small enterprises that lack collateral, credit histories, and connections, thus limiting their opportunities and leading to persistent inequality and slower growth.

The inevitable trade-off between wealth accumulation and social inequality in the early stage of economic development also implies the crucial role of access to finance in social equality progress. Financial exclusion not only holds back investment, but also results in persistent income inequality, as it adds to negative incentives to save and work and encourages repeated distribution in a society.

Demirguc-Kunt and Levine (2007) conclude that building a more inclusive financial system also appeals to a wider range of philosophical perspectives than can redistributive policies: redistribution aims to equalize outcomes, whereas better functioning financial systems serve to equalize opportunities. Empirical studies by Demirguc-Kunt and Levine (2007) show that countries with deeper financial systems experience faster reductions in the share of the population that lives on less than one dollar a day. Almost 30% of the cross-country variation in changing poverty rates can be explained by variation in financial development. (Mohieldin, Iqbal, Rostom, & Fu, 2011)

In addition to the direct economic benefits, two recent developments suggest benefits for other government and private sector efforts that might arise from inclusive low-cost, financial systems that reach a larger number of citizens. First, financial inclusion can improve the effectiveness and efficient execution of government payment of social safety net transfers (government-to-person payments), which play an important role in the welfare of many poor people. Second, financial innovation can significantly lower transaction costs and increase reach, which is enabling new private-sector business models that help address other development goals. (Cull, Ehrbeck, & Holle, 2014)

Recent empirical evidence on the impact of financial inclusion on economic development and poverty varies by the type of financial service in question. In the access to basic payments and savings, the evidence on benefits, especially among poor households, is supportive. For firms, particularly small and young firms that face greater constraints, access to finance is associated with innovation, job creation, and growth. However, in access to microcredit, the data on dozens of microcredit experiments and from other cross-country research paint a rather mixed picture. (The World Bank, 2014).

As the impact of the financial inclusion on economic development vary by the type of financila service in question, the effects of each type of financial service on economic development will be discuseed separately as follows:

3.1 The effects of savings and payments

Newly available global data point to a strong correlation between income inequality and inequality in the use of bank accounts. Field experiments provide more direct evidence about the causal linkages between access to savings and payments services and real economy variables. For example, a range of randomized controlled experiments finds that providing individuals with access to savings accounts or simple informal savings technologies increases savings (Aportela 1999; Ashraf, Karlan, and Yin 2006), women's empowerment (Ashraf, Karlan, and Yin 2010), productive investment (Dupas and Robinson 2011, 2013), consumption, investment in preventive health, productivity, and income (Ashraf, Karlan, andYin 2010; Dupas and Robinson 2013). (The World Bank, 2014)

The findings from the random controlled experiments are in line with those of several other studies. For example, an in-depth examination of the effect of bank deregulation in the United States shows that greater financial inclusion accelerates economic growth intensifies competition, and boosts the demand for labor. It is also usually associated with relatively bigger benefits to those people at the lower end of the income distribution, thus contributing to inclusive growth. (Beck, Thorsten, Levine, & Levkov, 2010)

Together, these studies provide robust justification for policies that encourage the provision of basic accounts for savings and payments. Increasing financial inclusion in terms of savings and payments, if done well, can both help reduce extreme poverty and boost shared prosperity.

3.2 The effects of credit

Economic theory suggests that improved access to credit can have positive implications for poverty alleviation and entrepreneurial activity. Better access to credit makes it easier for households to smooth out consumption over time and provides an insurance against many of the common risks facing households and small enterprises in the developing world. Also with an improved access to credit can also encourage entrepreneurial activity by attenuating investment constraints and making it easier for small businesses to grow beyond their existence.

Cross-country research analyzing 10,000 firms in 80 countries shows that improving access to finance for potential entrepreneurs promises significant welfare gains not only for the entrepreneurs, but also for society as a whole. On the other hand, new research provides insights into the impact of access to credit on poverty alleviation and into the channel through which this is likely to occur, that is, the greater propensity of individuals to transition into entrepreneurship. (The World Bank, 2014)

3.3 The effects of microcredit

The original narrative emphasized that microcredit could serve not only as a tool to improve extreme poverty, but also as a means to unleash the entrepreneurship potential of the poor. Many studies have documented the effects of microfinance on household welfare and income. This includes positive effects on consumption, economic self-sufficiency, and some aspects of mental health and well-being (Kaboski and Townsend 2011, 2012; Karlan and Zinman 2010; Khandker 2005; Pitt and Khandker 1998). By contrast, studies that explore the impact of microfinance on entrepreneurship find relatively modest effects (Gine, Jakiela, and others 2010; Morduch and Karlan 2009). (The World Bank, 2014)

In a study that experimentally varies access to microcredit, authors find a large effect of access to microfinance on investment in fixed assets, but also note that this effect is concentrated among wealthier households that already own a business, while households with a low initial probability to transition into entrepreneurship use credit to consume rather than invest. (Banerjee, Abhijit, Duflo, Glennerster, & Kinnan, 2013) At the macroeconomic level, however, the impact of broader access to microcredit may be mostly redistributive and not without risks for financial stability. Recent research in this area has supplied intriguing new insights using applied general equilibrium modeling. A study revealed that, if general equilibrium effects are accounted for, scaling up microfinance programs has only a small impact on per capita income because increases in total factor productivity are counterbalanced by the lower capital accumulation resulting from the distribution of income from high savers to low savers. The benefits occur largely through wage increases and greater access to finance by poorer entrepreneurs. (Buera, Francisco, Kaboski, & Shin, 2012)

At the same time, there are also costs as the redistribution of credit toward new borrower segments may lead to losses in the efficiency of financial intermediation (for example, because of higher screening and information costs) and change the risk profile of bank lending as banks make loans to new borrowers who are, on average, riskier clients.

This means that the economic benefits of financial access need to be carefully weighed against the effects on the risk profile of bank and nonbank lending. The expansion of credit, if not well managed and if combined with low capitalization, can lead to financial crises.

In summary, the accumulating body of evidence supports policy makers' assessments that developing inclusive financial systems is an important component for economic and social progress on the development agenda. Financial services are a means to an end, and financial development must take into account vulnerabilities and ward off possible unintended negative consequences. A common message of the underlying research is that effective financial inclusion means responsible inclusion. Financial inclusion does not mean increasing access for the sake of access, and it certainly does not mean making everybody borrow.

IV. Financial inclusion and Financial Stability

Policy makers and regulators have devoted much effort to reforms aimed at improving financial stability in response to lessons from the 2007–09 crisis. At the same time, much effort has also been directed to promoting greater financial inclusion as an enabler of equal opportunity. To some extent these endeavors have been exerted in silos, neglecting the possibility that financial inclusion and financial stability could be significantly intertwined, positively or negatively. If there are synergies or trade-offs between inclusion and stability, policy decisions must be informed, and the policy setting, design, and implementation adjusted accordingly.

As a result, both financial inclusion and financial stability are high on international policy makers' agenda. For instance, the G-20 has called for global commitments to both advancing financial inclusion (the Maya Declaration and the Global Partnership for Financial Inclusion) and enhancing financial stability (the Financial Stability Board, Basel III Implementation, and other regulatory reforms).

This section aims at identifying links between financial stability and inclusion that could give rise to either policy conflicts or synergies and outlines questions for future research. To facilitate regulatory decision-making, we highlight the potential costs and benefits of financial inclusion with respect to stability and stress the need to differentiate among policy tools according to their risk profiles given the desired outcome.

Financial stability is a widely accepted public goal because a sound financial system is one of the cornerstones for economic growth. However, this goal is substantially harder to define and measure than traditional policy goals, such as price stability, and disproportionately more contentious. Financial stability has a multidimensional scope that depends on the interplay of key elements of the system and requires that the key institutions and markets in the financial system remain stable. This does not exclude occasional failures of smaller institutions and occasional substantial losses at larger institutions; these "are part and parcel of the normal functioning of the financial system". (Hannig & Jansen, 2010)

Financial inclusion changes the composition of the financial system with regard to the transactions that take place, the clients that use the various services, the new risks created, and possibly the institutions that operate in newly created or expanded markets. Does this mix tend to cause financial instability or make it more likely by multiplying the sources of potential shocks, or does it counter instability by rendering the financial system more diversified? Furthermore, once a financial crisis has occurred, how effective is financial inclusion in helping poor households cope with this particular external shock?

One challenge is that there can be policy trade-offs between the two objectives. For instance, a rapid increase in financial inclusion in credit can impair financial stability, because not everyone is creditworthy or can handle credit responsibly—as illustrated in the last decade by the subprime mortgage crisis in the United States and the Andhra Pradesh microfinance crisis in India (Mehrotra & Yetman, 2015). In addition, trade-offs between inclusion and stability could arise as an unintended consequence of bad or badly implemented polices. The quick expansion of unregulated parts of the financial system might impair the stability of regulated financial intermediaries. The benefits of participation in good times can turn into negative externalities in bad times. (De la Torre, Feyen, & Ize, 2013). At the same time, advancing financial inclusion in the use of electronic payments, deposits, or insurance may not directly impair financial stability.

Moreover, there may be important synergies between inclusion and stability. For example, a broader use of financial services could help financial institutions diversify risks and aid stability. Similarly, financial stability can enhance trust in financial systems and the use of financial services. It follows that understanding the synergies and trade-offs is paramount for policy makers who strive to advance financial inclusion and stability in tandem. Han and Melecky (2013) find that a 10 percent increase in the use of deposits can reduce the withdrawal rate for deposits in stress times on average from 20 percent to about 15 percent. Ignoring inter-linkages in advancing financial inclusion and stability could result in suboptimal outcomes, namely costly financial crises or continued financial exclusion.

There are several reasons why increased financial inclusion may support the central bank’s task of safeguarding financial stability. First, consumers gaining access to the formal financial system are likely to increase aggregate savings and diversify the banks’ depositor base. Any increase in savings has the potential to improve the resilience of financial institutions, given the stability of deposit funding, especially where they are backed by an effective deposit insurance scheme. (Mehrotra & Yetman, 2015)

Further, there is some evidence that aggregate balances in the accounts of low-income customers move only gradually, and are not prone to sudden month-to-month swings. This resilience could be especially relevant during crises, if low-income savers are appropriate to maintain their deposits when large depositors head for the exits. Indeed, during the global financial crisis, total deposits fell by less in economies where the degree of financial inclusion was higher in terms of bank deposits, especially for middle-income countries, even after controlling for other factors.(Han & Melecky, 2013)

Second, through financial inclusion improving firms’ access to credit can help financial institutions to diversify their loan portfolios. Moreover, lending to firms that were previously financially excluded may also lower the average credit risk of loan portfolios. One study finds that an increased number of borrowers from small and medium-sized enterprises (SMEs) is associated with a reduction in non- performing loans and a lower probability of default by financial institutions.(Morgan & Pontines, 2014)

However, increased financial inclusion is no guarantee of improved financial stability. If financial inclusion is associated with excessive credit growth, financial risks may rise. One way to increase financial inclusion would be to incentivize banks to aggressively expand credit to poorer, previously excluded, households without paying sufficient attention to their ability to repay loans. As a result, lending standards may be compromised. History is full with examples of households taking on excessive debt, be this through an inadequate understanding of the risks involved or other factors.(Mehrotra & Yetman, 2015)

Financially excluded households, by definition, lack a financial history. The absence of a verifiable track record may be especially prevalent where personal identification systems are weak. Moreover, there are bound to speed limits to banks’ ability to absorb new customers without seeing deterioration in credit quality, owing to limits in screening capacity. Finally, and more generally, an increase in financial inclusion can be associated with rapid structural change in the financial system. Supervisors and central banks should ensure that they retain sufficient capacity to monitor and react to any system-wide risks that could develop.

Čihák, Mare, &Melecky (2016) provided a conceptual framework for studying the nexus between the two policy objectives and estimating empirically the association between financial inclusion and stability. They selected a range of empirical indicators that measure the two concepts of interest: financial stability and financial inclusion. They used correlations and other (non-parametric) tools to study the dependence between the measures of financial inclusion and stability. They found that on average, financial inclusion and financial stability are negatively correlated, and thus linked more through trade-offs than synergies. However, the distribution around this average correlation is dispersed and bimodal, and it has fat tails. These findings suggest that while trade-offs could dominate the inclusion-stability nexus, synergies could arise with almost equally high probability.

According to Čihák, Mare, &Melecky (2016), the inclusion-stability nexus is most influenced by financial openness, fiscal freedom, education, and the depth of credit information systems. While financial openness introduces or increases trade-offs between inclusion and stability, fiscal freedom, education, and credit information depth help generate synergies between the two outcomes. Particularly if financial policy aims to advance the financial inclusion of individuals, complementary policies to deepen credit information systems could help mitigate the estimated trade-offs with financial stability.

V. Financial Inclusion in the MENA region

Financial Inclusion has become fashionable these days, especially after the emphasis from the international financial institutions and more importantly the Sustainable Development Goals (SDGs). The Center of Financial Inclusion has defined financial inclusion based on pillars that economies and governments need to achieve, which are access to full services of financial inclusion. This access need to be provided with quality, availability for everyone who has financial capability. All of this need to be achieved through a diverse marketplace that accepts competition from everyone.

When analyzing the above definition, both opportunities and obstacles would arise. As the pillars have made restrictions and challenges for having effective implementation of financial inclusion, as these pillars specified that the market would be available and efficient. As the stock market the existence of financial inclusion in any economy requires that the market should to be efficient.

Another point that is regarded as a restriction on emerging markets is that people who will use financial services need to be capable financially. This is considered a challenge on economies with low GDP and high level of poverty. The main obstacle that even the World Bank and the IMF emphasize is that these governments need to push more people even with high poverty level to access financial services. So the main question here is that how would they access without basic level of education, which would be an obstacle as there is no awareness about the different financial institutions that are providing different financial services. Above all what is the role that regulators in the financial institutions would do, and before them the role that the government should do to facilitate the process and place financial inclusion pillars as government's priority, which would affect and influence the economy.

Other dimensions that could arise from financial inclusion would be the wide access of technology and smart mobile phones, which would make financial services more accessible. This would be seen on the first glance as opportunity, but also due to the information risk this might represent a challenge for regulators and above them the government in order to protect customers' and companies' privacy. Moreover, how to have an effective way to measure the number of people and companies that have access to financial services. The World Bank has introduced a Global financial inclusion index (Global Findex) to measure the access of individuals, and their awareness. However, the main question here is, how effective might be this measurement, does it consider different cultures, backgrounds and does it consider different political, economic, and financial environments and systems. Because the measurement of financial inclusion is the key to understand the process and to give an indication about the different barriers to achieve higher levels of financial inclusion.

The Final dimension, which is not, considered as a challenge yet more an opportunity is that the time frame. More time, will reach to more development towards financial inclusion, under the conditionality of having the financial inclusion as a priority in the governments' objectives of course.

The above challenges are mainly some of the general challenges that might face economies globally, but the case is more intense in the Middle East and North Africa (MENA) region. That is because the financial infrastructure is not based correctly at different levels, there is high level of poverty and unemployment rates. Not to generalize this on all MENA region, but some of the emerging markets; in addition to that economies with political instability; would be very challenging for them to achieve financial inclusion.

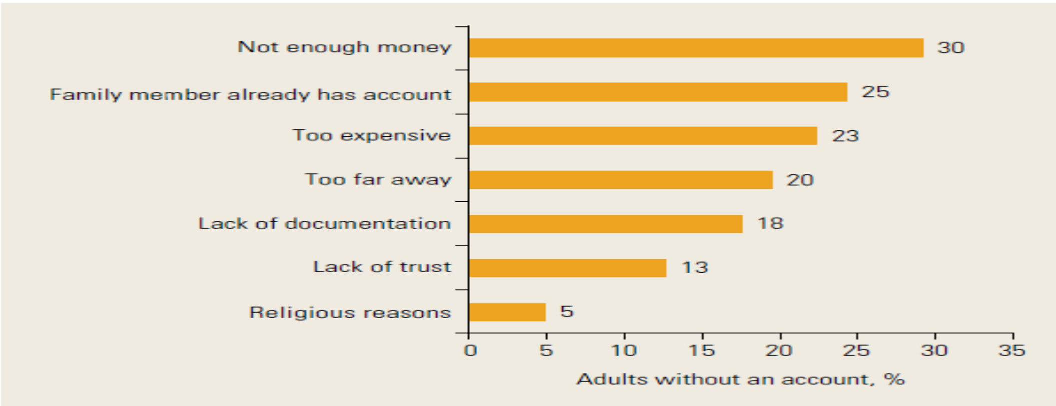
Another Challenge would be facing the MENA region for having full financial inclusion is enabling everyone to access these services at convenient prices. Nevertheless, with inefficient markets and instability in the economy, these economies would need strategic plans for governments and regulators to control them.

Financial Inclusion should not only be available for households and individuals, but also for firms that would need to use financial services and benefit from them.

One of the official speeches that were done by IMF representatives in 2013 (Ahmed, 2013) said, “There are poor financial inclusion which are mainly due to poor financial infrastructure. Financial institutions do not have clear framework, markets are inefficient, services offered are not diversified and are limited to certain services, and women inclusion to financial services are limited”.

World Bank and IMF both are concerned with financial inclusion to increase the influence of microfinance to attract small and medium enterprise and to encourage entrepreneurs to be part of the economy. The below figure released from the World bank report about some of the reasons why individuals do not have a bank account in the MENA region.

FIGURE 1.14 Reported Reasons for Not Having a Bank Account



Source: Global Financial Inclusion (Global Findex) Database, World Bank, Washington, DC, http://www.worldbank.org/globalfindex.
Note: Respondents could choose more than one reason.

Another challenge that might appear as a challenging impact on the full implementation of financial inclusion in the MENA region would be the limited services that are offered by the financial institutions. This goes back again to low level of awareness of households and firms of the services offered by financial institutions, and the inadequate applicability of the regulatory framework in the MENA region.

In general, based on one of World Bank research policy (Douglas, 2011) that was released is that in the MENA region financial inclusion is a policy not placed as priority by this time. While currently, it may not have reached to high priority but became one of the important priorities that need to be achieved especially with the push from the different regional and international financial institutions. This can be seen from different improvements that are taking place nowadays in the MENA region in regards to the legal and regulatory framework, such as payment system, automated clearinghouses. This research policy also highlighted that the region has financial depth yet not effective access, and that the Microfinance is not effectively under the spotlight.

A recent speech was released by IMF's Managing Director Christine Lagarde (Christine, 2016) about why there is currently a focus on financial inclusion. According to her, one of the reasons that she mentioned was that financial inclusion not only affects individuals' countries, but also affects the whole international arena. She also has highlighted the indirect relation between the increase in financial access and financial stability. This relation might affect the economy positively and might have a counter action negatively.

VI. Egypt as a case study: Measuring individual accessibility and awareness of financial services

As previously mentioned that measuring individual accessibility to financial service might be challenging. This paper is interested to take Egypt as a case study to measure individual and firms’ accessibility to financial services, and their financial literacy level. This is done through a survey. The random sample used in this survey include different genders, ages, and living standards in order to expand our sample as much as possible considering that Egypt's population is the largest among the MENA region. The sample size is 140 respondents and the survey was distributed mainly in Cairo. The survey was distributed in Arabic language (the native language of Egypt) and in English.

Next, the survey results are presented and analyzed as follows;

First, the sample characteristics are as follows,

Characteristic	Classification of the characteristic	Number of respondents	Percentage
Gender	Male	51	36.4%
	Female	89	63.6%
Age	16-20	2	1.4%
	21-30	37	26.4%
	31-40	38	27.1%
	41-50	35	25%
	51-60	21	15%
	Above 60	7	5%
Education Level	Ignorant	7	5%
	High School or lower	24	17.1%
	University graduate	82	58.6%
	Post- Graduate	27	19.3%
Employment Sector	Public Sector	92	65.7%
	Private Sector	34	24.3%
	Self-Employed	10	7.1%
	Not Employed	4	2.9%

Source: Survey results

From the previous table, it can be seen that the majority of the respondents were females with a percentage of 63%, the university graduates resemble nearly 60% of the sample, and the public sector represents almost two-third of the sample size.

Second, the *main findings of the survey are as follows,*

When questioning respondents about having a personal bank account or not, 64% of the total sample respondents have a bank account, of which 72% of males and 58% of females. This means that lower percentage of females have a personal bank account compared to males. In other words, there may be a relationship between gender and having a personal bank account.

Only 19% from the low level of education (ignorant and high school or lower) have a personal bank account, while 76% from High education level (whether university graduate or postgraduate) have a personal bank account. As a result, there is a positive correlation between the level of education and having a personal bank account. In addition, it was found from the analysis that there are three main reasons why the respondents do not have a personal bank account; first not having enough money (29%), second no need for using financial institutions (18%), and third due to religious reasons (13%).

In regards to asking the respondent about having a payroll account or not, 66% of the sample responded to have a payroll account. From this percentage, 70% of the respondents are employed by public sector, 67% of them are employed by private sector. This indicates that nowadays the norm for all sectors in Egypt is to depend on payroll account.

In regards to the question related to having a debit and/or a credit card, it was found from the sample that 45% have a debit card and 41% have a credit card. Out of this sample, almost 50% of males have debit or credit card, while almost 37% of females have debit or credit card. This finding is consistent with the results that was mentioned before about high percentage of males have a bank account. On the other hand, almost 86% of the sample with monthly income above 5000 Egyptian pounds (above 283$) have a debit or credit card. 0% of respondents with a monthly income below 1000 Egyptian pounds (below 57$) have a debit or a credit card. This indicates a strong positive correlation between the monthly income level and having a debit or credit card.

From the analysis of the survey results, it was found that 68% of the respondents use cash as a regular payment method. Part of this result is due to the fact that a lot of shops in Egypt accept only cash as a payment method. On the other hand, 76% of the sample withdraw cash from their account through ATM machines. This result may be due to two factors; first the availability of ATM machines all over Cairo, and second the administration fees for small withdrawals that clients have to pay if they use the bank branch.

In regards to the question of whether respondents use SMS bank services or online services, it was found that 44% use SMS bank services, and 40% use online services.

From the survey results, it was found that 36% of respondents never made any savings. Out of this percentage, 92% of low-income level below 1000 Egyptian pounds (below 57$) never saved before, also 58% of low educational level (ignorant or high school or lower) never made savings. On the other hand, almost 50% of the respondents direct their savings to financial institutions, while 24% of the respondents kept their savings aside. It worth noting that 0% of ignorant respondents in our sample direct their savings to any financial institutions, and depends mainly on informal saving methods (71% of ignorant). This indicates a strong positive correlation between the educational level and saving in financial institutions.

When asking the respondents about the frequent borrowing method, it was found that only 14% borrow from financial institutions, while 55% borrow through family relatives or friends, and 24% borrow through buying on credit (installments basis). This indicates low dependency on financial institutions as borrowing method in Egypt. On the other side, 26% of the respondents borrow for medical purposes, while 27% borrow for educational purposes, and only 18% of the respondents borrow for investment purposes or start-up business. Respondents employed by public sector borrow for investment purposes or start-up business represents only 10%, while respondents employed by private sector represent 32% out of the sample.

Unfortunately, only 10% of the respondents heard about the term “financial inclusion”. They heard about it from different sources as follows; 14% knew it from their work, 8% from media, and 2% from their relatives. This indicates that the respondents do not know the relation between the term “financial inclusion” and being involved with financial institutions. In addition, this was confirmed in the survey results by the fact that 88% of the respondents who have a personal bank account were not aware with the meaning of the term financial inclusion.

In summary, from the survey results, it is found that still most of the Egyptian community might not be fully aware of financial inclusion. Of course, the sample used is only an exploratory sample, however; the results match the previous figures released by the World Bank.

It is worth noting that the survey was distributed on respondents after an official campaign that was released by the Central Bank of Egypt. This campaign was in cooperation with Arab countries to increase people awareness about financial inclusion. Also, 27^{th} of April from each year was selected to be a financial inclusion day for Arab. In addition, the week of this day was made as an advertising week of financial inclusion to reach more people in different social places. During September of this year, financial inclusion conference took place in Egypt, and announcing that only 34% of the population owns bank account, increasing efforts and strategies are said to be needed to work on one path to increase this percentage, and also, offering more financial services at considerable prices. (Amer Mostafa, 2017)

VII. Road Map for better financial inclusion

Based on the previous analysis of the state of financial inclusion in the MENA region generally and in Egypt specifically, a road map can be suggested to achieve higher levels of financial inclusion and better awareness of the concept. As there is an urgent need for governments to reach to more people from different levels of education and income, to increase their awareness and importance of financial inclusion. The fact is that having conferences or making a day in the year to celebrate financial inclusion, still not enough as people with low educational level and low-income level may have bank account, yet do not understand that they are part of the financial system in the whole economy.

Late 2016 the Central Bank in Egypt has increased the interest rate on deposits from 16% to 20% on saving certificates at public banks. This made many people at all levels withdraw their money from private banks (if they have an account there) and put it in one of the well-known public banks in Egypt. In addition, even people who have saving certificates at old rates, renewed the certificate to gain from the new interest rate given, but with all this people yet are not aware that they are the main influencers in the financial inclusion. Based on results found from this paper, the researchers recommend that governments make more awareness campaigns especially at different public sector work places, and then gradually going to private sector workplaces. This would enrich people financial literacy about their role of being part of the financial system as a whole.

On the other hand, it is worth noting that although the accumulating body of evidence supports policy makers’ assessments that developing inclusive financial systems is an important component for economic and social progress on the development agenda, financial services are a means to an end, and financial development must take into account vulnerabilities and ward off possible unintended negative consequences.

A common message of the underlying research is that effective financial inclusion means responsible inclusion. Financial inclusion does not mean increasing access for the sake of access, and it certainly does not mean making everybody borrow. Particularly if financial policy aims to advance the financial inclusion of individuals, complementary policies to deepen credit information systems could help mitigate the estimated trade-offs with financial stability.

Appendix 1: Financial Inclusion Survey

This survey is a part of a research study to test the awareness of Financial Inclusion in Egypt and the level of financial literacy. Your answers will be treated confidentially and only for this research purpose.

Gender: Male Female
Age: 16-20 21-30 31-40 41-50 51-60 Above 60
Monthly income: Below 1000 LE 1001-2000 LE 2001-3000 LE 3001-4000 LE 4001-5000 LE above 5000 LE
Educational level: Ignorant High school or lower University graduate Postgraduate
Employed by: Public Sector Private Sector Self-employed Not employed

1. Do you have a personal bank account?
a. Yes
b. No

2. Do you have a payroll account?
a. Yes
b. No

3. Do you have a debit card?
a. Yes
b. No

4. Do you have a credit card?
a. Yes
b. No

5. When was the last time you made a bank transaction (deposit or withdrawal)?
a. A week or less
b. A month or less
c. 6 months or less
d. A year or less
e. More than a year
f. Never

6. When was the last time you used your debit card in any transaction?
a. A week or less
b. A month or less
c. 6 months or less
d. A year or less
e. More than a year
f. Never

7. When was the last time you used your credit card in any transaction?
a. A week or less
b. A month or less
c. 6 months or less
d. A year or less
e. More than a year
f. Never

8. Which of the following is the most frequent way to make your regular payments?
a. Debit card
b. Credit Card
c. Online account
d. Cash
e. Other (please specify)

9. If you need to get cash from your account, how do you usually get it?
a. From an ATM
b. From any branch of the bank
c. From any other financial institution
d. From any other way (please specify)
e. Do not need cash in most of your transactions

10. Are you registered in SMS bank services?
a. Yes
b. No

11. Does your bank or financial institution provide you with online services?
a. Yes
b. No
12. When was the last time you used any of the bank online services?
a. A week or less
b. A month or less
c. 6 months or less
d. A year or less
e. More than a year
f. Never
13. Have you personally saved or set aside any money for any reason within?
a. A month or less
b. 6 months or less
c. A year or less
d. More than a year
e. Never
14. If you have you personally saved or set aside any money for any reason, these savings are usually directed to?
a. A bank or any other financial institution
b. Informal saving way (جمعية)
c. Kept aside at home
d. Other (please specify)
15. Please specify whether each of the following is a reason why you (or someone that you know) personally do not have an account at a bank or any other financial institution?
a. Because financial institutions are too far a way
b. Because financial institutions are risky (financial instability in Egypt)
c. Because financial services are too expensive
d. Because you do not have the necessary documentation (such as ID)
e. Because you do not have enough money to use financial institutions
f. Because of religious reasons
g. Because someone else in the family already has an account
h. Because you have no need for financial services at formal institutions
i. Other reasons (please specify)
16. When you need to borrow money, which of the following ways you frequently use?
a. Family, relatives, or friends
b. Bank or any other financial institution
c. Buying on credit
d. Other (please specify)
17. What is the reason for borrowing in most cases?
a. Medical purposes
b. Educational purposes
c. Investment purposes (Stocks, bonds, real-estate…)
d. Startup business
e. Other reasons (please specify)
18. Did you hear about financial inclusion?
a. Yes
b. No
19. If yes, what do you know about it?
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20. From where do you know about financial inclusion?
a. Family, relatives, or friends b. Work
b. Media (TV, radio, social media) d. I do not know about it

Appendix 2: Financial Inclusion survey (in Arabic)

استبيان الشمول المالي

هذا الاستبيان هو جزء من دارسة بحثية حول الشمول المالى فى مصر و الوعى المالى لدى مختلف الفئات. أى بيانات شخصية سوف تعامل بشكل سرى و فقط لأهداف البحث.

أولا: معلومات شخصية:

النوع	• ذكر • أنثى
العمر	• 20-16 • 30-21 • 40-31 • 50-41 • 60-51 • فوق 60
الدخل الشهري	• أقل من 1000 جنيه • 2000-1001 جنيه • 3000-2001 جنيه • 4000-3001 جنيه • 4001- 5000 جنيه • فوق 5000 جنيه
المستوى التعليمي	• غير متعلم • ثانوي عام أو ما يعادله أو أقل • خريج جامعة أو معهد • دراسات عليا
تعمل لدى	• القطاع العام • القطاع الخاص • لحسابك الخاص • لا أعمل

ثانيا: معلومات تخص المعاملات المالية

1. **هل لديك حساب مصرفي شخصي؟**
   a. نعم
   b. لا
2. **هل لديك حساب الرواتبPay roll account؟**
   a. نعم
   b. لا
3. **هل لديك بطاقة خصم Debit card ؟**
   a. نعم
   b. لا
4. **هل لديك بطاقة إئتمانية Credit card ؟**
   a. نعم
   b. لا
5. **متى كانت آخر مرة قمت فيها بإجراء معاملة مصرفية (إيداع أو سحب)؟**
   a. أسبوع أو أقل
   b. شهر أو أقل
   c. 6 أشهر أو أقل
   d. سنة أو أقل
   e. أكثر من سنة
   f. لم يسبق لي أن قمت بإجراء معاملة مصرفية
6. **متى كانت آخر مرة استخدمت فيها بطاقة الخصمDebit card الخاصة بك في أي معاملة؟**
   a. أسبوع أو أقل
   b. شهر أو أقل
   c. 6 أشهر أو أقل
   d. سنة أو أقل
   e. أكثر من سنة

f. لم أقم باستخدامها من قبل

7. **متى كانت آخر مرة استخدمت فيها بطاقة الائتمان Credit card الخاصة بك في أي معاملة؟**

a. أسبوع أو أقل
b. شهر أو أقل
c. 6 أشهر أو أقل
d. سنة أو أقل
e. أكثر من سنة
f. لم اقم باستخدامها من قبل

8. **ما هي الطريقة الأكثر شيوعا لدفع المدفوعات العادية الخاصة بك؟**

a. بطاقة الخصم **Debit card**
b. بطاقة الائتمان **Credit card**
c. حسابك على الإنترنت
d. السيولة النقدية Cash
e. غير ذلك (يرجى التحديد)

9. **إذا كنت بحاجة إلى الحصول على نقود من حسابك، كيف تحصل عليه عادة؟**

a. من أجهزة الصراف الآلي ATM
b. من أي فرع من فروع البنك
c. من أي مؤسسة مالية أخرى
d. من أي طريقة أخرى (يرجى التحديد)
e. لا تحتاج إلى نقد cash في معظم المعاملات الخاصة بك

10. **هل أنت مسجل في خدمة الرسائل من البنك الخاص بك SMS؟**

a. نعم
b. لا

11. **هل يوفر لك البنك أو المؤسسة المالية خدمات عبر الإنترنت؟**

a. نعم
b. لا

12. **متى كانت آخر مرة تستخدم فيها أي من الخدمات المصرفية عبر الإنترنت؟**

a. أسبوع أو أقل
b. شهر أو أقل
c. 6 أشهر أو أقل
d. سنة أو أقل
e. أكثر من سنة
f. أبدا

13. **هل قمت بادخار شخصي أو خصصت أي أموال لأي سبب من الأسباب في خلال؟**

a. شهر أو أقل
b. 6 أشهر أو أقل
c. سنة أو أقل
d. أكثر من سنة
e. لم أقم بالادخار قبل ذلك

14. **إذا كنت قد قمت بادخار شخصي أو خصصت أي أموال لأي سبب من الأسباب ، عادة ما يتم توجيه هذه المدخرات إلى؟**

a. بنك أو أي مؤسسة مالية أخرى
b. طريقة ادخار غير رسمية (جمعية)
c. تحفظ في المنزل
d. غير ذلك (يرجى التحديد)

15. **ماهو السبب الرئيسي لعدم امتلاكك أنت (أو شخص تعرفه) لحساب شخصي في بنك أو أي مؤسسة مالية أخرى؟**

a. لأن المؤسسات المالية بعيدة جدا
b. لأن المؤسسات المالية محفوفة بالمخاطر (عدم الاستقرار المالي في مصر)
c. لأن الخدمات المالية مكلفة للغاية
d. لأنني لا أملك الوثائق اللازمة (مثل بطاقة الرقم القومي)
e. لأنني لا أملك ما يكفي من المال لاستخدام المؤسسات المالية
f. لأسباب دينية
g. لأن شخصا آخر في العائلة لديه حساب بالفعل
h. لأنني لاأحتاج إلى الخدمات المالية في المؤسسات الرسمية
i. أسباب أخرى (يرجى التحديد)

16. **عندما تحتاج إلى اقتراض المال، أي من الطرق التالية التي تستخدمها بشكل متكرر؟**

a. العائلة أو الأقارب أو الأصدقاء
b. البنك أو أي مؤسسة مالية أخرى
c. شراء بالتقسيط

d. غير ذلك (يرجى التحديد)

17. **ما هو سبب الاقتراض في معظم الحالات؟**

a. الأغراض الطبية
b. أغراض تعليمية
c. أغراض الاستثمار (الأسهم والسندات والعقارات ...)
d. بداية مشروع تجاري
e. أسباب أخرى (يرجى التحديد)

18. **هل سمعت عن الشمول المالي؟**

a. نعم
b. لا

19. **إذا كان الجواب نعم، ماذا تعرف عنه؟**

-- --

20. **من أين تعرف عن الشمول المالي؟**

a. العائلة أو الأقارب أو الأصدقاء
b. مكان العمل
c. وسائل الإعلام (التلفزيون والإذاعة ووسائل الإعلام الاجتماعيةSocial media)
d. لا أعرف عنه

Appendix 3: Central Bank of Egypt Press Release about Financial Inclusion

Arab Monetary Fund

Central Bank of Egypt

For publication on April 27th, 2016

PRESS RELEASE
THE COUNCIL OF ARAB CENTRAL BANKS GOVERNORS SUPPORTS THE DEVELOPMENT OF FINANCIAL INCLUSION IN THE ARAB COUNTRIES

Considering the transformative impact of financial inclusion and its critical importance in fostering sustainable growth, creating employment opportunities, reducing inequality and maintaining financial stability, the Council of Arab Central Banks Governors reaffirms its commitment to continue improving financial inclusion within the framework of national and regional economic policies to ensure access to a full range of quality, cost-effective and appropriate financial services to unbanked and/or under-served populations and businesses, particularly for youth and women.

In this context, the Council recalls its continued efforts to put in place comprehensive and proportional regulatory frameworks that achieve the goals of financial inclusion, financial stability and financial integrity in a complementary manner, while recognizing consumer protection and empowerment as key pillars of financial inclusion efforts.

Moreover, the Council highlights the benefit of knowledge exchange and peer-to-peer learning among regional and international financial regulators and policymakers for the design and implementation of regionally relevant financial inclusion policies. In this context, the council recognizes the effort being undertaking by the regional financial inclusion task force, established under the umbrella of the Council of Arab Central Banks Governors and the coordination of the Arab Monetary Fund and welcomes its contributions and recommendations to improve financial inclusion indicators and to promote financial education and awareness among the Arab region as well as fostering consumers protection. Likewise, the Council supports the international efforts aimed at improving access to financial services, stressing the importance of the international cooperation and deepen partnerships between the public and private sectors to contribute achieving 2020 Universal Access.

In this context, and in order to contribute to raise awareness of the importance of financial inclusion amongst all stakeholders in the Arab countries, the Council decides to adopt an Arab Day of Financial Inclusion.

Finally, the Council reiterates its commitment to continue working to provide an appropriate environment for achieving the universality of financial services in the Arab countries. On this occasion, the Council expresses also its appreciation for the results achieved by the Arab Monetary Fund, the Regional Financial Inclusion Task Force and their international partners in promoting financial inclusion in the region, calling to follow up and to intensify efforts to build capacity among Arab countries and provide technical assistance, where needed, in order to serve financial inclusion strategic directions and development.

The Central Bank of Egypt will exert utmost efforts to achieve the above mentioned goals by taking a series of decision, regulations and procedures including legislative amendments to proceed in this regard; taking into consideration the proper rules of banking supervision and financial consumer protection through issuing regulations to instill a system to handle customer complaints and preserve their rights.

Source: Central Bank of Egypt, Press Release support of the Development of Financial Inclusion

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