

Financial Sector in Egypt
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Summary

Egyptian financial sector has been affected by the economic reform policy and the structural adjustments which took place in the early 1990s. The aim of these adjustments was to open up the financial sector, which until then had been characterized by a high degree of government interventions in the allocation of credit, to the free play of market forces.

The banking law No. 187 and the central bank law No. 120 were amended, and different regulations were changed. Hence, lending decisions became largely a matter for the banks themselves which have experience in evaluating and transforming risks, while the state has reduced its role to that of setting the general framework and monitoring compliance with the rules it has set.

The Egyptian financial system is characterized according to the state involvement's as an owner, the degree of concentration in financial intermediation and the type of institution which operates in the market.

Rural Financial Institutions in Egypt

Financial Institution serving the rural areas are part of the national and international capital markets. Many types of financial institutions have emerged to provide the necessary linkages between savers and users of funds during the last three decades.

The financial institutions in the rural areas of Egypt are classified into three types : First, the Formal Financial Institutions, second, Semi - formal Financial Institutions, third, the Informal Financial Sector.

Formal financial institutions

Generally, the formal financial markets group the intermediaries that are recognized by the government and act under the monetary authorities supervision. Typical operators in these markets are :

- Commercial banks
- Saving banks
- Official cooperative banks or credit unions
- Development banks

There are no saving or cooperative banks in Egypt. Commercial and development banks are the common formal financial institution in the rural areas.

Commercial, business and investment banks

The commercial banks and their branches are distributed among all governorates and districts in Egypt, but no branches are found in the villages. Concerning the financial services offered by the commercial, business and investment banks in the rural areas,

unfortunately, the available statistics on banking activities are generally broken down according to the economic activity for which a financial services are provided. Therefore it is difficult to identify the volume of rural finance offered by the commercial, business and investment banks. Most of the reports or studies referred to the volume of lending to agriculture as an indicator.

Like most other countries, the intervention of commercial banks in agriculture is often limited. Bank management usually assert that agriculture is a risky sector and since they have valuable alternatives, they prefer to avoid heavy involvement in it.

However, the Public Sector Banks in cooperation with the Social Fund for Development has channeled a large number of loans to small business within the framework of its "Small Enterprise Development Program" of which most enterprises are located in the rural areas.

The National Bank for Development (one of the Business & investment banks) extends credit (available to the bank through US-AID as a revolving fund) to the small enterprise. .

The principal bank for development and agricultural credit (PBDAC): PBDAC is the main supplier of the agricultural and rural financial services in Egypt even after liberalization. PBDAC share in lending agriculture ranged from 75% to 80% .

Semi-formal financial institutions

Agricultural cooperatives

In Egypt, there are more than 4 thousands agricultural cooperatives covering nearly all Egyptian villages. There are no savings and/ or credit cooperatives in Egypt. The establishment of a cooperative bank has been discussed for many years, but till the moment this idea lacks any realistic foundation.

Before the Village Bank system (before 1974) the agricultural cooperatives played an important role in lending their members and input distribution relying on their own funds and loan received from the Principal Bank for Development and Agricultural Credit and the commercial banks. Now the role of agricultural cooperatives in serving their members is limited since most cooperatives were not sharing in the input supply system. In order to strengthen the institution's credit standing and improve their financial situation, the agricultural cooperatives should increase their equity capital base and set up a special fund for the development of a cooperative input supply system. Now agricultural cooperatives are dealing with input supply, especially fertilizers, but they do not introduce fertilizer as a credit.

Non-governmental organizations (NGOs):

Numerous non-governmental organizations are working in Egypt on heterogeneous issues. However, large-scale savings and credit programs implemented by non-governmental organization do not exist in Egypt .The majority of the NGOs are urban-based welfare organizations, whereas some so-called community Development Associations are mainly working in rural areas. All NGOs are under government supervision and control.

No NGOs can collect deposits from the public and NGOs that engage in lending activities have to work through banks. The Social Fund for Development(SFD) depends on the NGOs as an executing agencies. For example, the community development program of the SFD has been implemented in partnership with NGOs and the benefiting communities.

The limited number of NGOs which operate lending, among of these NGOs are the Alexandria Business Association and the Egyptian Small Enterprise Development Foundation. These organizations introduce their services in the urban and rural areas. They also reported that, the experience of some NGOs shows that:

- 1) High recovering rate can be achieved by using a credit technology that is appropriate to the situation of the target group.
- 2) The quality of credit analysis and credit monitoring are important for a cost-covering lending scheme.

Community Development Associations

These associations exist in rural and urban areas. Their activities vary from one association to another and all of them seek to perform their roles in the sustained development side by side with the government efforts.

Development activities performed by these associations include workshops for rural handicrafts practiced by men and women. These activities like sewing tailoring, beekeeping, selling of batteries for raising of rabbits and poultry, carpet and rug industry, carpentry, and food industries. In addition, these associations offer some public services like illiteracy alleviation, family planning, nurseries, social clubs, health services....etc.

It is noted that a large number of these associations lack the necessary funds. This is negatively affected the quality of services offered. Of the positive indicators for increasing the role of these associations and other NGOs in recent years is the tendency of SFD to cooperate with them in offering its financial services to target groups. Moreover, “Sherouk” program for comprehensive rural development is cooperating with these associations and other organizations in implementing the financial and service activities of the program.

Vocational training and productive families societies

These societies share in the financing, execution and supervision of the productive families project activities.

Informal financial sector

Informal sources of financing the rural household is common since a long time ago. However, the relative importance of these sources of finance has changed after the implementation of the economic reform program. Numerous informal financial channels are developed in both the rural and urban areas. The most popular of these channels are: traders of agricultural inputs and outputs, the rotating savings and credit associations and loans from relatives and friends.

Traders and money lender:

Traders have a significant and increasing role in lending agricultural producers especially after crop and input market liberalization. Several studies have proven that many farmers especially the horticulture producers have more access to the traders as a source of finance. Traders do not charge any interest or ask for collateral but sometimes the borrower has to sign a check. Moreover, they usually collect delayed payments without any charge in case of default. However, some of them do charge an implicit interest. A large proportion of informal lender credit is bundled with other transactions and takes the nature of tied credit. The important feature of these types of transactions is that the lender deals with the borrower also in a non lending capacity and is able to use this position to screen applications and enforce contracts.

Rotating savings credit associations “Gamiyas”

Gamiya is a typical frequency of contribution and distribution of funds among gamiya members once per month and sometimes per week. Gamiyas are widespread among all Egyptians regardless of social stratum. Rich and poor, men and women, employees and entrepreneurs, friends and relatives, young and old. All participate in these groups, with people of similar backgrounds, each with a certain objective that would ultimately help them maximize their utility.

Loans from relatives and friends:

Traditional customs and rituals since a long time ago, especially in the rural areas ,make loans from relatives and friends an important source of external finance. This type of social solidarity is common in rural Egypt. Most of this type of loan is small size and short-term loan and interest free without collateral.