

# Microfinance in the Arab World: Shaping the Industry's Future

First Annual Conference of SANABEL, Microfinance Network of Arab Countries

## Microfinance and Regulatory Environment in Egypt

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# Regulatory Environment



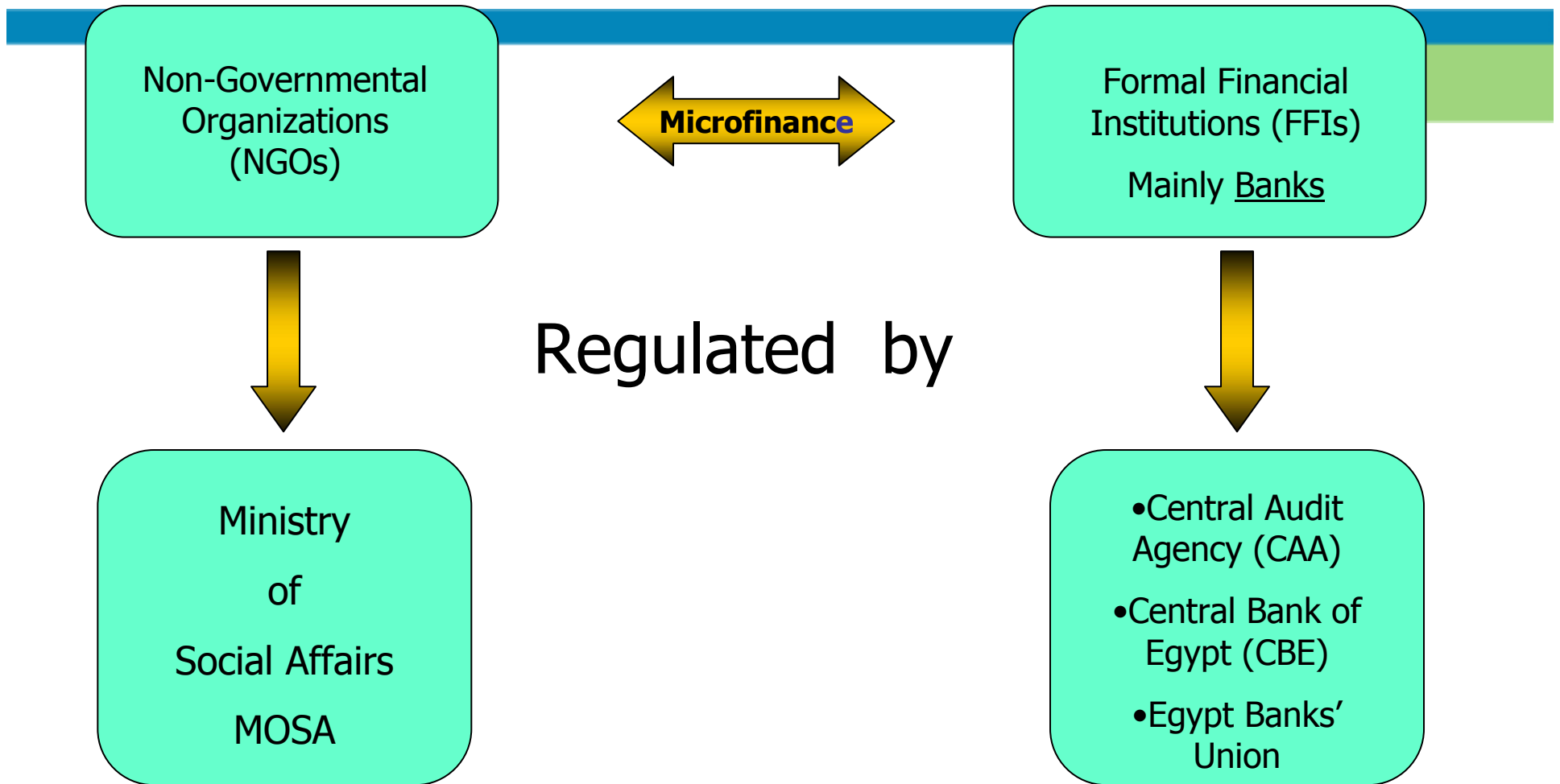
Although the lack of regulation of the Microfinance Sector could be considered a negative aspect, it provided series institutions around the world to experiment and adopt innovative microfinance methodologies

Such as:

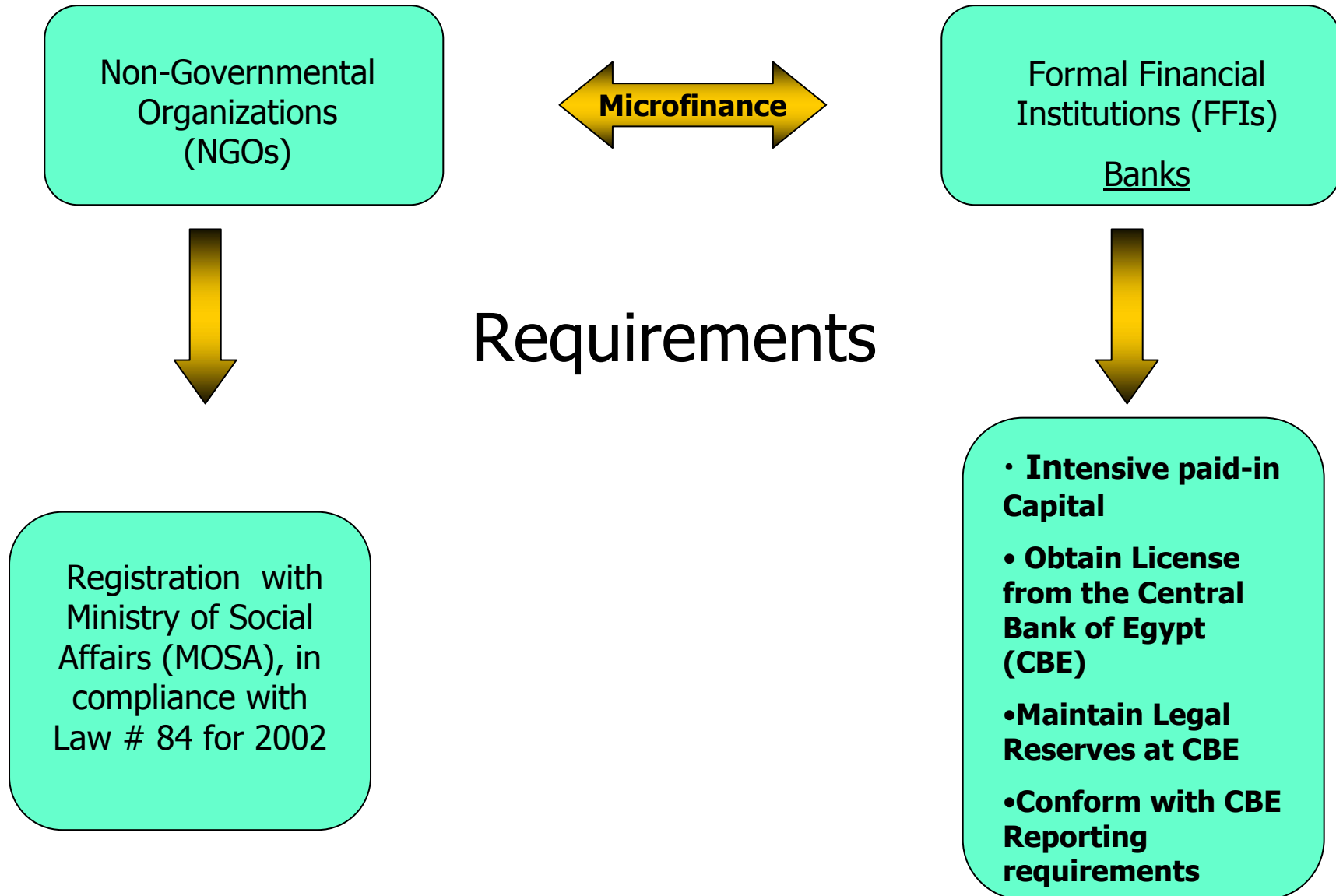
- Stepped Lending Approach
- Appropriate requirements & quick credit procedures
- Repayment Discipline
- Use of positive real Interest Rates
- Efficient Administration
- Decentralized Credit Delivery

Such innovations represent Best Practice in Microfinance

# Legal Forms Available in Egypt to MFIs



# Legal Forms Available in Egypt to MFIs



## To Regulate: A bright Future or a Hidden Beast?



- The majority of MFIs in Egypt (Except Banks) are small and operate as voluntary associations. *It is not feasible or desirable to regulate them as they might deviate from their original mission of servicing their local communities.* In general it is only necessary to regulate MFIs to enable them to mobilize voluntary savings for on-lending. (NGOs are not allowed by law to capture savings)

## To Regulate: A bright Future or a Hidden Beast?



- Although banks are Formal Financial Institutions (FFIs), regulated under the central bank, they have also adopted Best Practice Methodologies in providing micro credit, again in the absence of microfinance regulations.
- Furthermore, the Central Bank with its current capacities and know how, will be reluctant and unable to effectively monitor the performance of small lending institutions, especially that they do not pose a threat to the integrity of the financial system.

# Microfinance in Egypt: Challenges



- Standardize Micro, and Small Enterprises' definitions
- Promoting Micro lending on a commercial basis might contradict with the ideologies of State Welfare
- Include solidarity group lending as an integral component when regulating Microfinance to cater to the needs of Female Heads of Households (FHHs) and Rural communities
- Microfinance is not only lending, target clientele need other services (i.e. savings, insurance, and remittances)
- MFIs need to have access to proper training and adhere to professional diligence in service delivery
- There is a need to create a "data-base" for Enterprises, Borrowers, and Sectors. Credit Bureaus is an option to be promoted.

# Microfinance in Egypt: Future



There is a large unmet demand by Egyptian Small and Micro Enterprises to access financial and business development services



# Microfinance in Egypt: Future



- The government has already expressed interest in expanding the outreach to serve the sector. Although regulating the sector is not an immediate need, future regulations (when decided and enacted) should take into consideration:
  - Creating favorable competition between MFIs and cater to the different needs (individual vs. groups, urban vs. rural)
  - Provide successful NGOs with the option to maintain a special new legal identity. The new identity should provide them with the ability to capture savings and offer a wider range of financial services, provided that all needs to satisfy “Public Trust” are met.
  - Creating a data base for the sector (credit Bureau option), create a useful national network for MFIs, and promoting best practices among MFIs in Financial and Business Development Services (BDS).