



البنك المركزي المصري  
CENTRAL BANK OF EGYPT

# Highlights of **The Central Bank of Egypt's FinTech and Innovation Strategy**

December 2019



## Foreword

Over the past few years, FinTech has become a major force that is disrupting and transforming financial services on a global scale. FinTech is technologically enabled financial innovation that could result in new business models, applications, processes or products. An estimate of US\$160b was invested in the FinTech sector over the last five years and total revenue is expected to reach US\$265b in 2025.

In line with the country's National Vision for 2030, The Central Bank of Egypt (hereinafter 'CBE') recognizes the importance of FinTech to support the modernization of Egypt's financial sector. CBE acknowledges that embracing innovation is critical to transforming Egypt's banking landscape, promoting financial inclusion and for further establishing the Egyptian financial services sector as a leader in MENA and Africa.

For this purpose, CBE appointed a third party advisor to work closely with CBE representatives (hereinafter 'the team'), to design a strategy (hereinafter 'Strategy') for the development of the FinTech sector in Egypt.

A considerable potential exists for FinTech in Egypt not just locally but also on a regional scale. The growth of Egypt's FinTech ecosystem hinges on the enablement of five critical components in order for this potential to materialize. These components cover demand, funding, regulation, talent and governance.

The Strategy, while focused on Egypt's FinTech ecosystem, is anticipated to have an amplified effect in providing new job opportunities and supporting the Egyptian youth to acquire 'future-ready' skills, focused on a combination of business and technology.

The purpose of this document is to provide an overview of the journey taken to develop the Strategy and its key outcomes.



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# Fast Facts

## FinTech Strategy Development Approach

Five-pillar framework to conduct ecosystem assessment and define the Strategy



Demand



Funding



Regulation



Talent



Governance

**10+**



consumer focus groups in Cairo and regions

**30+**



FinTech ecosystem stakeholder interviews

**8+**



FinTech ecosystem global benchmarks

## The Drivers for Egyptian FinTech Ecosystem



Egypt represents

**26%**

of the MENA population<sup>1</sup>



**67%**

Egypt's population remains unbanked<sup>2</sup>



**44%**

mobile internet users as a percentage of total population<sup>3</sup>



**93%**

mobile subscriptions as a percentage of total population<sup>3</sup>



**27%**

financial literacy<sup>4</sup>



**1.5B+**

EGP tech funds available from domestic VCs<sup>5</sup>



**3.1M**

students enrolled in universities<sup>6</sup>



**18+**

accelerators and incubators focused on Tech and FinTech start-ups<sup>5</sup>

Source: <sup>1</sup>World Bank Data, <sup>2</sup>Global Findex, <sup>3</sup>Digital 2019 Egypt, <sup>4</sup>Global Financial Literacy Survey, S&P Global, <sup>5</sup>EY Local Market Research, <sup>6</sup>Central Agency for Public Mobilization and Statistics (CAPMAS)

# Egypt's FinTech Strategy and Implementation Roadmap

## FinTech Vision for Egypt

is to be “a regionally recognized FinTech hub in the Arab world and Africa, home to next generation financial services, talent and innovation development”

## EGP1b innovation fund

dedicated to fuel ecosystem growth, encourage FinTech start-ups, invest in youth talent and fund the necessary infrastructure to spur new FinTech trends

The implementation of FinTech in Egypt will help pave the way for a digital future and a prosperous economy, as each one EGP invested in FinTech contributes EGP1.6 to GDP and each job created in FinTech supports 5.6 other jobs<sup>1</sup>

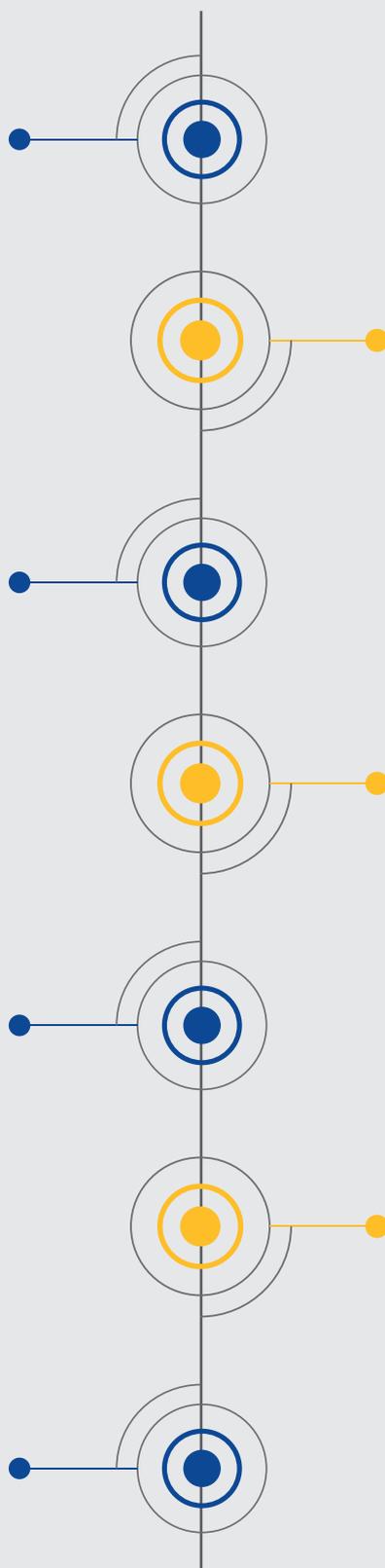
## A FinTech and Innovation Committee

to ensure collaboration with the national regulators and enable access to a unified FinTech license coordination

FinTech and Innovation committee escalates to electronic payments' development committee of the National Payments Council

## FinTech Hub

to act as the flagbearer, facilitating collaboration between ecosystem participants



## 32 strategic initiatives

identified with critical initiatives targeted for completion by the first half of 2021

## FinTech and Innovation Department

established to orchestrate all FinTech related activities across the market, overlook Egypt's FinTech strategy and handle FinTech strategy initiatives

## CBE Regulatory Sandbox

to enable testing of innovative solutions in a live but controlled environment

Source: <sup>1</sup>EY Economic Impact Assessment

# FinTech Strategy Development Approach

The Strategy was developed over three stages: Ecosystem Assessment, FinTech Vision & Strategy Development, and Implementation Roadmap Design.

Ecosystem Assessment included a local market review and an international benchmark analysis across five pillars: demand, funding, regulation, talent and governance. Refer to Figure 1 for a description of the five-pillar framework.

The local market assessment consisted of primary research covering 10 consumer focus groups and 30+ detailed interviews to assess market needs, capture stakeholder aspirations and current challenges. Consumer focus groups covered unbanked individuals and SMEs in Cairo and regions. Ecosystem stakeholder interviews covered 30+ interviews with critical ecosystem members including regulators, investors, banks, Financial Institutions, infrastructure providers, FinTechs and Labs, as well as mobile network operators and distributors. Refer to Figure 2 for a breakdown of stakeholder interviews.

The ecosystem assessment also included an international benchmark analysis of the impact of FinTech and lessons learned from eight countries. The benchmark covered countries with a similar profile to Egypt and mature ecosystems considered aspirational FinTech hubs. Refer to Figure 3 for an overview of benchmarked countries.

Based on the key outcomes of the ecosystem assessment, the team developed the FinTech Vision and Strategy which was endorsed by the relevant authorities in Egypt. Following the approval of the Strategy, the team designed a detailed Implementation Roadmap, comprising 32 strategic initiatives to execute the Strategy and achieve the desired future state. Implementation of the FinTech Strategy started in the second half of 2019 with critical initiatives targeted for completion by the first half of 2021.

Figure 1: Description of the five pillar framework

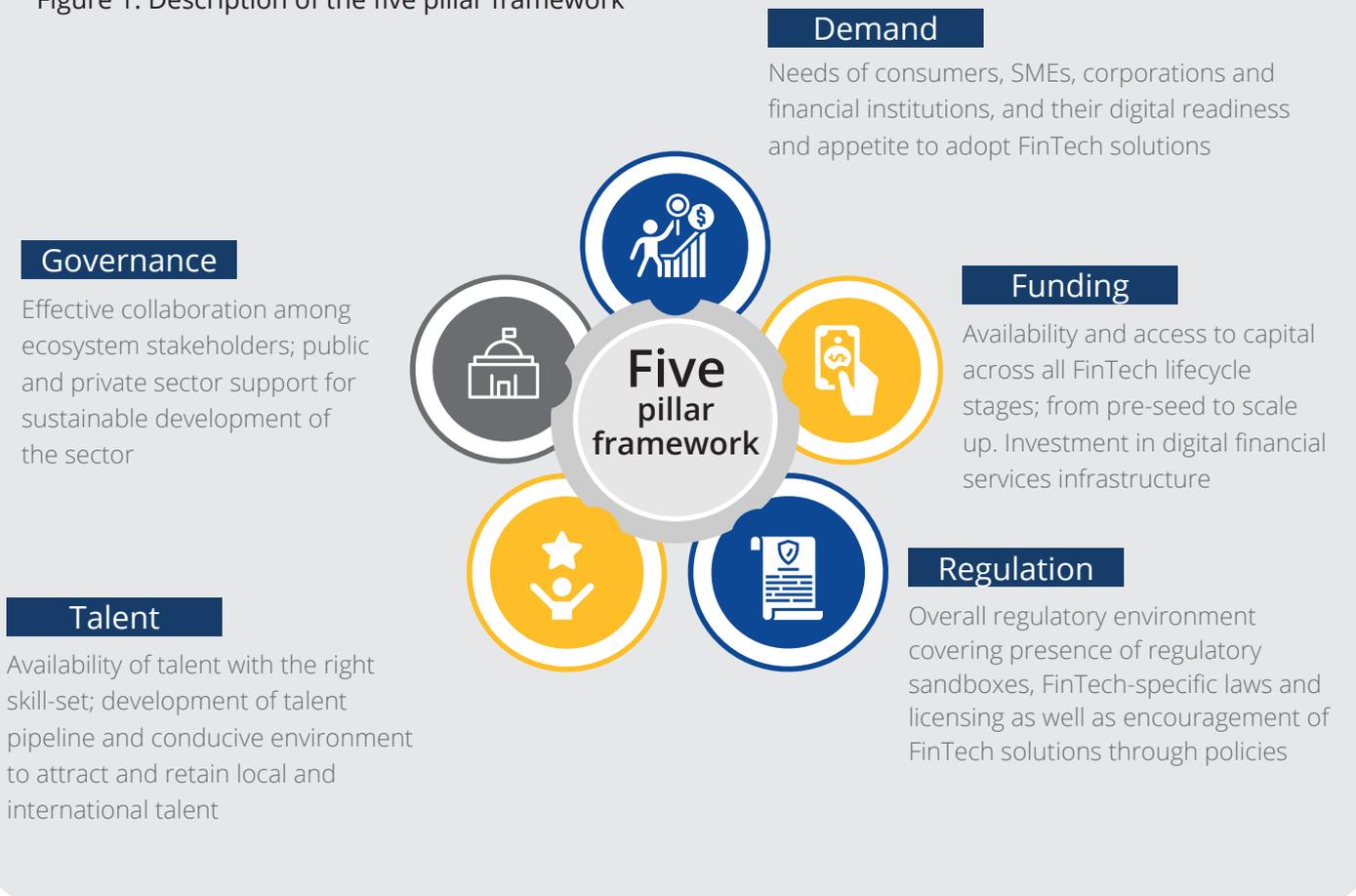


Figure 2: MNOs and distributors



Figure 3: Overview of benchmarked countries

Global benchmark: eight countries have been reviewed



# Egypt's FinTech Ecosystem

FinTech Vision for Egypt is to be “a regionally recognized FinTech hub in the Arab world and Africa, home to next generation financial services, talent and innovation development”.



The strategy is based on the aspirations of National vision, CBE and market participants. Refer to Figure 4 for an overview of National, CBE, market and consumer aspirations.



The Strategy was developed to support the target vision for FinTech in Egypt. Strategic choices were defined across the five-pillar framework mentioned; reflecting local challenges and international benchmark learnings.

To enable execution, national coordination and alignment, a FinTech and Innovation Committee is established escalating to electronic payments' development committee of the National Payments Council. A FinTech Hub Advisory Board will act as a centralized forum for ecosystem key stakeholders to discuss FinTech related market trends, risks, and challenges.

Thirty-two strategic initiatives across the five pillars have been identified and prioritized to implement the Strategy.

CBE aims to be a catalyst for change; promoting development and testing of new solutions. CBE will follow a risk-based approach to ecosystem oversight.

Figure 4: Overview of National, CBE, market and consumer aspirations



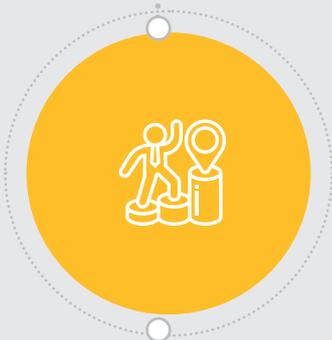
### National Aspirations

Become a FinTech hub which supports the National vision 2030 through modernization of the Financial Services sector, including underserved segments, promoting FDI and enhancing workforce skills and training



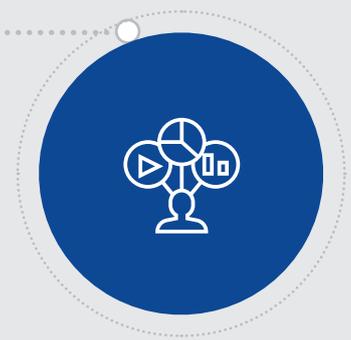
### CBE Aspirations

Leverage FinTech to manage regulatory evolution, advance financial inclusion, improve SME access to banking and financing, and support the transition to a digital and a cashless economy



### Market Aspirations

Transform financial institutions to be more digital and strengthen the stability of the local financial system; promote collaboration with FinTechs to build solutions for social and financial challenges that impact local communities



### Consumer Aspirations

Access to innovative solutions and compelling value propositions

# Drivers for Egyptian FinTech Ecosystem

**1. Demand** for FinTech in Egypt is driven by the needs of individual consumers, SMEs & corporates and financial institutions. As the largest market in the MENA region, accounting for 26% of the MENA population, a large number of financial institutions coupled with its strategic geographic location, Egypt can grow into a vibrant local FinTech ecosystem and a regional FinTech leader. However, low financial literacy, trust in digital financial services and digital readiness barriers need to be addressed to improve FinTech adoption.

Based on the ecosystem assessment, FinTech can play a critical role in solving population-wide and SME challenges. For instance, Egypt has one of the highest unbanked populations standing at 67%. FinTech, which has been proven in markets similar to Egypt to enable accelerated financial inclusion, will focus initially on solutions such as payments, micro lending, saving and remittance.

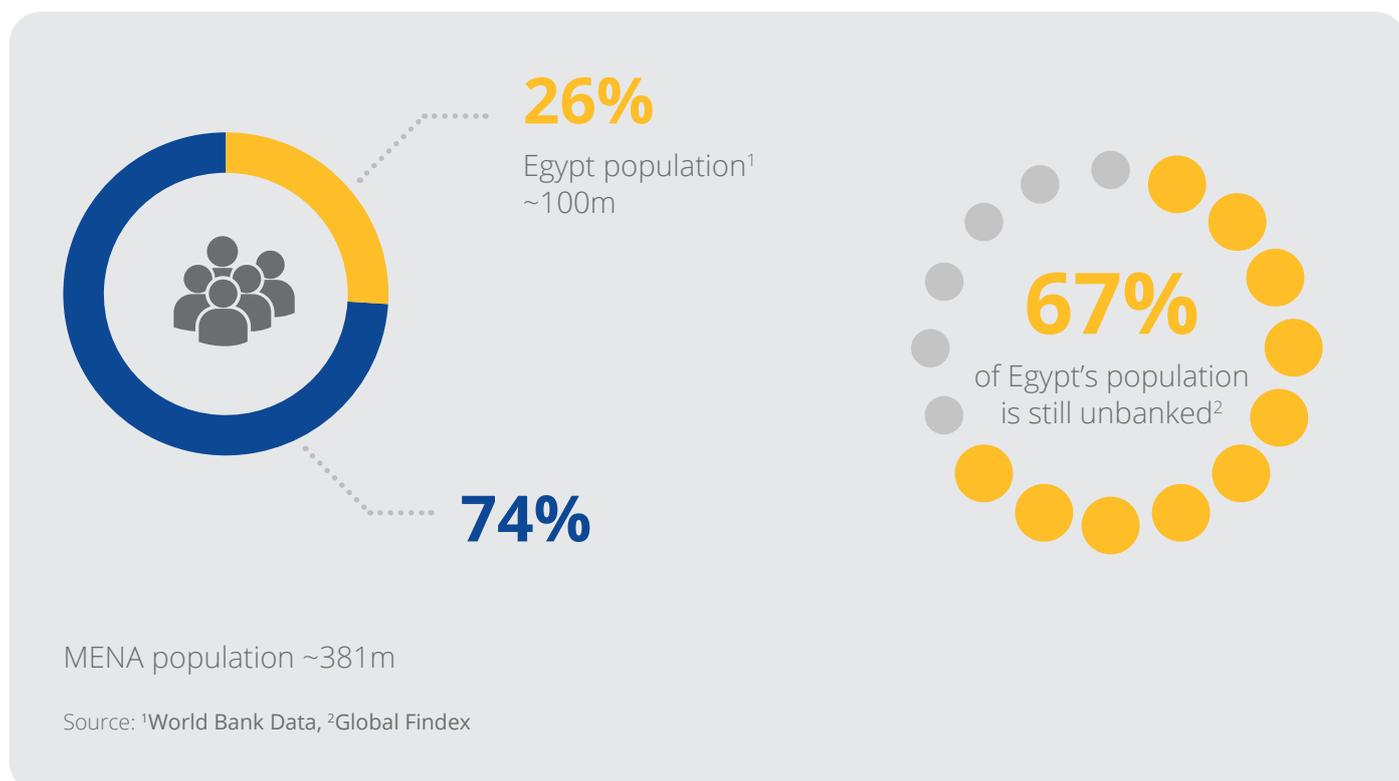
Limited technology savviness, 44% mobile internet users as a percentage of total population, low financial literacy (27%) and limited trust in digital financial services remain barriers to adoption. For this largely untapped customer base to become material, Egypt will have to invest extensively to improve financial literacy and digital savviness. Some of the incentives to spur FinTech

adoption and address identified barriers have been defined as part of the Strategy.

SMEs can also benefit from FinTech focused on business to business solutions, payments, micro-lending, cash management, insurance and supply chain.

As for Banks, demand is wider reaching and ranges across the value chain of FinTech solutions such as onboarding, payments, lending, personal financial management, investment management, data analytics, infrastructure enablement, Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) etc.

In short, FinTech demand will be addressed in two waves starting with priority areas related to payments, micro-lending, insurance, and infrastructure enablement. As part of the Strategy, CBE will provide enablers and incentives to spur FinTech innovation in the priority areas and work with private and public stakeholders to address adoption barriers.



**2. Funding** is available, but disbursements remain marginal. According to market research, there are major funds representing a total of EGP1.5b. However, disbursements in FinTech remain marginal due to regulatory uncertainty and limited appetite to invest in FinTech startups in the absence of policy enablement. Furthermore, there is a limited number of FinTech start-ups and scale-ups in the market.

Unleashing this funding potential will require more clarity on the legal environment, improved business certainty and existence of a larger pipeline of early stage FinTechs in the local market.

In addition to available funding in the market, CBE has committed EGP1b to support FinTech sector growth in Egypt. The committed capital will be disbursed through an innovation fund investment platform, following a fund of funds approach. Supervision will be done by a Fund Investment Committee with representation from key investors. CBE will be able to influence the investment strategy of underlying venture capital funds via mandates and steer market focus on priority areas for FinTech identified as part of this Strategy.

The implementation of FinTech in Egypt will help pave the way for a digital future and a prosperous economy,

as each one EGP invested in FinTech contributes

**1.6**

EGP to GDP<sup>1</sup>



and each job created in FinTech supports

**5.6**

other jobs<sup>1</sup>



In summary, funding is available but there is a need to create an enabling and conducive environment to encourage disbursement and accelerate local FinTech sector growth.

Availability of tech funding from local VCs<sup>2</sup>

EGP  
1.5b+

availability of FinTech and innovation funding from the Central Bank of Egypt<sup>3</sup>

EGP  
1b

Source: <sup>1</sup>EY Economic Impact Assessment, <sup>2</sup>EY Local Market Research, <sup>3</sup>Central Bank of Egypt

**3. Regulation** is being strengthened as demonstrated by new mobile wallet rules such as introduction of e-KYC, increasing limits, digital lending and spending and new payment regulations such as digital authentication. However, important regulatory challenges for FinTechs continue to exist and need to be addressed. Most significant hurdles include the lack of a clear FinTech licensing framework and overall unclear guidelines on an applicable and uniform regulatory regime amongst the main regulators.

Regulation is an important focus plan for the roadmap, covering but not limited to FinTech licensing, regulatory sandbox (refer to Figure 5), and review of relevant legal, labor and fiscal laws to improve ease of doing business for FinTechs. Clearer regulations on enabling infrastructure such as open APIs, cloud and data sharing are to be developed; encouraging emergence of FinTechs and investment in the sector. Furthermore, CBE established a FinTech and Innovation Unit within the bank to address regulatory and governance matters, facilitate regulatory updates, publish thought leadership and represent CBE at local and international FinTech events.

Creating cross-border regulatory bridges is also one of the key initiatives of the Strategy. CBE has already signed Memorandum of Understanding (hereinafter 'MoU') with some foreign regulators and FinTech hubs. CBE will continue to expand its international cooperation agreements with regulators and relevant stakeholders to enable joint work and knowledge sharing.

**Figure 5: Overview of the CBE Sandbox**

The sandbox will enable better understanding and management of risks associated with new and disruptive technologies before products hit the mass market. The Sandbox will help in driving more effective competition in Egypt's financial services market by carefully monitoring and integrating FinTechs in wider ecosystem.



**4. Talent** reservoir of 3.1 million students exists, and several enablers are already in place to support FinTech entrepreneurs.

These enablers include 11 incubators, 8 accelerators and 12 funds investing across sectors.

To move forward, there is a need to develop proper curricula combining tech and business to equip Egyptian youth with 'future-ready' skills. This is often achieved through partnerships with academia, the private sector, and other hubs to train talent for FinTech related careers.

However, talent development alone is not sufficient. Limited enablers and employment opportunities for the youth often result in a large brain drain where Egyptians look for employment opportunities or to set-up their start-ups abroad. As part of the Strategy, CBE will collaborate with relevant stakeholders to develop fiscal and non-fiscal incentives to attract and retain talent to the local FinTech ecosystem.

In addition, access to professional services support (e.g., legal, accounting, support with navigating regulatory requirements) for start-ups should be enhanced. As such, a FinTech hub will be established to support

**5. Governance** around FinTech regulatory related matters is not clearly defined and communicated today. For example, FinTech solutions are subject to one or more of the major regulators, CBE, Financial Regulatory Authority (hereinafter 'FRA'), National Telecommunications Regulatory Authority (hereinafter 'NTRA') and Money Laundering Combatting Unit (hereinafter "MLCU").

In addition, the FinTech ecosystem lacks a dedicated flagbearer. In line with the Strategy, the FinTech Hub will act as the flagbearer; facilitating collaboration between ecosystem participants and promoting the ecosystem locally and internationally.

To ensure alignment and the highest possible traction when executing the Strategy, the National Payments Council (hereinafter 'NPC'), which operates successfully as a multi-regulator committee, will be leveraged for FinTech executive level escalations as well as putting expectations for a single FinTech gateway to orchestrate governance across the ecosystem.

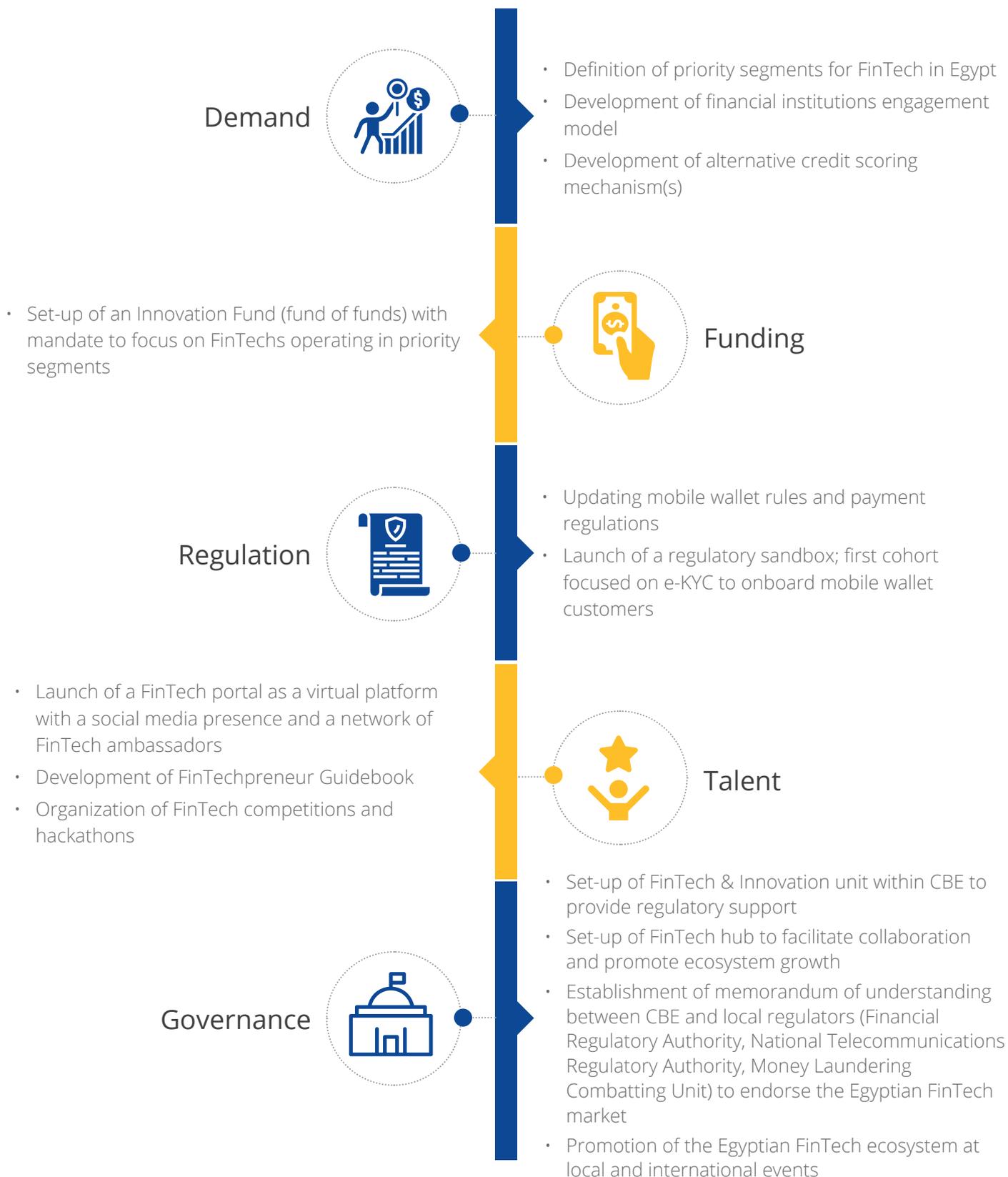
FinTech entrepreneurs in accessing the right resources to launch and grow their business.



Source: <sup>1</sup>EY Local Market Research

# Strategy Implementation Roadmap

Based on the ecosystem assessment, 32 key initiatives have been identified and prioritized to implement the FinTech Strategy in Egypt. Several initiatives were started in 2019, under each of the five pillars, as follows:





# APPENDIX

# Glossary

**Financial Institution:** establishment that conducts financial transactions such as deposits, loans and investments; includes banks, microfinance, and insurance companies.

**FinTech:** technologically-enabled financial innovation that could result in new business models, applications, processes, or products with associated material effect on financial markets, institutions and the provision of services.

**FinTech start-up:** companies, usually of a small size and enjoying fast growth, that are leveraging technology to produce, deliver or enable financial services.

**FinTech ecosystem:** made up of consumers, financial institutions, FinTech start-ups, investors, regulators and educational institutions among others. Healthy development of such an ecosystem will result in mutually beneficial cooperation among stakeholders, and eventually, help financial services be delivered at lower cost, higher speed and at better quality to more consumers.

**FinTech Hub:** platform with physical and virtual presence to act as a flagbearer and one-stop-shop for all FinTech related matters; facilitating ecosystem collaboration and talent development.

**FinTech & Innovation Unit:** a department created within CBE to support FinTechs with all regulatory related matters.

**Fund of funds:** pooled investment fund that invests in other types of funds. CBE Innovation fund structure is based on a fund of funds approach.

**Memorandum of Understanding (MoU):** a formal agreement between two or more parties to establish official partnerships. MoUs are not legally binding but they carry a degree of seriousness and mutual respect, stronger than a gentlemen's agreement.

**National Payments Council (NPC):** created to promote digital payments and reduce the share of informal financial transactions. Amongst those included in the NPC are the Prime Minister, Governor of the Central Bank, Ministers of Defence, Planning, Administrative Reform, Interior, Communication, Justice and Finance, General Intelligence Directorate and Administrative Control Authority.

**SME:** small-to-medium enterprise.









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