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Making the Transition to a Cashless Economy in Egypt

PREFACE

Over the past decades, the world has witnessed a huge surge in financial transactions and reconciliations. This surge was primarily due to the expansion in international trade, as well as the technological revolution.. The increase in global financial transactions was accompanied by mounting concerns over financial crimes. Specifically, concerns centred on the potential escalation of money laundering, financing of terrorism, tax evasion, and other financial crimes, particularly in the instance that these transactions continue to rely on cash payments. In an effort to address these concerns, financial oversight bodies worldwide began putting in place policies, laws and schemes aimed at promoting and encouraging non-cash payments, and the gradual shift towards cashless payment mechanisms through banks and postal services and other electronic payment methods. These non-cash payments mechanisms are viewed as economically effective, safe, and contribute to limiting economic crimes. Likewise, many countries with emerging economies, such as Kenya, Nigeria and India, implemented cashless payment initiatives, however, with varying degrees of success. Whatever the success rate of these initiatives, they, in and of themselves, reflected an appreciation of the serious issue at hand, and a consideration of the international consensus regarding the need to take action to combat international financial crime.

Towards the same end, the Central Bank of Egypt along with a number of governmental bodies (the Ministry of Finance, the Ministry of Social Solidarity and the Ministry of Information Technology), and other non-governmental entities embraced a number of ambitious and successful programs. Yet, the Egyptian economy continues to struggle with cash transactions retaining its dominance in all sectors, carrying with them all the risks and other adverse effects associated with the transacting in cash, including facilitating tax evasion and other illegitimate practices.

Concerned about the risks and adverse effects associated with cash transactions, the study focuses on the Egyptian case, arguing for the importance of transitioning Egypt to a cashless economy. It explores the cash phenomenon in a general and presents leading international experiences in addressing it. The study examines the reasons behind the proliferation of cash transactions in the Egyptian economy, and provides an in-depth analysis of the legal and regulatory framework governing financial transactions in Egypt, with an eye on identifying specific legal provisions and regulations, if reformed, can significantly contribute to limiting cash transactions and encouraging cashless interactions. It also proposes a comprehensive national policy program for promoting and regulating the transition to a cashless economy. The proposed program centers on the following focal areas: 1) Facilitating bank account opening and reducing associated costs; 2) Carrying out an extensive legal reform effort focused on laws relevant to all forms of financial transactions, and 3) Advocating for the adoption of a national policy program aimed at codifying informal property rights-real estate and informal commercial enterprises..

The paper concludes by proposing a draft bill to facilitate the desired outcome of transitioning Egypt to a cashless economy. The draft bill advocates for the adoption of a gradual, yet comprehensive implementation of the transition process, in a manner that can generate tangible and sustainable results.

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The research work was also informed by rich discussions that took place in two extensive meetings held to discuss the preliminary findings of the study. The meetings included leaders from the Federation of Egyptian Industries, the Federation of Egyptian Banks, the Egyptian Financial Supervisory Authority, the Egyptian Post Authority, the Egyptian Center for Economic Studies in addition to representatives from the Social Development Fund and several Egyptian banks; among them Banque Misr.

INTRODUCTION

Over the past decades, the world has witnessed a massive expansion in trade flows, capital and employment mobility, and domestic and international economic transactions. Together with this expansion, came drastic changes in the nature of the financial transactions, in addition to extensive developments in the banking system, including the introduction of new and innovative banking instruments. This global expansion is primarily attributed to extensive developments in infrastructure facilities, in addition to rapid advancement in the information and communication technologies. Increasingly growing global efforts to tighten monitoring and oversight of the expanded financial transactions accompanied the increase in global transactional activities. The premise of this heightened monitoring of oversight was to restrict opportunities for money laundering and combat crimes associated with it, such as financing of terrorism, drug trafficking and other related crimes. These crimes not only undermine the stability of countries and international peace, but also destroy the economic and social fabric of humanity.

Against this backdrop, many countries adopted policies and put in place legal and economic systems to encourage the transition from a cash-based economy, which predominately relies on cash payments, to a non-cash economy, in which other paper-based or electronic payment mechanisms for good and services prevail. Examples of non-cash payment instruments include banking and electronic transfers, credit, debit and pre-paid cards, checks, and bank securities, Automated Teller Machines (ATMs), electronic points of sale, on-line banking services, mobile money and smart cards. Some countries introduced specific or tailored instruments, such as the direct electronic transfer of subsidies in India, the direct gross financial settlements and transfers in Nigeria, and others cashless instruments, all having a common purpose of limiting cash transactions to the extent possible. It is important to note here that efforts aimed promoting non-cash transactions do no abolish the use of cash altogether, but rather, work towards reducing the size of cash transactions to the minimum extent possible.

THE IMPOTANCE OF MOVING TOWARDS A CASHLESS ECONOMY

Heavy reliance on cash transactions as the primary payment mechanism creates a wide range of problems. These problems include ineffective allocation of resources, increased transaction costs and limited ability to diversify or expand financial services in an adequate manner. Reliance on cash transactions also limits the opportunities of taking advantage of benefits of financial intermediaries, such as reduction of risk and cost. For these reasons, many countries sought to adopt economic and legal policies that aim at limiting the quantity of "liquid" cash and promoting the use of online banking and electronic transactions.

Moving away from a cash economy benefits all individuals, businesses and government. On a macro level, transforming to a cashless economy, especially in emerging and developing countries, results in increasing the efficiency of economic, fiscal and monetary policies, and supports economic growth. Transforming to a cashless economy also increases financial inclusion, through making available efficient, diversified, secure, flexible and easily accessible collection and payment options especially in rural and remote areas where bank branches are non-existent. Moreover, the shift also results in furthering integration into the global economy, as well as curtailing tax evasion and hence increasing the share of tax revenues in the gross domestic product. Cashless economies also provide a safer saving environment, thereby boosting domestic investment rates and improving the overall climate for investment and competition.. Likewise, the shift towards cashless financial transactions is considered one of the most important means of encouraging self-employment and entrepreneurship, which has been recognized as a key vehicle for increasing growth rates, promoting competitiveness, reducing unemployment and encouraging social mobility.

The potential advantages of a cashless economy to the banking and financial sectors are significant. Transitioning to a banking economy will result in reducing the cost of money printing by central banks, as well as positively impacting financial transactions. Transforming cash currency into an equivalent digital one will facilitate the ability to collect and pay cash in a more streamlined and swift manner thereby, cutting transaction time, cost and risks across the economy. A striking example of the magnitude of costs associated with a cash-based system is provided from the United States. It is estimated that the cash transactions related losses incurred by consumers, corporations and the government, amount to USD 200 billion annually, mainly due to cash theft, or the foregone tax revenues from cash transactions.[1]

Shifting to a cashless economy also allows for the improved monitoring and oversight of the financial transactions thereby, contributing to the curtailing of financial crimes. More so, limiting the use of liquid cash in an economy also reduces costs directly associated with the use of cash, such as theft and bribery as well as thwarting fraud, money laundering and other cash-related crimes.

Indeed, numerous studies that examined the impact of financial online transactions on crime rates confirmed the strong inverse relationship between theft and cashless financial transactions. Using electronic points of sale as a proxy for gauging the safety of non-cash transactions, it is estimated that a 1% increase in the per capita share of electronic points of sale decreases crime by a corresponding 1%.[2] It is worth noting here that the inverse relationship between theft and cashless financial interactions is of more significance and has more impact in developing countries because the transition is usually associated with an overall increase in personal safety and security, particularly in rural and remote areas.

1. Bhaskar Chakravorti & Benjami D. Mazzotta. "The Cost of Cash in the United States", The Fletcher School of Law and Diplomacy, Tufts University, 2013.

2. Richard Wright, Erdal Tekin, Volkan Topalli, Chandler McClellan, Timothy Dickinson, Richard Rosenfeld, "Less Cash, Less Crime: Evidence from the Electronic Benefit Transfer Program", The National Bureau of Economic Research, NBER Working Paper No. 19996 , March, 2014. http://www.nber.org/papers/w19996

Study Focus and Organization

The study adopts a knowledge-based approach for exploring the barriers, opportunities and potentials for moving Egypt to a cashless economy. It provides information, key insight, and practical and concrete recommendations towards this end. The first part of this study provides an overview of the Egyptian cash economy, compares it to other economies, and shares experiences from some countries on their efforts to shift to cashless transactions. The second part provides an in-depth analysis of the existing legal framework related to significant financial activities, in addition to examining recent Egyptian initiatives aimed at promoting cashless transactions. The third part of the study provides a number of specific recommendations and general policy suggestions in support of transforming the Egyptian economy to a cashless one. It includes a draft bill that supports this objective. It is hoped that the government of Egypt, along with other interested parties, including non-governmental institutions embrace these recommendation, and move the Egyptian economy towards modernization, security and efficiency.

PART 1: THE CASH ECONOMY PHENOMENA IN EGYPT

Over the course of the previous decades, Egypt has made considerable strides towards developing its financial and banking sectors. This progress was also accompanied by building a more advanced information technology and communication infrastructure base. Equally, Egypt has also expanded the scope of cashless financial transactions by adopting various incentivizing programs, and introducing electronic collection and payment systems in several government authorities and entities. In spite of these developments, Egyptians continue to transact high volumes of cash. Thus, Egypt has a major task facing it of limiting cash transactions that continue to prevail in many aspects of commercial and economic activities.

Recognizing the negative implications in the perpetuation of the current cash-based system, in terms of hindering the healthy growth of the Egyptian economy, transitioning to a cashless economy must be viewed as a pressing monetary and economic policy priority area. This is particularly significant in Egypt in light of its sizeable informal sector and the widespread tax evasion. Such a transition will promote economic activities, improve the overall investment climate, curtail financial crimes and tax evasion and improve the overall efficiency of the financial system.

1.1. The Cash Economy

To date, cash-based transactions continue to prevail in the Egyptian economy. Most of the transactions are carried out in cash, with the majority of these transactions taking place in the informal sector, estimated at representing 40% of the Egyptian economy. According to a recent database issued by the World Bank, only 13.7% of adult Egyptians maintained accounts with formal financial institutions in

2014; constituting an increase from 9.7% in 2011.[3] Compared to other countries, Egypt is approaching the average rate for the Middle East region, which has increased from 10.9% in 2011 to 14% in 2014. That said, Egypt continues to lag far behind the global averages, which recorded 60.7% in 2014 – up from 50.6% in 2011. The report also revealed an increase in the number of debit cardholders from 5.1% in 2011 to 9.6% in 2014; together with the increase in the number of individuals maintaining savings with formal financial institutions from 0.7% in 2011 to 4.1% in 2014. While these statistics reflect the steady progress Egypt is making in financial inclusion yet, it remains insufficient compared to global averages.

As to the extent to which individuals seek formal financial institutions to obtain loans, and notwithstanding the increase in the number of individuals borrowing from such institutions from 3.7% in 2011 to 6.3% in 2014, the aforementioned database revealed that the majority of individuals, approximately 25%, still resort to family members, acquaintances or relatives for borrowing funds. This is primarily due to the fact that, overall, Egyptians perceive accessing formal institutions for obtaining loans as difficult. This perception is shaped by a number of factors such as the overall inaccessibility of banking services particularly in rural or remote areas, the lack of the ordinary banking habit among the people, or the inability to provide the needed documentation and collateral for loans. The main implication for this is that individuals resort to informal channels for obtaining funding, mostly family members, friends and acquaintances and in sometimes instances, merchant wholesalers.

Therefore, small and medium-sized enterprises, that are considered the backbone of the Egyptian economy, have a limited scope of growth due to the difficulties they face in accessing bank finance. As such, they have

3. World Bank. 2015. The Little Data Book on Financial Inclusion 2015. Washington, DC: World Bank. doi:10.15963-0552 4648--1-978/. License: Creative Commons Attribution CC BY 3.0 IGO (https://www.worldbank.org/content/dam/Worldbank/Research/GlobalFindex/PDF/LDB_Financial_Inclusion_2015.pdf)

to depend on their retained profits as a major source of finance instead of reliance on bank funding or seek other financial intermediaries.

It is worth noting that in an effort to address this issue, in January 2016, the CBE launched a targeted initiative to facilitate the access of small and medium-sized enterprises to bank financing. The initiative mandated that, over a period of four years, banks should increase the share of small and medium-sized enterprise in their loan portfolio and credit facilities, to at least 20%. The initiative further set the maximum rate of interest at 5%.

1.2. Financial Inclusion

Broadly speaking, financial inclusion refers to the access of individuals, households and corporations, irrespective of social background or geographical location, to the services of formal financial institutions, and as equally important, their ability to use these services at a reasonable cost. The concept also entails other key principles such as timeliness, sufficiency and appropriateness of the services. According to this definition, Egypt suffers from high levels of financial exclusion. Poor accessibility to appropriate financial services is significantly associated with the prevalence of a sizable informal sector and the high aggregate poverty and employment rates. In particular, low-income consumers and those residing in rural and remote areas face a higher risk of exclusion. Financial exclusion not only undermines efforts to combat poverty, but could also create a vicious circle of poverty and inequality. Financial inclusion gaps are manifested in the exclusion of large segments of the society from actively participating in economic activities, together with the continued reliance on informal transactions and funding mechanisms. Engaging in informality, primarily associated with lowest-income groups, also deprives the poor from enjoying the legal protection and the benefits of governmental oversight over formal financial, compared to others engaging with the formal financial institutions. Undoubtedly, these gaps have grave impact on the efficiency of resource allocation across the economy and the ability to spur growth and achieve the goals of economic development.

1.3. The Informal Sector

There are varying estimates of the informal sector in Egypt in terms of size, activities and direct or indirect employment size. According to statistics released by the Egyptian Center For Economic Studies in 2014, in 2013 the informal sector accounted for approximately 40% of total GDP. It included 2.7 million enterprises and employed approximately 8 million people "operating outside the law". The statistics also estimated that in 2014, 92% of the property ownership in Egypt, at an estimated value of LE 1 trillion, remained unregistered.

The inextricable connection between the informal sector and the use of cash transactions cannot be understated, characterized as being highly interdependent. On one hand, the prevalence of cash transactions and the reluctance to use banking and other electronic payment mechanisms reinforces the informality of economic activities. On the other hand, expansions in the informal sector increase the reliance on cash transactions away from the government monitoring and oversight.

1.4. Global Trends in Bank Payment Systems

In general, the volume of global non-cash payment transactions continues to significantly grow, primarily driven by the increase in activities carried out in emerging and developing markets. According to the 2015 World Payment Report,[4] in 2013, global cashless transactions amounted to some 358 billion transactions, up from 154 billion transactions in 2011. Most of this increase was concentrated in Southeast Asia (especially China), with a growth rate of 21.6%; whereas the Middle East and North Africa (MENA) region recorded a growth rate of 6.1%. According to the report, the ten leading countries in the use of cashless transactions are: The US, the Euro zone, Brazil, the UK, South Korea, China, Japan, Canada, Australia and Russia. For 2014, the report forecasted that the number of cashless transactions will reach approximately 389.7 billion worldwide.

4. https://www.worldpaymentsreport.com

While these developments are primarily due to the increasing use of debit and credit cards, it is also important to realize that the continued advances in technology and innovations are fuelling the growth in electronic and mobile payments. Together, these developments support the transitioning to a global cashless economy. It should be reiterated that while more than 50% of the growth of global cashless transactions is attributed to developing and emerging markets; these markets constitute nearly 25% of the total global market, which amounts to 90 billion transactions. More so, the use of tablets and smart phones supports the positive projections regarding the growth of cashless transactions, with mobile payments and transactions estimated to increase by 60.8% in 2015. Another important trend in this regard is the continued increase in the use of debit and credit cards with a corresponding decline in the use of checks worldwide. This trend reflects the continued preference given to cards over checks, as a cashless payment instrument. Figures confirm this preference with card-based payments enjoying more than 40% of market share, while check-based payments accounting for only 16% of all global cashless payments in 2013.

In countries where electronic administration is coupled with a well-developed and advanced cashless payment infrastructure, e-government payment programs also play an extremely important role in promoting, and providing incentives for the use of cashless payments.

1.5. Experiences from Other Developing Countries

Many countries in general and African countries in particular have achieved substantial and notable progress in the usage of mobile-based systems for remitting funds. These systems are characterized as extremely safe and are therefore used on a large scale. The increasing mobile phone usage in Egypt, along with the proliferation of smart phones and the provision of more robust networks could support the possibility of utilizing cashless payment mechanisms; whether via wireless systems or through software that do not require the use of communication systems.

This may give rise to sizeable investment opportunities in the private sector, as well as saving the costs of printing money for the banking sector. The following examples illustrate important experiences, with varying degrees of success, in promoting cashless payments:

a. Nigeria

In 2009, the Federal Republic of Nigeria adopted what it referred to as "Nigeria Vision 20: 2020", an economic transformation blueprint, with the long-term goal of placing the country among the top 20 economies in the world by 2020. In 2012, and against this backdrop, the Central Bank of Nigeria (CBN) adopted the cashless economy policy, with a focus on developing its banking sector to reduce reliance on cash. In January 2012, the pilot was run in the State of Lagos, imposing restrictions on cash transactions beginning March 30, 2012. In June 2012, the policy was rolled out nationally. A mix of initial challenges and significant final outcomes makes the Nigerian experiment important and worthy of consideration..

Within the framework of the cashless economy policy, the CBN took a number of measures and issued rules and regulations[5] , the most significant of which were:

- Restricting the cash-in-transit lodgements services rendered to customers by banks. Customers are only to engage licensed "cash-in-transit" companies for cash movement to and from banks. Banks providing these services were subject to penalties.

- Banning the cashing of checks in amounts exceeding 150,000 Naira (the equivalent of USD 750) from teller windows, and mandating that checks to be collected through a clearinghouse.

- Imposing maximum daily and cumulative limits on cash transactions. In this regard, the maximum limit of cash

5. The Central Bank of Nigeria (http://www.cenbank.org/cashless)

transactions allowed for any individual or company is calculated on the basis of all transaction carried out by the beneficiary of the transaction in a single day, whether the cash was obtained using bank tellers, ATMs or the cashing of checks. In the instance that the cash transaction exceeds this limit, a service charge of 3% for individuals and 5% for companies is to be collected.

- Allowing a grace period, of a few months, to facilitate the smooth transition of market players to electronic transactions. A transaction cost was set, to be borne by those who opt to continue transacting in cash.

The CBN was keen to articulate and publicize the benefits to be gained, by the various market players, from complying with the new cash policy. Among the identified benefits are ease of transactions, reduced risks associated with cash-related crimes, and maximizing of tax revenues. As such, CBN launched a media campaign and carried out several discussions with relevant parties with the objective of increasing awareness and incentivizing parties to adhere to the new policy.

Nigeria is witnessing the prevalence of mobile systems and applications that enable users to carry out banking transactions, transfer funds, pay invoices, charge mobile phones, conduct purchases, and withdraw and deposit funds, via mobiles. For instance, GTBank provides its customers in Nigeria with a service for transferring funds via a mobile phone without having to rely on the internet- an innovative service, which is different from "online banking". In spite of the relative ease with which this service can be used and the practical advantages it offers, it does not contribute much to financial inclusion. Its reliance on the user being a bank client, and on maintaining a phone number to which account data can be linked limits its value added to unbanked individuals. A similar service is provided by the United Bank of Africa – also in Nigeria. Notwithstanding the limited impact of these services on financial inclusion, still, they are likely to contribute to reducing cash payments and encouraging the move to a cashless economy.

Even though the Nigerian experiment yielded limited results, the mechanisms utilized are worthy of attention. Perhaps the main lesson learned from the Nigerian case is the need for adopting a gradual approach in implementing the shift to a cashless economy. Their experience demonstrates the difficulties involved trying to drive change too quickly.

b. Kenya

M-Pesa was launched in Kenya in 2007. The "M" refers to "mobile" whereas "Pesa" is Swahili for money. The original objective of this scheme was to provide an opportunity to borrowers to payback their micro loans via mobile phones, and more generally to transfer funds. M-Pesa later become a system for mobile payments, whereby in 2013, it was used by some 17 million Kenyans, or approximately two thirds of the country's adult population. The expansive use of the scheme can be attributed to the wide-range of services it offered its users including transfer of funds, loan payments, settling of invoices and disbursing salaries. The scheme achieved considerable success and was very popular, even in rural areas. Tanzania and Afghanistan followed suit, and launched similar schemes.

Since its kick-off and in less than two years, the project became the premier choice for transferring funds, with 50% of transactions going through it. While M-Pesa is considered a project with a limited implementation scope (compared to the Nigerian experiment), by virtue of its contribution to promoting e-transactions, it is still an important step towards increasing the use of cashless transactions and supporting the adoption of a comprehensive cashless economy policy on a national level. In sync with this general trend, a number of pre-paid electronic payment cards were issued to enable citizens to pay for public transport and other services.

In the year 2013 Muson, a microfinance institution, announced that it would provide its services exclusively through cashless payments; in other words, it would deposit loans granted to clients into their respective accounts via M-Pesa. Likewise, clients were to use the same cashless mechanism for making their loan payments.

In 2012, Muson maintained a funding portfolio of USD 1.6 million serving 7,242 borrowers. The institution provides three types of loans: personal loans, small enterprise loans and education loans. Viewed from the angle of financial inclusion, such projects are of significant relevance and importance to developing countries. By making available funding opportunities to those who need it, without the need to depend on banks or have formal bank accounts, they allow for integrating more citizens and enabling them to achieve sustainable development.

In the same vein, the Kenyan Minister of Transportation issued the internal bylaws of the National Transport and Safety Authority, which, among other things, obligating the managing companies of the public transportation services to provide its passengers with receipts of payments, and to introduce a cashless payment system as of July 1, 2014. The system was expected to reduce corruption in this sector by 70%.

c. India

In an effort to reform the process of transferring aid and subsidies to the targeted beneficiaries, in 2013, the Indian government introduced the Direct Benefit Transfer program. In a bid to promote transparency and reduce pilferage and procrastination, the large-scale program aimed at directly transferring aid into people's bank accounts. The program primarily targeted citizens living under the poverty line, making available to them an all-encompassing mechanism. Benefits channelled through the program included social security pensions and scholarships; which later were gradually extended nationwide.

In September 2015, a food subside bill, with an estimated cost of 1.15 trillion Rupees (the equivalent of USD 18 billion), expanded the scope of the program to include the direct transfer of food subsidies to beneficiaries. The Indian Ministry of Finance claimed that, by eliminating "indirect beneficiaries", the program led to a 24% decrease in the sale of subsidized Liquefied Petroleum Gas (LPG), thereby generating huge saving for the government.. In general, the size of new digital programs in India is growing exponentially, which paves the way for the implementation of successful cashless programs.

1.6. Barriers to Egypt's Transition to a Cashless Economy

Similar to other developing countries, Egypt faces challenges on many fronts. Focusing on the issue the issue at hand, shifting the economy towards a cashless economy, it is important to examine the extent to which Egypt has the essential prerequisites necessary for making the shift. This exercise will allow us to identifies barriers, and accordingly develop the best approach to proceed with addressing them. At a closer look, the most notable challenges that Egypt faces in making the transition to a cashless economy could be summarized as follows:

a. Few Bank Accounts

As previously mentioned, percentage of male adults maintaining bank accounts in Egypt was 13.7% in 2014; up from 9.7% in 2011, which is still a significantly low percentage compared with other countries in the MENA region. Women account ownership stands at merely 7%. The percentage of adults possessing credit cards was recorded to be 9.6% in 2014, up from 5.1% in 2011. However, only 3.5% of credit card holders actually utilize their cards for cashless payments and collections; which is also, a significantly low percentage when compared with other Middle East countries.[6]

b. A Vast Informal Sector

Egypt has a huge informal sector. Efforts to accurately, to the extent possible, estimate the size and scope of informal activities, and integrate the sector into the formal economy need to begin. Adoption of various cashless economy programs and policies would be a right step in this direction. Experience from other countries show that these programs have proven to benefit all, government, enterprises and consumers..

6. World Bank, ibid

c. Inadequate Banking Sector Structure

Currently, the total number of banks in Egypt, as estimated, is 40. As a result, insufficient competition, insufficient network of branches and a shortage in of ATMs in rural and remote areas are some characteristic of the banking sector in Egypt. Permitting the establishment of additional private banks (with Egyptian or foreign capital) and encouraging existing banks to set up more branches and provide more ATMs would enhance the level of competitiveness within the market. It would also improve the banking services and make available funding to more segments of the society. These, all together, work towards improving financial inclusion and facilitating the transformation to a cashless economy.

The 2015 Africa Competitiveness Report[7] reveals Egypt's weak ranking with respect to the maturity of the banking sector. Egypt was ranked 129 and 126 out of a total of 144 countries in terms to the availability of financial services and the affordability of financial services respectively.

The July 2015 CBE report[8] shows that, as of the end of December 2014, the number of ATMs in Egypt reached 7,290. This figure reflects an increase of 420 ATMs, over a six-month period (the number of ATMs was 6,870 ATMs at the end of June 2014). In spite of this increase, the number of available ATMs remains inadequate, compared to the size of the population. Shortage in ATMs is considered the primary barrier preventing many from setting up bank accounts, and more so, it is expected to pose a significant challenge to Egypt's shift to a cashless economy.

7. World Economic Forum, "The Africa Competitiveness Report 2015",Geneva, 2015. (http://www3.weforum.org/docs/WEF_ACR_2015/Africa_Competitiveness_Report_2015.pdf)

8. http://www.cbe.org.eg/NR/rdonlyres/2E8632127-A1D-40D3-B8D1-CE6ED3C21A152952//BankList.pdf

d. Infrastructure Challenges

For the purpose of this discussion, the term "infrastructure" is used restrictively to refer to infrastructure supporting databases, the banking sector and the Internet. The Egyptian postal service plays a crucial role in the country's payment system, especially in rural areas. In the absence of banks in some locations, postal service offices are essentially filling the gaps in financial services coverage. In 2013, Egypt's postal service was contracted to provide ATM services, a step that has been favourably met and viewed as a positive step towards moving to a cashless economy.

Statistics show that during the period April 2014 to April 2015, the number of post offices in Egypt increased from 3855 to 3907. Likewise, the average number of beneficiaries utilizing these offices grew from 22% to 22.13%; while the number of pensions distributed via post offices increased from EGP 4.86 million to EGP 5.21 million.

Remittances from Egyptians abroad deserve considerable attention, since Egypt is considered one of the top remittance recipient countries. In fact, Egypt relies on these remittances as an important source of foreign currency, In 2012, Egypt experienced first-hand the importance of remittances, as the country's current account deficit skyrocketed by 36.2% during the first three quarters of FY 20112012/, compared to the same period during the previous year. Expressed in dollars, the deficit increased from USD 4.7 billion to USD 6.4 billion. However, a 44% increase in remittances during the same period mitigated the negative impact on the balance of payments..

It should be noted here that adopting cashless economic policies are expected to contribute to reducing transfer costs of remittances as well as improving the timeliness of the transfers, thereby allowing for a greater number of operations. However, for this to happen, other reforms are needed such as developing and institutionalizing a framework that enables greater efficiency in executing remittances operations and related services.

e. Corruption

The impact of corruption on the Egyptian economy cannot be overstated. Not only does corruption negatively impacts the efficiency of expenditures but also it erodes investments and human capital and consequently the economy's productive potential. In 2015, Egypt's ranking witnessed a slight improvement in the Corruption Perceptions Index published by Transparency International. In 2015, Egypt ranked 88 out of 168 countries, while ranking 94 out of 175 countries in 2014 and 114 out of 177 countries in 2013. While corruption can be viewed as one of the barriers to implementing the cashless economic program, yet, moving towards a cashless economy might perhaps be the ideal solution to stemming corruption and other cash-related crimes. Even if eradicating corruption is well-articulated as a highly desirable outcome of shifting to a cashless economy, nevertheless, attention should be given to putting in place robust monitoring and oversight mechanisms to ensure sound policy implementation and smooth transition.

f. Tax Evasion

Egypt faces serious issues regarding its tax revenues and prevailing high rates of tax evasion, which impose severe constraints on economic growth. Even though Egypt adopted a series of tax reforms during the mid of the last decade, yet, the percentage of total tax revenues to GDP did not exceed 15% in 2014. Compared to a range of other countries, this percentage is considered low by all standards. For example, the average rate of tax revenues to GDP in low-income, emerging and developed countries is 23%, 28% and 36% respectively (Morocco recorded a rate of 24%, Tunisia 21% and Jordan 20%). Considering the sizeable budget deficit, 10% of GDP for FY 20142015/, unquestionably Egypt is in dire need of increasing its tax revenues and combating tax evasion in order to reduce its massive budget deficit. Indeed, a cashless economy provides some answers to this problem, especially considering Egypt's significant informal sector, and opportunity cost of the foregone tax revenues associated with the prevalence of informal enterprises.

These squandered resources, if efficiently collected, could significantly increase Egypt's tax revenues, ease the country's financial burdens and support economic growth.

g. Cultural Factors

Some firmly held beliefs and habits in the Egyptian society constitute a challenge that could hamper the move to a cashless economy. For example, a firm belief regarding difficulties in interacting with the banking sector, a strong preference for relying on cash saved at home, doubts and questioning of the conformity of banking transactions with Sharia, and reluctance to disclose financial or personal information are among the key cultural factors contributing to the prevailing cash culture.

On the other hand, Egyptian households face many challenges that hinder their usage of e-commerce and thus take advantage of initiatives developed to promote electronic transactions.. According to the Ministry of Communications and Information Technology (MCIT), among the most notable challenges facing households unable to utilize e-commerce relative to total households not participating in e-commerce services in 2013 are: lack of awareness and knowledge of global commerce mechanisms (65%); lack of legal recognition of online contracts by governmental entities (25.5%); lack of English language proficiency (9.3%); lack of data security mechanisms (5.7%); concern over the disclosure of personal information (4.6%); unavailability of online payment tools (4%); and fear of disclosing financial transactions (4%).

For Egypt to enter the cashless economy era, it is essential that it starts with raising awareness of the importance and advantages of cashless transactions, clearly highlighting the advantages of banking transactions: more secure, efficient and swift compared to cash transactions.

PART 2: THE PREVAILING LEGAL FRAMEWORK AND LEADING EGYPTIAN INITIATIVE SUPPORTING THE TRANSITION TO A CASHLESS ECONMY

The second part of this study provides an in-depth analysis of the existing legal framework that continues to drive the use of cash transactions in the economy. It also provides an overview of the most significant initiatives aimed at promoting cashless payments in Egypt. The focus areas of the legal analysis are as follows: laws regulating cash and the banking system; laws regulating non-banking funding; laws governing state revenues and finally, other relevant economic laws.

2.1. Laws Relating to the Banking and Monetary System

a. The Banks Law

Law No. 88 of 2003 (Law 882003/) on the Central Bank, the Banking Sector and Money, referred to as the "Banks Law", is the main legal instrument regulating all banking businesses, including the payment system, the banking system and financial banking transactions. Article 6 of the said law gives the Central Bank of Egypt (CBE) the exclusive mandate to oversee the national payment system in a manner that safeguards its efficiency, standing, and sound functioning.

From this perspective, the CBE bears principle and substantive responsibilities for transitioning Egypt to a cashless economy. By virtue of the authorities vested in CBE to set guidelines, monitor their implementation and promote monetary policies, its role in promoting the shift is pivotal..

Specifically, a quick review of CBE's authorities, as contained in the Banks Law, confirms the centrality of its role in the process. These authorities include:

- Formulating and implementing cash, and banking policies.
- Overseeing the national payment system.
- Managing cash liquidity.
- Licensing and monitoring banks.
- Issuing banknotes.
- Licensing and monitoring currency exchange bureaus.

Indeed, the CBE has undertaken numerous steps and initiatives pushing towards limiting cash transactions; the most important of which are the regulations issued regarding the operation of payment orders via mobile phones. Following are the key provisions of these regulations:

- A payment order via mobile phone shall represent a debit order against the mobile user's account with a bank registered in Egypt. An "electronic cash unit" shall mean an electronic unit with a monetary value, with each electronic unit equivalent to one Egyptian pound, and shall represent a claim on the issuing bank. This unit is exchangeable with Egyptian cash, as well as considered an accepted payment method by the issuing bank and other entities. Currency exchange swap and clearing operations shall be executed via the national switch managed by the Egyptian Banks Company for Technological Advancement.

- The role of the issuing bank shall be to maintain cash deposits associated with the process of issuing electronic money, ensure that the electronic money transactions comply with CBE regulations, and operate computer systems used to execute and settle transactions on user and service provider accounts.

- The mobile network operator shall provide the communications infrastructure and the necessary technologies to enable sending payment orders and confirmation of transactions via mobile phones. Banks too, may assume this role.

- The maximum daily withdrawal must be set at a limit not to exceed 3,000 EGP per account. The maximum account balance must be set at a limit not to exceed 5,000 EGP.

b. Anti-Money Laundering Law

The Anti-Money Laundering (AML) Law No. 80 of 2002[9], looks at cash transactions through the lens of limiting the entry of cash into the financial system.. Broadly speaking, much of the criticisms levied against cash transactions centre on the negative Implications of such transactions including obscuring the actual nature and size of economic transactions as well as the creating difficulties for regulatory and oversight bodies in dealing with the informal sector. In contrast, the AML Law focuses on regulating the entry of cash into the banking system, with the objective of restricting such entry

The AML law is designed to confront cash transactions that are used to disguise illegitimate sources of money primarily, by introducing the funds into the banking sector, to be used, at a later point, for financing legitimate activities. In other words, many such cash transactions attempt to enter illegitimate cash funds into bank accounts, so that they are ostensibly transformed into legitimate funds. Consequently, by virtue of its aim, and contrary to other laws, the ultimate outcome of implementing the AML law is limiting the transformation of cash transactions to banking transactions.

Generally speaking, the AML law limits cash payments and other cash-based practices in two ways. The first, a conventional way, involves deterring attempts to inserting these cash funds into legitimate cashless mechanisms. This method is applied, for example, in the incidences that laundering schemes involve attempts to deposit drug trade proceeds into bank accounts or utilizing the funds for purchasing securities. As previously mentioned, this is an effective method for aborting the

9. Anti-Money Launder Law, Law No. 80 of 2002. The Egyptian Official Gazette, Volume No. 20 (2nd edition), May 22, 2202, Egypt.

conversion of cash transactions to cashless ones. The second method involves imposing specific financial disclosure requirements in the instance of entering or leaving the country with cash amounts exceeding USD 10,000, or equivalent in any foreign currency. Specifically, the law, and its executive regulations, require persons to declare to the customs authority any foreign currency amounts (or a combination of foreign cash and tradable securities such as checks, and treasury bonds) exceeding the aforementioned limit. This declaration must also include the source of the funds, their purpose and intended use. The law also gives the customs authorities the right to confiscate funds.

The AML Law defines money laundering as acts entailing the disposal, via various forms, of funds arising from a specific crime, on the condition that the individual has knowledge of the illegal source of the funds. As for the transfer or movement of money, to be considered as money laundering operations, the law requires that such acts be carried out for the purpose of disguising information related to the funds; such as the nature and source (tax evasion funds or proceeds of illegitimate trade). As for other forms of offenses, such as acquiring, using, managing or manipulating the value of such funds, or disguising their nature or source, the law does not require proving intent for criminal prosecution. It is sufficient that the person committing the offence is knowledgeable that the funds are generated from criminal activities.

The law imposes imprisonment and fines for criminal offenses. For committing or attempting to commit a money laundering crime, the law stipulates a maximum sentence of 7 years imprisonment, and fines, twice the amount of the subject funds. More so, the law stipulates that the funds be confiscated, and in the instance funds were disposed to another person, of good intent, a fine equivalent to the value of the funds is to be imposed. Money laundering operations usually involve multiple parties, some of which could be legal entities, such as financial institutions or real estate brokerage firms. Hence, stipulates that should the offence be committed by a legal entity, the actual person responsible for managing that legal entity shall receive the same punishment "if knowledge thereof is established and the crime is committed as a result of the violation of the job duties of such person.[10]" However, if the crime is committed by an employees of the legal entity, then the court may penalize the legal entity by imposing a fine ranging from 100,000 EGP –5 million EGP; while also either prohibiting the legal entity from conducting its activities for a specified period of time or revoking its license altogether.

Recognizing the pervasive nature of money laundering, the AML Law adopts a broad definition of the term "money", to include besides cash other currencies, securities, real estate and any other documentation indicating ownership of funds. As such, the law is concerned with the value and source of money, rather than the form it takes.

It is also worth noting though that the AML Law does not take into account to the intersection between money laundering and cash transactions. As such, critical provisions and regulations addressing this overlap are absent from the law and its executive regulations.. In fact, they are also absent from three regulatory directives issued by the CBE to banks, money exchange companies and other entities engaged in money transfer operations. These directives include indicators designed to guide entities in identifying suspicious money laundering operations. While the relevance of these indicators to the different audience might vary slightly, nevertheless, there are common features for suspicious operations that are relevant to all concerned entities, they include:

- Large deposits or transfers of funds that are not commensurate with the size of the customer's business operations, or the total of which – over a specific time period – is not commensurate with the size of the customer's business operations.

- The utilization of multiple accounts or entities for depositing or transferring large sums of money.

10. Ibid., Article 16.

- Transferring substantial amount of funds to entities with no apparent relation to the depositor or person carrying out the transfer.

- Utilizing numerous bank branches or exchange companies for depositing or transferring large amount of funds in an unusual manner.

- Receipt of transfers involving substantial amount of funds, from countries known to support terrorism or illegal commercial activities.

In addition to the guidelines issued by the CBE, on three different occasions, the Money Laundering and Terrorist Financing Combating Unit of the CBE issued further guidance, targeting banks, exchange companies and those operating money transfer activities. The guidance was designed to assist with determining the true identity of customers. The guidance explained measures to be taken for verifying the true identity of both natural and legal persons, whether they are the originators or the ultimate beneficiaries of the transactions. In other words, determining or verifying the "real beneficiary" of such transactions.

Different than in the case of money laundering, the concept of terrorist financing is concerned not only about the origin of the funds and whether they are derived from legal activities, but also the final destination of funds and the intended purpose of use.

The 2014 amendment to the AML Law introduced a number of provisions to address terrorist financing in addition to money laundering provisions. Furthermore, in August 2015, Egypt issued the Anti-Terrorism Law[11], which provides a detailed description of the concept of terrorist financing and includes tougher penalties for terrorism-

11. Anti-Terrorism Law, Presidential Decree Promulgating Law No. 94 of 2015. Egyptian Official Gazette, Volume 33, August, 15, 2015, Egypt.

related crimes.. According to the Law, the term "terrorism financing is defined to cover "the collection or transfer of funds (including cash funds), firearms, information and others – directly or indirectly – for the purpose of using them to commit a crime of terrorism, or simply possessing the knowledge of the possibility that the funds will be used for committing such crime." The term also covers the providing a safe haven for terrorists or those funding terrorist activities. That said, the law does not require the possession of knowledge as to whether the individual concerned is a terrorist or engaged in financing terrorist activities.. Penalties for violating the law range from life imprisonment to receiving the death penalty.

2.2. Laws and Regulations Relating to Non-Bank Financial Mechanisms

a. The Capital Market Law

The Capital Market Law No. 95 of 1992 regulates the issuance and trade of securities and financial instruments and all other operations related to their investment and management. The Law regulates the operation and licensing of all securities companies and addresses various market transactions, most of which are currently using cash method, Following is a brief account of the relevant elements of interest in the law :

- *Trading of shares and brokerage firms operations*

The Law regulates the trading of shares and the operations of security brokerage firms. It stipulates that "trading in securities listed on the stock exchange shall be carried out through a licensed company, otherwise trading shall be null and void." In practice, to execute a transaction, a customer deposits the funds to be invested in securities with a brokerage, which in turn, sets up an account for the customer. Brokerage firms collect all required information from customers in order to verify their identify and the source of funds however, not much consideration is given to the method of payment. The significant size of the funds invested in the securities exchange would call for giving attention to the payment methods used for depositing funds with brokerage firms. As such, it would be judicious that the law require that these clients transfer their funds to brokerages via banking transactions as opposed to using cash.

- Initial Public Offering

While the law regulates the procedures for issuing initial public offerings, it overlooks the payment methods used by client subscribers to make these transactions. The law allows companies to simply announce IPOs and name an underwriting bank. Once this step is taken, it is not uncommon to find tens of thousands of interested individuals flocking to that bank with the cash to make their transaction. Therefore, it is critical that the law be amended to oblige companies issuing IPOs, and participating banks, to conduct the operation using bank transfers, rather than cash. More so, the amendments should also require companies, via the IPO bulletin, to identify the bank account to which funds should be made, in addition to listing the required documents that subscribers must submit as proof of payment. Subscribers must also be required to provide the company and the underwriting bank with their bank account numbers in case of over-subscription..

- Licenses and Trading Fees

The Egyptian Financial Supervisory Authority is the entity responsible for licensing companies operating in the securities field. The executive regulations of the Capital Market Law set the license fees for companies, not to exceed 10,000 EGP. However this established maximum is per activity. In the instance the company carries out a number of activities, the maximum license fee is set at 30,000 EGP.

As for trading fees, the Egyptian Exchange imposes a fee on trading operations for both listed and unlisted securities. For listed securities, the exchange receives a commission of 0.012% of the value of the trading operation separately from each party, with a maximum of 5,000 EGP. As for unlisted securities, the commission is set at 0.1% of the value of the trading operation separately from each party, with a maximum value set at 50,000 EGP.

Considering the magnitude of fees imposed by various capital markets regulatory bodies, the law must be amended to specifically stipulate that transaction fees be collected via bank transfers as opposed to cash.

b. Mortgage Law

Law No. 148 of 2001 regulates the financing of residential and non-residential real estate. It addresses the buying or construction of residential real estate, as well as administrative units and service and commercial facilities. The law is formulated to enable individuals to access the required funding for buying real estate, while, at the same time, stimulate the real estate market and last but not least, provide a solution to one of Egypt's endemic and most challenging problems, namely housing.

Given the volume of funds that are likely to deal with in the mortgage sector, it is recommended that tailored technologies be introduced to facilitate the use electronic or other cashless mechanisms for concluding transactions. Contracting parties should be obliged to open bank accounts, and use these mechanisms, whether the transaction concerns a payment for buying a property or a mortgage payment, for transacting. Furthermore, the amendments should also stipulate that any fees associated with such transactions, should be paid through bank transfers and not in cash.

The law also regulates foreclosure processes. It specifies the cases in which mortgage lenders can foreclosure on property, such for example, in the case of loan default. In such cases, foreclosure auctions are held and the proceeds of the sale are deposited with the court treasury. Given the need to develop a comprehensive policy to limit cash transactions, consideration should be given to introducing regulations that would require concerned parties to deposit the proceeds and any other any due through non cash mechanisms, such as bank transfers or checks. This though, will require introducing amendments to the laws regulating litigation procedures as will be mentioned below.

c. Law on Insurance Supervision and Oversight

Law No. 10 of 1981 governs all matters pertaining to various forms of insurance in the Egyptian market; including personal insurance, capital formation operations, property insurance and the liability insurance. The Law regulates the establishment and licensing of insurance services companies, the industry oversight body, private and governmental insurance funds and the Insurance Federation of Egypt.

In view of moving Egypt towards a cashless economy, parties to insurance operations must be required to make premium payments through online or mobile transactions.

Similar to earlier recommendations, payment of government dues related to the industry must also be subject to the cashless policy. For example, the Egyptian Insurance Supervisory Authority (the Authority) collects fees from entities operating in the insurance industry, in addition to fees for other services it provides. , It is recommended that these fees, once they exceed a specific value in Egyptian pounds, to be deposited, via banking transactions, in the Authority's account rather than being paid in cash at the cashier's window of the Authority.

d. Finance Leasing Law

Law No. 95 of 1995 regulates financial leasing operations and transactions in Egypt. Financial leasing is defined as any contract binding a lessor to lease to the lessee movables or properties or premises owned by the lessor, or received by him from the supplier by virtue of a specific contract (in the case of movables) or which ownership has been transferred from the lessee to the lessor. The financial lease contract specifies the rent amount in return for the leasing. The law gives the lessee the option of purchasing the leased property- that is the subject of the finance lease – whether in full or in part – as per the date and price specified in the contract, provided that the paid portions of the agreed to rent is taken into account.

The Law obligates the lessee to pay the agreed-to rent as per the terms and conditions of the contract with the lessor. In this regards, serious consideration should be given to requiring the parties to the contract to use cashless mechanisms for carrying out their contract-related financial transactions. At the same time, efforts should be made to encourage the private sector to make available to its customers internet-based payment services.

2.3. Laws Relating to Payments Made to the State

Government revenue, are received from multiple sources. Of interest to this study, are specific revenues such as taxes, custom duties, fees, fines, and others dues, primarily in so far as they involve payment transactions that needed to be considered when developing a framework for a cashless economy. The size of these payments to the total government revenues is very significant, and as demonstrated below, most if not all payment mechanisms; rely on cash payment mechanism, if not by prescription, then by omission.

a. Tax Law

The Income Tax Law, Law 91 of 2005 was issued as part of an economic reform package. Indeed, the law has had a significant and positive impact on government revenue. In three years, tax revenues increased from 137 billion EGP for FY 20072008/ to 192 billion EGP for the FY 20102011/.

In brief, the law imposes an annual tax on natural and legal persons. For natural persons, a tax is imposed on the total net income derived from the following sources: salaries and the like, commercial and industrial activities; professional or non-commercial activities and real estate. For legal persons, an annual tax is also levied on the net aggregate profits.

Article 78 of the law allows taxpayers to maintain electronic accounts, showing annual revenues and expenses, instead of written records. As part of the government's efforts to expand electronic payment and collection services, the Tax Law was amended by adding a new paragraph to Article 10. The amendment directs money companies and public legal persons to pay their due taxes via electronic payment mechanisms. Subsequently, the executive regulations of the law were amended by adding Article 123 (rep.) to guide the implementation of the new requirement in the law. The new Article 123 (rep.) of the executive regulations stipulates that, due taxes are to be paid by money companies and public legal persons via any electronic payment mechanisms as stipulated in Article 82 of the executive regulations, in addition to any other online method made available by the banks participating in the collection service. The executive regulations define online payment mechanisms to include bank transfers, smart cards, or through the postal service or any other bank contracted by the tax authority for the purpose of tax collection.

The Ministry of Finance reported that, in 2014, the total value of tax dues paid through electronic mechanisms increased more than 13-fold.

Such efforts to transform the Egyptian tax system into a completely cashless one are acknowledged and commendable, This effort though, needs to be expanded to allow natural persons to make electronic tax payments. Allowing electronic payment of taxes for natural persons could result in encouraging individuals subject to the law to set up bank accounts and be part of the banking system, a positive step in the direction of a cashless economy. It must be noted here too, that the existing provisions that allow payments through bank branches or post offices are still not adequate for eliminating cash transactions. These provisions do not allow banks or postal services to refuse receipt of cash amounts, nor do they require the taxpayer to pay via checks.

b. Customs Law

The Customs Law No. 66 of 1963 regulates customs operations and establishes the rules and regulations governing the calculation of custom duties and the payment procedures. For instance, the law clarifies the customs clearance procedures for goods entering Egypt, specifying the required documentation for imported goods as well as inspection procedures.

Egypt's substantial revenue from custom tax argues for amending the current law to reform the duties payment mechanisms to eliminate the use of cash in settling payments. This reform promises to contain potential corruption in the sector, in addition to eradicate the parallel economy and protect national industries from unfair competition from abroad. The government has indeed initiated an electronic customs duties payment and collection program. It is recommended that the program be expanded, and at the same time, measures be put in place to ensure that all parties involved are in compliance with the new procedures and regulations..

c. The Tenders Law

The Tenders Law No. 89 of 1998 governs all procurement of goods and services by all administrative units, including governorates and other service and economic public authorities. Law 891998/ requires administrative units to procure goods and services through tender or competitive negotiation. However, the law permits, in extraordinary cases, procurement to be done through other methods such as limited tenders, local tenders, limited competitive negotiation or direct agreements. In the instance of sale, lease or licence of real estate, moveable property, and projects, the law requires that they be carried out through open public or local competitive negotiation or sealed-envelopes procedures.

In a bid to encourage competition, the law imposes conditions for other than open and full competition. For example, the law imposes a cap of 400,000 EGP on contracting via local tenders and requires the approval of the competent entity in the instance that it chooses a direct agreement procedure. More so, the authority to approve the use of direct agreements varies with the type and value of the contact.. For instance, the law requires the approval of the Chief Executive of the Authority or Administration if the contract value is equal to or less than 50,000 EGP for the purchase of goods, services and transportation, and if the value of the contract is equal to or less than 1 million EGP in the case of construction contracts. In the instance that the value of the contact for good and services reaches 5 million EGP, or 10 million EGP for construction contracts, the law requires the approval of the competent minister. Due to the significant value of these contracts, it is recommended that the law be amended to require the use of bank transfers as the only acceptable payment mechanism.

The executive regulations of the law address the rules and procedures for handling the short or long-duration insurance requirements, which usually range between 2% and 5% of the estimated contract value. The executive regulations stipulate that the insurance should be paid "via cash deposit at the entity's treasury … with bank or certified checks acceptable from banks through which they are issued. Checks issued by banks abroad are also accepted, provided that they are certified by any domestic bank." While allowing payments through checks, a non-cash payment, the executive regulations still fall short, as checks are only one form of non-cash payments. More so, allowing the various entities to choose the payment mechanisms, whether cash or checks as noted above, is another shortcoming in the regulations that needs addressing. It is recommended that reforms be introduced to the law and its executive regulations to allow for a wide range of non-cash payment mechanisms.

d. Law Relating to Court and Documentation Fees

Law No. 90 of 1944 regulates the levy of court fees, which includes proportional fees, which are determined according to the value of the claim, if known, and other fixed fees in the instance the value of the claim is unknown. Chapter three of the law provides the rules to guide the estimation of fees and includes a listing of the different type of unknown-value claims. The law specifies the various fees associated with the different judicial procedures, starting from filing of the claim to the final ruling. Court costs cover the transportation expenses for judges, prosecutors, experts, court staff and clerks, process servers and translators in addition to other costs related to such as experts, consultants, and witness fees, court-awarded attorney's fees for the prevailing party, and other costs associated with the trial preparation and proceedings. As has been noted with other government related payments, the law needs to be amended to obligate all parties involved to use bank transfers or other cashless mechanisms for paying all the court costs mentioned above.

e. Civil and Commercial Arbitration Law

Law No. 13 of 1968 is the main source of the regulations and rules governing civil and commercial arbitration in Egypt. It lays down the procedural rules governing the filing of claims, hearing etc. While the law specifies the cases in which the parties involved in the arbitration are required to deposit money with the court's treasury, similar to other laws mentioned above, it overlooks the payment method or in other words, it treats this issue with inconsistency. In a number of provisions, the law stipulates that claimants or respondents –depending on the situation-are to deposit a specified amount of money with the court's treasury. In other instances, where there is a requirement for a payment bond, the law allows for payment either in cash or securities.

The Law does not require parties to use bank transfers or checks for payment of costs and fees associated with the arbitration. In this case too, it is recommended that the law be amended, moving towards cashless payment mechanisms for court expenses, taking into consideration, that the law should set a maximum limit for cash payments.

f. The Penal Law and the Criminal Procedure Law

Article 22 of the Penal Law No. 58 of 1937, specifies that in the case of fines, payment of the amount specified in the ruling should be made to the State Treasury. The law is silent on the payment mechanism to be used. By and large, however, these fines are usually paid in cash.

As for the Criminal Procedure Law No. 150 of 1950, it specifies that in the incidence of reconciliation, in the case of violations and some misdemeanours, payment of monetary penalties should be made to the treasury of the court, the office of the public prosecutor or other entities designated by the Minister of Justice. The law also prescribes that bail should be paid in "in cash or bonds issued or guaranteed by the government". Accordingly the law stipulates the payment of penalties whether included in the law or imposed by court be made to the treasury of the court, it does not require a specific payment mechanism except that which is stipulated in the articles pertaining to reconciliation. This shortcoming also calls for an amendment of both the Criminal Procedures so that payments exceeding a certain amount must be made through certified checks. This will support the use of non-cash payment mechanisms in the Egyptian judicial system, in line with the government's mandate.

g. Social Insurance Laws

Egypt's social insurance and pensions system is regulated by multiple, and overlapping laws. The scope of Law No. 79 of 1975 includes old age, invalidity and death insurance; employment injury insurance; sickness insurance; unemployment insurance, and welfare to pensioners. The law is applicable to civil servants and others who are covered by the Labour Law. Thus, by virtue of its scope of coverage, the law represents one of the largest payment schemes existing in Egypt today. Article 160 of the said Law stipulates that the disbursement of pensions shall be the responsibility of commercial banks as well as Nasser Social Bank and the Postal Authority, as directed by the National Authority for Social Insurance.

Likewise, Law No. 108 of 1976 regulates social insurance for employers and self-employed. The law governs the pensions for those individuals undertaking commercial, industrial, agricultural or other activities; as well as partners in simple partnership companies or professionals and others who do not have any bidding work relations with either public or private entities.

Finally, Law No. 50 of 1978 regulates social insurance for Egyptians working abroad. The law states that Egyptians working abroad, on their own account, shall be entitled to benefit from the social security system in Egypt. Worth noting is that the executive regulations state that "insurance subscriptions to the Authority be made via the bank" and that "the Authority must be provided with the receipt verifying the bank's deposit into the agreed account between the two parties". This indicates that the payments through bank transfers to the Authority is already legally regulated, and that it should be rolled-out to include all social security schemes; not only that pertaining to Egyptians abroad.

In support of Egypt's move towards a cashless economy, it is recommended that, insurance contributions paid by the employers and the insured employees, as well as pensions, exceeding a specific amount, be made via banks or post offices. At the same time, banks should be required to open accounts for all pensioners and also provide them with debit cards for withdrawal and deposit operations and for also carrying out other commercial transactions.

2.4. Other Economic Laws

a. The Commercial Law

Egypt's Commercial Law No. 17 of 1999 came into force in October 1999, except for the provisions governing checks, which came into force in early October 2005. Generally speaking, the law lays down rules and procedures, which are applicable to all commercial transactions, and to persons who can be duly qualified as traders. In other words, the law addresses some of the areas covered under the Civil Law; however it has an exclusive nature, as it is only applicable to commercial activities and persons who can be duly qualified as traders. The law includes various provisions pertaining to commercial obligations and contracts, in addition to bookkeeping and the commercial register.

The law contains a number of provisions that, directly and indirectly, hinder Egypt's transition towards a cashless economy. Provisions regulating bookkeeping and payments mechanisms stand out. First, the law prescribes rules and regulations for maintaining paper records, thus reinforcing, and perpetuating "the culture of paper record" at the expense of electronic documentation and book keeping, which is a strategic element in the effort to transition towards a cashless economy.

Second, the law limits cashless payment mechanisms. Article 62 stipulates that a creditor may request that payment of debts be made by a check, should the amount exceed 100,000 EGP. Because the amount of money involved is substantial, it would be more appropriate that the law prescribes the use of checks or other cashless instruments in the instance that the amount of money involved exceeds a maximum, preferably not a substantial amount, to be set in the law.

In addition to the above, we recommend adding a provision to the law obligating check beneficiaries to deposit the checks into their account, with the collecting operation going through a clearing exchange, rather than cash the checks through bank tellers. The law should also prohibit cashing of checks through the issuing bank teller window in the instance that the check exceeds an amount to be specified in the law. The law may further prescribe a fee for those opting to cash the checks through the issuing bank teller window.

b. The Commercial Companies Law

(Regulating Commandite /Limited by Shares Partnerships, Joint stock Companies, and Limited Liability Companies)

The Commercial Companies Law No. 159 of 1981 is considered the principle legal framework governing and regulating the establishment and management of companies. The main types of companies governed by the law are commandite or limited by shares partnerships, joint stock, and limited liability companies. In brief, the law regulates the various aspect of a company's life cycle such as incorporation, trading of shares, administration, and change of legal status through acquisition or merger; and finally, liquidation.

The major concern with the law is that it imposes excessive bureaucratic requirements on companies, which is likely to deter them from adopting cashless policies in their financial transactions. For instance, while the Law requires companies to deposit the company's capital into its account, held at a licensed bank; however, it does not provide that the deposit be made via bank transfer. In addition, other areas of concerns related to payment mechanisms for IPOs and trading securities transactions, as mentioned earlier, are relevant. The law needs to be amended to specifically prescribe that they be carried out via bank transfers.

Moreover, the law encourages the use of paper-based methods for record keeping including budget records, profit and loss statements and other documentations. Specifically, Article 75 of the law stipulates that records must be paginated, stamped and signed. This law-mandated reliance on paper-based record keeping can be considered as one the factors hindering the transformation of Egypt to a cashless economy.

c. The Labour Law

The Labour Law No. 12 of 2003 governs and regulates all aspects of employer-employee relationship, including individual employment contracts, salaries, vacations, terminations and various other employment-related matters. The law does not contain any provisions that obligate employers to pay their employees through non-cash mechanisms. Thus, and in line with the electronic system adopted by the government to pay its employees, the Labour Law must obligate employers of more than five persons to pay their employees through bank transfers. To enhance the probability of success, both the legislator and the CBE must put in place rules and regulations requiring banks to facilitate the setting up of accounts for all citizens in addition to making available and promoting the setting up of salary accounts for companies and reducing the fees associated with these accounts.

d. The Civil Service Law

Civil Service Law No. 18 of 2015 is considered one of the most controversial laws in Egypt. The decree-law was issued in May 2015; however, the House of Representatives recently rejected it. The government is currently amending the law for resubmission to the Parliament.

The law governs the state's relations with its employees, regulating the different aspect of employment relation such as salaries and wages, vacations, conditions for termination. The law was developed to improve the state's administrative apparatus by for example, restructuring civil servants performance evaluation systems, in addition to other reforms. It should be noted too, that the government has adopted a number of initiatives for rolling-out the prepaid payroll card system for civil servants, a positive step which supports the transition to a cashless economy.

e. The Telecommunication Law

Law No. 10 of 2003, which governs Egypt's telecommunication sector, Is perhaps the backbone of the transition process. The law regulates the operation of telecommunication networks and service providers. It lays down licencing requirements, rules for frequency spectrum management and regulating rules for telecommunication oversight bodies.

The Law created the National Telecommunication Regulatory Authority (NTRA) to provide adequate monitoring and oversight of this vital sector.. In the context of developing and comprehensive policy to support Egypt's transition to a cashless economy, it is critical to well-articulate the role to be played by NTRA in this regard, in order to facilitate and encourage initiatives aimed at establishing a solid foundation for an electronic payment system while at the same time. Simplifying licencing processes and offering incentives are steps in the right direction.

f. Electronic Signature Law

Law No. 15 of 2004 provides a critical foundation for electronic transactions. Besides regulating the rules and conditions governing e-signatures, the law created the Information Technology Industry Development Authority (ITIDA), and provided it with significant mandates over e-transactions. As for e-signatures, the law specifies the terms and conditions for determining the validity of e-signatures and explicitly confirms their binding force– provided they fulfil certain prerequisites – thus addressing legal and jurisprudence ambiguity surrounding related to some electronic transactions. In particular, Article 14 of the law states "For civil, commercial and administrative transactions, e-signatures shall have the same determinative legal effect that signatures have under the provisions of the Evidence Law for civil and commercial court cases". More so, Article 15 also confirms that "For civil, commercial and administrative transactions, e-writing and electronically written messages shall have the same determinative legal effect that writing, official, and unofficial messages have under the provisions of the Evidence Law Act for civil and commercial court cases". These provisions constitute a step towards increasing the volume of financial transactions carried out through the Internet and other technology-based mechanisms.

The scope and significance of competencies given to ITDA in the law reflect the seriousness of the effort to shift to a cashless economy.

Article 9 of the law establishes a board of directors for ITIDA and gives it the significant responsibilities with regards to e-transactions and e-signature. The article stipulates that the board will have the overall responsibility for devising "systems and rules for e-signature and e-transactions… Developing technical, administrative and financial rules and establishing the guarantees for issuing licenses required to operate the e-signature services and other activities in the fields of e-transaction and IT," The articles also gives the board the responsibility for "developing training and qualification plans and programs in the IT industry." These core competencies given to ITIDA, which are highly relevant and significant to the transition to a cashless economy, strongly argue for including ITIDA in all discussions and plans related to the development of a cashless economy in Egypt. Moreover, Article 14 states that "Within the scope of civil, commercial and administrative transactions, e-signatures shall have the same determinative effect that signatures have under the provisions of the Evidence Act in the civil and commercial articles"; whereas Article 15 also confirms that "Within the scope of civil, commercial and administrative transactions, e-writing and electronically written messages shall have the same determinative legal effect that writing, official, and unofficial messages have under the provisions of the Evidence Act in the civil and commercial articles." These provisions constitute a step towards increasing the volume of financial transactions done through the Internet and other technology-based means.

g. Commercial Registry Law

Law No. 34 of 1976 regulates all matters pertaining to competencies and operations of commercial registries in Egypt. In brief, the main area of concern regarding this law, relevant to the task on hand is its fee structure. Specifically, the fairly minimal fees and penalties imposed by the law diminish the prospects for introducing a cashless payment system in the registries.

h. Commercial Books

This Law No. 388 of 1953 regulates principle aspects of book keeping for traders. The law is silent on the form/ nature of the transactions carried out by traders, whether they are in cash or otherwise. Accordingly, the law does not appear relevant to the effort of migrating transactions to cashless mechanisms. That said, the use of paper records, as required by the law, constitute, in and of itself, an obstacle to transitioning to a cashless economy. More so, and similar to the Commercial Registry Law noted above, the fairly minimal penalty stipulated in the law diminishes the prospects for requiring relevant entities to adopt cashless mechanism for penalty collection.

i. The Law Relating to the Practice of Accounting and Auditing

Law No. 133 of 1951 governs the practice of the accounting and auditing profession. The law lays out the registration procedure for accountants and auditors in addition to defining their rights and responsibilities. While the law imposes relevant fees and penalties, and specifies their amount, it does not include any provisions that require the use of cashless mechanisms.. On their part, auditors play an important role in reviewing and verifying companies' compliance with Egyptian accounting standards and applicable laws. Accordingly, there is room for their contribution in the effort to transition Egypt into a cashless economy, through diligently verifying the adoption of "cashless economy-friendly" practices and procedures by companies and other institutions.

2.5. Important Non-Cash Payment Initiatives in Egypt

Despite the existing challenges and limitations imposed by the legal framework with regards to shifting Egypt to a cashless economy, noticeable efforts are still being made to further Egypt's move in this direction. These efforts deserve acknowledgement and support. This is an opportune time to provide support to these efforts, especially with the launching of "Egypt 2030", a sustainable development strategy spearheaded by the Ministry of Planning. In brief, the strategy has 12 strategic pillars among which, two are of high relevance to the subject of this study, namely, economic development and transparency and the efficiency of governmental institutions.

The economic development pillar focuses on creating a disciplined market economy, characterized by a stable macro-economy that is able to achieve inclusive sustainable growth and which is competitive, diversified and capable of actively engaging with the global economy. Under this pillar, it is also hoped that the emerging economy would be capable of adapting to international variables, maximizing added value, availing appropriate employment opportunities and products, pushing GDP per capita to be on par with that of high to medium-income countries. As for the transparency and government efficiency pillar, its focus is the development of an efficient administrative apparatus that provides exemplary, high-quality services using technological means. The aim is to achieve 100% electronic checks and payments by 2020 and to increase the number of services rendered via new channels (internet, phone, service providers, etc.) so that all service are electronic by the year 2020.

Against this backdrop and, and with the CBE assuming its essential function of overseeing Egypt's payment systems to ensure smooth payment flows and consequently financial stability, a number of initiatives that support a cashless have emerged. The most notable of these initiatives are the following:

a. Electronic Government Payment and Collection System Project

According to CBE website, this project is a joint collaboration between the CBE and the Ministry of Finance (MOF). The project aims at electronically disbursing the monthly salaries and other entitlements of government employees. Targeted employees are provided with ATM cards issued by participating Egyptian banks. The MOF has publically announced the plan highlighting that the current electronic salary-disbursement system benefits approximately 2.5 million government employees.

To implement this project, MOF issued a circular directed at all units within the state's administrative apparatus, requiring them to cease operating the paper-based salary payment system in favor of the new electronic system. The circular outlined the procedures for implementing the new system, which included an employee data collection exercise, and the issuance of ATM cards through any of the banks participating in the initiative. Moreover, MOF has also instructed all administrative units to begin disbursing suppliers/contractors payments through an electronic system, limiting cash disbursements to obligations with the maximum value of 500 EGP.

In June 2015, E-Finance, the company responsible for implementing the technology aspects of the project, announced that out of the total 3500 targeted administrative units, the program reached 2753 units.

Clearly, and in spite of the legal and non-legal constraints noted earlier, the implications of these initiatives are significant in terms of moving Egypt in the right direction towards a cashless economy. Government employees, who have been issued ATM cards under the umbrella of this program, are entitled to access and benefit from the services provided by the ATM card issuing banks. Benefits include access to credit cards and loans, if so they chose. At the same time, cardholders are also able to use their cards as Debit cards for purchases. As such and considering that the overall access of Egyptians to the baking sector remains meager, and that government bureaucracy stands at 7million employees, the impact of the new program with regards to promoting an exponential increase in the number of bank account holders is impressive

Even though it was planned that by July 2015 all government employees would have been brought under the program, at the end of June 2015 MOF announced that 85% of the government employees are now under the system, noting that the remaining employees will be included at a later time, which was not specified. MOF attributed the delays to a slower than anticipated pace in adopting the plan by some government entities. Because of the anticipated benefits to both government and employees, this suggests that it is in the best interest of the government to take bold and decisive steps to oblige delinquent entities to promptly act on adopting the plan, setting strict deadlines for compliance.

b. Mobile Phone Payments Initiatives

On June 25th, 2013, the Ministry of Communication and Information Technology (MCIT) announced the launching of "Feloos"(فلوس) initiative (Feloos is the Arabic word for money). Feloos is a web portal which allows making payments and funds transfer via mobile phones. Etisalat, an Egyptian telecommunication company, in collaboration with MasterCard, the National Bank of Egypt and the Egyptian Banks Company, took the lead in launching a mobile money service. Using Etisalat mobile network, the service allowed subscribers to use their mobile phones for making payments and money transfer transactions in a safe and secure environment.

This initiative was followed by two other initiatives;, one launched by Vodafone, an Egyptian telecommunication company, in partnership with the Housing and Development Bank, and another by MobiNil, also an Egyptian telecommunication company, in collaboration with Emirates Dubai Bank. Both initiatives provided mobile financial services.. Subsequently and as the initiatives proved their viability, the trend picked up, with the National Bank of Egypt (NBE) launching a mobile payment service dubbed "Phone Cash". This latter initiative does not rely on one specific mobile phone operator, and is available for all, in other words, not limited to the customers of the sponsoring bank.

As noted earlier the CBE has oversight responsibilities for Egypt's payment systems and services. Exercising this oversight responsibility entails developing wide array of rules regulations, procedures, standards and guidance related to the operation of the payment systems, in addition to promoting the use of electronic options and improving the overall efficiency of the system. To this end, as mentioned earlier, the CBE has issued guidelines regulating this service, namely the "Rules for Operating Payment Orders Via Mobile Phones".

To sum up, the mobile payment initiative, with its various individual schemes, is the first of its kind effort to support Egypt's transition to a cashless economy. At the same time, it is an important step towards increasing financial inclusion, as it allows unbanked individuals the opportunity to carry out non-cash transactions in an effective and safe manner.

Currently there are on-going efforts to further develop the mobile payment systems with the objective of using it for payments of micro loans, similar to the practice in other countries.

c. Fawry

Fawry, an Egyptian start up, was established in 2008, in collaboration with IT companies and banks operating in Egypt. The company provides an e-payment platform through more than 50,000 channels. The platform facilitates electronic payment of phone bills, utility bills – such as electricity and water- as well as airline tickets, insurance premiums and donations. In providing its services, Fawry uses a wide range of channels including ATMs, small vendors, pharmacies, post offices, the Internet and mobile phones. According to the Fawry website, their 50,000 service centers benefit some 15 million users, with daily transactions totaling 1.2 million. In 2014, a total of 6 billion EGP was collected through Fawry, with the company working on expanding its network.

d. Egyptian Government's Electronic Payments System (e-finance)

E-finance was established in 2005 for designing, managing and operating the electronic systems of all government entities, financial institutions and companies. The conceptual idea behind the company was to transform cash transactions into online transactions. The company excelled at developing electronic payment systems, which are the cornerstone in any robust cashless system, as witnessed in other countries with an impressive record of cashless transactions. E-finance launched its electronic payment system in 2009.

The National Investment Bank owns70% of e-finance shares, with NBE, Banque Misr and the Egyptian Banks Company owning 10% of the shares each. By virtue of this ownership structure, e-fiance is a state-owned company, and represents an important governmental effort to move Egypt towards a cashless economy.

The company provides a wide array of services. In addition to online payment and collection services – where salary payments, tax collection, customs fees collection, social security subscriptions are made – e-finance also provides infrastructure, business technology and card center services, among others.

Currently, e-finance is engaged in developing the automation of pensions and subsidies provided by the Ministry of Social Solidarity under the "Karama" and "Takaful" programs.

In an effort to provide a safe and secure electronic payment medium for governmental services, the Ministry of Planning and Administrative Development concluded an agreement with e -finance to develop the payment systems for these services through the e-portal of the Egyptian government

2.6. Conclusion

The above analysis clearly demonstrates the significant problems with the Egyptian legal framework. The legal framework suffers from major deficiencies in several critical provisions that are key to Egypt's transition to a cashless economy. As shown, in most cases, the law does not obligate the government and/or bank to use specific payment methods in their transactions, whatever the nature of the transactions is. In fact, some provisions explicitly mandate the use of cash payments to the concerned entity's treasury. Yet, on the positive side, Egypt's demographics, with youth comprising the majority of the population, and the prevalence of internet use, have sparked numerous initiatives that rely on modern technologies, all of which contribute to transitioning to a cashless economy.

PART 3: THE PROPOSED POLICY FRAMEWORK

Part I of this report provided an overview of the cash economy in Egypt, highlighting its prevalence, and at the same time attempted to explore the reasons behind this prevalence. It also identified the major barriers hindering Egypt's transition to a cashless economy. For comparative purposes, Part I also presented some efforts adopted by other developing countries. Part II followed with an analysis of the prevailing relevant legal framework, which was found to substantially contribute to the dominance of a cash economy. These two parts set the stage for Part 3 of the report. This part is concerned with developing a conceptual and methodological framework for formulating a sound policy program, in addition to providing relevant and practical policy recommendations that support the transition of the Egyptian economy from the its current cash-dominated state to a new state in which banking and electronic payment mechanisms prevail.

This part provides a cohesive conceptual framework for the development of a multi-faceted policy program, if properly implemented, could potentially generate significant changes in this area. Successfully navigating the transition process requires formulating the policy program with a focus on the following four core areas: 1) Implementing procedural reforms in the banking sector, in addition to other supporting measures ; 2) Implementing an auxiliary program that entails a comprehensive set of schemes and legislative amendments aimed at nudging financial transactions towards banking and electronic channels and instruments; 3) Codifying unregistered real estate and commercial enterprises, and finally, 4) Enacting a new law that gradually prohibits high-value cash transactions.

3.1. Procedural Reforms of Banking Operations and other Supporting Measures

There is no doubt that the banking sector forms the backbone of the cashless economy. With the majority of cashless transactions taking place through banking channels, the sector is considered, perhaps, the most important player in the transition process. For this reason, it is critical to take a closer look at a number of elements intimate to the sector's infrastructure, absorptive capacity and operating procedures, which are among the key determinants of the transition process. Identifying needed interventions and seriously adopting them should ease the introduction of new transactions into the sector, which are anticipated to be significant in scale. Following are the key issues for consideration:.

a. Regulations for establishing new branches and setting up ATMs

Given the critical role of the banking sector in the Egyptian economy, and its importance in safeguarding the economic and monetary security of the country, the banking sector in Egypt is strictly regulated.. As such, the CBE Law and its executive regulations require banks to submit t requests for launching new branches or agencies to the CBE for a preliminary approval, only to be authorized through a CBE Board of Directors resolution.

On 2nd December 2014, the CBE approved regulations for establishing agencies/Mini branches. On December 8, 2014, CBE issued a circular to Egyptian banks notifying them of these regulations. The CBE instructions stipulated that the activity of any such agency must be limited to specific tasks; such as individual withdrawals and deposits, operations executed through ATMs and all retail banking services – including opening of accounts, granting loans and accepting deposits. A sum of 5 million EGP should be allocated to each agency or mini branch inside Cairo, and 2 million EGP for agencies outside the capital.

Banks are to submit requests for establishing agencies or mini branches once a year during the months of February and September.

On April 8, 2015, the CBE board approved adding a new activity area for the authorized banking services listed above, namely the provision of banking services to the SMEs sector.

The above decisions represent significant developments, with financial inclusion implications, as they encourage banks to expand the scope of their service provision in terms of type (retail banking) and reach (mini banks.) To build on this momentum, we recommend that that the applications for establishing agencies/mini branches be accepted year round instead of limiting it to two months per year.

b. Account opening procedures

The Egyptian legal framework related to anti-money laundering, procedures for opening accounts and introducing monetary liquidity into the banking system is based on international conventions and meets international standards. A quick look at the regulations issued by the Money Laundering and Terrorist Financing Combating Unit of the CBE confirms this.

By virtue of its prevalence in the Egyptian economy, informal sector considerations force themselves into the scene. As such, it is only rational that the Egyptian anti-money Laundering Law take into account the Egyptian economic context, and find the right balance between ensuring responsible oversight over large or unusual deposits on the one hand, and encouraging the entry of cash savings into cashless mechanisms on the other. More so, convincing large segments of society to utilize cashless mechanisms, that entail robust investigations, is challenging, and adds another layer of consideration.

The AML law requires those financial institutions and other relevant entities regulated by the law, to put in place tailored verification systems, based on legal evidentiary procedures. Upon requesting the opening of bank accounts or proceeding with any form of transaction, banks should verify the identity and legal status of their customers and the true beneficiaries of the requested operation.

In 2003, the CBE issued anti-money laundering regulatory guidelines based on the provisions of the AML Law. Worth noting here is that Egypt is a member state in the Middle East and North Africa Financial Action Task Force Against Money Laundering and Terrorism (MENAFATF), which is the regional chapter of the global Financial Action Task Force (FATF). The 40 recommendations issued by FATF were updated in June 2003 (after the issuance of the regulatory guidelines by the CBE), and were followed by 9 additional recommendations for combating money laundering. Consequently, CBE issued new anti-money laundering and combatting terrorist financing regulatory guidelines to all banks. Thus, the regulations set by the CBE are in agreement with the Egyptian anti-money laundering law as well as the regional and international recommendations issued in this regard.

In brief, CBE anti money laundering and combatting terrorism financing guidelines require banks to comply with the requirements set forth by the Money Laundering and Terrorist Financing Combating Unit for identifying and verifying the identity and legal status of clients (this is based on Article 13 of the executive regulations of the AML Law). The identity identification and verification regulations specified the information and documentation that banks are required to obtain from customers. The required documentation include: official personal identification document, proof of residence –obtained from a utilities bill (in the event that the address stated in the account opening application is different to that in the official ID), document verifying place of employment, professional license or tax identification card/ number (should the occupation be different to the one stated in the ID); among other documents. Notably, these regulations are in line and do not go beyond the scope of the 40 recommendations issued by the international task force, FATF.

That said, and while maintaining a high level of compliance with the international recommendations and standards for combatting money laundering and terrorist financing, there remains room for easing the procedures and prerequisites for opening accounts and conducting banking transactions. Following are some key recommendations that facilitate the opening of bank accounts:

- Upholding the current customer identification and verification requirements for all banking transactions; while, at the same time, exempting small transactions of minimal value from some of these requirements. For these small transactions, the personal identification card should suffice for opening accounts and obtaining cards with a monthly limit not exceeding 2,000 EGP. This change should allow the inclusion of a large number of citizens (such as lower-income employees, temporary workers, agriculture workers, the unemployed, university students and others) in the banking sector and into the domain of cashless transactions. From the perspective of money laundering and financing terrorism, the potential risk of this change is minimal because of insubstantial amount of money that is involved.

- Linking the bank accounts of small clients to principle databases such as the national ID, the pensions and others in order to encourage these clients to depend more on their respective bank accounts.

- Include the Egyptian postal services database into the framework of bank accounts that are subject to the supervision and oversight of CBE. This framework is linked to bank account information database of individual banks. This action, in addition to facilitating the transfer of funds between post office accounts and bank accounts, can also have a positive influence on building the banking skills and confidence of small clients of the postal services.

- Authorizing the wide-scale acceptance of electronic signatures for bank accounts and reduces associated costs. This will facilitate and encourage larger segments of society, particularly those residing in remote areas, senior citizens or people with disability to use online banking services.

- Linking the customs system and the database of national identification number of entities, especially the ones making customs payments on regular basis, to their bank accounts. This will encourage importers, especially small-scale importers to use their accounts for making payments. Providing incentives to importers to use bank accounts can also further the impact of this measure.

- Easing restrictions, and reducing the documentation requirements for opening of business accounts, within certain transaction limits, for small and micro-sized enterprises.

c. Account opening costs

Fees associated with opening and maintaining bank accounts are considered among the significant obstacles that deter many from opening accounts. Some banks set high fees for opening accounts in addition to other annual fees. A minimum deposit ranging from 500 – 10,000 EGP is required for opening a bank account. This, in addition to other associated costs, such as account opening fees, reaching 200 EGP[12] in some banks, and coupled with fees for issuing ATM cards, debit and credit cards, represent a substantial amount of money for many social segments in the society. Banks adopt these procedures to safeguard against losses, especially in light of the time and effort involved in opening or managing small or inactive accounts, which are, to the greatest extent, viewed as not contributing much to increasing bank deposits in an adequate manner.

12. Amani Zaher and Heba Mohamed. "500 EGP, the Minimum for Opening a Current account in Banks." Al Mal Newspaper, September 7, 2014 (Arabic article). http://www.almalnews.com/Pages/StoryDetails.aspx?ID=178024

Accordingly, promoting the opening of new bank accounts must be accompanied and government support, from two angles as follows:

- Reducing the administrative and documentation requirements for opening accounts, limiting the requirements for accounts which, transactions do not exceed a specific limit, to the national ID.

- Creating disbursement systems that use collective accounts for disbursement of salary to government employees or payments to beneficiaries of direct monetary support programs. This system minimizes account opening costs for individuals interested in opening bank small accounts, and at the same time, does not add burden on banks. The system can be adopted at least for a specified period of time or for the benefit of certain social groups that the state wants to encourage to use non-cash mechanisms.. In fact, a number of countries adopted these measures in an effort to encourage banks to adopt a specific lending policy or other policies. Collective accounts allow beneficiaries the opportunity to safely and securely deposit their money through using their checking and saving cards, as well as to cultivating the banking habits of users.

d. Retaining of bank records

Record retention constitutes a huge burden on banks. The AML Law states that "Financial institutions and non-financial business owners and professions shall: retain records and documents for domestic or international financial transactions which, should contain sufficient data for identifying such transactions, and keep such records and documents in addition to customer records and true beneficiary data, whether natural or legal persons for a period not less than five years from the date of completing the transaction with the financial institution, or from the date of closing the account, as the case may be, unless the Money Laundering and Terrorist Financing Combating Unit or investigative authorities requested more than five years". "Financial institutions and non-financial business owners and professions may retain microfilm copies instead of originals for the period referred to, and such copies shall have the evidentiary value of original, if prepared, retained and retrieved in accordance with the rules to be issued by Money Laundering and Terrorist Financing Combating Unit." This requirement does indeed represent a huge burden on banks, since the time and costs associated with retaining documents can reach millions of pounds. In fact, this burden deters banks from opening more accounts for citizens, especially those with a limited income. Therefore, the law must be amended to stipulate that banking documents and data be retained in electronic form (not microfilm), while complying with measures of security and confidentiality of information and transactions. It should be mentioned here that even though the FATF 40 recommendations require documents and records to be retained for a period of five years from the date of terminating relationship with the client or the end of the transaction, yet the recommendations do not specify the manner in which records be retained. Thus, allowing flexibility and use of electronic means in the case of Egyptian banks would still be in line with the recommendations.

3.2. Auxiliary Programs and Policies

Whereas encouraging the transformation to a cashless economy warrants introducing a set of reforms to the banking sector and its legal and regulatory framework, to succeed, these reforms must be accompanied with a parallel reform package targeting other sectors and legal and regulatory frameworks which currently, reinforces the resistance of the cash economy to change..

Specifically, serious considerations need to be given to the following programs and policies::

1. In the area of non-bank finance, the overall policy should be directed to non-banking financial institutions, and geared towards encouraging them to use cashless transactions. This

calls for either offering un-banked individuals using cashless mechanism some advantages or rewards. Such reforms should promote the use of cashless transactions, and would be a step in the right direction. Generally speaking reforms could entail:

* Banning the use of cash in all transaction related to trading securities trading.
* Requiring the use of bank or electronic payment mechanisms for all underwriting and increasing capital funds operations.
* Requiring the use of bank or electronic payment mechanism for underwriting in investment funds.
* Banning the use of cash payment for insurance premiums, mortgage or financial leasing

2. As for the revenues of the state, such as taxes, fines and penalties, insurance contributions, the government has a critical role to play in terms of in pushing society at large, towards using cashless payments mechanisms. Again, this may come in the form of providing incentives to those opting to use cashless transactions in addition to coordinating with banks so as banks adopt some measures aimed at facilitating cashless transactions. These reforms may also be introduced in a more formal and binding form such as: :

   * Obligating taxpayers to pay taxes exceeding a specific amount via bank transfers, smart cards or checks.
   * Prohibiting cash transactions for the payment of customs fees exceeding a certain amount of EGP, or for payments made by registered importers.
   * Obligating public sector administrative authorities or entities to deal with suppliers, contractors and other parties through cashless transactions, in the instance they exceed a certain Egyptian pound amount.

* Requiring the use of cashless mechanisms for all court fee payments, should the payment exceed a specific amount.
* Adopting cashless salary payment mechanisms of all government employees.
* Disbursing pensions and all social payments via banks, through independent accounts – or in the case of limited salaries – via collective accounts and personal payment cards.
* Obligating private companies to pay salaries and social insurance exceeding a specific Egyptian pound amount through banking or electronic channels.

3. As for the economic laws efforts should be made to reform these laws in order to create a more favorable environment for cashless transactions. Some recommended reforms include the following:
   * Amending the Commercial Law with a focus on a number of problematic areas such as record keeping and cash-based payment mechanism. Amendments need to focus on moving away from paper based record keeping to structured electronic records, in addition to requiring the use of cashless payment mechanisms particularly for large transactions, there by cashless transactions from being the exception to being the norm.
   * Expanding the scope of legal reform to other laws that are relevant to the objective of shifting towards a cashless society. This includes the Companies Law, the Labor, the Civil Service Law, and the Law for Regulating Telecommunications and the Electronic Signature Law. Supporting the shift to a cashless society should underpin the reform philosophy, where by cashless payment mechanism should become the rule for all transactions (be it for salary disbursement, the payment of fees and fine or for selling and buying operations) with few exceptions as deemed more appropriate.

3.3. Codification of Real Estate Ownership and Commercial Activities

At the turn of the century, and specifically between 20022003/, the Egyptian Center for Economic Studies carried out extensive research – commissioned by the Ministry of Finance, with international technical support – on a proposed national program for codifying property ownerships and informal economic activities. The impact of codifying and protecting property rights and informal enterprises cannot be overstated. Codification has the potential of generating far-reaching positive impact on facilitating trade transactions, enabling the poor to benefit from the economic value of their assets, enhancing the finance market and improving access to its services by different social-economic groups, and adding a huge inventory of unregistered wealth to the economy.

The various studies that were developed proposed a conceptual legal and institutional framework for implementing the program. However, and due to association of the program with MOF, which was engaged then in an aggressive effort to expand its tax revenue base, the program garnered much negative public opinion, perceived by many as merely a tool for expanding MOF's tax revenues. The public, media and academics criticized the program on the grounds that it will increase the burden on the informal sector, which is considered the life line of millions, and drive small producers and service providers out of the market.

Public reaction led the government to abandon the program, until the idea was revived by the MOF in mid-2013. The Economic Justice Unit at the Ministry was given the responsibility of updating the study and presenting it to the public and the government. However, the change of government in February 2014 resulted in abandoning the project for a second time.

In reality, developing a comprehensive and well-integrated program for shifting to a cashless economy that is done in isolation of codifying property ownership and informal activities is an incomplete view of the transitioning process. As long as the informal economy maintains its current size and the property ownership remains unregistered, the incentive for transitioning to a cashless, banked-based or electronic economy will remain weak and limited. Thus, the two issues need to be linked and addressed simultaneously. It should be noted here that the codification effort entails two dimensions, one related to real estate property and the other to the informal enterprises. As such, there is a need to develop separate schemes to address the two dimensions of property ownership as follows:

1. The scheme for codifying real property ownership entails streamlining deed registration and notarization operations, so that confirming property rights is done in a smooth, efficient and inexpensive manner. This would enable the beneficiaries not only to guarantee safe and stable ownership, but also to re-sell, lease, mortgage or transfer the ownership of properties to heirs. This scheme will require enacting a new law that provides an enabling environment for codifying and protecting property rights. The new system should be simple and streamlined allowing for cadastration of property based on its current status, recording it in a registration-of-title system, and promoting the efficient resolution of disputes, doing away with the need to resort to the current conventional procedures of the real estate registry and the cadastrate systems both of which are inefficient and marred by administrative complexities.

2. As for the scheme for codifying commercial activities, it entails encouraging informal enterprises to register with the Commercial Registry and maintain proper commercial and taxation documentation. This will ensure their integration into the formal economy, which is subject to state oversight, and at the same time enjoys its protection. Under this scenario, enterprises are afforded legal protection and their employee's benefit from formal benefits and protections provided by the labor and social insurance laws.. Successful implementation of

this scheme is also dependent on enacting a new law that creates an enabling environment for the registration and operation of these enterprises. Registration requirements need to be simple, efficient and uncostly, with consideration given to offering micro and micro-sized enterprises special treatment in order to minimize the problems, complexities and cost associated with formal registration. For the program to be a success, it must too, limit the costs, fees and taxes imposed on enterprises wishing to become officially registered.

3.4. Enacting a New Law to Incentivize and Regulate the Transition to a Cashless Economy

Finally adopting a new law that guides and supports the smooth navigation to a cashless economy is vital to the transition process.. The law needs to clearly lay out the rules, regulations, and procedures for the gradual transition to a cashless economy. A draft bill to facilitate the transitioning process is included in this study. The draft bill takes into account following considerations which, are viewed as critical for the success of the transitioning process:

1. The need to avoid taking a piecemeal approach to reform. This entails including all recommendations, proposals and schemes contained in this study in one legal framework. This will ensure that the transitioning process is not dependent on scattered initiatives and non-systematic policies issued by the various entities, be it ministries, authorities and oversight bodies. A comprehensive and enabling legal framework that integrates all efforts will produce a tangible and effective impact and translate into success. Leaving the matter to the discretion of the different entities would only produce limited outcomes and not achieve the ultimate objective of transitioning to a cashless economy.

2. The need for a adopting a gradual implementation approach to

ease the transition process, and avoid any possible market and transaction disruptions. Abrupt implementation could generate may challenges in adapting to the new system, which could adversely result in a increased reliance on cash transactions which, are outside the purview of the state..

3. The need for reasonable flexibility. The law must not stipulate ceilings for cash transactions; rather, this should be left to the discretion of the executive branch, represented by the government and the CBE. Determining the celling on cash transactions should be subject to consultations and dialogue with concerned parties. It should be noted here that allowing the executive to set ceilings on cash transactions is fully in line with the Egyptian Constitution, since setting ceilings does not impact the tax burden.

4. The need for a comprehensive and integrating approach in executing the new law. Entrusting the Prime Minister with the overall responsibility of implementing and executing the new law, including the issuance of relevant decrees, adds an overarching or "national affair" dimension to it. Yet, it should be emphasized that any prime ministerial decree issued in this regard need to be subject to the prior approval of the CBE given its constitutional mandate over all matters pertaining to the payments system.

3.5. Proposed Interventions

It is clearly apparent from the preceding presentation that there are substantive shortcoming is the existing legal framework which either materially and significantly contribute to the prevalence of cash transactions, or simply drive market players away from cashless transactions. Therefore, there is a need to take a two-pronged approach in designing interventions; the first is a legal, regulatory and policy binding approach, while the second is an incentive-centred one. The first is designed to oblige government entities and market player to adhere to cashless transactions, while the second, provides further support to the transition, by encouraging individuals and entities to resort to cashless mechanisms. Specific recommended measures for both approaches are outlined in the matrix below.

Laws Relating to the Banking and Monetary Systems
Measures relating to the legal, regulatory and policy binding approach
- Streamline check processing procedures via the clearing house, through deposit into the account of the issuing party. - Obligate banks and all financial institutions to use direct deposit mechanism to banks and postal service accounts for transferring money.
Measures relating to the incentive-centered approach
- Support electronic payment initiatives, particularly mobile payments ones. - Provide support to banks to encourage them to facilitate account opening with minimal opening deposit requirements and fees. - Simplify record retention procedures allowing for the electronic retention of records in line with the time periods stipulated the law and the anti-money laundering regulations.

Laws and Regulations Relating to Non-Bank Financial Mechanisms

Measures relating to the legal, regulatory and policy binding approach

- Licensing fees for non-bank financial institutions should be made electronically or through checks or bank transfers.

- Payments related to stock market transactions, as well as IPO transactions (including fees) should be made electronically or through checks or bank transfers.

- Mortgage transactions should be carried out through banking channels. In the event loan payments are made in cash, banks and finance companies should impose a fee.

- Obligate insurance companies to collect premiums and affect payments to beneficiaries through bank transfers or immediate withdrawal on debit or credit cards (if available) or via the services of electronic payment and collection companies such as Fawry. This requirement should also apply to transactions carried out by financial leasing companies for collecting payments and purchase values (in the event the lessee choses to purchase movables or leased property).

Measures relating to the incentive-centered approach

- Provide support to companies by reducing due fees in the instance that payments are made electronically, or through checks or bank transfers.

- Offer advantages to non-banking financial institutions and their customers when using electronic payment mechanisms, or checks and bank transfers. Advantages could include more convenient payment options for taxes and other government fees and dues.

Laws Relating to Payments Made to the State

Measures relating to the legal, regulatory and policy binding approach

- Obligate tax payers to use bank transfers, smart cards or checks for tax payments, while imposing a fee for using cash.

- Codify customs payments methods, and prohibit the use of cash in order to eliminate any possibility of corruption in the sectors.

- Obligate all governmental administrative units, state authorities and entities, public and private companies and public utilities companies and authorities to use bank transfer payment mechanisms for all transactions with suppliers and contractors contracted under the Tenders Law.

- Amend the Penal Law, the Criminal Procedures Law, and other relevant law so as they include a ceiling on cash payments related to notary and registration fees, court fees, and other fees. All court transactions that exceed this ceiling have to be carried out through bank deposits.

- Mandate that insurance contribution payments, either made by the employer or the employees, as well as pension payments, be made via banks and not through postal services.

Measures relating to the incentive-centered approach

- Offer more convenient payment options for using electronic payment mechanism or checks or bank transfers in paying taxes and other government dues.

- Contract with a number of banks operating in the Egyptian banking market to open accounts for all pensioners and issue debit cards in their favor to enable them to withdraw and deposit funds and conduct other commercial transactions.

Other Economic Laws
Measures relating to the legal, regulatory and policy binding approach
- Mandate that payments related to property and asset transactions must be in made by non-cash means. - Oblige companies and merchants operating in the Egyptian market to deposit funds generated from IPO transactions into company accounts via bank transfers. - Obligate employers and all state entities to open bank accounts for employees for directly transferring salaries and other benefits.
Measures relating to the incentive-centered approach
- Allow banks, companies and traders to use electronic book keeping methods.

Draft Proposed Law

Please see the draft proposed law in the Arabic section of this publication

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