

Socially Responsible Finance and Banking: A Case Study of the Banking Sector in Egypt with Special Emphasis on Sustainable Development

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Abstract:

The Egyptian banking sector is providing up-to-date banking services through 39 banks operating through widespread network of branches locally and abroad, in addition to electronic branches, internet banking, online banking, mobile applications, and ATM machines.

Egyptian companies depend on the banking services as related to finance, deposits, investment, local and international trade, and guarantees. This includes overdrafts, loans against various collaterals, opening letters of credits (LCs), opening letters of guarantees (LGs), bank transfers, etc.

This frame is considered to be green financing, and recently called responsible finance, when it is directed to projects and activities that preserves the environment and support the Egyptian Sustainable Development Vision 2030.

Purpose: This research paper attempts to study the relationship between the Egyptian banking sector role in financing and supporting the Egyptian business sector while supporting the Egyptian national goals related to the Egyptian Sustainable Development Vision 2030 to support the economic growth in Egypt, with special consideration to financing the green economy and being socially responsible.

Design, Methodology, and Approach: This paper focuses on studying the effects of applying environmental restricted measures in the Egyptian banks' finance and services, while minimizing the banking risks in Egypt. The banking sector is the only tool to transfer surplus funds from savers to investors to finance the Egyptian business sector to attain a high level of economic growth in Egypt.

Findings: the analysis and results emphasized the followings:



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1. There are several successful practices in different countries that adapted financial banking services to be socially and environmentally responsible. The exposure to such practices can enrich the Egyptian green financial banking experience as being socially and environmentally responsible.
2. Egypt can expand on capitalizing international private banks' syndicated loans that are socially and environmentally responsible.
3. Egypt can expand on obtaining available socially and environmentally responsible international funding from international organizations (such as the World Bank Group and the European Investment Bank).
4. Egypt has its own profile of successful stories as related to socially and environmentally banking financial transactions related to several economic sectors, and several vulnerable social groups.

The original value of the research paper: It made recommendations and draw policies that can support the banking sector in Egypt to expand on its socially and environmentally responsible role as related to lending and supporting the Egyptian business sector.

Keywords: Egyptian Sustainable Development Vision 2030; Vulnerable Social Groups; Overdrafts; Loans Against Collaterals; Letters of Credits (LCs); Letters of Guarantees (LGs); Bank Transfers; Syndicated Loans; Social and Environmental Responsibility.

1. Introduction

In the second half of the 1970s, Egypt moved from a socialist economic system to a more liberal economic system. This was coupled with the need to introduce competition to the banking sector by adding new joint venture banks to the state-owned banks. International banks entered the Egyptian banking sector through these joint ventures and through foreign branches, all are still operating under the conditions, and the supervision of the Central Bank of Egypt (CBE).

Today, the Egyptian banking sector is composed of commercial banks, and the investment banks. The commercial banks prevail the market with services rendered to individuals and businesses including time deposits, current accounts, saving accounts, lending services, settlement of bank cheques, opening of letter of credits (LCs) with and without cash cover, and the opening of letter of guarantees (LGs) with and without cash covers.

Investment banks and global banks (running both commercial and investment activities) operates on underwriting, mergers and acquisitions (M&A), and portfolio management.

In recent years, green loans became one of the new facilities provided by the Egyptian banks to match with Egypt's Sustainable Development Strategy 2030.

Also, Egypt launched a new Banking Enclosure Initiative to include the vulnerable community, and to support startups, and small and medium enterprises (SMEs).

This paper is divided into the following: Section one for the introduction. Section two for the literature review. Section three for the socially responsible finance in the banking sector in Egypt as related to ethical banking. Section four for the econometric analysis of the relationship between the socially responsible and ethical banking practices in Egypt and the economic growth in Egypt by using a time series analysis. Section five is dedicated for the conclusion, the findings, and the recommendations.

2. Literature Review

Brunner (2024), Commercial Banks Directory and Guidelines Commercial Banks (2024), The Economic Times (2024), and Khambata (2023) discussed the functions of the commercial banks as related to term loans against proper guarantees to minimize risk. They differentiated between bank loans' pricing policy and conditions in case of individual loans versus corporates loans. The pricing of loans includes the

interest rates and the collected fees. The conditions include signing cheques and obtaining guarantees against default in payment.

Ahsan (2024) measured the impact of the liberalization of the commercial banks on profitability, and both the social and the environmental responsibility. He proved a strong positive correlation between the liberalization in the banking sector in one hand, with the increase of profitability, widening social role, and being environmentally responsible on the other hand.

The Economic Times (2024), Corporate Finance Institute (2023), Seth (2023), Statista (2024), Seth (2024), NASDAQ (2024), and Litan (2024) analyzed the differences between the commercial banks and the investment banks as related to the banking products, the operation, and the growth of profitability. These divergence in performance is historically rooted to the era of the Great Depression, and the issuance of the legislation of the Glass–Steagall Act in the USA.

Renyolds (2023), Jennings (2023), Bruyn (2024), Steiner (2024), Keating (2022), Co-operative Bank (2023), Varon (2023), Bank Green (2022), Christopher (2022), Thompson (2024), Schultz (2024), and San-José (2024) analyzed the environmentally and socially conscious business practices of the banking sector, as related to limit their lending activities to ethical investment. This is mainly related to green lending that has positive social impacts. This included financing carbon-offsets, and low emission vehicles. The “Global Alliance for Banking on Values (GABV)” is an initiative launched in 2009 by banks in 27 developing and developed countries to apply ethical and social banking practices as related to the day-to-day banking operation. A similar initiative was established by another group of banks to finance green projects only was named “The Fossil Free Banking Alliance”. These banks totally rejected to finance fossil fuel-based industries. These banks also necessitates employee-friendly work place and conditions to lend any company. These also require gender equality. Furthermore, new requirements included human insurance against weather crises such as floods, and promoting both carpooling, and public transportation. Also, these banks require clear waste management policy to preserve the environment. An additional recent trend in ethical banking is that these banks stopped funding all types of animal testing.

Fetiniuc (2024) emphasized that the key success of ethical banking is the ethical consumer. The ethical consumer is derived by his values and motives. Such consumer refuse to purchase non-green products and non-ethical goods. This includes for example, fossil energy-based products, weapons, animal-test based products, and cultivated goods that involved gender or children abuse in their production.



3. The Socially Responsible Finance in the Banking Sector in Egypt As Related to Ethical Banking Gender Equality and Environmentally Responsible Banking in Egypt



The Egyptian ethical banking strategy exercised by the Egyptian banks mainly focused on two directions: gender equality and being environmentally responsible service provider.

No doubt that this Egyptian orientation was a result of an increasing public awareness matched with a government responsible orientation. The corner stone of the government orientation was presented by”

- 1) Egypt Vision 2030.
- 2) The initiative of the Financial Inclusion Strategy (2022-2025) launched by the Central bank of Egypt (CBE).
- 1) **Egypt Vision 2030.**²

Ministry of Planning and Economic Development (2021) verified that among the various aspects of Egypt Vision 2030, there are the human and energy aspects.

In fact, ethical social banking is embedded inside the Egypt Vision 2030. Egypt Vision 2030 stimulates better quality of life by eliminating poverty and gender inequality by achieving social justice based on social integration and empowerment.

State governances provide for ensuring better education, health services, and the launch of social projects and better infrastructure to all geographical areas.

“Hayah Karima” national mega project reached every place in Egypt to ensure the attainment of the goals of the Egypt Vision 2030.

Egypt Vision 2030 resulted in pushing the banks to match with the new market characteristics that are based on Egypt Vision 2030. Banks found that ethical and social banking practices are more demanded in the Egyptian market with very high potential of growth. Many banks were forced to change their strategies towards ethical social banking to maintain its competitive edge.



² Ministry of Planning and Economic Development (2024).

2) The Initiative of the Financial Inclusion Strategy (2022-2025) Launched by the Central Bank of Egypt (CBE).³



Central Bank of Egypt- CBE (2023) verified that the Financial Inclusion Strategy (2022-2025) is mainly directed to empower the vulnerable segments of the society. This is done by extending the banking services to the low-income citizens, the rural women, to the youth, and to the non-bank clients.

The strategy launched a wide-spread awareness campaign to reach all segments of the society. Banks provided bank accounts without charging opening fees, and without requiring age limitation. Banks waived lot of requirements and documentations to facilitate opening of banks accounts. Also, bank loans to women, and Small and Medium Enterprises (SMEs) are offered as soft loans with low interest rates and long grace periods. The documentation of such loans is very simple.

The inclusion approach reached students in schools and universities through regular visits to schools, universities, and social clubs to attract the youth to turn to be banks' clients.

These efforts were coupled by huge technological transformation in the banking services including an online full banking services through secured banking mobile applications, and through website based secured access. This was matched with several Artificial Intelligence (AI) banking secured systems and verification to provide Fintech services by using deep learning techniques to avoid fraud and cyberattacks. Also, in private banking there was an adoption of the AI using ChatGPT to provide financial solutions for wealth management customers.



On the other hand, the Egyptian government required that all government fees are to be paid through cards. This channeled more funds through the banking system, and provided more transparency, and better statistical reporting.

³ Central Bank of Egypt- CBE (2023)

4. The Econometric Analysis of the Relationship Between the Socially Responsible and Ethical Banking Practices in Egypt and the Economic Growth in Egypt by Using a Time Series Analysis Data Analysis

Data collected dealt with economic growth represented by the Egypt’s GDP growth, against Socially Responsible and Ethical Banking Practices in the Banking sector over 5 years divided into interims.

$$Y = \beta^{\circ} + \beta I AIS + \mu$$

The annual GDP growth is the dependent variable while the rest of the variables are explanatory variables. The main explanatory variable is the Socially Responsible Banking sector growth in Egypt and other variables are used as stochastic error term.

Y	GDP growth (Annual %)
SRB	The Socially Responsible Banking sector growth in Egypt

The relations are tested by Auto-Regressive Distributive Lag model.

- **Unit root test**

Before running the model, Unit root test is applied to ensure that all the variables are either I(0) and I(1) in order to avoid spurious regression.

Variable	Prob.*	
	At level	1 st difference
GDP growth	0.00482	0.0000
SRB	0.917	0.0000

ARDL Model

Included observations: 44 after adjustments

Maximum dependent lags: 3(Automatic selection)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
GDP_GROWTH(-1)	0.006392	0.754698	0.051324	0.6927
SRB	0.004351	0.008913	0.689734	0.5546
R-squared	0.571669	Mean dependent var	4.293301	
Test Statistic	Value	k		
F-statistic	0.725588	4.7		

This is a case of positive correlation. In the long run the SRB sector growth proved to have a significant positive effect on the economic growth in Egypt matching with the economic theory that the advancement and the long-run cost savings in the banking sector will ultimately lead to accelerate economic growth.

4. Conclusion, Findings, and Recommendations

The Egyptian orientation towards sustainable banking practices with strong social prospects was illustrated by a government policy that is based on two main aspects. The first is the Egypt Vision 2030. The second is the Financial Inclusion 2022-2025 launched by the Central Bank of Egypt (CBE).

The Egyptian policy approach reached all segments of the society with a fair geographical coverage. It deals with gender and age equality without any discrimination.

The advancement of the banking services in Egypt accelerated the access to the new intended ethical social banking services.

The econometric analysis of the relevant data proved a positive correlation between the growth in the Egyptian ethical social banking services and the growth in the Egyptian economy.

The followings are few recommendations made to Egypt to expand on the ethical social banking practices in the Egyptian banking sector:

- 1- To include the ethical and social banking practices in the education curriculum in all educational stages.
- 2- To encourage banks to allocate more funds to launch more campaigns to attract more customers interested in ethical and social banking services.
- 3- To adopt financial incentives by the CBE to encourage banks expand on the ethical and social banking services.
- 4- To provide tax incentives and custom duties exemptions for the corporate clients of the ethical and social banks.
- 5- To benefit from the ethical and social banking in Egypt to promote Egypt's exports.
- 6- There are several successful practices in different countries that adapted financial banking services to be socially and environmentally responsible. The exposure to such practices can enrich the Egyptian green financial banking experience as being socially and environmentally responsible.
- 7- Egypt can expand on capitalizing international private banks' syndicated loans that are socially and environmentally responsible.
- 8- Egypt can expand on obtaining available socially and environmentally responsible international funding from international organizations (such as the World Bank Group and the European Investment Bank).
- 9- Egypt can offer its experience in ethical and social banking to other developing countries.

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