



COI QUERY

Country of Origin

EGYPT

Main subject

[Loan regulations and practises](#)

Question(s)

1. [Formal and informal legal framework on private loan schemes and practices](#)
2. [Informal systems of community lending](#)

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COI QUERY RESPONSE – Egypt

Loan regulations and practices

1. Formal and informal legal framework on private loan schemes and practices

Under Islamic Law, lending money with interest (*riba*) is prohibited.¹ Egypt was the first among the Muslim countries to establish an Islamic bank, in 1963. As explained in a 1997 paper by the Egyptian Center for Economic Studies (ECES), 'Islamic banking is centred around the principle of the abolition of interest rate which is considered a form of *riba* (usury). The alternative method for financing under the Islamic system is based on profit and loss sharing (PLS) approach.'²

According to an article by Al-Monitor, the practice of lending money for interest was 'officially ruled' as not forbidden by Dar al-Ifta al-Misriyyah,³ one of Egypt's centers of Islamic legal research, and by Al-Azhar,⁴ the Islamic Research Academy. The same source also added that, however, the issue was still controversial and being debated among Islamic scholars. In 2015, the Salafist Call in Egypt announced that banking interest is forbidden under Sharia, reigniting the controversy. As the Islamic interpretation and Sharia Law on loans and banking interest are part of a constantly renewable debate in Egypt, people prefer to save their money at their home or choose the solution of the Islamic banks.⁵

The website of the Islamic legal research centre, Dar al-Ifta al-Misriyyah, contains information and guidelines on various matters regulated under Islamic law, including [Financial Transactions](#).⁶

A study conducted in 2005, by the Egyptian Banking Institute (EBI) in coordination with the Social Development Fund (SDF) reported that poor Egyptians were seen as 'un-bankable', noting that:

'Without access to formal financial services, the poor must often resort to borrowing from moneylenders at exorbitant interest rates; or participate in local rotating savings and credit circles, which require deposits, and provide inflexible loan amounts at rigid time intervals. These informal financial services are often very costly, risky, and inconvenient'.⁷

¹ Mohieldin M. Islamic Finance in Egypt, Working paper n. 15, July 1997, in ECES, [url](#) p. 1; CFI, Islamic Finance, Financing activities that must comply with Sharia (Islamic Law), n.d., [url](#);

² Mohieldin M. Islamic Finance in Egypt, Working paper n. 15, July 1997, in ECES, [url](#) p. 1

³ For more information on Dar al-Ifta al-Misriyyah, see UNHCR and Refugee Zakat Fund, Dar al-Ifta al-Misriyyah, 20 April 2018, [url](#)

⁴ For more information on Al-Azhar, see UNHCR and Refugee Zakat Fund, Al-Azhar Islamic Research Academy Egypt, 12 April 2021, [url](#)

⁵ Al-Monitor, Al-Azhar, Salafist group spar over banking interest, 2 February 2015, [url](#)

⁶ Dar al-Ifta al-Misriyyah, Fatwas – Financial Transactions, n.d, [url](#)

⁷ EBI and SDF, Towards a National Strategy in Microfinance for Egypt, January 2005, [url](#), p. 20



2. Informal systems of community lending

Some informal systems of community lending are described below, although the list is not to be considered exhaustive.

Rotating savings and credit associations (ROSCAs)

As explained by Egyptian organisation Shamseya⁸:

‘Rotating Savings and Credit Associations (ROSCAs) are grass-root micro-finance initiatives that are created within communities of families, friends, co-workers or neighbours, to share common resources in order to address the specific timely financial needs of its members. Run on a volunteer, collective base, members of these associations do not sign contracts and these informal agreements cannot be enforced through legal proceedings. Their functioning relies solely on mutual trust and the best interest of each member of these associations to make them work. Failure to abide to the agreed upon conditions of these associations result in some sort of social exclusion that becomes the unwanted punitive aspect of non-abidance, which is more than often sufficient to ensure compliance. All capital of ROSCAs are internal and, through them, communities can sometimes address individuals’ special financial needs such as weddings, new births, financial crisis or, in many cases, healthcare costs. .⁹

Furthermore, each member of ROSCAs: ‘has a share of fixed amount of money to satisfy financial neighbour’s hardship of his/her family members or families’.¹⁰ ‘ROSCA is considered as common intervention that is widely used in Egypt, throughout different socio-economic activities as a casual arrangement aiming at overcome individual financial hardship or for saving purposes’.¹¹ Additionally, ‘there is a high degree of commitment between its participants and moral misconduct or abuse are heavily controlled through the way they function. Also there are no legal procedures that control ROSCA which reduced the stress and fears of the government and banks obligations’.¹² ‘In ROSCAs normally there is lack flexibility and usually have a fixed life span such as 6, 12, 24 months’.¹³

Village savings and loan association (VSLA) approach

VSLA is another informal way of community lending. It ‘reaches the very deprived areas and rural population better than formal, centralized microfinance institutions’.¹⁴ Furthermore, this approach has no external requirements and it is totally self-sufficient.¹⁵

⁸ For more information on Shamseya, see [About Us](#)

⁹ Shamseya Organization, Rotating Savings and Credits Associations “ROSCAs”, n.d., [url](#)

¹⁰ Shamseya Organization, Rotating Savings and Credits Associations “ROSCAs”, n.d., [url](#)

¹¹ Milano, The rotating credit association: a middle rung in development, 2000 referenced in Shaaban, S., Reviewing Egyptian community social fund (village savings and loans association, VSLA) as an approach for community social fund, Horticulture International Journal, Vol.3 Issue I, 3 January 2019, available at [url](#), p. 13

¹² Ardener, S and Burman, S. Money-go-rounds : the importance of rotating savings and credit associations for women, 1995 referenced in Shaaban, S., Reviewing Egyptian community social fund (village savings and loans association, VSLA) as an approach for community social fund, Horticulture International Journal, Vol.3 Issue I, 3 January 2019, available at [url](#), p. 13

¹³ Milano, The rotating credit association: a middle rung in development, 2000 referenced in Shaaban, S., Reviewing Egyptian community social fund (village savings and loans association, VSLA) as an approach for community social fund, Horticulture International Journal, Vol.3 Issue I, 3 January 2019, available at [url](#), p. 13

¹⁴ Shaaban, S., Reviewing Egyptian community social fund (village savings and loans association, VSLA) as an approach for community social fund, Horticulture International Journal, Vol.3 Issue I, 3 January 2019, available at [url](#), p. 14

¹⁵ Shaaban, S., Reviewing Egyptian community social fund (village savings and loans association, VSLA) as an approach for community social fund, Horticulture international Journal, Vol.3 Issue I, 3 January 2019, available at [url](#), p. 14

According to a study on VSLAs, these associations agree for adjustable savings, savings withdrawal, and loans with variable terms and flexible repayment settings. Furthermore, an association of one group can contains 15 to 30 persons. These persons share small amount for save purposes every week'.¹⁶ In Egypt the group helping member who faces hardship in running their enterprise project or loan repayment by rescheduling their payment.¹⁷

The 'loan sharks' phenomenon

During a 2009 interview with the Immigration and Refugee Board (IRB) of Canada, a representative of the Egyptian Organization of Human Rights (EOHR) stated that the phenomenon of loan sharks exists in Egypt but the practice is not a 'widespread'. The same source added that 'the legal ramifications depend on what type of documentation the moneylender possesses. For example, if a debtor writes bad cheques, he can be taken to court and face imprisonment'.¹⁸

In a reportage, published in 2020, France 24 reported that most loans were given to Egyptian women (approximately 70% of loans) 'but thousands of them fall victim to loan sharks and can even end up in prison'.¹⁹

¹⁶ VSL Associates, Village Savings and Loan Associations (VSLAs), Programme Guide Field Operations Manual, 1 November 2007, [url](#), pp. 2-10

¹⁷ Shaaban, S., Reviewing Egyptian community social fund (village savings and loans association, VSLA) as an approach for community social fund, Horticulture International Journal, Vol.3 Issue I, 3 January 2019, available at [url](#), p. 14

¹⁸ Canada, IRB, Egypt: Nature and extent of the use of "loan sharks"; legal ramifications for person indebted to a loan shark; police complicity with loan sharks, 4 February 2009, [url](#)

¹⁹ France24, Jailed over unpaid debts in Egypt, 5 March 2020, [url](#)

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