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BENIN

FINANCIAL SECTOR REVIEW

Stability for a Better Inclusion

November 2018

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Abbreviations and Acronyms

ACFPI	Administrative Census for Population Identification
AIC	Interprofessional Association of Cotton
AMAB	Mutual Agriculture Insurance of Benin (*Assurance Mutuelle Agricole du Benin)*
ANSSFD	National Microfinance Institutions Supervisory Agency (*Agence Nationale de supervision des SFDs du Bénin)*
APSFD	Professional Association of Decentralized Financial Services
ASMAB	Association for Market Solidarity of Benin
ATM	Automated Teller Machine
BABN	*Banque Atlantique Bénin*
BCEAO	Central Bank of West Africa States
BHB	*Banque de l'Habitat du Benin*
BIBE	*Banque Internationale du Benin*
BOA	Bank of Africa Benin
BSIC	*Banque Sahelo-Saharienne pour l'Investissement et le Commerce*
CEFEPE	Center for the Promotion and Assistance of Small and Medium Enterprises
CGAP	Consultative Group of Assistance to the Poor
CGS	Credit Guarantee Scheme
CIMA	*Conférence Interafricaine des Marchés de l'Assurance*
CPCE	*Coopérative pour la Promotion de l'Épargne et du Crédit*
CTB	Belgium Technical Cooperation
DIFAE	Directorate of Financial Inclusion and Economic Empowerment
FECECAM	Federation of Savings and Credit Unions (*Faitère des caisses d'épargne et de crédit agricole Mutuel*)
FI	Financial institutions
FINAGRO	Private Guarantee and business development services for agriculture and agribusiness (*Financière de l'agriculture et de l'agro-industrie*)
FNDA	National Funds for Agriculture Development
FNM	National Microfinance Funds
FONAGA	National Guarantee Fund
GDP	Gross Domestic Product
GIIF	Global Index Insurance Facility
GIM-WAEMU	Interbank Banking Group of the West African Economic and Monetary Union
GIZ	German Agency for International Cooperation (*Deutsche Gesellschaft fur Internationale Zusammenarbeit*)
GoB	Government of Benin
G2P	Government-to-Person
ICC	Investment Consultancy and Computering
ICT	Information and Communication Technology
IMF	International Monetary Fund
INSAE	National Institute of Statistic and Economic Analysis
KYC	Know Your Customer
MFI	Microfinance Institution
MIS	Management Information System
MM4P	Mobile Money for the Poor

MNO	Mobile Network Operator
MSME	Micro, Small, and Medium Enterprises
NFC	Near Field Communication (*Communication dans un champ proche*)
NGO	Nongovermental Organization
NISEA	National Institute of Statistics and Economic Analysis
NPFB	National Pension Fund of Benin
NPL	Nonperforming Loan
PABFI	Professional Association of Banks and Financial Institutions
PADA	Agricultural Diversification Project
PAG	Government Action Plan
PAR	Portfolio at Risk
PCG	Partial Credit Guarantee
PNOPPA	National Platform of Agriculture Producers
PPCG	Partial Portfolio Credit Guarantee
PO	Producers' Organization
POS	Point of Sale
PSDSA	Strategic Plan for the Development of the Agriculture Sector (*Plan Stratégique de Développement du Secteur Agricole*)
P2P	Person-to-Person
P2G	Person-to-Government
P2B	Person-to-Business
PPP	Purchasing Power Parity
RAECP	Regulatory Authority for Electronic Communications and Post
RGE	General Enterprise Census
ROA	Return on Assets
ROE	Return on Equity
SBEE	Beninese Electricity Company
SICSS	*Système d'information Centralise du Suivi des SFDs*
SMEs	Small and Medium Enterprises
SONEB	National Water Company of Benin
TEG	Effective global Interest Rate
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
VAT	Value Added Tax
VSLA	Village Saving and Loan Associations
WAEMU	West Africa Economic and Monetary Union
WAEMU-IACS	WAEMU Interbank Automated Compensation System
WFP	World Food Program
WRS	Warehouse Receipt System

Acknowledgments

This report of the Benin Financial Sector Review provides a diagnosis of the financial system and is focused on the state and performance of banks and microfinance institutions, the digitalization of retail payment and on challenges faced by the agriculture sector financing.

This report was produced by a team that was led by Philippe Marie Aguera (Senior Financial Sector Specialist, World Bank Group) and that included Tenin Fatimata Dicko (Young Professional, World Bank) and Omar Ndiaye (Consultant), and it also benefitted from the contributions of Dorothee Delort (Senior Financial Specialist, World Bank Group) and Marco Traversa (Financial Analyst, World Bank Group).

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Executive Summary

Benin is a small West African country with a per capita income of U.S. $840. The total population is approximately 10 million and is growing at a rapid rate of 3.5 percent annually. About 52 percent of its population lives in urban areas and is mostly concentrated on the southern parts of the country, near the sea and the biggest cities of Cotonou—the economic capital—and Porto-Novo—the political capital. Real gross domestic product (GDP) grew on average by 4.3 percent annually during 2000–2015 and growth has accelerated slightly over the last five years (2011–2015) to around 4.7 percent. Over the same period (2000–2015), the services sector was the primary driver of GDP growth with a share of GDP of 47 percent on average against 26 percent for both agriculture and industry.

Despite moderate GDP growth in 2000–2015, poverty remains widespread. Per the World Bank estimates of the U.S. $1.90 per day poverty line, the poverty rate was 61.4 percent in 2006, 48.5 percent in 2010, and 49.5 percent in 2015. In 2015, 60 percent of the rural population lived below poverty line while that was the case for only 36 percent of the population in urban areas. The incidence of poverty is higher in the poles of the country, particularly in the extreme north region and the fishing area. Agriculture remains the largest contributor to livelihood in rural areas.

The informal sectors (agriculture and services) represent up to 70 percent of GDP and continue to dominate the economy with approximately 90 percent of the labor force. The agricultural sector employs approximately 50 percent of the labor force with cotton (typically responsible for 25–40 percent of exports), cereals, starchy roots, and increasingly cashews, pineapples, and rice as main agricultural crops. Benin is recording a shift from the value-added industry in the informal sector toward the value-added industry in the service sector. The formal economy employs approximately only 10 percent of the labor force. Indeed, the economy is characterized by a small number of very large formal firms, very few medium-size enterprises, and an extremely large number of informal small and microenterprises. Informality has contributed to the adoption by the financial sector of a cautious approach to lending in-country.

The Government of Benin adopted a five-year program (2016–2021) for the economic and social development of the country. This Government Action Plan (PAG) revolves around three pillars: to consolidate democracy, the rule of law, and good governance; to engage the structural transformation of the economy; and to improve the living conditions of the population. This plan includes 45 projects and institutional reforms with an estimated budget of CFAF 9,039 billion for five years. To initiate the structural transformation of the economy, an investment of more than CFAF 7,000 billion is needed for projects in agriculture, tourism and culture, digital economy and information and communication technology (ICT), energy, transport infrastructure and processing units, and so on. Approximately CFAF 3,529 billion is projected from public financing excluding public-private partnerships and CFAF 5,510 billion is expected from private financing. The financial sector will thereby play a key role in the program delivery.

Benin's financial sector is shallow and segmented, with 15 banks, over 600 microfinance institutions (MFIs)[1] —of which are 87[2] authorized and the remaining are unauthorized institutions[3] —and nonbank financial institutions (2 licensed e-money issuers, 14 insurance companies, and 2 pension

[1] Inclusive of both deposit-taking MFIs and financial cooperatives.
[2] Banque mondiale, Revue du secteur de la microfinance, 2015.
[3] In the West Africa Economic and Monetary Union (WAEMU), the terminology "decentralized financial systems" refers to MFIs. It is used in the Microfinance Act.

funds). Commercial banks and other credit institutions are governed by the regional banking law and supervised by the Banking Commission (*Commission Bancaire*). The Central Bank of West African States (BCEAO) also supervises large MFIs falling under "Article 44" (that is, MFIs with an outstanding credit portfolio or total of deposits of at least CFAF 2 billion). In Benin, 10 MFIs are supervised by the BCEAO. E-money issuers are also within the remit of the BCEAO. The insurance sector is regulated by the *Conference Interafricaine des Marchés de l'Assurance* (CIMA).

While access to finance is improving, relative to other Sub-Saharan countries, a number of reforms in the areas of microfinance and digital payments could foster financial deepening, financial inclusion and employment creation in the private sector, particularly in the agriculture sector. The report's recommendations are briefly summarized in Table E.1, which also highlights whether the suggested reforms are to be implemented in the short term or medium term.

Table E.1. Summary of Recommendations

S. No.	Recommendations	Timing
A.	**Banking Sector**	
2.	Develop an NPL strategy for the whole sector.	ST
3.	Consider BCEAO to impose higher haircuts on bonds rediscounted to effectively increase borrowing costs when banks do repos.	ST
4.	Review the national crisis management and resolution framework in line with reforms undergone at the regional level.	MT
B.	**Microfinance Sector**	
5.	Strengthen the microfinance sector supervision, by developing the capacities of the supervisory authority (ANSSFD) to fully implemented his mandate by: a) adopting a risk-based supervision approach which will allow identifying early warning alerts on MFIs performance, b) enhancing the technical capacities of staff through training and technical assistance, c) introducing technologies that increase the efficiency of the supervision.	ST
6.	Enhance capacity of the judicial system employees (judges) on specialized laws and regulations governing the microfinance sector, which is crucial for the effective enforcement and cleaning up of the sector.	ST
7.	Consolidate the sector of licensed MFIs and adopt a resolution framework.	MT
8.	Conduct a nationwide assessment of the informal savings and credits institutions landscape to identify and adopt a transition plan for the large viable ones integrating the formal sector.	ST
9.	Conduct an awareness campaign about unauthorized MFIs by setting up a free call-in Interactive Voice Response (IVR) system listing all formal MFIs and launching a national awareness campaign leveraging mobile technology (text and voice SMS) about awareness campaign on unauthorized MFIs.	ST
10.	Strengthen the technical capacities of MFIs and their management information system (MIS).	MT
11.	Strengthen consumer protection mechanisms, through three pillars: regulation for client protection and supervision, standard and code of conduct for the industry, and financial education and capability.	MT
C.	**Digitalization of Retail Payments**	
12.	Conduct financial education campaigns and strengthen the supervision of the digital finance sector.	**ST**
13.	Develop an ecosystem of merchant acceptance networks, thus minimizing the conversion rate from electronic money to cash and promote the development of agency banking solutions at the level of banking players.	**MT**
14.	Develop the offering market for the digital finance service providers through innovation and promotion of partnerships (financial institutions—mobile money providers).	**MT**

15.	Digitalize people's payments to major billers and the government.	**ST**
16.	Promote/disseminate the regulatory texts of the BCEAO in collaboration with the Professional Association of Banks and Financial Institutions (PABFI) and the Professional Association of Decentralized Financial Services (APSFD.	**ST**
17.	Create/participate in working groups on the development of digital finance.	**ST**
D. Agriculture Finance		
18.	Promote the adoption of agriculture insurance by linking insurance to credit granted through public interventions mechanisms such as FNDA, FNM-agriculture line of credit, etc. In addition to strengthen AMAB capacities via technical assistance in developing innovative products such as index insurance.	**S-MT**
19.	Enhance the supply of agriculture finance by banks and MFIs through a Partial Portfolio Credit Guarantee Scheme [PPCG] dedicated to the agriculture sector. The PPCG will use eligibility criteria which bring flexibility and offer the possibility for the government to define criteria considering its priorities in supporting producers and MSMEs.	**S-MT**
20.	Conduct a readiness assessment for the warehouse receipt system. The readiness assessments will assess the commodities likely to be used; the potential users of the system; warehousing industry; financial institutions; Institutional capabilities and the financial viability of a WRS.	**ST**
21.	Strengthen supply of agriculture finance by MFIs and banks and set up the conditions for its sustainable expansion by: providing them technical assistance in agriculture finance and digital finance to expand their reach in rural areas.	**ST**
18	Strengthen demand [producers/agri-MSMEs] for agriculture finance by: i) improving the professionalization of producers' organizations through the establishment of a rating system and trainings; ii) a targeted financial education campaign for agricultural stakeholders; iii) providing business development services to agri-MSMEs in financial management	**MT**

Note: MT = medium term; ST = short term.

Introduction

i. **This report focuses on the Beninese financial sector by identifying the scope and penetration of specific activities such as banking, microfinance, retail payments, and agriculture finance and** the challenges of effectively regulating and supervising such activities, with recommendations aimed at ensuring their financial soundness and achieving regulatory sustainability.

ii. **The report is organized as follows:**

- Chapter I provides a brief overview of the activities of the banking sector, its contribution in financing the economy, financial situation and impact on financial stability.

- Chapter II provides in detail the current state of the microfinance sector, the challenges and threats that may limit its growth and contribution to the development of the real economy, with recommendations to go forward.

- Chapter III consists of a diagnosis of the retail payment ecosystem and identifies several recommendations to help increase financial inclusion in Benin.

- Chapter IV provides an overview of the current government interventions to facilitate access to credit in the agriculture sector, the enduring constraints which limit access to and the attractiveness of the private sector, and suggestions to crowd in further private sector financing.

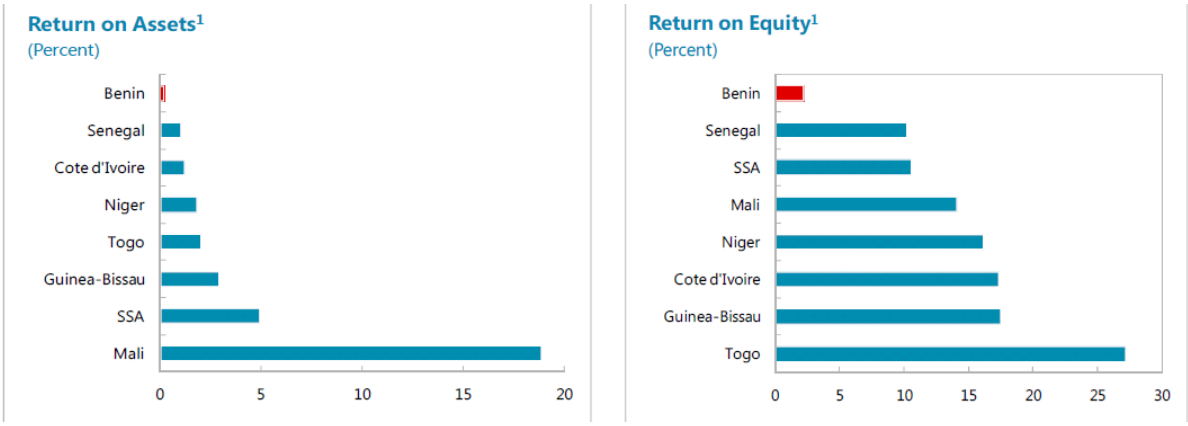
BANKING SECTOR OVERVIEW

CHAPTER 1: Overview of the Banking sector in Benin

1. **Banks dominate the financial sector in Benin, accounting for over 90 percent of total assets with persistent problems with nonperforming loans (NPLs).** Total bank assets are estimated at CFAF 3,442 billion as of June 2017. Of the 15 banks[4] in operation, 4 of the largest banks are pan-African**.** The number of branches reached 208 at the end of June 2017. The banking sector is characterized by high NPLs with a ratio of 20.3 percent (BCEAO 2016), which is among the highest in West Africa Economic and Monetary Union (WAEMU) countries. IMF (2015) reported that reducing Benin's NPL to the WAEMU average level is estimated to be able to raise private credit growth by about 4 to 6 percentage points.

2. **The banking sector in Benin is lagging behind the WAEMU averages in terms of performance and shows vulnerabilities.** Indeed, banks' capital adequacy is at 8.6 percent (BCEAO 2016) (end-June 2017), just above the 8 percent minimum. While banks' NPLs are among the highest in the WAEMU, the profitability indicators such as return on assets (ROA) and the return on equity (ROE) are also among the weakest in the WAEMU.

Figure 1.1: Benin banking sector profitability compared to WAEMU countries



Source: IMF (2015) Benin selected issues.

3. **The banking sector is exposed at several levels to the State.** Indeed, government securities account for about 45 percent (IMF 2015)[5] of the banking system's loan asset (2014/15). Beninese banks have increased holdings of government securities by CFAF 150 billion over 2015/16. The main reason is that government bonds pay about 6 percent a year and they can be used as collateral for refinancing at the Central Bank of West African States (BCEAO) at 2.5 percent. Thus, banks' appetite for government securities is increasingly growing as well as their direct exposure to sovereign risk. Exposure to the government in a shallow financial market such as that of Benin amplifies risks and vulnerabilities.

4. **Beninese banks lend to the dominant sector of the economy (services; see Figure 1.2) and to a small number of customers, exposing them to loan concentration risk.** The industry sector that generally accounts for formal businesses is the sector where Benin's share of credit is below the

[4] The 15 operating banks are Orabank Benin; Bank of Africa Benin (BOA); Ecobank Benin; Banque Internationale du Benin (BIBE) ; UBA Benin ; Diamond Bank; Société Générale Benin ; Banque Sahelo-Saharienne pour l'Investissement et le Commerce (BSIC) ; Banque de l'Habitat du Benin (BHB) ; Banque Atlantique Bénin (BABN) ; CCEI Bank; BAIC; CBAO; Coris Bank; and BGFI Bank Benin.

[5] This penetration rate is expressed in relation to the total population of the country.

WAEMU average. As aforementioned, commercial banks have less appetite to lend to private businesses. The main reasons raised by banks not to extend credit beyond a select customer base are the lack of creditworthy investment projects and weaknesses in the legal and judicial environment.

5. **The quality of credit portfolio remains one of the most degraded in the WAEMU region.** High levels of NPLs have a negative impact on loans granted by banks in particular to the private sector. The NPL ratio is estimated at 20,3 percent and is one of the highest among WAEMU countries, the average being 13,5 percent. The current situation calls for the development of NPL strategies at the banking sector level and a close monitoring by the authorities (Commission Bancaire and BCEAO).

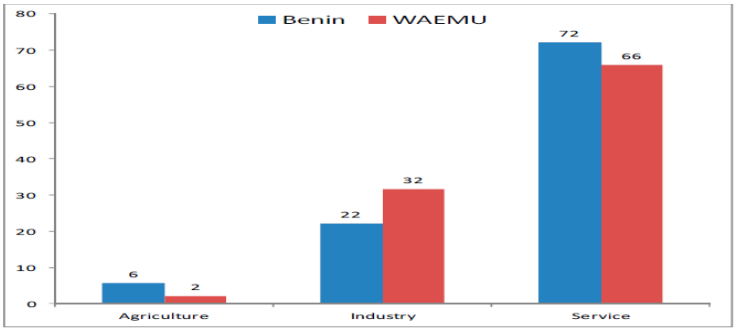
6. **After several years of receivership, a problematic bank has been merged with a pan-African bank,** while the restructuring of another bank was under way at the end of 2017 and was expected to require the government to assume its NPLs. This approach may highlight some flaw in the crisis management and resolution framework as this bank is neither a state-owned bank nor a systemic bank.

7. **Concentration of loans is high, mainly in the commerce sector, and it is closely related to trade with Nigeria.** This concentration makes banks' assets vulnerable to the current volatile environment of the Nigerian economy.

8. **In addition, rising exposure to government debt creates sovereign-financial links that would generate a negative feedback in case of fiscal troubles or tightened liquidity conditions**. Indeed, the BCEAO's accommodative policy stance has facilitated an increase in credit growth and banks' investment in government paper. As mentioned, government securities accounts for approximately 45 percent of the banking system's loan asset and Beninese banks have dramatically increased holdings of government securities over the period 2015-16. The main reason is that government bonds pay about 6 percent a year and they could be used as collateral for refinancing at BCEAO at 2.5 percent. Thereby, banks appetite for government securities is increasingly growing their direct exposure to sovereign risk as well. Such exposure to the government in a shallow financial market like Benin's amplifies risks and vulnerabilities.

9. **The Beninese case raises the issue of the consistency of policies at the regional and country levels, and the extent to which this may spread to the region via inflation and sustainability of currency the fiscal imbalances of a particular country**. The issues would not reach crisis levels until BCEAO stops rediscounting those bonds or start imposing higher cuts to effectively increase borrowing costs when banks do repos at the BCEAO. Such a measure would seem to be an option to rein in the incentives to increase exposure to government by lowering the spread (a likely spillover effect would be to increase the borrowing costs of the government too).

Figure 1.2: Sectorial distribution of bank loans



MICROFINANCE SECTOR

CHAPTER 2: State of the Microfinance Sector — Threats and Recommendations

10. The analysis of the microfinance sector in Benin has provided the following key findings:

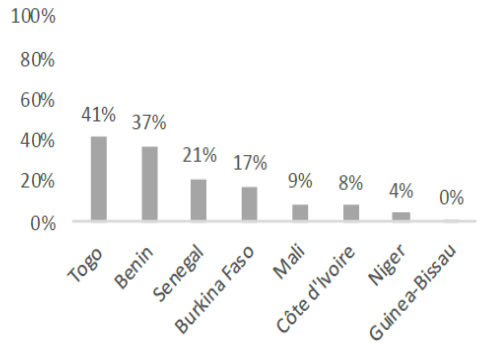
- The microfinance sector in Benin plays a key role in financial inclusion of individuals as it reaches double the population of the banking sector with 2.2 million clients/members (ANSSFD 2017).
- The country is one of the few in the WAEMU zone where no greenfield-type microfinance institutions (MFIs) intervened. The only foreign-owned MFI owned by a foreign investor is FINADEV, whose sole shareholder is the investment fund, ECP Africa Fund III PCC.
- Several MFIs established partnerships with mobile money operators to offer cash transfer (person-to-person [P2P]) and payment services to their clients, and two institutions applied for e-money issuer license.
- The microfinance sector in Benin is composed of over 600 institutions. However, of the institutions operating in the sector, only 100 MFIs hold a license issued by the Ministry of Finance, and the remaining are informal savings and credit institutions. These significantly numerous unauthorized institutions provide loans and collect deposits from the public. IMF (2016) estimated that the deposits collected by unauthorized MFIs are about 0.5 percent of GDP.
- Benin's microfinance sector is exposed to risks that threaten its stability and could compromise its growth. Shortcomings are recorded in terms of governance, financial and accounting management, internal control, and credit processing of MFIs. In the formal microfinance sector, many MFIs continued to operate despite operational and performance anomalies. Indeed, the overall quality of the credit portfolio in 2016 was 7 percent (ANSSFD 2017), largely above the BCEAO standard set at 3 percent. Also, the growth of the sector could be undermined by the low profitability. In addition, the slow cleaning up of unauthorized MFIs since the 2010/11 crisis is worrying. Since the Investment Consultancy and Computering (ICC) crisis, fewer than 15 institutions (ANSSFD 2017) have been closed by the microfinance supervisor authority.
- Transparency, fair and respectful treatment of clients, and mechanisms for complaint resolution emerge as the Client Protection Principles that resonate most as priorities for microfinance client protection.

2.1 State of the Microfinance Sector in Benin

2.1.1 Microfinance is a key sector for financial inclusion

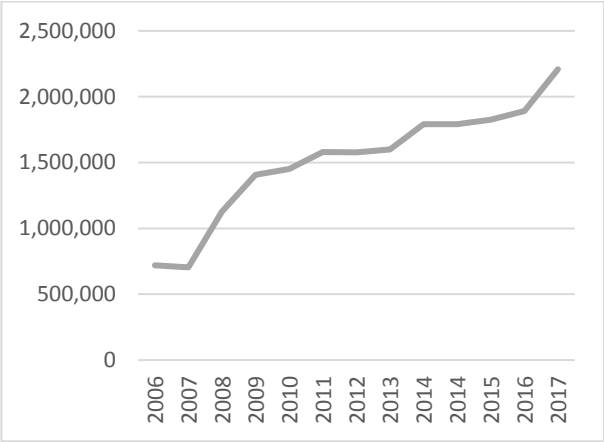
11. **The microfinance sector serves a large segment of the Beninese population**. About 37 percent of adults in Benin hold an account with an MFI, the second-highest penetration in the WAEMU zone (see **Error! Reference source not found.**). The sector reaches almost double the population served by the b anking sector with approximative 2.2 million clients/members (Consortium Alafia 2017) in 2016 through 697 points of services. In 10 years, the number of clients/members served by MFIs tripled.

Figure 2.1: Percentage of adults with MFIs account



Source: FAS, WDI 2015 team analysis.

Figure 2.2: MFIs clientele evolution in Benin



Source: ANSSFD 2017.

12. **Most microfinance customers are women, and they are increasingly urban**. Women remain most of the users, but the percentage has steadily declined from 66 percent in 2012 to 59.4 percent in 2016. As for the geographical distribution of customers, a majority remained urban and varied between 57.9 percent and 62.7 percent for 2012–2016.

13. **The sector consists of a diverse range of institutions, of widely varying size and legal status.** In total, 100[6] MFIs referred to as decentralized financial systems (SFD) in the WAEMU area are licensed to operate in Benin. Four different legal categories are authorized: financial cooperatives, limited companies, credit associations, and nongovernmental organizations (NGOs). The Beninese microfinance sector is characterized by the absence of greenfield[7] institutions (CGAP 2014).

Box 2.1: Institutional Types of MFIs in Benin

Financial cooperatives: These institutions are not-for-profit financial institutions owned and operated by their members to serve and protect members' interests. In Benin, financial cooperatives can be stand-alone entities or part of a federated network of financial cooperatives that share services and branding and benefit from economies of scale such as the Federation of Savings and Credit Unions (*Faitère des caisses d'épargne et de crédit agricole Mutuel,* FECECAM) with 96 entities federated and FENACREP with 67 federated.

Limited companies: These institutions are incorporated as limited company with capital, such as FINADEV.

Credit direct associations: These institutions focus on credit as the core of their operations, without linking it to the constitution of prior savings. The resources come from lines of credit made available by private donors or foundations and banks. This category includes institutions such as PADME, Association for Market Solidarity of Benin (ASMAB), and VITAL FINANCE.

NGOs: These institutions carry out microfinance activities in disadvantaged areas that support grassroot population initiatives.

Note: Informal savings clubs, including tontines (type of rotating saving and credit associations) and village saving and loan associations (VSLA), are not legally recognized as MFIs in Benin. Most operate with an informal structure.

Source: Ministère des Finances du Bénin. https://www.finances.bj/thematiques/economie/microfinance/

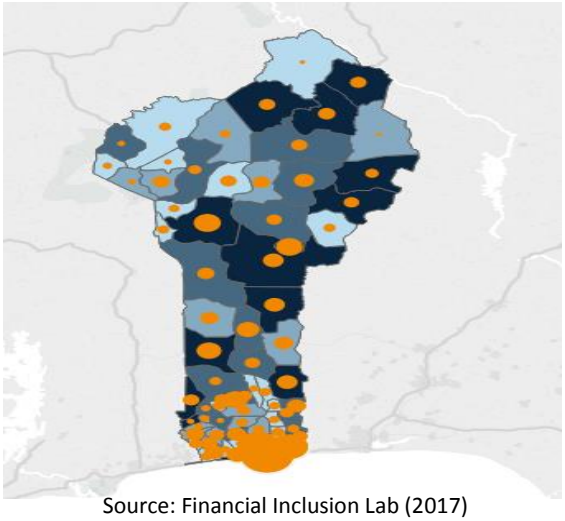
[6] ANSSFD as of December 2017.

[7] The greenfield MFIs which this report focuses on are in most cases owned by foreign entities (that is, the controlling owners are not residents of the African countries in which those institutions operate), and a substantial number of them are committed to establishing a deep retail banking presence in these countries including the creation of extensive branch networks. As our empirical results show, the strategy has had implications for both the growth and operating performance of those MFIs relative to other MFIs operating in the same markets.

14. A small number of MFIs dominated the microfinance sector in Benin. As of July 2017, the five largest MFIs in the country (FECECAM, PADME, PEBCo, FINADEV, and VITAL FINANCE) accounted for 75 percent of the total deposits; 71 percent of outstanding loans portfolio, and 65 percent[8] of clients. As of December 2017, the country has 18 large MFIs[9] representing 90 percent of the sector, an increase compared to 2016 where 16 institutions were considered large representing 86 percent[10] of the sector.

15. While MFIs operate in most regions of the country, many points of services are concentrated in the southern coastal areas. Several factors are likely to contribute to these outcomes, including proximity to the capital and the coast, agglomeration effects (the population density is high in the south, where 57 percent [World Bank Group 2017a] of the population can be found), and informal trade with Nigeria**.** There are approximately 10.48 MFIs branches or outlets per 100,000 adults in Benin, which is more than the double of the figure for banks.

Map 2.1: MFIs branches distribution in Benin



Source: Financial Inclusion Lab (2017)

2.1.1.1 Offering a diverse range of financial services and products to individuals and MSMEs.

16. **The microfinance sector offers a range of financial services.** The sector offers a full range of products and services, from basic transaction services to a variety of savings, microinsurance, and instant money transfer between cashier and credit products. MFIs use a range of different delivery channels to bring their services closer to clients, including branches, roving MFI staff to serve clients directly particularly for savings known as "SUSU collector" and mobile money through partnerships with mobile network operators (MNOs), while others plan to issue their own e-money. For microinsurance, some MFIs have also established partnerships with insurance companies, while others, owing to the *Conference Interafricaine des Marchés de l'Assurance* (CIMA) regulation on microinsurance, have established their own insurance company.

17. **MFIs offer a large range of savings products to their clients/members.** Most of the MFIs offer deposit accounts. Depending on the institution, these deposit accounts pay interest when a minimum balance is maintained in the account. Most MFIs also offer term savings accounts with an average

[8] ANSSFD (2017) statistics on the sector 2016.

[9] Large MFIs are defined in the microfinance law under Article 44 in the WAEMU as MFIs having an outstanding loans or deposits of at least CFAF 2 billion.

[10] Benin Ministry of Finance webpage consulted on January 25, 2018.

interest rate of 5 percent over a one-to-five-year period. Dedicated savings products for youth are also offered in the market. More and more MFIs offer a tontine-inspired savings product where the deposit is collected by roving MFI staff with the client on a daily, or weekly, or monthly basis.

Box 2.2: Leveraging Tontine in the Formal Microfinance Industry

In Benin, the *Cooperative pour la Promotion de l'Epargne et du Crédit* (CPEC) decided to create its own team of Susu collectors to provide doorstep banking in rural areas. "Susu," meaning "small-small," is one of West Africa's oldest methods for people to informally save small amounts of money. These private Susu collectors go door-to-door, collecting daily savings, mainly from low-income populations. The MFI incorporated Susu-style collectors into their team after a year of developing their business model. As of October 2016, CPEC's Susu collectors are serving 9,607 clients, who have opened over 26,000 accounts. Clients are opening multiple accounts to save toward different goals.

Source: UNCDF 2017. MicroLead Handout VSLA

18. **MFIs supply a range of credit products, foremost of which are short-term products designed for the trade sector.** Credits are mainly short-term with 65 percent (BCEAO 2017) of loans having a maturity of less than 12 months. The time between the loan application and the granting varies according to the institutions from one week to one month. In general, credit renewal occurs within the same time frame. In 73 percent of instances, credits are granted to the trade and service sectors. The agricultural sector accounts for about 15 percent of the loans portfolio, 2 percent for crafts, and remaining for consumption. MFIs' association recognizes that loans registration per sector is done by loan officers and to some extent with limited consideration of the different economic sector. Thereby, this distribution is an approximation. The MFIs' association considers the share of the loan portfolio dedicated to agriculture higher, signaling the need for institutions to strengthen the capacity of for their loan officers. FECECAM, the largest MFI in Benin, had a growing agriculture lending portfolio which stood at 30 percent in 2016, 23 percent in 2015, and 17 percent in 2014. In addition, MFIs operating in urban areas have a growing portfolio for consumer credit (school fees, employees) and for liberal professions.

19. **MFIs offer a variety of loan products tailored to meet the needs of their clients.** Medium and small MFIs mainly provide loans to groups or individuals backed with nontraditional collateral (sewing machine, and so on). Large MFIs have specific products for agriculture (inventory credit, commercialization of agriculture production, micro-leasing) and for women. In addition, their loans are backed with the following types of collateral: personal guarantees (group caution for group lending, individual caution, and so on); financial guarantees (credit guarantees, security deposit, insurance, and so on); and materials guarantee constituted by the non-possessory pledge (pledge on vehicles, inventory, professional equipment, land title, the establishment of an agreement to sell land in case of non-refund of credit). Overall, these collateral practices of MFIs do not fully comply with the provisions of the OHADA Collateral Registry.

20. **The average amount of a credit depends mainly on the size of the MFI, its location, and the activity to be financed**. Large institutions have a greater room for maneuver, offering credits up to several million. Most MFIs operating in rural areas offer limited amounts of credit, below CFAF 500,000, thereby contributing to the limited financing of agriculture, which nevertheless requires significant credits. FECECAM is one of the rare MFIs that grants credits of several million francs for rural economy (farming and nonfarming activities).

21. **Large MFIs have specific products for micro, small, and medium enterprises (MSMEs) and refinancing of medium and small institutions.** However, the definition of MSMEs' loans differ from one institution to another. FECECAM has a refinancing loan for financial cooperatives part of their federation

and other MFIs. The entities out of the federation the loan is evaluated based on their outstanding credit and the quality of their portfolios. Box 2.3 provides an overview of the main loan products of FECECAM. Most MFIs offer dedicated individual or group loans to women combined with financial education.

Box 2.3: Overview of FECECAM credit products to individual, groups, and MSMEs

The loans offered by FECECAM range from CFAF 20,000 to CFAF 30 million and include the following types of loans:

Short-term loans: • Very small credit to women and men **(TPCF/TPCH)** • **Credit with education (CEE)** • **Agriculture credit to rural women (CAFER)** • **Credit to women in trade (CFC)** • **Inventory credit (warrantage)** • **Agriculture, livestock, and fishing credit** • **Credit for commercialization of agriculture outputs** • **Consumer credit**	Application fee: CFAF 500 with an interest rate of 1.5 percent per month Credit analysis fee: 1 percent of the capital with a minimum of CFAF 1,500 Interest on late payment: 2 percent per month (maximum 12 months) Collection commission: CFAF 3,000
Medium—and long-term credit	Application fee: CFAF 500 with an interest rate of 1.5 percent per month Application analysis fee: 1 percent of the capital with a minimum of CFAF 1,500 Late payment interest: 2 percent per month (maximum up to 12 months) Collection commission: CFAF 3,000
Credit to MSME:	Application fee: CFAF 500 with an interest rate of 19 percent per year Application analysis: 1 percent of the amount granted Microenterprise loan: CFAF 30,000 to 500,000 Small-enterprise Loan: CFAF 500,000 to 3,000,000 Medium-enterprise loan: CFAF 3,000.000 to 30,000,000
Credit to microentrepreneur (CEM):	Application fee: CFAF 500 with an interest rate of 19 percent per year Application analysis: 1 percent of the amount granted Conditions: Hold a savings account for more than three months and constitute a prior saving of at least 10 percent of the amount of credit requested. Beyond CFAF 200,000, physical collateral is required. The minimum amount of credit is CFAF 20,000 and the maximum amount is CFAF 5,000,000.
Credit for prefinancing of tendering contracts:	Credit to subcontractors (government and private companies) Interest rate: 19 percent per year
Credit to civil servant:	Credit to civilian agents, civil servants, and military agents Interest rate: 12 percent per year

Huber, C (2015) Rapport Due Diligence Faitière Des caisses d'Épargne et de Crédit Agricole Mutuel du Bénin

22. **Several MFIs have established partnerships with mobile money operators to offer cash transfer and payment services to their clients, and two institutions applied for e-money issuer license.** MFIs have established partnership with the two mobile money operators in the country (MTN Money and Moov), mainly for P2P transfers, and to a lesser extent for "second generation" products (e.g.: loan

reimbursements). Mobile money services are available not only to account holders, but also to the public. This initiative broadens MFIs' access to a base of potential new customers, as there are 5.52 million mobile money clients in Benin. ASMAB, a medium size MFI as of December 2017, had an e-money issuer license. This institution plans to establish partnership with other small- and medium-size MFIs to maximize the use of this license. FECECAM, the largest MFI in the country, applied for the license. It will offer e-money through its own network.

23. **MFIs are in partnership with instant money transfer companies as well.** Medium and large MFIs have partnerships with instant money transfer companies such as MoneyGram and Western Union. FECECAM also has an instant transfer among their branches. However, the take-up and income of this service has dropped since the blazing development of mobile money services.

24. **MFIs built partnership with insurance companies.** Their distribution partnerships allow them to extend microinsurance services, to the agricultural sector. Indeed, several MFIs established partnerships with Mutual Agriculture Insurance of Benin (*Assurance Mutuelle Agricole du Benin,* AMAB). Since 2015, FECECAM can operate a microinsurance company. The MFI created an autonomous company (CIF-V-Benin) and offers different coverage: credit, funeral, and so on.

2.1.1.2 In spite of promotion efforts and the enhance regulatory and supervisory framework

25. **The GoB implements various actions designed to promote the microfinance sector, particularly in terms of taxation**. The GoB has set up two exemptions from taxation for MFIs and their customers. According to the tax regulations applicable to MFIs in the WAEMU, savings and credit cooperatives benefit from an exemption from all direct or indirect taxes or fees relating to their collection operations, savings, and credit distribution. Their members are also exempt from all taxes on shares, income from their savings, and interest payments on credits they have obtained from the institution. On the other hand, the MFIs constituted in the form of capital companies are subject to the common law tax of each of the WAEMU countries. For all types of MFIs, the GoB has implemented an exemption from the Financial Activities Tax on refinancing as well as the exemption from taxes on the credit to their customers.

26. **The state also has a national microfinance strategy (2015–2019) and has established the Directorate of Financial Inclusion and Economic Empowerment (DIFAE) to facilitate the implementation of the strategy.** The strategy's development objective is to promote the sustainable access of a majority of poor and low-income households and microentrepreneurs to a wide range of financial services by 2025 throughout the country through sustainable MFIs that operate in a healthy sector and fully integrated into the financial system. The strategy highlights the need to connect with rural development policies or strategies, urban development, micro and small enterprise promotion, and poverty reduction. Thus, four main components have been identified:

- Cleanup of the microfinance sector;
- Establishment of a professional microfinance sector;
- Promotion of financing of agriculture and innovative products;
- Strengthened MFIs' access to adequate financial resources.

27. **The GoB initiated actions to develop a financial inclusion strategy for 2019 to be led by the DIFAE.** A finscope supply study will be conducted in 2018. This new financial inclusion strategy will

capitalize on the achievements of microfinance strategy and address consumer protection issues in financial services.

28. **In 2007, the GoB set up the National Microfinance Funds (FNM). Its mission is to "strengthen the financial and operational capacities of MFIs to permanently satisfy the needs of local financial services expressed by their beneficiaries, which are those who do not have access to the traditional financial system".** The FNM has three main responsibilities: facilitating MFIs' access to adapted financial resources, strengthening the capacity of MFIs to develop innovative products with a social and technological vocation, and strengthening the governance and sustainability of FNM actions. The FNM uses various instruments including lines of credit, refinancing mechanisms, capacity building and institutional support, and the facilitation fund.

Table 2.5: FNM instruments to support the microfinance sector

Products	Cost of funding and interest rate charged to beneficiaries	Cumulative disbursement (CFAF)	Reimbursement rate (%)	Numbers of MFIs
Lines of credit				
Microcredit for the Very Poor (MCPP))	MFIs' cost of funding: 2% for the first phase and 3% for the second phase. Maturity: 3–5 years interest rates charged to clients 8% per year for the first phase and 10% per year for the second phase	61,506,790,136	79.4	14
MCPP— New Generation		7,074,800,000	79	10
MCPP— supported by BOAD		7,074,800,000	84.6	
MCPP— supported by PIAMF		11,921,100,750	75.3	
MCPP— supported by BADEA		1,069,968,000	85	
PIAD-AGR (Intermediary program to support the development of income-generating activities)	MFIs' cost of funding: 4% for 12 months Interest rate charged to clients 10% for 12 months Credit amount: CFAF 50,000–100,000	4,483,633,000	85.9	9
Credit for market users (CUM))	MFIs' cost of funding: 3% for 12 months Interest rate charged to clients 10% for 12 months	1,000,000,000	70.9	
Funding targeting PAFILAV beneficiaries (FC-PAFILAV)	Cost of funding: 5% maturity 36 months Conditions to beneficiaries: reimbursement link to beneficiaries' cash flow calendar	1,255,375,000	75.3	
Funding targeting PACER beneficiaries (PACER)	Cost of funding: 5% maturity 36 months Conditions to beneficiaries: reimbursement link to beneficiaries' cash flow calendar	156,250,643	88.9	
Refinancing				
Strengthening MFIs financial capacities (RCF)	Cost of funding: 5% maturity 15 to 36 months Conditions to beneficiaries: MFI own conditions	27,226,000,000	92.5	40
Financing for Agricultural and rural activities (FARR)	Cost of funding: 5% maturity 36 months Conditions to beneficiaries: 10% per year for production and investment and 12% per year for transformation	8,615,000,000	85.4	20

Products	Cost of funding and interest rate charged to beneficiaries	Cumulative disbursement (CFAF)	Reimbursement rate (%)	Numbers of MFIs
Financing for micro and very small enterprises (MTPE)	Cost of funding: 5% maturity 60 months Islamic finance conditions to beneficiaries	1,149,770,638	33.8	5
Capacity building and institutional support				
Trainings	Partnership agreement with the FNM on specific capacities development needed to support the MFIs' growth	1,369,289,759		
Institutional support		1,731,721,094		
Facilitation funds				
	Interest rate charged to MFIs by banks is 5% and charged to MSMEs 10% Short and medium-term loans	3,030,460,000		6

Source: FNM 2017.

29. **In accordance with the 2012 microfinance law, MFIs have established their professional association — namely, the Professional Association of Decentralized Financial Services (APSFD)-Benin, formerly known as the Alafia Consortium**. APSFD-Benin is well established and recognized by all the industry players. Its activity revolves around three programs: the defense of the interests of its members and the promotion of the sector, support for the professionalization and development of members, strengthening of the institutional capacity of the association, and development of cooperation among the members. Each year, about 50 activities are defined within these programs. The association plays an important role in providing capacity building to MFIs' staff, elected bodies. It conducts more than 50 training every year.

30. **APSFD-Benin is dependent on subsidies, which accounted for 65 percent of its budget in 2016**. That same year, APSFD's resources amounted to CFAF 258.6 million, of which CFAF 38.5 million came from the MFIs' contributions, CFAF 50.7 million from the income generated by the activity, and CFAF 169.3 million from subsidies. When an organization relies on grants, the budget forecast exercise is difficult and unpredictable. In 2016, actual resources accounted for only 69 percent of the estimated budget.

31. **The regulatory and supervisory framework has significantly been strengthened to clean up and consolidate the sector.** The microfinance sector is governed by a new law on microfinance promulgated in Benin on March 21, 2012, under No. 2012-14. The new legal framework is expected to further consolidate the sector and reduce the number of MFIs over time. Under the new law, the BCEAO must approve any new license issuance and is also in charge for recommending the revocation of licenses. Box 2.5 provides a comparative analysis of the previous law (PARMEC) and the new microfinance law of 2012, which now regulates microfinance in the entire WAEMU zone.

Box 2.4: Comparison between the PARMEC law and the new microfinance law

The member states of the West African Monetary Union enacted a new microfinance law in 2007 to deal with several limitations of the original MF law enacted in 1994. Specifically, the new law intended to address lenient licensing requirements; the lack of an independent supervisory authority; and weaknesses in the prudential and reporting requirements. The major amendments included the following:

1. *An extension of the law to all microfinance institutions, irrespective of their legal form.* Previously, the law applied only to financial cooperatives.
2. *The establishment of a single licensing regime for three types of MFIs* (cooperatives, associations, and LLCs), with a requirement for the BCEAO to review and approve any new MFI licensing application.
3. *More stringent controls by the BCEAO.* Article 44 of the new law specifies that large MFIs (those with deposits or outstanding loans to a value in excess of FCFA 2 billion, or roughly US$ 3.4 million) must be supervised by the BCEAO and the Banking Commission.
4. *More stringent reporting requirements.* Article 44 of the new law requires MFIs to prepare and submit certified financial accounts and annual financial statements.
5. *Strengthened prudential ratios for MFIs in all categories*, with applicable sanctions.

CGAP summarized the changes as follows:

	Initial Law 1994	New Law 2007
Legal status for MFIs	Cooperatives only; Other types can obtain 5-year operation authorization from Ministry of Finance	Cooperatives, associations and LLCs
Licensing	Ministry of Finance only	Ministry of Finance with approval from the BCEAO
Prudential requirements	No solvency norms Annual financial statements	9 prudential ratios similar to banking norms; New accounting framework specific to microfinance; reporting - monthly indicator reports and certified annual statements for large MFIs; quarterly reporting for smaller MFIs; certified accounts required for large MFIs
Supervision	Ministry of Finance only	BCEAO via Banking Commission for large MFIs – Article 44. Ministry of Finance for others.

Source: World Bank Group 2018.

32. **Under the new microfinance law in WAEMU countries, the supervision of the sector involved the BCEAO, Banking Commission, and the Ministry of Economy and Finance through ANSSFD.** Established by decree in 2015, ANSSFD is a public institution with legal status, administrative, and financial autonomy, under the supervision of the Minister of Economy and Finance. Its mission is the prevention, supervision, and protection of the microfinance sector in Benin. ANSSFD is responsible for:

- Ensuring application of microfinance regulations;
- Examining MFIs' licenses applications and submit them to the Ministry of Finance;
- Ensuring the consolidation of the microfinance sector;
- Providing on-site and off-site inspections and permanent monitoring of the industry;
- Overseeing the entire microfinance sector, including the informal MFIs;
- Acting in liaison with the relevant structures at the closure of informal microfinance initiatives; and
- Updating the microfinance database by collecting processing, and disseminating statistical information on licensed MFIs

33. The WAMU Banking Commission and the BCEAO are in charge of

- approval and withdrawal of licenses of credit institutions;
- Control of credit institutions and MFIs;

- Administrative measures and disciplinary sanctions against institutions or responsible managers;
- Appointment of temporary administrators or liquidators of credit institutions.

34. **The Banking Commission and the BCEAO directly oversee and apply sanction to the large MFIs referred to in Article 44, and ANSSFD is responsible for the remaining MFIs**. Indeed, Article 44 of the law concerns all MFIs whose outstanding deposit or credit reaches at least CFAF 2 billion at the end of two consecutive years (Instruction 007-06-2010). In the case of Benin, 16 MFIs are covered and in accordance with the law, these MFIs must transmit all the performance indicators (profitability, portfolio quality, productivity, balance sheet management, and operations) and prudential norms to the BCEAO monthly. ANSSFD continues to oversee all remaining MFIs in the country and works in collaboration with the BCEAO. The law obliges MFIs not covered by Article 44 to transmit their indicators on a quarterly basis except for the liquidity and capitalization ratios that are communicated monthly. Fines can be imposed on MFIs that are late in complying with the submission of financial statements, but none has been levied thus far, implying lack of enforcement of the rules. As of July 2017, 72 percent (ANSSFD 2017) of MFIs transmitted in time their report to ANSSFD, with no sanction taken against noncompliant licensed MFIs.

35. **The new law includes provision for a tiered approach to supervision and off-site and on-site inspections**. The tiered approach is implemented according to the following five-level hierarchy: network-confederation-federation-union-credit union. Each higher level has internal supervision and control requirements over the lower level, conducts audits, and represents the lower-order entities at the next higher level. Each lower-level entity can belong to only one higher-level entity. The supervisory authorities carry out off-site inspection of the statistical and financial reports submitted by the MFIs. Following on-site supervision, a report is transmitted to the MFI along with recommendations.

2.1.1.3 The sector remains relatively small and fragile.

36. **The total value of the microfinance sector's assets almost tripled in 10 years.** Between 2006 and 2016, the total sector assets grew from CFAF 88.75 billion to CFAF 233.31 billion, which corresponds to a growth of 163 percent.

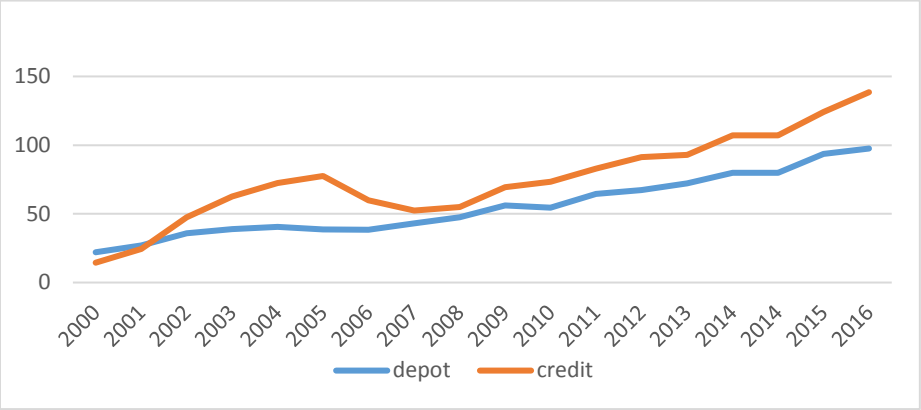
37. **Despite the important scope of its clientele, the microfinance sector weighs relatively small in the financial sector.** The financial sector in Benin is bank centric. The value of the microfinance sector's total assets stood at only 4.6 percent of GDP, much smaller than the total assets of the banking sector, which stood at 70 percent of GDP in 2016 (IMF 2017). The microfinance sector controlled only 6.5 percent of the banking sector's total assets, 9.6 percent of total loans, and 4.7 percent of total deposits (see Table 2.1).

Table 2.1: Weight of the microfinance sector compared to the banking sector

2016	MFIs	Banks	MFIs to banking sector (%)
Total assets (CFAF, billions)	233.31	3,594.56	6.5
Total deposit (CFAF, billions)	97.57	2,084.67	4.7
Total loans (CFAF, billions)	138.51	1,438.33	9.6

Source: BCEAO, ANSSFD 2016 data, team analysis.

Figure 2.3: Microfinance sector deposits and credit evolution (CFAF, billions)



Source: Data provided by ANSSFD 2017.

38. **Prudential norms and the financial indicators defined by the BCEAO for WAEMU countries are used to assess to financial performance of the sector.** This analysis is based on data provided by the MFIs' association (Consortium Alafia); the association members represent more than 95 percent[11] of the formal microfinance market in Benin. During 2012–2016, the performance of Beninese MFIs related to the prudential ratios was satisfactory. Table 2.2 illustrates the situation as of December 2016.

Table 2.2: Beninese microfinance sector compliance with prudential norms (percentage)

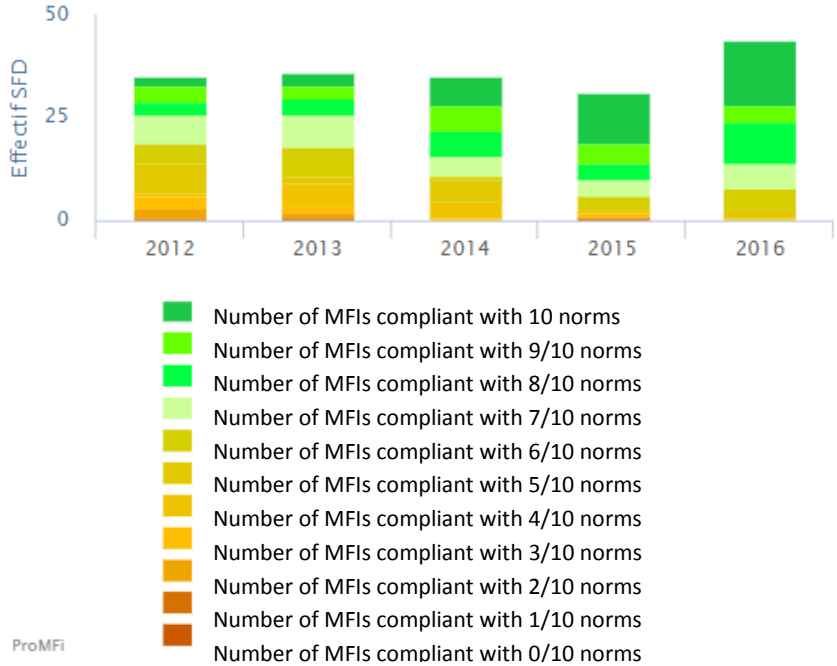
Prudential ratios	Norms	2012	2013	2014	2015	2016
Limitation of risks exposure	≤200	89.18	89.23	90.34	89.73	101.2
Coverage of medium—and long-term financing with stable resources	≥100	144.47	176.45	169.15	188.42	267.6
Limitation of loans to connected parties	≤10	15.26	9.3	11.72	8.32	6.7
Limitation of risks exposure to a single party	≤10	1.82	1.18	1.18	1.21	2.6
Liquidity ratio	≥100	103.9	108.17	109.17	112.59	107.6
Limit for nontraditional operations	≤5	0.16	0.23	0.71	0.49	0.2
Capital adequacy	≥15	17.75	19.83	20.55	22.39	18.6
Limit for equity finance	≤25	19.85	6.53	5.76	3.6	0.1
MFIs' financing of fixed assets and participation	≤100	61.55	54.41	50.99	48.06	96.1

Source: Consortium Alafia 2017a.

39. **The analysis of the sector's compliance with the prudential norms shows that 9 out of 10 ratios are complied with**. Over the last five years, MFIs have not been compliant with a norm that limits loans to MFIs' management and staff. Moreover, maintaining such high levels of deviations from the norms shows either a high degree of caution in making decisions or questioning the pragmatism of the norms established in the sector.

[11] 95% of market is in terms of assets/deposits and credit portfolio

Figure 2.3: Compliance with prudential norms



Source: Consortium Alafia 2017a.

40. **This global sectoral trend hides significant disparities among MFIs.** Norms that are difficult for MFIs to meet are capital adequacy, risk exposure to a single party, limitation of loans to MFIs management and staff, and financing fixed assets. The ratio on the coverage of medium—and long-term financing with stable resources confirms the general control of the investments made by the MFIs, and 10 MFIs did not meet this ratio. This situation also highlights MFIs' aversion for long-term financing. In 2016, 16 institutions failed to meet the limitation of loans to MFIs' management and staff's norm. As for the limitation of risks exposure toward a single counterpart, it is not adhered by 18 institutions. Ten MFIs were unable to meet the norm of equity financing in 2016, fourteen MFIs did not meet the fixed asset financing norm, and nine institutions faced liquidity problems and therefore did not meet the standard. Finally, 21 MFIs did not meet the capitalization norm, which represents a significant risk for business continuity. Figure 2.3 and Figure 2.4 show the state of compliance with the liquidity and capitalization standards of Article 44 MFIs in Benin. Six MFIs out of them were not able to meet the liquidity standard and five were not compliant with the capital adequacy ratio.

Figure 2.3: Liquidity ratio of Article 44 MFIs

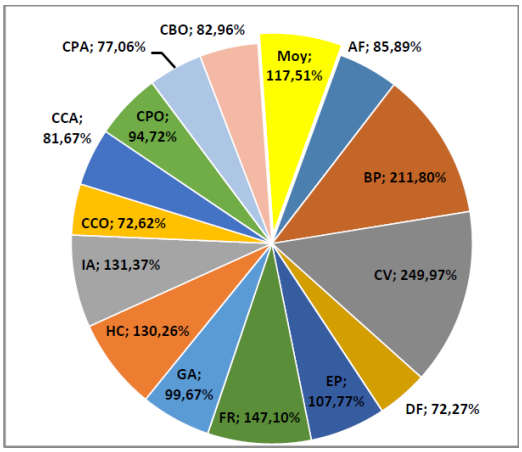
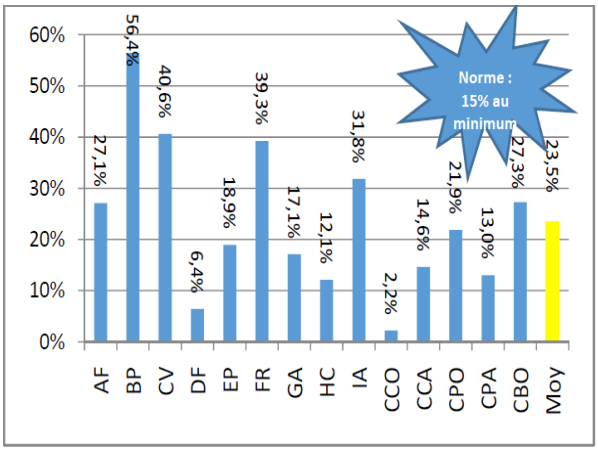


Figure 2.4: Capital adequacy ratio of Article 44 MFIs



Source: ANSSFD 2017.

41. **The BCEAO defines five main categories of quantitative financial indicators to regulate the activities of the MFIs: portfolio quality indicators, profitability indicators, balance sheet management indicators, productivity and efficiency indicators, and activity indicators**. This analysis focuses on the two categories that cause the greatest difficulty to the Beninese sector. In Benin, MFIs are struggling to meet the standards of portfolio quality and profitability. The low profitability of the majority of MFIs and the deterioration of the portfolio quality could undermine their growth and increases the risks in the sector.

42. **The Portfolio quality is assessed via the portfolio at risk (PAR), the provisioning rate, and the loss rate.** Table 2.3 presents the evolution of the portfolio quality of the microfinance between 2012 and 2016. During this period, the standard on portfolio at risk was not met. This ratio recorded improvement until 2015, when the trend was reversed, mainly due to the Nigeria crisis and small business eviction. The PAR is a key indicator considered by banks in the evaluation of refinancing applications from MFIs.

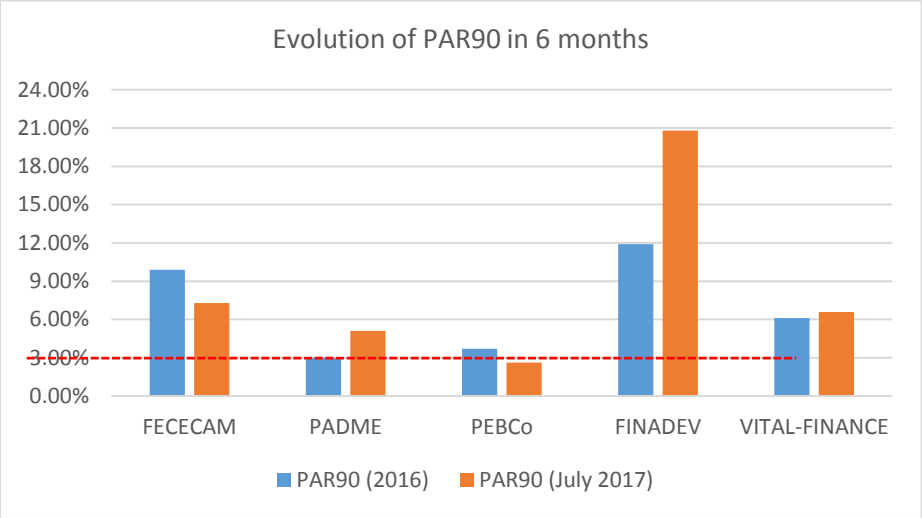
Table 2.3: Portfolio quality indicators (percentage)

	Norms	2012	2013	2014	2015	2016
30-day PAR (PAR30)	<5	7.76	7.64	7.25	6.84	8.96
PAR90	<3	6.15	6.14	5.59	4.99	6.8
PAR180	<2	3.29	4.17	3.62	3.38	4.25
Provision rate	≥40	64.38	68.94	62.26	60.87	58.19
Credit loss rate	<2	2.57	1.82	1.78	1.65	1.2

Source: Consortium Alafia 2017a.

43. **The portfolio of most MFIs is degraded**. **Only 4 MFIs meet the three standards established at 30 days, 90 days, and 180 days.** Figure 2.5 below shows the level of the 90-day PAR (PAR90) of the five largest MFIs between December 2016 and July 2017. Of the five largest MFIs in the country, only one MFI met the PAR90 indicator. Two credit-only institutions (PADME and VITAL FINANCE) and a microfinance company recorded a significant decline in their portfolio quality. FECECAM has made efforts to improve the quality of its portfolio, but the level remains high.

Figure 2.5: Evolution of the PAR90 for the five largest MFIs



Source: ANSSFD 2017

44. **An important factor affecting the quality of the loan portfolios is the lack of adequate credit history information on the borrowers in the system.** Benin is in the early stages of implementing a credit bureau. Few entities have begun to report information to the bureau. Therefore, information is not complete while initial reporting problems limit its quality/reliability. The process of building up the credit history database has also reportedly slowed down as the law requires financial institutions to get the consent of the customer to collect this information. In addition, MFIs pay fees (monthly contribution of CFAF 150,000; consultation fee of CFAF 600 if successful and CFAF 300 if not successful in gathering credit history data on the clients).

45. **The performance of profitability ratios is weak, and they are deteriorating from year to year.** From 2012 to 2016, none of the profitability indicators were met. In 2016, only eight MFIs met the ROE ratio, five met the ROA, two met the profit margin standard and the cost/income ratio, and only one met the operational self-sufficiency. Several factors contribute to this poor performance, in particular the cap on the global effective interest rate (TEG). The fact that the interest rate is capped at 24 percent for the sector does not seem to be favorable for MFIs to meet the profitability indicators established by the authority given their high transaction costs. Notwithstanding the legal status and the size of the institution, Beninese MFIs are struggling to comply with the profitability indicators set by the regulator.

Table 2.4: Profitability indicators of the microfinance sector in Benin (percentage)

	Norms	2012	2013	2014	2015	2016
ROE	>15	10.29	8.91	9.28	7.39	1.31
ROA	>3	1.71	1.6	1.87	1.58	0.3
Operational self-sufficiency	>130	113.85	112.08	113.4	109.22	103.32
Profit margin	>20	10.99	10.77	11.74	10.14	2.63
Operating coefficient	≤60	80.83	77.98	80.76	83.69	80.56

Source: Consortium Alafia 2016.

Figure 2.6: ROE of the five largest MFIs in Benin

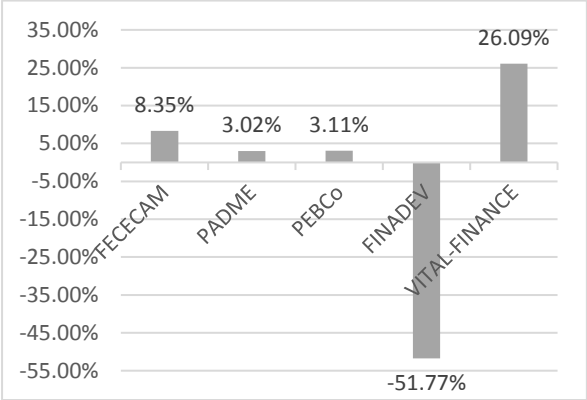


Figure 2.7: ROA of the five largest MFIs in Benin

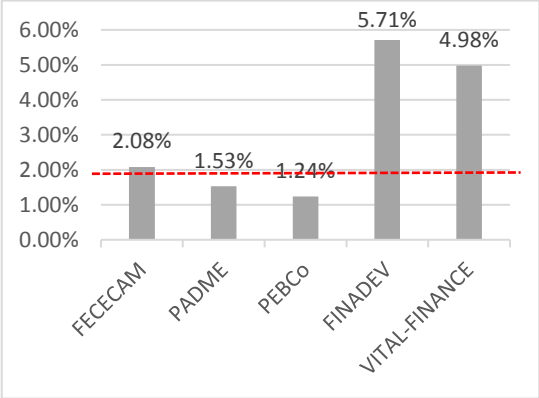
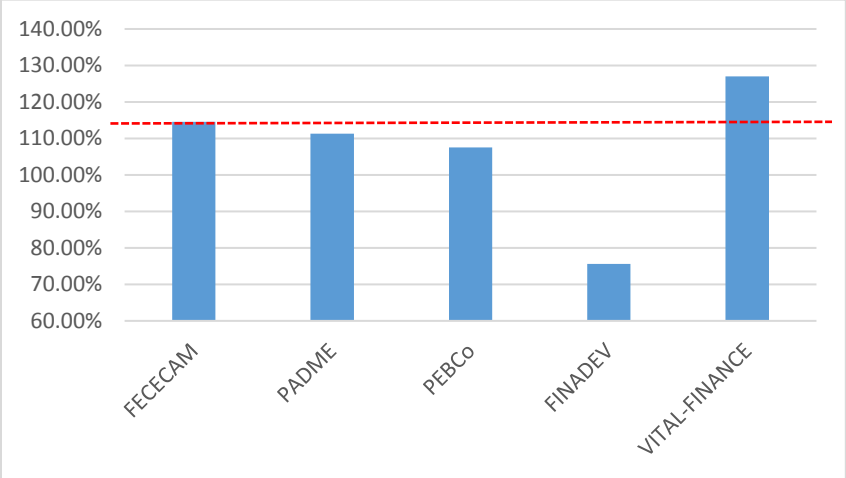


Figure 2.8: Self-sufficiency ratio of five largest MFIs in Benin



Source: Data provided by ANSSFD 2017.

46. **In 2017, the Ministry of Economy and Finance withdrew the license of four institutions.** Three institutions with licenses and one holding the old convention have lost the authorization to carry out the microfinance activity. Several factors contributed to these withdrawals, including activities which constituted a breach of prudential and indicator standards, as well as legal authorization. Indeed, in light of Law No. 2012-14 of March 21, 2012, only one form of authorization is required and allows the approval. Thus, the institutions holding the old convention must introduce the updated files for the transformation of their convention into approval. Two MFIs are under provisional administration.

47. Overall, the microfinance sector remains fragile. In many instances, the sector proves to not be compliant with prudential rules, and the number and weight of unauthorized MFIs are unknown even though they are collecting deposits from the public. The cleanup of the sector has been slow to date due to limited capacities (human, technical and tools, financial resources). The sector profitability is low, and the interest rate cap is not helping. Helms and Reille (2004) found that the imposition of interest caps on microfinance loans in the WAEMU resulted in MFIs withdrawing from more rural and remote areas and increasing average loan sizes to improve efficiency and returns. The Beninese microfinance sector seems to follow the same path with 62.7 percent (Consortium Alafia 2017a) of the clients living in urban areas.

2.2 Threats to the Beninese microfinance sector

2.2.1 Enduring challenges

48. **Alongside the formal microfinance sector, there is a large number of unauthorized MFIs which collect deposits and provide loans to the public**. In a census conducted in 2011, 495 unauthorized MFIs were totaled, far outweighing the 100 authorized MFIs. Their profiles are diverse: small local microfinance initiatives such as tontines that have somehow grown up; 194 village financial associations, of which only 127 were active in 2015; organizations assimilated to NGOs often with ambiguous activities, finally entities that had "convention" under the PARMEC law, a provision that no longer exists under the new law. The new microfinance law of March 2012 established a period of 24 months. They are present in both urban and rural areas. The 24 largest unauthorized MFIs served 181,000 borrowers and 301,000[12] depositors (IMF 2015). The unauthorized institutions offer savings products inspired by the traditional practices of tontines, investment solutions, and loan products. IMF (2016) estimated that the deposits collected by unauthorized MFIs are about 0.5 percent of GDP.

49. **Despite the crisis resulting from the collapse of ICC in 2010 — the best-known case of an informal institution —, the cleaning up of unauthorized MFIs is slow**. ICC collected an estimated amount of CFAF 161 billion of deposits from 150,000 to 200,000 individuals an estimated amount of CFAF 161 billion, against the promise of 160 percent interest return per year. Only 68,000 depositors have received a reimbursement of CFAF 8.3 billion. Since this collapse, the Government of Benin (GoB) set up an inter-ministerial committee in 2011 to clean up unauthorized MFIs. This committee is composed of several ministerial departments and actors of the sector. However, since the ICC case, less than 15 institutions have been closed. Furthermore, different interpretations of the relevant regulation and enforcement actions against one distressed MFI by the Committee triggered a court ruling against the national supervisory authority that prevented the MFI's closure, which in turn delayed other enforcement actions.

50. **Notwithstanding a well-defined supervisory arrangement**, **the supervision of MFIs remains challenging**. In 2017, the Banking Commission and BCEAO did not conduct on-site inspection of Article 44 MFIs. ANSSFD is responsible for inspecting on-site all remaining licensed MFIs in the country and performing the off-site examination of their financial statements. However, ANSSFD recognizes that they often conduct inspection every two years and for some institutions in the country it can be up to every five years.

51. **Limited capacities of the national supervisory authority continue to be challenging for the sector.** ANSSFD is involved in the licensing process of MFIs and their supervision. ANNSFD is based in Cotonou and all MFIs willing to apply for a license must travel and submit the application and the required documents in person. The recent microfinance law has tightened the licensing requirements, and the absence of the licensing authority in-country probably contributes to the prevalence of unauthorized MFIs and informal finance. In addition, ANSSFD lacks resources and has been unable to supervise all licensed and registered MFIs in the country effectively due to lack of capacity, both human and technical. Indeed, the agency has 30 staff (20 inspectors responsible for on-site inspections of all the 100 licensed MFIs and 10 administrative support staff)—all civil servants and thereby subject to relocation in another public department. Or it generally takes four to five years for an inspector to be fully trained and master his or her role. To put things in perspective, the regional Banking Commission

[12] This penetration rate is expressed in relation to the total population of the country.

oversees a total of about 130 MFIs in the eight WAEMU countries, while ANSSFD in Benin already has 100 licensed MFIs to monitor. Given ANSSFD current limited human and technical resources, coupled with the lack of appropriate salary and other job incentives (four inspectors are leaving in the first quarter of 2018), it will be difficult to see major improvements in the ability of ANSSFD in Benin to properly supervise all licensed MFIs and to clean up unauthorized MFIs without a proper support.

52. **Tiered approach supervision implementation has revealed significant weaknesses.** Indeed, such approach faces the limited capacities (expertise) of federations to handle the large number of MFIs operating in their network. These federations didn't receive proper training and tools to acquire the skills needed to fully deliver the mandate assigned to them.

53. **On the industry side, the weakness of MFIs' MIS remains their Achilles' heel.** The MIS of an important number of MFIs is not up-to-date and does not allow them to prepare and report their data consistently with the requirements of the supervisory authority and in real time, thus causing delays in reporting and decision-making. Enhancing their MIS is needed to improve their financial management and accounting system. In addition, the imperfection of the MIS also limits the involvement of MFIs in digital finance, since interfacing with mobile money operator systems is limited. In addition to the weaknesses of the MIS, the internal control system of significant numbers of MFIs is insufficient, for they lack adequate procedure manual and credit management tools. As a result, reliable data on the state and performance of MFIs are a challenge.

54. **In Benin, MFIs — and, particularly financial cooperatives — are also struggling as a result of governance weaknesses**. Governance weaknesses are exacerbated within financial cooperatives compared to other institutional types. The capacity of elected officials to effectively manage financial cooperatives remains limited, as elected representatives often have limited education and experience in microfinance. The governance challenge related to the weak internal control system is persistent in the sector and continues to be a major cause of MFIs' failure. A study conducted by the Consultative Group of Assistance to the Poor (CGAP)[13] (2013) revealed three main governance problems causing failure:

- **Serious weaknesses at the board level:** (a) board members who validated decisions without exercising appropriate oversight, including obvious fraud by shareholders or managers; (b) ineffective oversight due to collusion with fraudsters or to a lack of commitment and/or skills; (c) unclear role of the board in relation to managers, especially in cooperatives; (d) no change in board membership over a long period; (e) no validation of decisions at the General Assembly level; and (f) inadequate MIS and control mechanisms.
- **Lack of enforcement of regulatory requirements and MFIs' bylaws:** (a) prevent fraud; (b) comply with prudential requirements, such as loan ceilings and maximum percentage of aggregate principal amount of outstanding loans granted to managers and board members; and (c) protect savings, with little regard for the maximum amount of savings that could be used for lending.
- **Fraud committed by board members, shareholders, and/or managers such as** (a) managers and staff dipping into cash reserves for personal use; (b) granting favors to friends and family; (c) negotiating overpriced real estate acquisitions by the MFI; and (d) granting large loans to elected representatives and their relatives.

[13] Riquet, C., and C. Poursat. "Managing Failing Deposit-Taking Institutions: Regulatory Experience from Africa." CGAP, Focus Note No. 91.

55. **Compliance of MFIs with capital adequacy, profitability indicators, portfolio quality indicators remain weak and their liquidity tight.** Several years of implementation of the new law have revealed quite a few shortcomings, including the burden of the usury rate and the inadequacy of certain prudential regulations. MFIs of all sizes and institutional types struggle to be compliant with the prudential norms (liquidity and capital adequacy) and the profitability and portfolio quality indicators.

56. **Clients face transparency and fair practice challenges when dealing with MFIs.** Indeed, a study conducted by the Smart Campaign (2015) revealed that clients face the following challenges when dealing with MFIs in Benin: inability to differentiate licensed from non-licensed MFIs, difficulty in withdrawing their savings, predator collection of debt practices, lack of understanding of product costs and terms and conditions, no display of applied rates and conditions in branches, paperwork available only in French, unclear recourse mechanisms, etc.

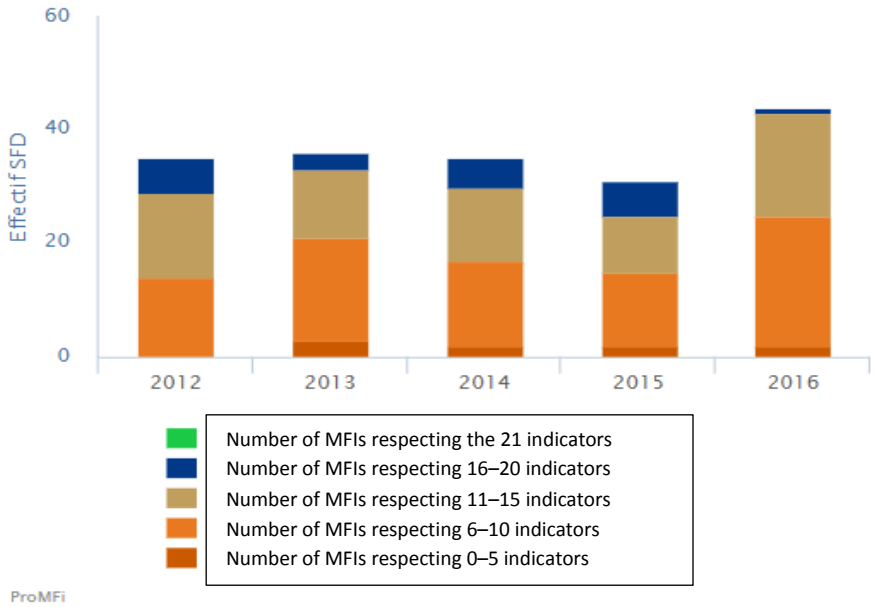
2.2.2 Exposing the sector to risks that threaten its stability and could compromise its growth

57. **The proliferation of unauthorized institutions collecting deposits and lending to the public poses a significant trust and reputation risks in the microfinance sector.** These institutions collect deposits from the public without any prudential rules and preliminary conduct of market supervisions, and contribution to any form of deposit insurance mechanism. This represents an important financial consumer protection risk. This requires authorities' attention in order to preserve the gains made to date on financial inclusion.

58. **The collapse of unauthorized institutions has a negative effect on the financial sector but also on the country in general**. Indeed, the fallout from the ICC severely affected the formal microfinance sector in the following ways: clients and the public lost confidence in MFIs and no longer perceive them as a safe place to hold savings or borrow. In addition, it causes major social tensions and pressure on public authorities. It is critical to prevent any recurrences of the crisis resulting from the collapse of unauthorized institutions.

59. **In the formal microfinance sector, many authorized MFIs continued to operate in spite of operational and performance anomalies, thereby contributing calls for intervention to preserve the gain the sector realized**. Among authorized MFIs, the PAR was at about 7 percent largely above the norm. In addition, the low profitability in the sector in general and particularly for major MFIs could undermine the growth. None of the authorized institutions respect the 21 performance norms (10 prudential norms, 5 portfolio quality indicators, 5 profitability indicators, and 1 productivity indicator) as illustrated in the figure below.

Figure 2.3: Evolution of MFIs respecting the performance indicators



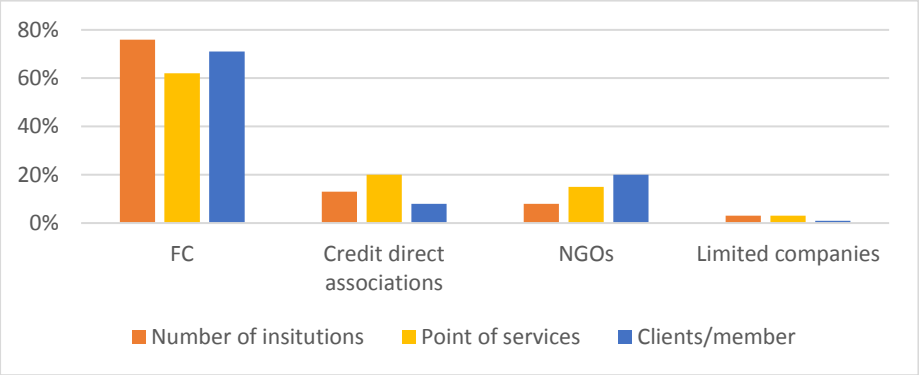
Source: Consortium Alafia 2016.

60. **The lack of profitability is a prejudicial situation and contributes to the move of MFIs from serving poor vulnerable population to more better-off clients (upscaling).** The interest rate cap at 24% combine with important operating cost are deteriorating MFIs profitability. Between 2012 and 2016, none of the profitability indicators were respected by the sector. As a result**,** MFIs are moving from rural to urban areas and to direct funds away from the microfinance initial target clientele to other better-off clients to reduce high transaction costs.

61. **Liquidity and quality of the portfolio of MFIs constrained their abilities to access refinancing and affected their capacities to finance the real sector of the economy.** MFIs of all sizes and institutional types struggle to be compliant with the prudential norms (liquidity and capital adequacy). Between 2012 and 2016, the standard related to the portfolio at risk was not respected in general. The noncompliance with these indicators contributed to the reduction of banks refinancing to MFIs. The central Bank established an incentive for Banks to refinance MFIs supervised by the banking commission. Such incentive stipulates that credit granted to MFIs and subject to the control of the Banking Commission can be admitted as part of the refinancing facilities of the Central Bank (BCEAO-DECISION N°061-03-2011) for Banks. However, these MFIs must respect the following prudential rules: the capitalization norm, the liquidity ratio, and the ratio on loans to MFIs executives and staff. In Benin, MFIs are struggling with these ratios. In addition, given the savings collected by most MFIs are lower than outstanding loans, they have to rely external refinancing facility. However, banks limited their refinancing for MFIs, which is affecting the capacities of microfinance sector to provide financial services to the poor and vulnerable population not served by banks.

62. **In terms of governance, financial cooperative is worrying for the future of the sector as they dominate the microfinance market**. FC represent 76 percent of the MFIs listed in Benin, 62 percent of the total points of services, and 71 percent of the clientele. It is critical to prevent any crisis affecting these institutions, given the systemic risk they represent and could create in the country financial sector.

Figure 2.4: Microfinance market structure in Benin



Source: ANSSFD (2017) data as of December 2016.

2.3 The Beninese microfinance, a strong asset in bringing financial services to poor and remote households and businesses, but require support to move forward

63. The undeniable assets of the microfinance sector can foster financial inclusion in Benin. In contrast to e-money providers, which offer transfer, cash-in and cash-out services, MFIs promote a broader set of financial products, including savings, credit, insurance and financial education. In contrast to banks, MFIs focus on reaching smaller and more remote customers that often have limited formal documentation and collateral. The microfinance sector has an important reach in the population, a significant number of branches offering a diversify range of financial services and products (credit, savings, transfer, etc.), strong partnerships with other financial sector stakeholders. Nonetheless, the sector faces important challenges threatening its stability and growth. As the following recommendations are suggested in order to enable the sector to broaden the reach and play a more significant role in enhancing financial inclusion in Benin:

- **Strengthen the supervisory authority capacities to fully implement its mandate.** The multitude of licensed MFIs has an unfavorable impact on the effectiveness of its supervision. ANSSFD has limited resources (human and financial) to carry out its mandate well. The supervision authorities do not have a view of actual risks in the sector. Supervisory activities (monitoring, inspection, and off-site audit) need to be strengthened, which will require a revision of the organization and resources allocated to ANSSFD. There is a need to (a) adopt a risk-based supervision approach that will allow having early warning alerts on MFIs performance, (b) enhance the technical capacities of staff through training and technical assistance on this risk-based supervision approach, and (c) introduce technologies that increase the efficiency of the supervision. Staff at ANSSFD are civil servants and thereby subject to relocation. To ensure a successful capacity development of the supervisory authority, these measures should be accompanied by effort to limit inspectors' turnover. As already mentioned in the cleanup strategy of the sector, the decentralization of ANSSFD activities through the creation of in-country entities is key to ensuring the efficiency of the supervision and the licensing process of MFIs. Unfortunately, the implementation of this plan has slowed down, and an alternative might be to leverage the Ministry of Finance staff already deployed in-country through capacity development on the microfinance supervision instead of establishing in-country entities.
- **Consolidate the sector of licensed MFIs and adopt a resolution framework**. The microfinance sector in Benin is fragmented with 16 large MFIs and a multitude of small and medium-size institutions, which are relatively fragile and many of which operate outside of a federation or

network. It is in the best of the country to consolidate the microfinance sector by reducing the number of small institutions with low potential for expansion and to stimulate either their merger into larger entities or their incorporation into well-organized federations that allow for better management and risk mitigation as well as for the diversification of financial services that these small entities can provide. In addition, it is essential to develop an official resolution framework to ensure account holders compensation mechanisms.

- **Enhance capacity of the judicial system staffs (judges) on the specialized laws and regulations is crucial for effective enforcement and cleaning up of the sector**. Weak judicial sector support hampers effective supervision. Indeed, enforcement actions initiated by ANSSFD against a distressed unauthorized MFI triggered a court ruling that prevented the MFI's closure, which in turn delayed all other enforcement actions.
- **Conduct a nationwide assessment of informal savings and credit institutions to identify and develop a transition plan to the formal sector for the strongest institutions.** The most recent survey on informal savings and credit institutions was conducted in 2011. As the country is developing a national financial inclusion strategy, it would help conduct a national survey/assessment on informal institutions to determine their numbers and their weight, conduct discussion on a transition plan, and incorporate viable and large institutions into the formal microfinance sector. A cleanup strategy for informal institutions will not be relevant and fully implemented until there is more clarity on these institutions.
- **Develop and implement a national awareness campaign on unauthorized MFIs by leveraging new means of communication.** Currently, ANSSFD works with churches, mosques, radio, and newspapers. Mobile phone penetration is growing fast in Benin. A specific mobile-based campaign (text and voice SMS) will allow reaching more people and should be encouraged. This campaign will contribute to building confidence in the microfinance sector and to alleviating confusion.
- **Strengthen consumer protection mechanism.** Transparency, fair and respectful treatment of clients, and mechanisms for complaint resolution emerge as the Client Protection Principles that resonate most as priorities for client protection in Benin. Addressing these concerns requires a market-level approach based on three pillars: regulation for client protection and supervision, standard and code of conduct for the industry, and financial education and capability. In countries such as Senegal, an Observatory of Quality of Financial Services was established, and a similar initiative would be relevant in Beninese financial sector in general and in the microfinance sector in particular.
- **Ensure the quality of the credit reporting systems to cover a large client base**. The credit bureau consultation is mandatory for Article 44 institutions before granting loans. The fees are considered expensive and the bureau does not have a strong database on clients as the prior consent of clients is needed. To build a larger client credit information base, neighboring countries such as Côte d'Ivoire and Niger have lifted the need for customer consent. A similar decree will help boost credit information at Benin's Credit Bureau.
- **Continue and expand UNCDF supports to strengthen MFIs' capacities and transition to digital microfinance services**. In parallel to consolidating the sector, priority must be given to the reinforcement of the technical capacities of MFIs. Beninese MFIs need to strengthen different capacities, including their governance. Dedicated tools and a training manual must be developed for elected bodies of financial cooperative to play their role. In addition, the sector's high NPL rates point to weaknesses in the internal control systems and in credit processes and

management that should be addressed. MFIs will need capacity development on alternative delivery channels of financial services and fintech solutions in managing their credit and saving processes to reduce their operating costs and improve their profitability. The model of microfinance services based on traditional system of branches generates important transaction costs both for the institution (physical infrastructure, operating costs) and for the customer (transport costs, waiting time in the agencies). The provision of financial services through branches is one of the most expensive methods of distribution. According to a study by McKinsey & Company (2016), digital technologies cut the cost of providing financial services by 80–90 percent while allowing existing MFI clients to save time, money, manage their cash flows more flexibly.

- **Strengthen the MIS of licensed MFIs.** The MIS of many MFIs is not up-to-date and does not allow them to prepare and report their data in a manner consistent with the requirements of the supervisory authority and in real time. Without external support, most MFIs could not afford an automated MIS. Given the number of licensed MFIs in Benin, a shared MIS is used for small and medium MFIs to secure and automate the processing of transactions and facilitate reliable reporting to the supervisor.

2.8 Annex

Outreach and financial indicators

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Nombre de guichets de banques	**54**	**89**	**104**	**144**	**158**	**175**	**180**	**188**			
Nombre de points de service des SFD	254	190	355	440	498	470	482	501	579	628	668
Nombre de SFD autorisés	25	28	35	42	46	56	56	56	52*	56	59
Clientèle des SFD	719,068	704,158	1,129,016	1,406,683	1,450,334	1,579,322	1,577,936	1,600,496	1,792,146	1,825,262	1,890,357
Effectif du personnel permanent	1,737	1,452	2,085	2,033	2,383	2,405	2,847	2,648	3,161	3,372	3,919
Nombre de comptes de dépôt (en milliers)	790	785	1,028	1,286	1,508	1,476	1,484	1,970	2,117	2,219	2,402
Montant des dépôts (en Milliards)	38.51	43.08	47.47	56.13	54.48	64.50	67.40	72.18	79.82	93.68	97.52
Encours de crédits (en Milliards)	59.95	52.41	55.04	69.41	73.35	82.92	91.35	92.79	107.04	124.04	138.51
Crédits octroyés (en milliards)	66.27	50.50	61.97	104.47	137.65	117.46	112.82	122.50	105.69	134.78	215.05
Créances en souffrance (en Milliards)	6.67	5.08	2.29	2.12	4.80	5.89	8.76	8.50	7.90	8.02	11.75
Taux de créances en souffrance	11.1%	9.7%	4.2%	3.1%	6.5%	7.1%	6.7%	9.2%	7.4%	6.5%	8.5%
Total actif (en Milliards)	88.75	90.57	98.33	119.11	132.61	149.69	185.56	171.42	197.89	217.27	233.31
Fonds propres (en Milliards)	15.13	11.42	11.55	14.11	20.97	27.76	27.06	37.40	43.42	52.37	59.12
Résultat net (en Milliards)	-7.91	-6.42	-0.98	0.62	1.58	2.33	1.88	4.16	5.32	4.33	2.94

Source: ANSSFD (2017).

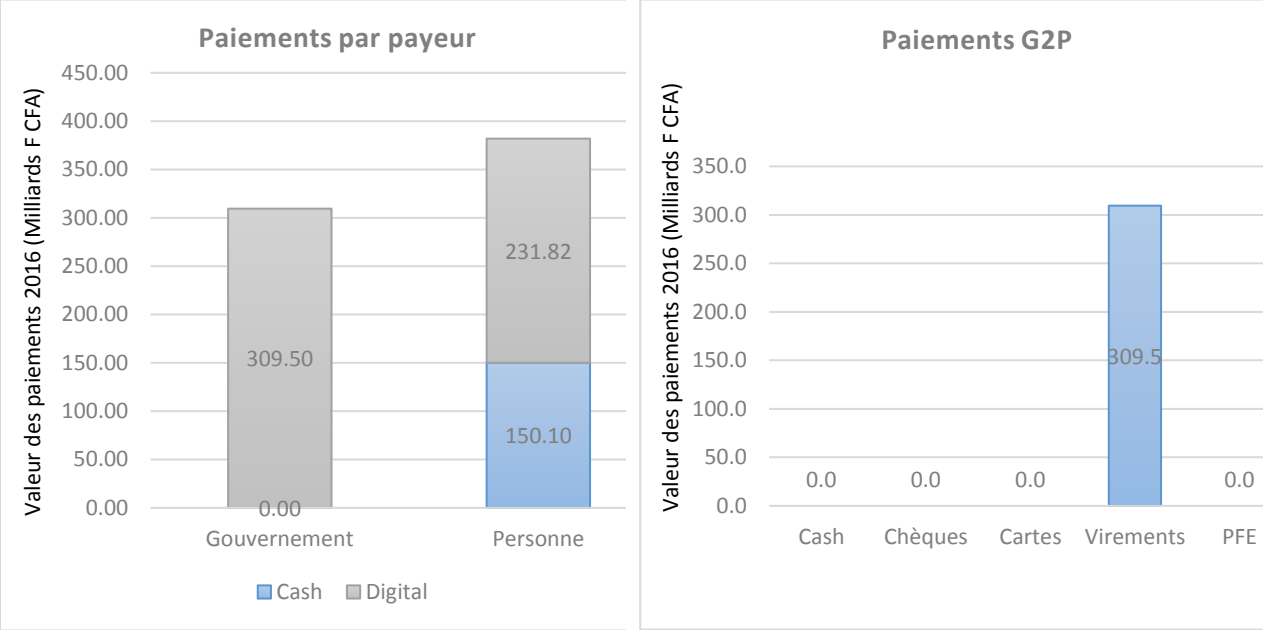
RETAIL PAYMENTS DIAGNOSTIC

CHAPTER 3: Payment System Diagnostic Key Findings

64. **The analysis of retail payment flows in Benin's economy shows the following**:

- Formal payment transactions made by individuals are predominantly digital;
- Almost all government payments to people are in the form of transfers;
- In terms of value, the check is the first payment method used, followed by the electronic money (mobile money) and then the transfer;
- The average value of the checks processed at the level of the compensation system varies between CFAF 6 million and CFAF 7 million;
- The average value of transfers processed in the national compensation system is CFAF 1,400,000;
- The average value of P2P transactions via mobile money is CFAF 50,000;
- The life cycle of the mobile money product is in a phase of strong growth;
- At the end of 2016, there were 298,185 debit cards and 56,687 prepaid cards (source: BCEAO);
- Cards are mainly used for automated teller machine (ATM) withdrawals.
- Average ATM withdrawals range from CFAF 50,000 to CFAF 65,000;
- The use of cards to process payments via EPT is limited and not very popular;
- The merchant network's acceptance of the card is poorly developed (a total of 248 EPTs for Benin in 2016);
- At the end of 2016, the banking network consisted of 209 branches (branches, offices, and points of sale) and 301 ATMs.

Figure 3.1: Government-to-person (G2P) and person-to-government (P2G) payments



65. **An ecosystem approach to digital finance identifies five essential pillars**: customers (population), distribution networks, suppliers, major billers and the government, and regulations. The analysis based on the ecosystem approach reveals the following obstacles to the development of digital finance:

- The low level of equipment of the population in terms of national identity documents, which represents a problem with regard to know your customer (KYC) and accounts opening.
- The large share of the informal sector in the economy.
- A relatively high incidence of poverty (59.9 percent of the population earns U.S.$1.9 per day).
- The merchant acceptance network by EPT is not very developed.
- The inexistence of a merchant payment product and an acceptance network for mobile payment.
- The low diversification of digital finance offerings (mainly first-generation services: cash-in, cash-out, money transfer, purchase of telephone call units).
- Weak management information systems for the MFI.
- The low level of development of partnerships between banks, MFIs, and mobile money solution providers for the development of innovative services: bank to wallet, wallet to bank, credit scoring.
- The lack of a reflection framework, for the development of interoperability, between the various mobile money service providers.

- The nonacceptance of the digital payment of invoices, for public companies such as the National Water Company of Benin (SONEB) and the Beninese Electricity Company (SBEE).
- The nonacceptance, for the time being, by the government of P2G payments: taxes, stamp duties, and so on, through the digital channel (mobile money, card, EPT).
- The lack of a flexible regulatory framework on agency banking for banks.

66. Several factors are conducive to the development of digital finance in Benin:

- The rapid and strong penetration of mobile money at the population level in both urban and rural areas.
- The commitment of the political authorities and the central bank to develop digital technology in general and digital finance in particular.
- A strong interest in mobile money from mobile operators who have had to make heavy investments.
- The existence of a dynamic competitive environment between providers of mobile money solutions.
- The development of mobile Internet, although weak at the moment, which could in the medium- and long-term open perspectives for innovation (QR code, mobile application, and so on).
- The existence of a payment infrastructure through the Interbank Banking Group of the West African Economic and Monetary Union (GIM-WAEMU).
- The existence of P2G payments, which are currently made in cash and could be digitized.
- The presence of major billers (SONEB and SBEE), which could foster the development of digitalization of payments and serve as a driving force for the adoption of digital finance.
- The existence of large volumes of P2G payments that could be digitized (taxes, taxes).

Table 3.1: Recommendations for the digitalization of retail payments

Clients	**Conduct financial education campaigns and strengthen the supervision provisions of the digital finance sector**
	Conduct financial literacy campaigns based on local languages with special emphasis on digital finance and its value proposition. Financial education campaigns should target, in particular, users of tontines in the informal sector. The contributors to the development of the financial education campaign could be the government, the BCEAO, the financial institutions (banks, MFIs, MNOs), and the donors. The government-approved finscope survey, scheduled for 2018, could be used to develop the financial education strategy.
	Strengthen the provisions of supervision and monitoring of the digital finance business for consumer protection, a better management of systemic risk, and an increased customer confidence in the digital financial system.
Networks of access to financial services	**Develop an ecosystem of merchant acceptance networks**
	Develop an ecosystem of merchant acceptance networks. There is a strong density of mobile money agent networks in Benin and the main services used are cash-in, cash-out, and money transfer. These uses represent a first step toward the digitization of transactions, but they do not reduce the circulation of cash in the economy. It is desirable that electronic money circulates in economic exchanges without friction (without leaving the system in the form of cash). To do this, it is essential to create a merchant payment

	ecosystem through which purchases of goods and services will be made by electronic money, thus minimizing the conversion rate from electronic money to cash.
	Promote the development of agency banking solutions at the level of banking players.
Suppliers	**Develop the offering market for the digital finance service provider**
	Develop/enhance the offering market for the digital finance service provider through innovation
	Bring the digital tool into the tontine system in the informal sector
	Develop payment services for taxicab bikes (zemidjans). There are nearly 250,000 zemidjans in Benin. Beyond the payment aspects, the proximity of motorcycle taxis with the population makes them important levers for the promotion and the popularization of mobile money uses (especially for payment).
	Promote the development of partnerships (financial institutions—mobile money providers) that would (a) Extend the geographical scope of financial services to peri-urban and rural areas, notably through the large presence of mobile money agent networks, and (b) Enhance the launch of credit solutions based on credit scoring. In this regard, a dialogue framework will have to be set up between the BCEAO and the market players (banks, MFIs) to understand their concerns and even the regulatory constraints for the launch of such solutions (wear rate, consumer protection, management of the repayment defaults risk, and so on). Areas of collaboration and synergies could be envisaged between the Mobile Money for the Poor (MM4P) program of the United Nations Capital Development Fund (UNCDF) and the future actions of the World Bank on digital finance in Benin. Indeed, the MM4P program has set up a working group on digital finance.
	Develop and extend (through the MNOs) the high-speed mobile Internet access network to enable financial sector players (banks, MFIs, fintech, MNOs) to deploy innovative mobile payment solutions.
	Promote a framework for consultation and collaboration between the different providers of digital finance solutions for the development of interoperability, including the participation of the GIM-WAEMU as the main actor, designated by the BCEAO.
Major billers and the government	**Digitalize people's payments to major billers and the government**
	Involve the government in the process of digitizing retail payments
	Upgrade the management information systems of the major billers: SBEE and SONEB to enable and support transactions in real time
	Develop for large billers open digital payment solutions accepting: cards (EPT) and mobile (mobile money, mobile applications, near-field communication [NFC] and QR code).
	Upgrade the MIS of the public treasury and expand the computerization of all the offices of the public treasury and the Tax Department.
	Centralize the management system of the different entities of the Public Treasury
Regulations	**Promote/popularize the regulatory texts of the BCEAO**
	The BCEAO, in collaboration with the Professional Association of Banks and Financial Institutions (PABFI) and the Professional Association of Decentralized Financial Services (PAMFI), should carry out communication and awareness campaigns for decision makers in the banking sectors and MFIs to promote and inform stakeholders on ○ the opportunities available to them (banks and MFIs) to deploy agents; ○ Instruction No. 008-05-2015, governing the conditions and modalities of exercise of the activities of issuers of electronic money in the member states of the WAEMU.
	Advocate at the government level and promote government involvement in initiatives to digitize P2G payments.
	Promote a framework for consultation between the BCEAO and the banking sector stakeholders to identify the challenges and opportunities related to the large-scale development of bank branch solutions.

	Implement tax incentive measures to promote the widespread deployment of electronic payment cards and terminals (point of sale [POS]). These measures could result, in particular, in an exemption of all or part of the customs taxes, during a certain period (the time to develop the market), to reduce the costs of acquisition of equipment and to equip the population sufficiently with cards and EPTs at affordable prices.
Development of the ecosystem	**Create/participate in working groups on the development of digital finance**
	Collaborate with the TFPs operating in Benin in the context of the development of the digitalization of payments, in particular the UNCDF MM4P program

3.1 Context of the Study

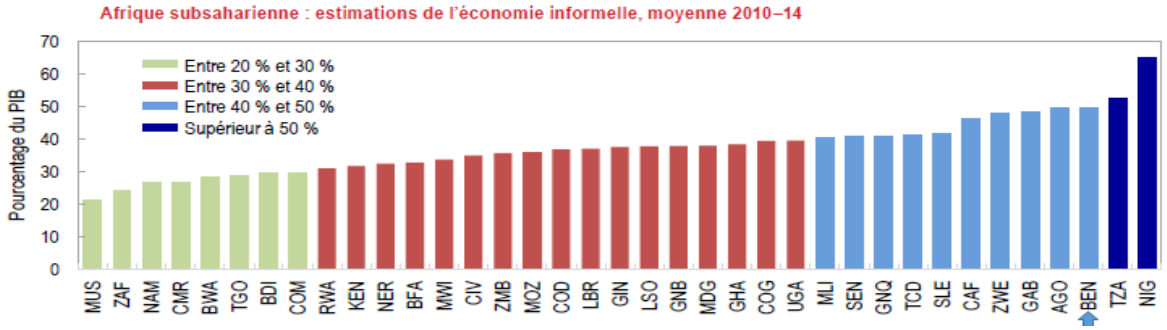
67. **The Central Bank of West African States (BCEAO) is facing the obligation to maintain permanently, in circulation, monetary signs of sufficient quantity and quality**, in a context marked by a steady increase in the demand of economic agents, an increase in the cost of supplying banknotes and coins and the development of counterfeiting techniques. Indeed, the demand for monetary signs has increased in both volume and value. It also tends to spread over more and more areas in connection with the extension of the banking network in all countries. Fiduciary circulation has been growing steadily, rising (in the WAMU zone) to 5,863.0 billion as of December 31, 2015, compared to 3,933.1 billion as of December 31, 2010, an increase of 49%" (BCEAO 2016).

68. **Cash is the preferred means of payment for trade between economic actors in Benin.** The volume of banknotes and coins in circulation grew strongly from CFAF 365.08 billion in 2010 to CFAF 580.9 billion in 2016. Strong hold of cash in the economy is mainly due to the following factors:

- Predominance of the informal sector in the economic fabric. According to IMF estimates, the informal sector would represent between 2010 and 2014 on average between 40 percent and 50 percent of Benin's GDP (see Figure 3.2). According to the World Bank's estimates, the informal sector would employ more than 90 percent of the labor force;

- High dependence of Benin's economy on informal trade in reexport and transit to Nigeria (which accounts for about 20 percent of the GDP) and on agricultural production.

Figure 3.2: Informal sector of Benin as a percentage of the GDP



Source: calculs des services du FMI.

69. **In 2015, Benin was the second country in the WAEMU zone in terms of availability of banking services (18.4 percent),** behind Togo (26.63 percent) and ahead of Côte d'Ivoire (18.28 percent), Senegal (16.91 percent), Burkina Faso (14.05 percent), Mali (13.8 percent), Guinea-Bissau (11.29 percent) and Niger (5.17 percent). At the end of 2016, the number of accounts with banks stood at 1,166,380 (BCEAO 2016) and the number of customers at MFIs was estimated at 2.2 million. The phenomenon of

dormant accounts as well as that of people with multiple accounts with banks and/or MFIs means that real use of the banking system could be lower than shown by the figures of the rate of expanded use of the financial system (banks and MFIs).

70. **At the same time, digital financial services through "mobile money", among others, are experiencing significant growth,** as the number of mobile money accounts has increased from 159,154 in 2013 to 4,357,574 in 2016. Though at the end of 2016, the rate of activity on mobile money (over a period of 90 days) remained low at 22.4 percent, the financial services access networks grew remarkably from 158 bank branches and 498 MFIs service points in 2010 to 209 bank branches and 668 MFS service points in 2016. The network development access to financial services via mobile far surpasses that of banks and MFIs, since Benin had 20,298 mobile money service agents at the end of 2016 (MNOs).

71. **The development of the financial sector (especially through MFIs) combined with the growth of mobile money offers substantial opportunities for financial inclusion and the digitization of retail payments.** Digitalization of retail payments would reduce the impact of the informal sector and provide an efficient response to the strong growth in the volumes of banknotes and coins in circulation while providing traceability and securing transactions in the economy.

72. **All stakeholders — ranging from the government and parastatal institutions to the private sector and development partners — and could benefit from the diagnosis of retail payment flows set forth herein**. At the national level, the census by category of actors (government, companies, people, donors), by payment flows (value, number) and by type of means of payment (cash, check, transfer, card, electronic money), allows to

- establish the status of payments;
- understand and analyze the dynamics of different payment methods;
- monitor changes that occur over time; and
- formulate strategic directions for the digitalization of retail payments.

This chapter is organized as follows: to begin with, it draws a general picture of different retail payment flows of the Beninese economy, in particular with regard to those of P2G and G2P types. Second, it examines the challenges related to the digitalization of retail payments and proposes recommendations related to customers, financial services distribution networks in general and the digital ones in particular, digital financial service providers, large billers and the government, and the regulatory framework. Finally, scenarios are presented to facilitate migration from retail payments to digitalization.

3.1.1 Methodology

73. **Retail Payments are typically identified by the amounts committed** and often have the following characteristics: (a) a large number of low-value transactions for the purchase of goods and services and (b) the diversity of the means of payment used compared to those used for transfers of large amounts. This raises the question as to the limit to be considered for the categorization of low amounts. To define a perimeter with the notion of retail payments, we consider in this study that they correspond to those whose payer or payee is a natural person (operating in the formal or informal sector). The different means of retail payments that will be explored in the context of this diagnosis are cash, checks, transfers, cards, and electronic money.

74. **The present diagnosis of retail payments was conducted in two phases:** an initial inventory phase of retail payment flows, followed by a phase of bilateral meetings with the main players in the retail payment and digital finance ecosystem. The inventory phase consisted of a collection of retail payments by category of actors, by flows (value, number), and by types of means of payment. The main flows explored focused on the following relationships: G2P, P2G, P2B, and P2P.

75. Questionnaires to identify retail payment flows (value, number) by type (cash, check, transfer, card, electronic money) were sent out to the following institutions:

- BCEAO;
- Different government institutions (Treasury, Tax Office, and so on);
- Post office;
- National water and electricity companies;
- Pension and social security institutions;
- Commercial banks;
- MFIs.

76. **Collection work aimed to feed a database to inform a grid/matrix of payments**, detailing the flows in Benin's economy in terms of payer and payee (see Table 3.2).

Table 3.2: Payment Grid

		Payee		
		Government	**Business**	**Person (individual)**
Payer	**Government**			**G2P** Salaries and retirement pensions of public officers
	Person (individual)	**P2G** Taxes	**P2B** Purchases of consumer goods	**P2P** Money transfers Provision of funds Money order

77. **The collection phase was followed by bilateral meetings with the main players in the retail payment ecosystem**. The meetings allowed (a) getting an overview of the reality of the Beninese society with regard to retail payments; (b) identifying the challenges associated with different types of payment methods (cash, check, transfer, card, electronic money); (c) identifying the digitization of payments projects at the level of different institutions: the government, the private sector, and so on; (d) identifying the expectations and challenges of the various players for the digitalization of retail payments; and (e) identifying challenges to the digitalization of retail payments. The results of this study are therefore based on the quantitative and qualitative information provided by the stakeholders interviewed, that is, a declarative approach.

3.2 Retail Payment Flows (G2P, P2G, P2P)

Table 3.3: Retail payment flows grid

2016 (Milliards F CFA)	Gouvernement					Personne				
Gouvernement						309,50				
						3%	0%	0%	97%	0%
Personne	128,61					238,04				
	100%	0%	0%	0%	0%	7%	0%	0%	0%	93%

Cash	Chèques	Cartes	Virements	PFE

78. **G2P payments. Payments from the G2P category include salaries of public service employees, pensions of retired government agents, and scholarship grants and concern about 120,000 people.** The payments recorded amount to CFAF 309.5 billion. They are essentially digitized and paid mainly by transfer (97 percent). Indeed, Benin has implemented the BCEAO Instruction No. 01/2003/SP of May 8, 2003, on the promotion of the cashless payment methods. The instruction stipulates in Article 6: "The remuneration of civil servants in all Member States of the Union shall be paid by bank or postal transfer or by check, for any remuneration of an amount equal to or greater than one hundred thousand (100.000) CFAF. The same applies to allowances and other benefits in cash owed by the Government agents or by government institutions to officials, agents, other staff in activity or not, or to their families, as well as to service providers.

79. **In addition, Benin's Ministry of Finance has made further arrangements to ensure that pensions of more than CFAF 50,000, paid by the National Pension Fund of Benin (NPFB), are no longer paid in cash at the public treasury counters starting from October 1, 2017**. These pensions should be paid by transfer to the bank accounts of pensioners. The only Government agents' cash expenditures identified in this diagnosis correspond to the scholarships allocated to students by the Ministry of Higher Education and Scientific Research. It should be noted that it is expected that from 2018, these scholarships will be paid into an account by transfer.

80. **P2G payments. The identified payments made in the P2G category mainly correspond to stamp duties, revenues of the electricity (SBEE), and water (SBE) companies**. A predominance of cash (cash) in the transactions of P2G agents emerges, with all payments, here collected, made in cash (cash) over 2016. These payments amounted to CFAF 128.61 billion in 2016. Thus, P2G payments could be a niche of opportunity to digitize payments at the government agents' level. The regulatory provisions taken with the BCEAO Instruction No. 01/2003/SP of May 8, 2003 have allowed a near digitization of wage payments and other compensation paid by the government agents, and similar measures could be taken by the government agents to encourage the digitization of P2G payments.

81. **P2P payments. These only apply to person-to-person money transfer transactions**. Data identified consist mainly of money transfer solutions from banks, postal orders, and mobile money. The total of P2P payments amounts to CFAF 238.04 billion. Mobile money transfers (account-to-account) represent 93 percent of transactions in value and only 7 percent are made in cash via money transfer solutions in cash-to-cash mode. The P2P retail payment segment is a real opportunity for the digitization of payments. Indeed, according to Global Findex data on financial inclusion (2014), 24 percent of

Beninese population received domestic money transfers in 2016 and 19 percent made domestic money transfers.

3.3 Use of the Retail Payment Means

82. **An analysis of the flow of transactions in 2016 in Benin's economy highlights that:**

(a) Check is the first means of payment used, in value, with 323,603 transactions recorded in the national compensation system, for an amount of CFAF 2,062.67 billion;

(b) Electronic money (including mobile money) is the second means of payment used, in value, with 38.99 million transactions, for an amount of CFAF 914.6 billion; and

(c) Bank transfers (101,047 transactions) recorded in the national pensions system amounts to CFAF 141.44 billion.

Table 3.4: Transactions flows at the level of the banking system (2016)

Processed values	Number	Amount (CFAF, billions)
Checks (cleared)	323,603	2,062.67
Electronic money (mobile money)	38,399,466	914.60
Transfers (cleared)	101,047	141.44
Electronic banking (Interbank withdrawal)	897,000	47.80

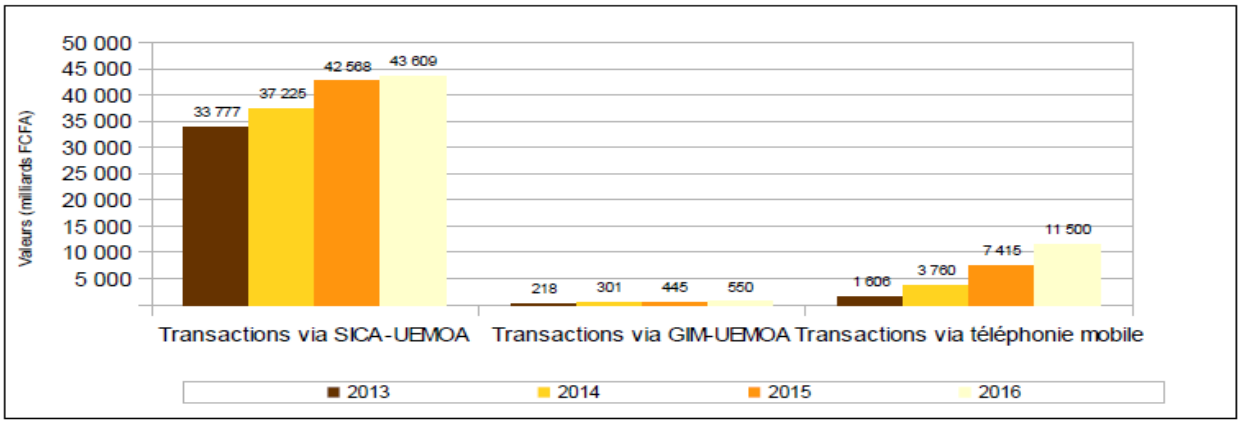
83. **Mobile money activities grow rapidly compared to other means of payment (check, transfer, and so on).** The number of mobile money transactions rose from 14.7 million in 2015 to 38.4 million in 2016 for a face value of CFAF 919.5 billion in 2016, compared with CFAF 205.4 billion in 2015. At the level of the WAEMU Interbank Automated Compensation System (WAEMU-IACS), the activity increased from 438,417 transactions in 2015 for 2,480 billion transactions to 432,882 transactions in 2016, for a total value of CFAF 2,330 billion.

84. **GIM, the "interbank electronic payment switch" of the WAEMU zone, is facing many challenges.** GIM is responsible for, among other things, (a) defining interbank regulation, (b) defining technical standards for interbanking, (c) setting interbank pricing, (d) representing members with international issuers (Visa, MasterCard, Amex), and (d) providing secure interbank services (national, regional, and international interoperability). The main challenges include the following:

(a) A slow growth of interbank electronic banking activity in the WAEMU zone, given the heavy investment required for the establishment of regional interbanking activity covering eight countries. In fact, the interbank electronic banking activity handled by the GIM-WAEMU remains weak, especially the number of interbank withdrawal amounted to 897,000 transactions in 2016 for a value of CFAF 47.8 billion.

(b) The development of electronic interoperability within the WAEMU zone, as mandated by the BCEAO.

Figure 3.3: Overall change in the value of transactions by platform within the WAEMU



Source: BCEAO 2016.

3.3.1 Checks

85. **In Benin, the use of checks is the preferred means of payment in terms of value. However, limits appear as a means of retail payment.** Indeed, the majority of stakeholders, including the government, accept payment by check only if the latter is certified. This reduces the scope of the personal check as a payment instrument as defined by BCEAO Regulation No. 15/2002/CM/WAEMU on payment systems in the member states of the WAEMU.

86. **Electronic money has experienced impressive growth in Benin in recent years.** At the end of 2016, the BCEAO estimated the number of mobile money accounts at 4,357,574 and 22.4 percent were active over a period of 90 days. In the same year, the volume of activity rose to CFAF 914.6 billion.

87. **Mobile money could be an interesting alternative to the limitations of the check as a means of payment** (lack of security, fraud, lack of provision, unpaid checks,) for amounts less than CFAF 2 million. Indeed, the BCEAO Instruction No. 008-05-2015 governing the conditions of exercise of the activities of electronic money issuers in the WAEMU stipulates in its Article 31 "Capping of electronic money holdings" that "The holdings of electronic money held by the same client identified with an issuing institution cannot exceed two (2) million CFA. F, except with the express authorization of the Central Bank." The same instruction also stipulates that "when a holder has several instruments issued by the same issuing institution, the latter ensures that the accumulated balance does not exceed the amount referred to in the first paragraph above, except with the express authorization of the Central Bank".

3.3.2 Cards

88. **Cards are increasingly used in Benin**. Indeed, according to the BCEAO's data for 2016, there were 298,185 debit cards and 56,687 prepaid cards. Prepaid cards have grown by 50 percent between 2015 and 2016. The cards are mainly used to make withdrawals at ATMs. The merchant payment by bankcard via the EPT is very little developed. At the end of 2016, Benin had only 248 EPTs nationwide. According to the banking sector stakeholders met in bank meetings, the use of the prepaid card for Internet payment seems to be more widespread than that of the debit card, presumably for reasons related to the higher risks for payments on the Internet with a card linked to a bank account.

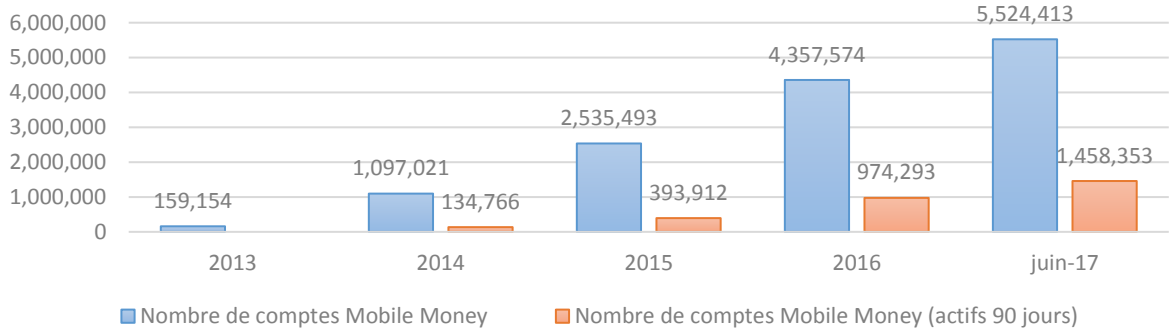
3.3.3 Electronic Money

89. **Three main operators operate in the mobile money market**:

- MTN Mobile Money Benin LC, known under the trademark MTN Mobile Money, which is deployed in partnership with BOA, Ecobank, Diamond Bank.
- Moov, which distributes electronic money in partnership with Ecobank, Diamond Bank, Banque Atlantique, and UBA (Union Bnak of Africa).
- ASMAB, which is an MFI and has an authorization to issue electronic money.

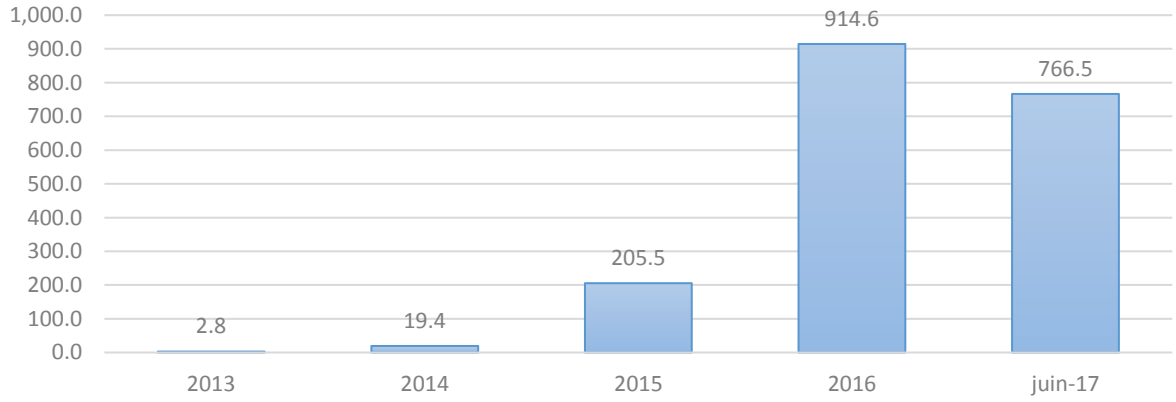
90. **Over the last five years, mobile money has grown in Benin**. Indeed, the number of accounts rose from 159,154 in 2013 to 5.52 million in June 2017. However, it should be noted that the activity rate remains low (26 percent of active accounts over 90 days). The generated activity for its part is growing almost exponentially, from CFAF 2.18 billion in 2013 to CFAF 914.6 billion in 2016.

Figure 3.4: Development of the number of mobile money customers in Benin



Source BCEAO 2016.

Figure 3.5: Development of the mobile money activity (CFAF, billions)



Source BCEAO 2016.

91. **The mobile money service offering is relatively small and focuses on first-generation products (cash-in, cash-out, money transfer, purchase of telephone call units)**. A comparative analysis of the fees on the transactions of different providers of money transfer solutions, namely, those of the mobile money type (MTN Mobile Money and Moov Money) and those of the type "cash-to-cash" transfers at the counter (Moneygram, Wari, Western Union), shows that mobile money offers the most competitive

rates on all concerned levels. To develop mobile money beyond transfer activities, it is essential to encourage the development of innovative products such as the merchant payment, the retail payment (at the level of zemidjans transportation), and the credit scoring (in partnership with the financial institutions approved for this purpose (banks, MFIs). Savings and credit are the main services people rely on, based on products available in the informal sector or using the social (family) fabric.

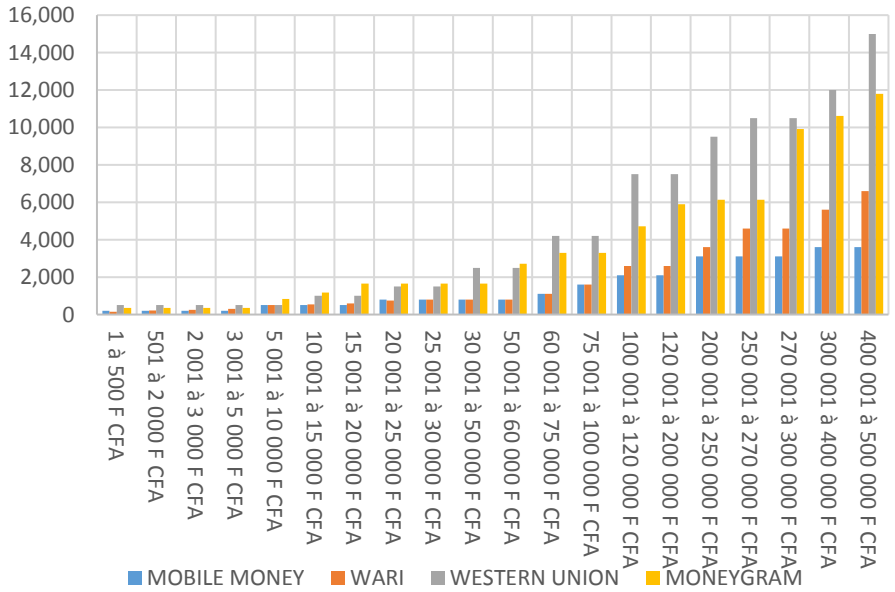
92. **Banks and MFIs are allowed to offer savings and credit products**. However, the size of their networks is relatively small compared to mobile money solutions providers. Instruction No. 008-05-2015, governing the conditions and modalities of exercise of the activities of issuers of electronic money in the member states of the WAEMU, does not authorize the establishment of electronic money to offer customers paid savings products, or credit. Also, to match supply with demand while reducing the importance of the informal sector in the financial mechanisms used by the population, partnerships between banks, MFIs, and mobile telephone operators should be expanded. Such partnerships would enable people to open accounts with financial institutions and operate their accounts via mobile through the extended network of mobile money agents.

Table 3.5: Product/services portfolio of the digital financial service providers

Fournisseurs de services financiers digitaux	MTN Mobile Money	Moov Money	Wari
Transfert d'argent international			
Assurance			
Paiement de salaires			
Paiement de factures			
Paiement marchand			
Transfert d'argent domestique			
Achat de crédit de communication			
Cash-In & Cash-Out			

Produits accessibles via mobile

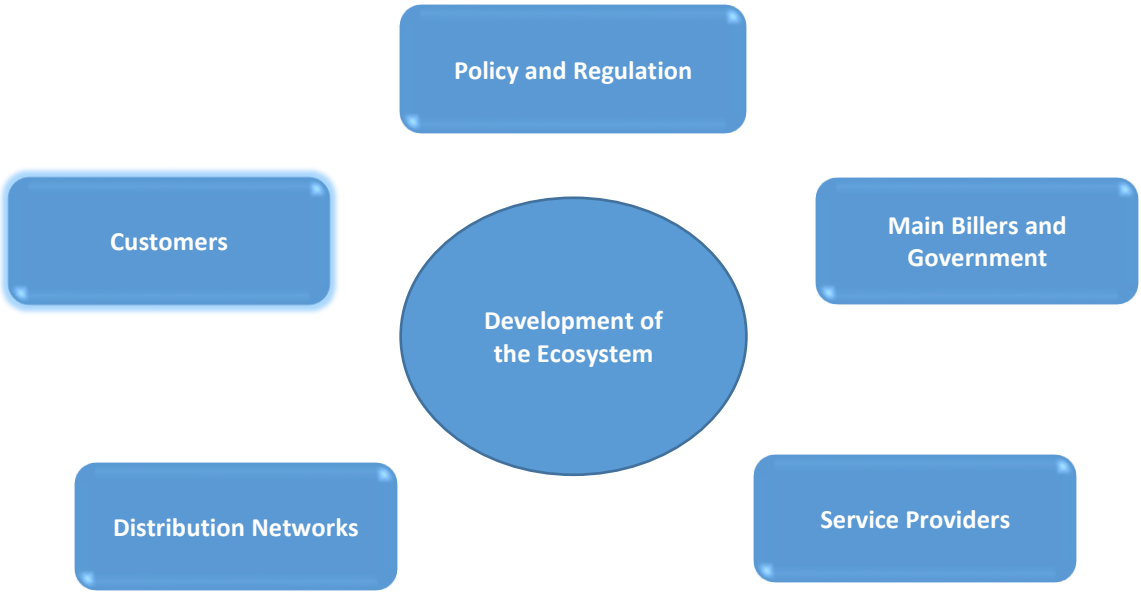
Figure 3.6: Rates of different providers of domestic money transfer solutions



3.4 Challenges and Recommendations for the Digitalization of Retail Payments

93. **The objective of this chapter is twofold: to present the main challenges to the development and popularization of the digitalization of retail payments in Benin; and to offer recommendations**. The challenges presented here will be explored under the option of an ecosystem approach including the pillars that are (a) customers (populations, (b) distribution networks, (c) suppliers, (d) large billers and the government, and (e) the regulatory framework.

Figure 3.7: Digital finance ecosystem



3.4.1 The Customers (Population)

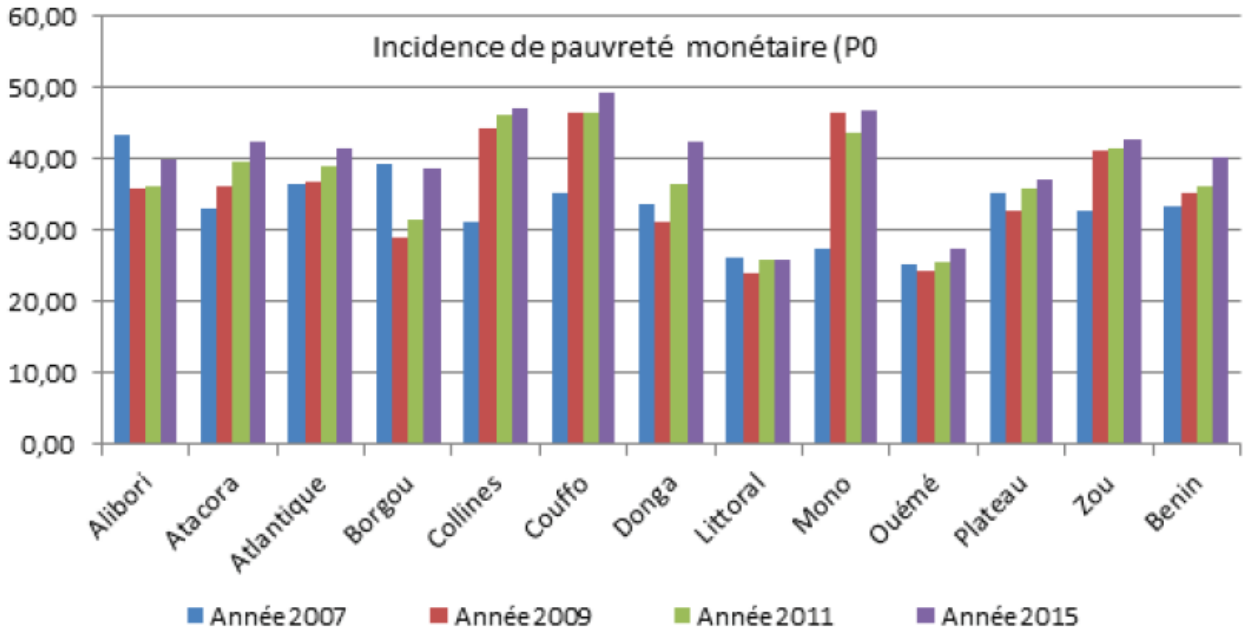
3.4.1.1 National Identification

94. **A large part of Benin's population does not have national identification documents.** In 2013, Benin's population was estimated by Benin's National Institute of Statistics and Economic Analysis (NISEA) at 10,008,749 inhabitants. The lack of documentary proof of identity hampers the development of digital finance due to certain regulations on the KYC for the opening of an electronic money account. However, the BCEAO Instruction No. 008-05-2015 on electronic money stipulates in Article 31 that: "the issuing institution may make available to an unidentified holder a total monthly amount in electronic money that may not exceed two hundred thousand CFA. F, subject to compliance with the ban on the issue of electronic money on credit." An Administrative Census for Population Identification (ACFPI) campaign was launched in November 2017 and wa expecting to continue in 2018. This census should allow all Beninese to have a personal identification number, which will be used to set up a government file in view of the establishment of the national digital identity card in the near future.

3.4.1.2 Incidence of Poverty

95. **The incidence of poverty has increased in Benin over the past eight years.** According to the report of the study "Trend of poverty in Benin over the period 2007–2015," conducted by the United Nations Development Programme (UNDP) in Benin, the proportion of the population with a U.S.$1.90[14] per day in purchasing power parity (PPP) is estimated at 59.9 percent in 2015. This proportion with a threshold U.S.$1 per day in PPP was 53.9 percent in 2011, against 40.8 percent in 2009 and 51.6 percent in 2007.

Figure 3.8: Evolution of poverty incidence in Benin by province (percentage)

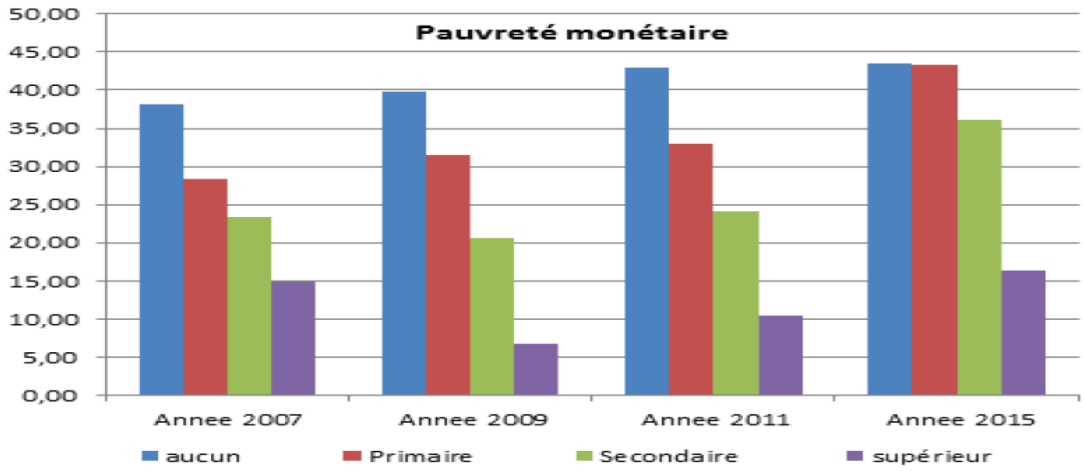


Source: UNDP 2016.

96. **According to the same study, the level of poverty decreases as the level of education increases**. Indeed, households headed by someone with secondary or higher education are less poor than those households with a head who has never attended school or who only has primary education. This reflects the crucial role of education (including financial education) in the national poverty reduction strategy.

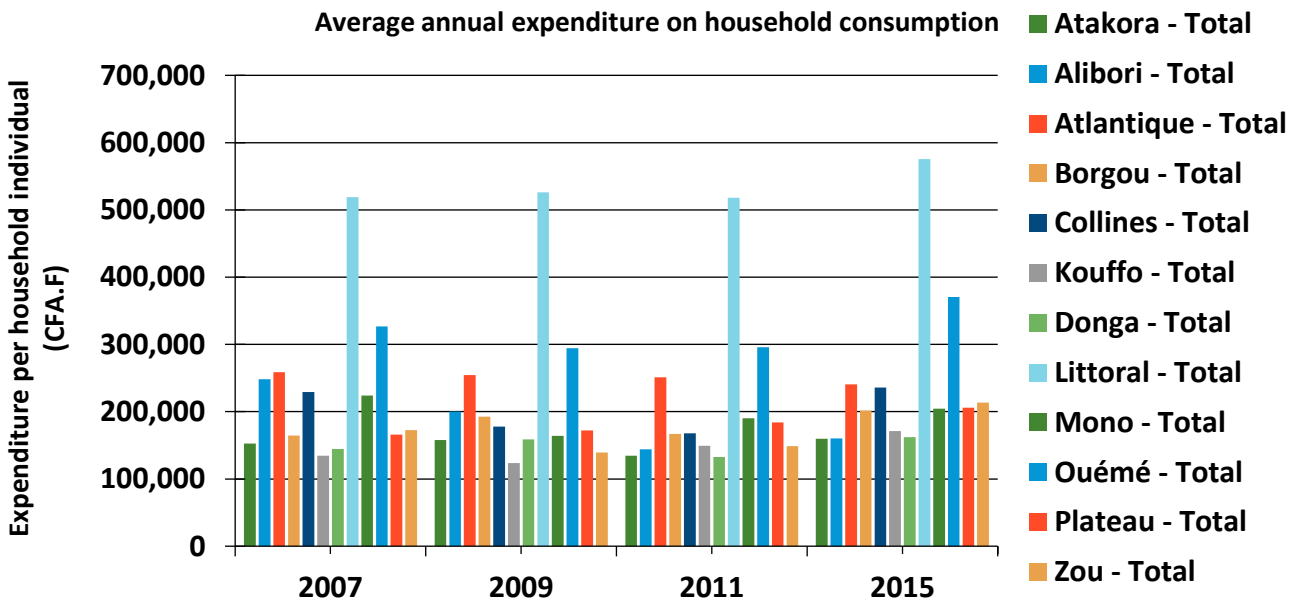
[14] The poverty line of US$1.9 per day in PPP corresponds to about CFAF 197,653 per year. (UNDP 2016)

Figure 3.9: Incidence of poverty by education level of the head of the household



Source: UNDP 2016.

Figure 3.10: Annual average expenditure by individual of households and department



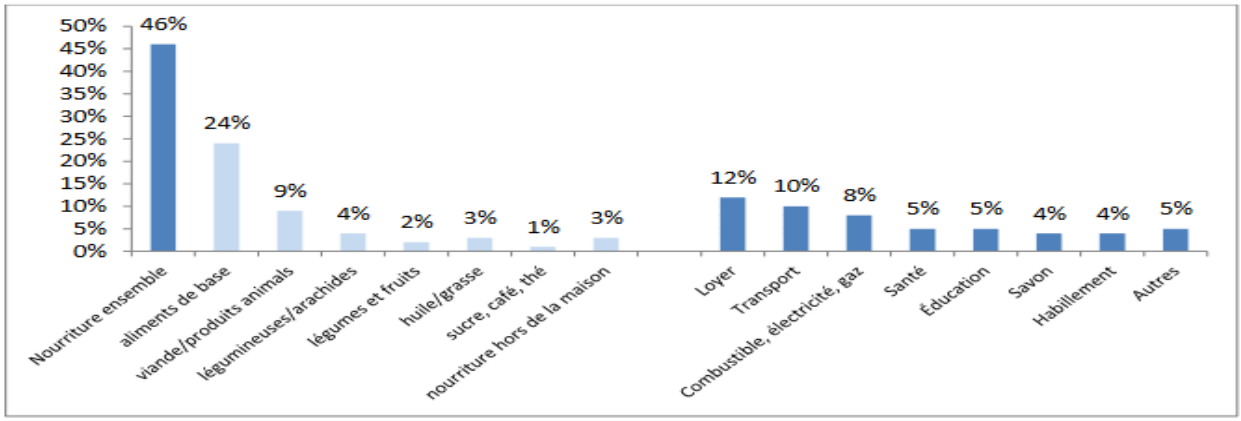
Source: http://benin.opendataforafrica.org/ (sponsored by the African Development Bank).

3.4.1.3 Structure of Populations/Households Expenditures

97. The analysis of household expenditures shows on average the following distribution:

- 46 percent, for food expenses;
- 12 percent, for rent expenses;
- 10 percent, for transport expenses;
- 8 percent, for energy costs (fuel, electricity, gas);
- Each of health, education, and clothing expenditure amounts to be of about 5 percent.

Figure 3.11: Structure of household expenditures



Source: WFP 2013: Household data from the Global Vulnerability and Food Security Analysis (GVFSA[15]).

98. **The distribution of household expenditures highlights niches of opportunities to digitize retail payments in segments such as, on the one hand, the payment for the purchase of primary foodstuff and, on the other hand, electricity and transport**. Both drain important payments (both in volume and in value) and could serve as drivers for developing the adoption and use of financial services within populations.

3.4.1.4 Behavior and Needs of Populations in Terms of Financial Services

Financial Behavior of Beninese

99. **It is important to note that, although poor, the people of Benin carry out transactions and save money**. Indeed, the results of the Global Financial Inclusion Survey (Global Findex) on financial inclusion for Benin in 2014 show that among the 40 percent of adults (ages over 15):

- 24 percent received domestic money transfers in the past year;
- 19 percent sent domestic money transfers in the past year;
- 40 percent borrowed money in the past year;
- 24 percent borrowed money in the past year from family or friends;
- 61 percent have saved money in the past year;
- 37 percent saved through tontines;
- 17 percent have saved to start and develop an income-generating activity.

100. **The results of the survey show that tontines seem to play a central role in mobilizing people's savings.** To meet their financial needs, Beninese are just as active in the formal sector services as in the informal sector. In 2015, a study commissioned by the UNCDF MM4P program was conducted in Benin by Intermedia. This study conducted between December 2015 and February 2016, covering a sample of 3,042 Beninese ages over 15, shows the following:

[15] Survey of a sample of 15,000 households at the national level.

- Most of the savings and credit practices of the population go through informal financial mechanisms.
- The financial mechanisms available in the informal sector are used more than those in the formal sector, more because of practice and proximity than by preference;
- A large part of the Beninese population is financially active while not having accounts in a financial institution, which illustrates a certain interest for the financial mechanisms, while highlighting a gap between the supply of services of the formal financial sector and the demand;
- There is an evolving process in the use of financial services (formal and informal), based on need, that leads to financial inclusion. Through this process, and based on their needs, populations begin by using the services of informal tontines, and then, as their capital increases, they find themselves resorting to the services of MFIs and finally end up in the banking sector;
- People who are financially included have a higher level of education, dwell in urban areas, and are mostly formal sector employees.

The Needs of the Beninese in Terms of Digital Financial Services

101. **Needs of the Beninese for digital financial services are highlighted by Intermédia's study:**[16]

- People who are more knowledgeable about financial products combine the value proposition of mobile money and digital financial services with the consumers' needs: (speed, ease of transferring money, low fees, and low deposit requirements).
- The lack of information channels (especially in peri-urban and rural areas) represents a challenge to increasing awareness and knowledge of digital financial services.
- Consumers have three types of needs in terms of digital financial services:
  - Access to financial services that are easy to use and correspond to their cognitive abilities and that they feel comfortable with
  - Access to savings, loans, money transfer, deposit/withdrawal at will and in a way that contributes to the growth of their income-generating activities, as well as payments
  - Access to financial products that are adapted to their income and financial capabilities and that offer customer service for assistance during the first customer experiences with the product

Recommendations:

- Develop financial literacy campaigns using local languages with particular emphasis on digital finance and its value proposition. Financial education campaigns should target, in particular, the users of informal tontines. Actors that could contribute to the development of the financial education campaign include the government, the BCEAO, financial institutions (banks, MFIs, MNOs), and donors. The government-approved finscope survey, scheduled for 2018, could serve to develop the financial education strategy.

[16] Intermedia study conducted in Benin in 2015. http://finclusion.org/uploads/file/reports/FINAL%20BENIN%20-%20UNCDF%20MM4P%20Benin%20Long%20version%20English%20CEL%208%20Nov.pdf

- Strengthen supervision and oversight of the digital finance activity for enhanced consumer protection, better management of systemic risk, and increased customer confidence in the digital financial system.

3.4.2 Financial Services Access Networks

3.4.2.1 Agencies and Points of Services

102. **In Benin, banks predominantly serve clients in urban areas, while MFIs are mainly present in rural areas.** Mobile operators, which are new players in the field of digital finance, have developed vast networks of agents that are present in both urban and rural areas. In 2016, Benin had:

- 16 banks and bank branches for a total of 209 branches and 301 ATMs;
- 50 MFIs registered with the PAMFI (out of a total of 100 MFIs approved by the Ministry of Finance). The 50 MFI members of the PAMFI covered a network of 668 counters/points of service; and
- 3 providers of mobile money solutions for a network of more than 20,000 agents.

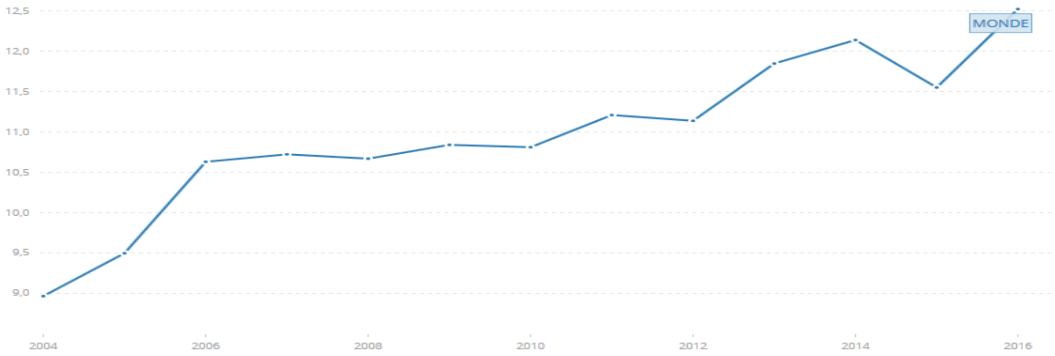
103. In 2016, at the national level, the average density of access points to financial services were as follows:

- Density of bank branches: 2.08 agencies per 100,000 inhabitants, that is, 3.91 agencies per100,000 adults;
- Density of ATMs: 3 ATMs per 100,000 inhabitants or 5.64 ATM per 100,000 adults
- Density of MFI agencies: 6.67 agencies per 100,000 inhabitants, that is, 12.52 agencies per 100,000 adults;
- Density of mobile money agents: 202.8 agents per 100,000 inhabitants, that is, 380.49 agents per 100,000 adults.

104. These figures are below the average levels of density recorded in Sub-Saharan Africa and worldwide, which are for 2016 of the order of

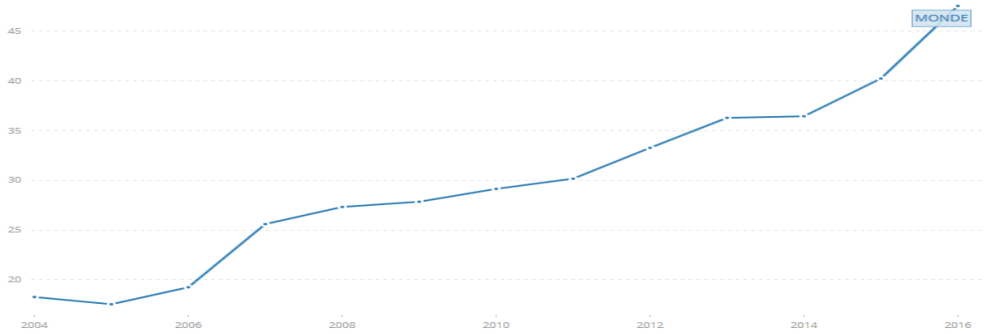
- Density of bank branches: 5.3 agencies per 100,000 adults (Sub-Saharan Africa);
- Density of bank branches: 12.5 agencies per 100,000 adults (worldwide);
- ATM density: 5.8 ATMs per 100,000 adults (Sub-Saharan Africa); and
- ATM density: 47.5 ATMs per 100,000 adults (worldwide).

Figure 3.12: Global density of bank branches per 100,000 adults



Source: World Bank.

Figure 3.13: Global density of ATMs per 100 000 adults

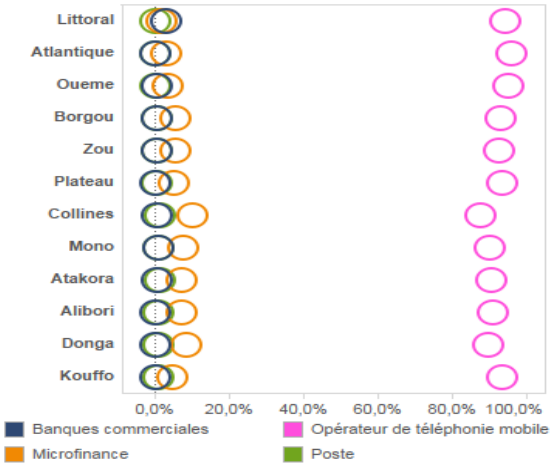


Source: World Bank.

3.4.2.2 Geographic Coverage

105. **The providers of mobile money solutions (MTN and Moov) have the largest distribution network, respectively followed by MFIs, commercial banks, and the Post Office.** In terms of distribution, the density of service points of financial actors by type (MNOs, banks, MFIs, the Post Office) seems to be relatively homogeneous across all of the 12 counties in Benin.

Figure 3.14: Distribution of access to financial services (banks, MFIs, MNOs, post office) 2017



Source: finclusionlab.org (2017).

Recommendations:

- Develop an ecosystem of merchant acceptance networks. There is a strong density of mobile money agent networks in Benin and the main mobile money services used are cash-in, cash-out, and money transfer. These uses represent a first step toward the digitization of transactions, but they do not reduce the circulation of cash in the economy. Electronic money should circulate in economic exchanges without friction (that is, without leaving the system in the form of cash). To achieve this goal, it is essential to create a merchant payment ecosystem through which purchases of goods and services will take place through electronic money, thus minimizing the conversion rate from electronic money to cash.
- Promote the development of a card merchant acceptance network with EPTs.
- Promote the development of banking agency solutions at the banks level.

3.4.3 The Service Providers

3.4.3.1 Banks and MFIs

106. **Along with the banking system, microfinance is also an important vector of financial inclusion in Benin.** Indeed, MFIs offer financial services to nearly 18 percent of the population (APSFD Benin 2016). However, digital finance offer by banks and MFIs is little diversified. Banks mainly offer solutions for

- Remote access to the bank account;
- Cards (debit and prepaid);
- Being agents for the services offered by the mobile money solution providers; and
- Bank to wallet (to a lesser extent).

107. **The penetration of banking services is still low due to many factors including the following**: (a) low-income segments of the population continue to believe that banking is not meant for them and (b) access to bank infrastructure is still geographically limited. In fact, bank counters and ATMs are mostly located in urban areas, so any customer wishing to open a bank account or to carry out a banking transaction must go to the urban centers where the counters are located.

108. MFIs act primarily as agents for mobile money solution providers.

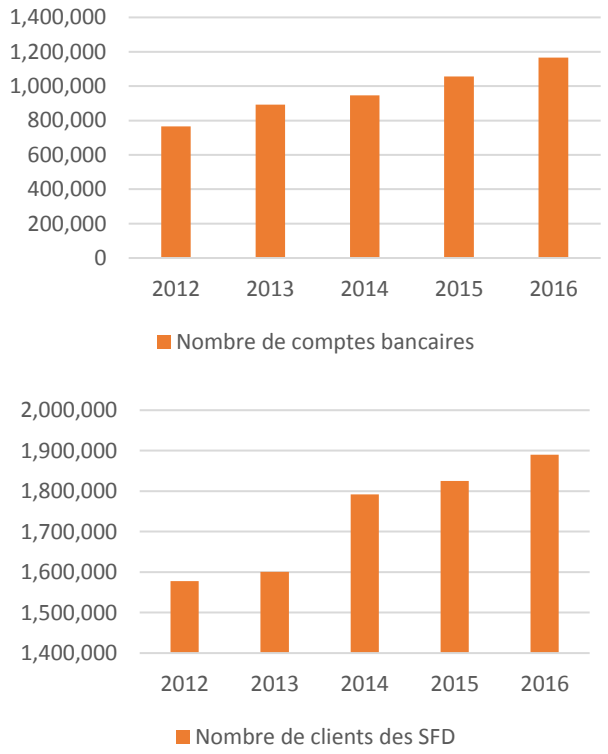
109. **Banks and MFI face many challenges for deploying sustainable digital finance solutions**:

- Banks wishing to expand their access networks face the very high structural costs associated with opening up physical agencies, which prove to be of little or no profit in rural areas. In fact, according to the implementing texts of the law regulating banking, the option open to banks for deploying agency banking networks is based on the concept of intermediary in bank operation (BCEAO Instruction No. 015-12/2012/RB). The provisions of the BCEAO Instruction No. 015-12/2012/RB offer little flexibility compared to those on the agent networks in Instruction No. 008-05-2015, governing the conditions and procedures for the exercise of the activities of issuers of electronic money. This leads to a market

distortion, thus offering a competitive advantage to electronic money institutions as well as electronic money distributors on payment solutions.

- Commercial banks lack know-how in retail banking.
- MFIs, which have more regulatory flexibility to deploy counters (service points), face the challenges of upgrading their GIS and their technical infrastructure.
- Departments of human resources of banks and MFIs in digital finance must be reinforced.

Figure 3.15: Evolution of the number of accounts, banks, and MFIs



3.4.3.2 The Post

110. **With a customer base at end-2016 of 600,000 accounts, including 400,000 assets over one year, the Post plays a major role in contributing to financial inclusion in Benin.** The Post has a network of 108 agencies, mostly present in rural areas (80 percent). About 70 percent of Post agencies are interconnected. The Post would like to operate as an MFI, and a request for approval has been pending for five years at the BCEAO. However, the Post is a state-owned company, and that the government cannot be the sole shareholder of an MFI. In addition, MFIs, referred to in Article 44 of the law regulating decentralized financial systems, (MFIs with outstanding loans or deposits greater than CFAF 2 billion in two consecutive years), must be supervised by the Banking Commission.

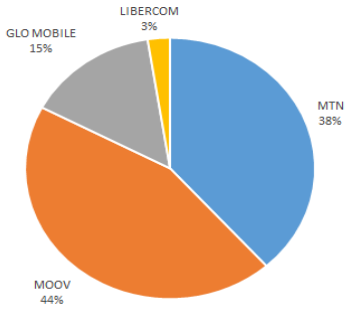
111. **The Post wishes to "upgrade" its GIS in 2018 and would like to submit to the BCEAO a request for authorization to establish electronic money**, in response to the "threat" that MNO represents. In fact, the Post has recorded a very significant and continuous decline in its turnover (commissions on transactions) on its cash-to-cash transfer product, which declined from CFAF 600 million in 2014 to CFAF 140 million in 2015, then to CFAF 92 million in 2016, to settle at CFAF 54 million in November

2017. The reason for this decline can be attributed to mobile money. For now, the Post's digital finance business is limited to being an agent for mobile money solutions providers.

3.4.3.3 Mobile Operators

112. **The mobile phone landscape in Benin has four main operators**: MTN, Moov, GLO Mobile, and Libercom. The total number of subscriptions to mobile networks was estimated in 2016 by the Regulatory Authority for Electronic Communications and Post (RAECP Benin) at 10.9 million.

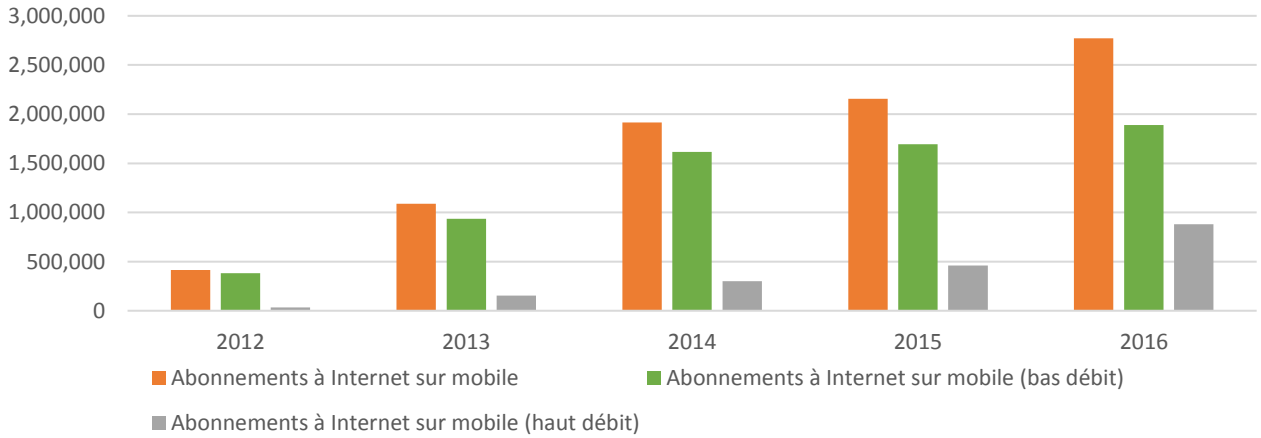
Figure 3.16: Mobile telephony market share



Source: RAECP Benin 2016.

113. MTN and Moov are the main operators since they together account for 82 percent of the market share in the number of mobile subscriptions at the end of 2016. In fact, in 2016, the penetration rate of mobile Internet was 24.97 percent, for a total of 2.77 million subscribers (RAECP Benin 2016).

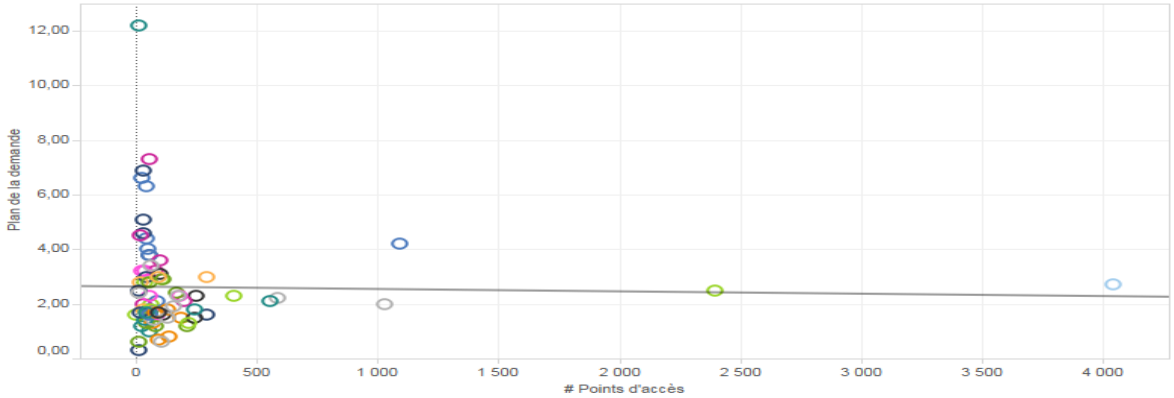
Figure 3.17: Evolution of the number of mobile Internet subscribers



114. **However, penetration of mobile broadband Internet proceeds at a slow place,** which points, on the one hand, to the low level of equipment of the population in mobile devices compatible with broadband technology (smartphones and feature phones) and, on the other hand, to the limitation in terms of potential of deployment of innovative digital payment "SIM agnostic" solutions (applications, QR code, and so on). Moreover, at the level of each municipality, the proportion of households having access to mobile Internet based on the number of mobile money service points available within the locality shows both the need to reinforce the density of the mobile money networks and the need to

expand and strengthen the capacity of mobile broadband Internet access networks to develop innovative digital finance solution.

Figure 3.18: Proportion of households (by municipality) having access to mobile Internet based on the number of mobile money points of service



Source: http://finclusionlab.org/fr/market-insights/benin (2017).

Recommendations:

- Develop/enhance the market offering digital finance service provider through innovation.
- Bring the digital tool into the system of existing tontines in the informal sector.
- Develop and extend (through the MNOs) the high-speed mobile Internet access network to enable financial sector players (banks, MFIs, fintech, MNOs) to deploy innovative mobile payment solutions.
- Develop payment services for taxicab bikes (zemidjans). Indeed, zemidjans collect large volumes and values of retail payment daily. According to the UNCDF's MM4P program, there are nearly 250,000 zemidjans in Benin. Beyond the payment aspects, the proximity of motorcycle taxis with the population makes them important levers for the promotion and popularization of the use of mobile money (especially for payment).
- Promote the development of partnerships (financial institution-mobile money providers) that would
    - Extend the geographic scope of financial services to peri-urban and rural areas, notably owing to the widespread presence of the networks of mobile money agents, and
    - Allow the launch of credit solutions on the market, based on credit scoring. In this regard, a dialogue framework will have to be set up between the BCEAO and the market players (banks, MFIs) to understand their concerns and even the regulatory constraints for the launch of such solutions (attrition rate, consumer protection, management of the risk of repayment defaults, and so on). Areas of collaboration and synergies could be envisaged between the UNCDF MM4P program and the future actions of the World Bank on digital finance in Benin. Indeed, the MM4P program has set up a working group on operational digital finance.

- Promote a framework for consultation and collaboration between the different providers of digital finance solutions for the development of interoperability, including the participation of the GIM-WAEMU as the main actor, designated by the BCEAO.

3.4.4 Main government billers

3.4.4.1 Main Billers

115. **At the government level, vast opportunities may be conducive to the digitalization of retail payments**. In Benin, the volume of banknotes and coins in circulation amounted to CFAF 580.9 billion in 2016. As of December 31, 2016, the cumulative volume of electricity and water bill payments, respectively, at SBEE and SONEB companies was in the order of CFAF 125 billion, or nearly 21 percent of the volume of currency in circulation.

3.4.4.2 Governmental Institutions

116. **Since 2017, the GoB has made the payment of vehicles tax mandatory for private vehicles**. Almost 300,000 vehicles are concerned. With regard to the car fleet, the volume of payments is estimated at CFAF 4.7 billion. The General Tax Directorate in charge of collecting this tax would consider launching, for 2018, in partnership with providers of mobile money solutions, a project for the payment of vehicles tax via mobile money.

Recommendations: Digitalize people's payments to major government billers

- Involve the government in the process of digitizing retail payments.
- Develop for large billers "open" digital payment solutions accepting the card (EPT) and mobile (mobile money, mobile applications, NFC, and QR code). However, the acceptance of digital payment at the level of large billers should be done with accompanying measures, in particular (feasibility study, measurement of the impact on the organization of companies, involving the social partners in the process of reflection of the transformation toward the digital system, and so on).
- Upgrade the management information systems of major billers, such as SBEE and SONEB, to enable them to support real-time transactions.
- Upgrade public treasury management information systems and expand the computerization of all public treasury offices and the Tax Department.

3.4.5 Policy and Regulations

Recommendations: Promote/popularize the regulatory texts of the BCEAO

- There is a lack of knowledge on the part of the suppliers, in particular with the MFIs, the banks, and the Post on the conditions and the modalities of exercise of the activity of agency banking and that of the activity of electronic money issuer. Also, the BCEAO, in collaboration with the PABFI and the PAMFI, should carry out communication and awareness-raising campaigns toward the banking sector's actors and decision makers and MFIs to promote and inform stakeholders on

- The possibilities open to the financial sector players (banks and MFIs) to deploy "agency banking" solutions and
- Instruction No. 008-05-2015, governing the conditions and modalities for the exercise of the activities of electronic money issuers in the member states of the WAEMU.

- Implement tax incentives to foster the widespread deployment of electronic payment cards and terminals (EPTs). These measures could result, in particular, in an exemption of all or part of the customs taxes, during a certain period (the time to develop the market), to reduce the costs of acquisition of equipment and to equip the population sufficiently with cards and in EPT at affordable prices.
- Promote a framework for consultation between the BCEAO and the banking sector players to identify the challenges and opportunities related to the large-scale development of bank branch solutions.
- Advocate and promote government involvement in P2G payment digitalization initiatives. The state is a major collector of retail payments (both in volume and value) such as taxes (stamps, stamp duties, and so on) and bills (water, electricity). As such, the state could send a powerful message to the people and play a key role in ensuring that financial services become popular and adopted with a strong potential impact on consumer confidence in the digitization of payments. All the determinants for the development of digital finance are in place in Benin (competitive environment, large-scale agent networks, customer base, and rapidly growing activity rate). It is important at this stage of the development of the activity to drive the demand through innovation and the involvement of the state in payment initiatives.

3.4.6 Development of the Ecosystem

Recommendation:

- Collaborate with the technical and financial partners operating in Benin as part of the development of digitalization of payments, including the UNCDF MM4P program.

3.5 Scenarios of Cash to Digital Migration

Table 3.6: Scenarios of cash to digital migration

		Payee		
		Government	**Business**	**Person (individual)**
Payer	**Government**			G2P Scholarship reception Bank; EP[a] Debit card; prepaid card; mobile (mobile money) ATM Agents/retailers (mobile money)
	Person (individual)	P2G Stamp duty; vehicle tax, driving license; tuition fees Bank; EP Debit card; prepaid card; mobile money EPT Mobile (mobile money) Agents/retailers (OTC) [b]	P2B Main billers ; merchants, zemidjans (taxis motorcycles) Bank; EP Debit Card; prepaid Card; mobile money (QR code, NFC) Mobile Money; EPT Agents/retailers (mobile money) Agents/retailers (OTC)	P2P Money transfers, tontines Bank; EP Debit card; prepaid card; mobile money ATM Agents/retailers (mobile money) Agents/retailers (OTC)

Note: Payment type or nature; Account; Used payment means; Channel/access network to the digital financial services.
a. Electronic portfolio; b. Over-the-counter transaction mode.

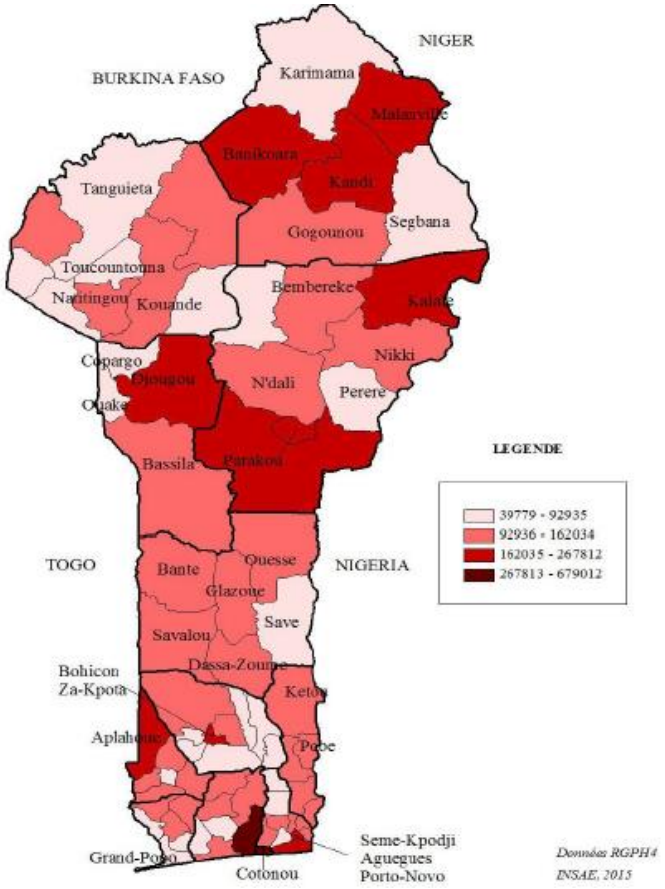
3.6 Annexes

Annex 1: List of countries

Afrique subsaharienne : liste des abréviations des pays

AGO	Angola	CPV	Cabo Verde	LSO	Lesotho	SLE	Sierra Leone
AZE	Azerbaïdjan	ERI	Érythrée	MDG	Madagascar	SSD	Soudan du Sud
BDI	Burundi	ETH	Éthiopie	MLI	Mali	SWZ	Swaziland
BEN	Bénin	GAB	Gabon	MOZ	Mozambique	SYC	Seychelles
BFA	Burkina Faso	GHA	Ghana	MUS	Maurice	TCD	Tchad
BWA	Botswana	GIN	Guinée	MWI	Malawi	TGO	Togo
CAF	République centrafricaine	GMB	Gambie	NAM	Namibie	TZA	Tanzanie
CIV	Côte d'Ivoire	GNB	Guinée Bissau	NER	Niger	UGA	Ouganda
CMR	Cameroun	GNQ	Guinée équatoriale	NIG	Nigéria	ZAF	Afrique du Sud
COD	Congo, Rép. dém. du	KEN	Kenya	RWA	Rwanda	ZMB	Zambie
COG	Congo, Rép. du	LBR	Libéria	SEN	Sénégal	ZWE	Zimbabwe
COM	Comores						

Annex 2: Population of Benin by province



AGRICULTURE FINANCE REVIEW

CHAPTER 4: Agriculture Finance Review Key Findings

In Benin, the agricultural sector is the mainstay of the economy in terms of employability and contribution to the GDP. The government strongly supports its transformation. Despite such public interventions, private sector financing remains limited.

4.1 Agriculture sector a key pillar in Benin economy

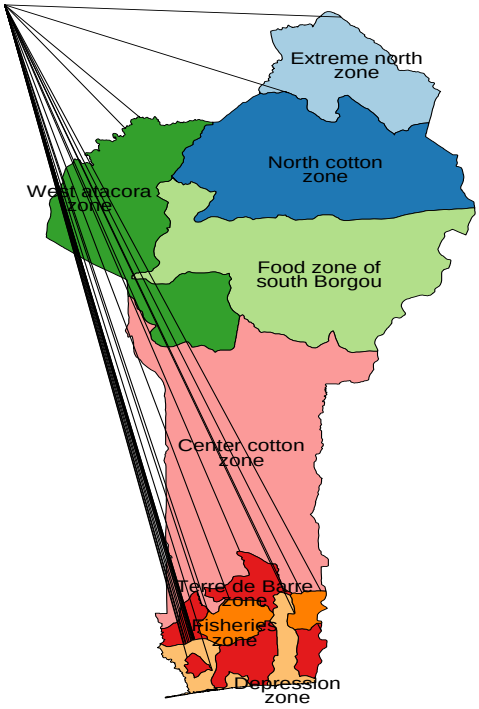
117. **The agricultural sector is an important pillar of the Beninese economy.** Indeed, it contributes on average to 32 percent to the GDP, 75–90 percent to export revenues, and 15 percent to government revenue and provides about 52.6 percent of jobs (World Bank 2016a). Agricultural growth is around 4 percent a year, barely above the population growth rate of 3.5 percent.

118. **Beninese agriculture is characterized by the predominance of smallholder farmers**. Their number was estimated in 2013 during the national population census at about 650,000 households (Union européenne 2016) having agriculture as their main occupation with an average land size of 1.7 ha. One third (34 percent) of these farms are of less than 1 ha.

119. **The country has a small number of agriculture enterprises and a plethora of very small retailers of agriculture products**. According to the last General Enterprise Census (RGE_2), an agricultural enterprise is defined as an enterprise that produces agricultural goods and has well-defined headquarters. RGE_2 identified 80 agricultural enterprises operating in the country. Enterprises engaged in the processing of cash crops that have an important economic weight are registered in the industry category. The census accounted 95 such enterprises of which 11 are engaged in the cotton processing and the rest in other agribusiness activities. The census recorded 19,558 enterprises (INSAE 2010) engaged in retail trade of cereals, tubers, and other food products. Women dominate the agricultural sector in a variety of roles, representing most informal agricultural traders and agri-food processors. However, formal agribusiness continues to be dominated by men.

120. **The country benefits from a substantial quantity of natural resources across different agroecological zones**. The country has a significant quantity of arable land of which only 20 percent is exploited (World Bank 2016a). Benin receives adequate rainfall and enjoys abundant water resources, both surface and groundwater. The country can be characterized by eight agroecological zones. In the Extreme North zone, the soil is highly fertile although prone to erosion, and the practice of animal-drawn tillage is common. In the North Cotton zone, cotton cultivation is well developed, but conditions are conducive to a wide variety of crops. In the Food Crop zone of South Borgou, the climate is tropical with unimodal rainfall, suitable for fruit and forest crops, and livestock breeding is fairly developed. In the West Atacora zone, the climate is tropical but with irregular and fluctuating rainfall, and the soils are scarcely fertile. The Central Cotton zone is a transitional zone and receives plentiful rainfall. The landscape is woody savanna with large expanses of land and fertile areas. The annual crops include cotton. The southern region of the country has the most abundant rainfall and the most fertile soil. In the Terre de Barre zone, with the soil degraded but easy to work, oil palm trees are commonly grown. In the Depression zone, the soil is fertile but difficult to work; the cropping system is dominated by maize. In the fisheries zone, arable land is not readily available, with soil in Littoral sandy and marginally fertile.

Map 4.1: Agroecological zones in Benin



Source: FAO 2009.

121. **This variety of agroecology area allows the production of a range of crops.** The main cash crops produced in the country are cotton, cashew, and pineapple, while the main food crops include cereals (maize, sorghum, millet), rice, tubers (cassava and yams). Outside of cotton, production systems are mostly low intensive, based on traditional low-input/low-output cultivation techniques. Below is a short overview of key value chains:[17]

- **Cotton:** The cotton system accounts for almost 30 percent of the country exports and contributes to around 6 percent of GDP formation in terms of value added. Cotton is the main economic activity of over 325,000 households and provides cash income to nearly 2.5 million people in Benin, which represent 25 percent of the country population. Cotton income also creates multiplier effects in transportation, crafts, trade, and construction. On the industrial front, cotton system is key with ginning factories, cotton seed mills, and cotton wool mill. Actors of the subsector are organized within the Interprofessional Association of the Cotton (AIC). Cotton production grew from 61,619 tons in 2011 to 172,002 tons in 2015. The cumulative revenue of the exports of cotton during 2011–2015 in monetary terms was CFAF 423,877 million.
- **Cashew:** The cashew subsector contributes to 8 percent of the country's export revenue (second only to cotton). Benin is the ninth-largest exporter of cashew nuts in the world. The production involves 60,000 producers and more than 200,000 actors (trade, processing, and exporting). Like in the cotton subsector, the actors are organized in an interprofessional organization. From 2011 to 2015, cashew exports increased significantly

[17] All data on value chains are from the Ministry of Agriculture, Livestock and Fisheries-Benin. 2017. Plan Stratégique de Développement du Secteur Agricole (PSDSA) 2025 et Plan National d'Investissements Agricoles et de Sécurité Alimentaire et Nutritionnelle (PNIASAN) 2017–2021.

by 156 percent from 51,348 tons to 131,241 tons. These exports brought to the country more than CFAF 148,250 million over 2011–2015.

- **Pineapple:** The production involves 15,000 producers, 70 percent of whom work on 0.5–1 ha of land and about 25,000 temporary jobs. The sector contributes to 1.2 percent of the country's GDP. Like other crops, the pineapple yield dropped from 56,193 kg per ha in 2008 to 47,382 kg per ha in 2015. Only 23 percent of national production is processed domestically. From 2011 to 2015, 2,576 tons of pineapple was exported internationally (excluding sub-regions) representing a value of more than CFAF 220 million. These exports abroad represent a small part of the country's exports. In fact, according to several studies less than 2 percent of the national pineapple production is exported internationally, while more than 35 percent of this same production is exported to the countries of the sub-region, mainly to Nigeria.
- **Maize:** It accounts for 78.3 percent of all cereal production in Benin, and 52.6 percent of the country's total area planted in 2015. About 550,000 producers are producing maize, 95 percent of which farm less than 2 ha. A small fraction of maize production is exported (0.04 percent) to Niger. Like other crops in country, maize yield also fell from 1,422 kg per ha in 2011 to 1,281 kg per ha in 2015, mainly due to poor weather conditions and non-optimal used of inputs.
- **Rice:** It accounts for 17 percent of the country's total cereal consumption (second only to maize). Rice production involves about 70,000 producers, 42 percent of whom are women, organized into more than 1,195 producer groups. Benin has an important potential of more than 325,000 ha of land suitable for rice production, which includes 205,000 ha of lowlands and 120,000 ha of plains. However, the average area planted over 2011–2015 is 65.935 ha. In 2015, the country imported 979,545 tons of rice, of which 70–90 percent[18] is reexported to Nigeria.
- **Animal (meat, milk, and egg) and fish sectors**: Current production of meat, milk, eggs, and fish is insufficient relative to the needs of the population. The potentialities of livestock and fisheries seem poorly valued, even though several studies show that they are high-value-added subsectors and are therefore potential sources of growth.

4.1.1 Receiving an increasingly attention from the authorities

122. **The GoB recognizes that agriculture is a key pillar of the economic development of the country, and thereby provides direct and indirect support for the sector development.** Thus, the government undertook major reforms in the agricultural sector designed to promote agricultural value chains and access to finance:

- Establishment of agricultural development poles and "drivers" crops. Seven (7) agricultural development poles have been identified alongside the twelve Departmental Directorate of Agriculture, Livestock and Fisheries (DDAEP), and the Government Action Plan (PAG) has selected ten crops to drive the sector development. These ten crops are the following: cashew, pineapple, maize, rice, cassava and vegetable products, meat, milk, eggs, and fish.

[18] All data on value chains are from the Ministry of Agriculture, Livestock and Fisheries-Benin. 2017. Plan Stratégique de Développement du Secteur Agricole (PSDSA) 2025 et Plan National d'Investissements Agricoles et de Sécurité Alimentaire et Nutritionnelle (PNIASAN) 2017 - 2021

- The adoption of value chain development through agricultural cluster approach. An agricultural cluster is based on the aggregation approach of actors with producers as the aggregated. An aggregator can be a processing firm, a Professional Agricultural Organization (PO), or one of the private companies that provide inputs and services to the aggregated and aggregator. The relationships between aggregated and aggregators are governed by a business model that responds to the needs of the market.

123. **The five-year program 2016–2021 of the Government of Benin for the economic and social development of country gives an important role to the agriculture sector.** Indeed, the Government Action Program (PAG) has (3) pillars: Consolidating democracy, the rule of law and good governance; engage the structural transformation of the economy, improve the living conditions of the populations. It includes 45 projects and institutional reforms with an estimated budget of 9 039 billion FCFA for five years. To initiate the structural transformation of the economy, more than (7 000) billions CFAF of investments are needed for projects particularly in agriculture, tourism and culture, digital economy and ICT, Energy, transport infrastructure and processing units, etc. Approximately 3 529 billion CFAF is projected from public financing excluding PPP and 5 510 billion CFAF is expected from private financing.

124. **To crowd in private sector financing to support PAG projects fully implementation particularly for the agriculture sector given the gap, the new strategic Plan for agriculture (*Plan Stratégique de Développement du Secteur Agricole,* PSDSA) has a specific axis on agriculture finance and insurance.** This dedicated axis focuses on the establishment of financing mechanisms and insurance adapted and accessible to different types of farms and categories of actors in the agricultural sector. This axis has four mains components:

- The operationalization of FNDA in synergy with the other funds and financing instruments (FNM, FNPEEJ)
- Strengthening insurance mechanisms in the agricultural sector
- The management of calamities in the agricultural sector through the establishment of a disaster fund
- Strengthening the agriculture component of the Municipal Development Support Fund, (FADeC-Agriculture)

125. **In addition, this strategic focus, the GoB ratified several texts to enhance the environment for private sector financing.** The leasing law (L. No. 2017-02) will allow banks as well as MFIs to offer leasing products that will contribute to opening access to credit to entrepreneurs, through the removal of two obstacles: the collateral requirement for the borrower and on the supply side is the facilitation of the recovery of equipment acquired by the bank in the case of defaults. The government has also ratified a law on factoring and on the Credit Bureau. The Credit Bureau currently concerns banks and MFIs under Article 44 and aims to reduce the asymmetry of information between lenders and borrowers.

126. **The GoB established financial instruments to attract private financing and facilitate access of smallholders and MSMEs to credit and insurance in the agriculture sector.** Indeed, the GoB established a risk-sharing facility and credit instruments that are described in the following paragraphs:

- **FONAGA:** The fund was established in 1990 and operates independent of the government. The initial allocation of funds was CFAF 1.5 billion with the mission of facilitating SME access to bank financing. Its main activity is the provision of partial guarantees to banks that grant loans to SMEs. FONAGA provides collateral for both short-term and medium—to long-term loans for private businesses in all economic sectors. However, the intervention of the fund in the agricultural sector is very limited. FONAGA has agreement with banks and deals with about 350

SMEs each year that obtain more than CFAF 2.5[19] billion of loans. In exchange for the commission paid to FONAGA, a borrower can access their services in two ways:

- A bank after its analysis can refer the client to FONAGA for a guarantee. FONAGA will conduct its own due diligence of the loan application and based on the result of the assessment can provide a guarantee for up to 50 percent.
- A client (SME) can also go directly to FONAGA to obtain a loan guarantee and/or support to develop a bankable business plan to access a loan. Again, the borrower will go through two assessments (FONAGA and the banks). The maximum amount of the partial guarantee provide by FONAGA to a single borrower is limited to CFAF 30 million.

- **FNDA:** The GoB adopted a new decree in June 2017 defining the new orientation of the funds. FNDA is the flagship financing instrument for the agricultural component of the PAG and aims to finance the development and modernization of the agricultural sector. FNDA will benefit the support of the Belgian cooperation and EU budget support for the revision of the manual of procedures and the development of the agricultural financing strategy. The GoB will allocate to FNDA CFAF 10 Billion (2.5 billion each year for four years). Several agricultural sector development projects including the World Bank-supported PADA plan to replenish the fund once it is operational. FNDA will have an approach of faire-faire by financial and nonfinancial service providers selected based on a REOI. FNDA planned to support the sector via three main windows[20] using different instruments. As of December 2017, the recruitment of the FNDA team was ongoing; the implementation strategy of the windows as well as the terms/conditions of the different instruments envisaged, and their operationalization was not fully defined:
    - **Window 1: Subsidies for agricultural sector investment.** The objective of this window is to establish adequate financial mechanisms to facilitate sustainable access to investment capital needed by farmers and/or private agricultural entrepreneurs. Two instruments are under consideration for this window: structural agricultural investment fund for public interest benefits and a fund oriented to private investments in individual farms and firms. About 20 percent of the FNDA budget is allocated to this window.
    - **Window 2: Access to Nonfinancial Services.** It aims to support through grants, access of agricultural promoters/entrepreneurs and their organizations to nonfinancial services such as research, training, capacity building, institutional support, and technical assistance. Three categories of grants are under consideration: Applied Agricultural Research and Extension Fund, Capacity Building Fund, and Labeling/Marketing Support Funds. About 15 percent of the overall FNDA budget goes to Window 2.
    - **Window 3: Access to financial services.** The objective is to enable smallholders/POs and agricultural entrepreneurs to access loans from banks and MFIs on terms adapted to the specific needs and constraints of the agricultural sector. Three types of instruments are under consideration: Interbank Guarantee Fund for refinancing between financial institutions; partial guarantee fund for producers/POs and agricultural entrepreneurs to access credits; subsidies on the interest rate charged to producers/POs and agricultural entrepreneurs. Window 3 will represent 55 percent of the overall FNDA budget.

[19] https://www.lanationbenin.info/index.php/economie-2/144-economie/12985-economie-le-fonaga-pret-a-renforcer-son-appui-aux-pme.

[20] Ministry of Agriculture, Livestock and Fisheries-Benin. 2017. Plan Stratégique de Développement du Secteur Agricole (PSDSA) 2025 et Plan National d'Investissements Agricoles et de Sécurité Alimentaire et Nutritionnelle (PNIASAN) 2017 - 2021

4.2 Despite such public supports, financial services remain a challenge in the agriculture sector

127. **Agricultural activities are marginally financed by the banking sector.** Indeed, Beninese banks granted CFAF 13.5 billion (2.2 percent) to the agricultural sector out of a total portfolio of CFAF 615.9 billion short-term credits and only CFAF 678 billion medium and long-term loans that represents 0.11 percent as of December 2017. In comparison, in the WAEMU even though agriculture finance remains low, it is more significant with 4.65 percent of short-term loans and 3.2 percent of medium—and long-term loans (BCEAO 2017).

128. **Apart from cotton, the banking sector is present to a lesser extent in the financing of the processing and commercialization of other export crop, notably cashew, pineapple, and shea**. The main banks in the agricultural sector (BOA, Orabank, Diamond, and so on) do not directly finance production. Banks' engagement in agricultural lending operations is only with formal producer groups and established agribusinesses and under high collateralization conditions often involving a land title, credit guarantee fund, insurance for perishable crops, and cash deposit. They mainly offer lines of credit and documentary credits for export. In cash crops value chains, producers are the main clients who do not have access to bank credits.

129. **BOA through its affiliate Equipbail offers leasing on the Beninese market, but the agricultural sector is not taking advantage of this innovative financing instrument**. Benin ratified the leasing law in March 2017. However, the adoption of this product by financial institutions and clients in the agricultural sector is low.

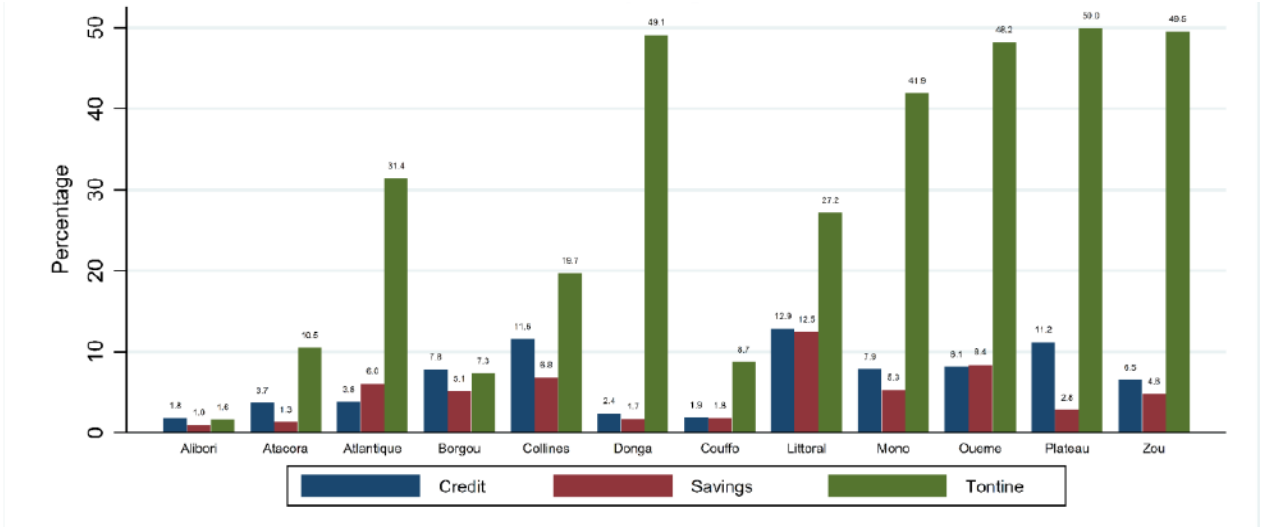
130. **The agricultural sector accounts for about 15 percent of the sector loans portfolio that represents CFAF 16 billion.** The MFIs' association considers the share of the loan portfolio dedicated to agriculture higher. Indeed, the association recognizes that loan registration per sector is done by loan officers and at some extent with limited reference to the different economic sectors funded.

131. **Financial cooperatives remain leaders in providing agriculture loans.** Financial cooperatives represent 76 percent of the MFIs listed in Benin and 62 percent of the total points of service and 71 percent of the clientele. They provide short-term loans for the production directly to producers and POs as well as medium-term loans (up to 3 years) for equipment. FECECAM, the largest MFI in Benin, had a growing agriculture lending portfolio that stood at 30 percent in 2016, 23 percent in 2015, and 17 percent in 2014. The remaining MFIs in the sector would rather provide loans for income-generating activities, particularly petty trade.

4.2.1 Binding constraints hampering access of stakeholders to financial services

132. **The exclusion of the formal financial system of 65 percent (Findex 2017) of adults ages 15 and above living in rural areas where agriculture is the main occupation contributes to limiting access to financial services provide by the private sector**. Beninese population particularly in rural areas resort to credit and savings with 46 percent of adults over 15 having borrowed money and 47.5 percent saving money. However, very few deals with formal financial institutions and rely on the tontine mainly. In fact, only 29% have an account in a financial institution, with 8.8 percent having saved in these institutions and 12 percent borrowing.

Figure 4.1: Use of financial products in Benin by region



Source: World Bank Group 2017b—Poverty Global Practice.

133. **The low level of financial education (and information) of rural populations contribute to hindering their inclusion.** Beninese speak many languages and 70 percent do not read French (Smart Campaign 2015). However, most financial institutions (banks and MFIs) have their documentation in French. They rely on verbal explanation done generally at the credit disbursement. A survey conducted by Smart Campaign (2015) revealed that Beninese clients lack basic information about the terms and conditions of financial products.

134. **The high level of informality in the agricultural sector hampers access to formal financial services**. At a firm level, the degree of formality is assessed according to their internal process (bookkeeping method) and their legal and institutional status (registration with the administrative authorities, affiliation to the social security register, and the company's statute). Informality is the main characteristic of agricultural enterprises with 66 percent of them not having a commercial register number, 88 percent not having a National institute of Statistic and Economic Analysis (INSAE) number, and 32 percent not keeping formal accounts. In Benin, one third of industrial enterprises do not have a commercial register and INSAE numbers. In addition, only 25 percent of industrial enterprises in Benin use a formal written accounting system (balance sheet and operating account).

135. **The lack of eligible collateral represents a major barrier for borrowers.** Agricultural producers mainly have three types of collateral that may be eligible for financial institutions lending: land, equipment, and output of the production. In Benin, land remains a major problem. The rural land system is marked by a dualism in which the modern land tenure system and the customary law regime coexist. Thus, financial institutions are reluctant to accept other types of documents other than land titles. Cultural restrictions on access to land are even more important for women. The level of agricultural mechanization is low and the realization of equipment and machinery collateral in case of default is difficult. Agricultural outputs can also be used as collateral like in warrantage. However, MFIs are the ones resorting to this financing system. The country has no legal provisions in place for the proper management and hygiene of agricultural warehouses. The only legal framework is related to food safety (Law No. 91-004) that has several decrees, some of which deal with the inspection and certification procedures for agricultural goods dedicated for export goods.

Box 4.1: Warrantage Financing System

Warrantage is a short-term credit system using the stock of agricultural products likely to increase in value at fairly regular intervals as collateral. In this financing system, members of a PO store part of their production in the storage facility at harvest for four to six months generally and obtain a loan from an MFI. The MFI verifies the quantity and quality of the products before granting loans. The credit amount is determined based on the market price at harvest and represents 70–80 percent of the value of the stock. The storage facility has a dual padlock management system: one lock for the PO and the other one for the MFI. The producers remain owners of their stocks, and each bag is marked by the name of the producer. A committee composed of PO members is responsible for the storage facility hygiene and the operation management with the MFI. About four to six months later, the PO collects from producers the reimbursement of the credit and repays the loan to the MFI. The stock is released afterward, and, in the meantime, the value is likely to have increased. Warrantage is commonly implemented in Sub-Saharan countries (Niger, Mali, Burkina Faso, Madagascar, and Ethiopia).

136. **Enterprises also face difficulties fulfilling the financial institutions' collateral requirement.** RGE_2 revealed that the lack of collateral is the leading cause of bank non-lending, cited by 40 percent of respondents (INSAE 2010). For small enterprises, banks request up to 142 percent of the loan amount as collateral and up to 109 percent for medium and large enterprises. Thus, as per the World Bank (2016b)**,** about 28 percent of enterprises in Benin reported having a checking or savings account as compared to 87 percent in Sub-Saharan Africa, and only 7 percent of enterprises have a loan or line of credit against an average of 23.1 percent for Sub-Saharan Africa (World Bank 2016b). This situation may be perhaps related to the lack of land tenure security for Beninese companies. About 65 percent of the enterprises surveyed do not know the land tenure of the parcel occupied by their company, and of those who know it, 80 percent do not have the land title.

137. **The lack of good quality information/data on production systems and markets represents a barrier to accessing finance in the agricultural sector.** The decision to grant a credit and the collateral required depends on the ability of the financial institution to efficiently collect, use, and analyze the information/data available to properly assess the associated risk. It is difficult to obtain reliable statistics on Benin's agricultural sector, and when the data do exist, they lack key information on the segmentation of the rural population across farm size, crops produced, assets held, and so on. Acknowledging the weaknesses of data, a National Platform of Agriculture Producers (PNOPPA) with the support of the Swiss Cooperation started a rural identity card project that aimed at defining a typology of farms.

4.2.2 Enduring constraints in the Supply of Agriculture Finance Limiting its Attractiveness

138. Financial institutions face constraints that limit the attractiveness and development of financing for the agricultural sector:

- **Lack of proximity:** Although the presence of banks on the territory has increased in recent years with 209 branches and 301 ATMs, they remain mainly located in urban centers and remote from production areas, with the density of 3.91 commercial branches per 100,000 adults[21] commercial bank branches 100,000 adults, and 10.48 MFIs branches per 100,000 adults. While more recent BCEAO data (Rapport Commission Bancaire 2015) shows progress for commercial bank branches, Benin still lags behind most countries in the zone with an average in Sub-Saharan Africa of 5.3 per 100,000 adults. Transaction costs are higher in rural areas than in urban areas for the population is more dispersed population.

[21] Financial access survey (FAS) data (2014 to 2016).

- **The risk factors inherent in agriculture often inhibit financial institutions from lending:** Several kinds of risks and uncertainties exist in the sector: (a) yield risks due to weather, diseases, and insects; (b) market price risks due to local and global weather and market variations; (c) timing uncertainties due to farm-specific weather variations; (d) uncertainties in the timing of repairs and reinvestments; and (e) illness, accidents, and other life-cycle risks. Some recent analysis indicates that without adaptive measures such as enhanced crops and improved irrigation, agricultural production in Benin could decrease by 3–18 percent by 2025.[22] Market risks, and in particular price volatility, is a significant risk affecting both food and cash crops and livestock. Benin being largely dependent on trade with Nigeria, the exchange rate fluctuations between the franc and the naira could constitute a risk factor. On the Beninese market, the supply or risk management instruments are limited. In the agricultural sector, insurance take-up is very low despite the presence of a national insurance company (AMAB) since 2007. The insurance market represents only 0.7 percent of GDP, with no significant increase over the last five years. the culture of insurance as a risk coverage instrument remains low in the sector. Very few producers know AMAB and those aware judges the premium expensive (on average 7.5–8.5 percent before tax according to the zone). The agriculture insurance premium in Benin is neither subsidized nor tax exempt as opposed to other countries such as Senegal or Cote d'Ivoire. The risk facility of the government, FONAGA, is considered by collaborating partners expensive and it have limited **financial (limited capital) and technical capacities.**
- **Limited medium—to long-term financing:** The portfolio of banks and MFIs is dominated by short-term loans (52 percent for banks and 65 percent for MFIs) due to the nature of resources they have. The savings collected are short term and therefore very volatile. Large agricultural loans for investment are limited as financial institutions do not have adequate long-term deposits or other funding liabilities to finance the longer-term loan portfolios that larger farms and firms need.
- **Limited capacity of financial institutions staffs:** Agriculture finance has its own specificities and financial institutions lack the capacity in the analysis of agricultural projects and associated risks. In fact, very few Beninese banks have specialized units in agricultural finance or in meso-finance in general. As a result, agricultural credit is analyzed and treated like a credit in any economic sector, with an offer based on analysis of collateral and unsuited to the agricultural calendar.
- **Lack of bankable projects in agriculture:** Many banks face difficulties in getting bankable projects based on identified market needs. In financial terms, a bankable project would usually refer to a project that banks are willing to finance since there will be a return on investment. Project promoters often lack the capacity to put together complete and sound business proposals. A substantial number of financing requests are not granted.

4.3 Opportunities are emerging

139. **Value chain financing are connecting producers to the market.** In Benin, such experiences are promoted by producer associations as well as development partners such as the German Agency for International Cooperation (*Deutsche Gesellschaft fur Internationale Zusammenarbeit,* GIZ), IFDC, and Belgium Technical Cooperation (CTB) in value chains other than cotton. A small number of agreements have taken root in the pineapple sector, where exporters provide inputs and technical assistance to

[22] Benin Climate Change Profile (2015). Prepared with the support of the Dutch Cooperation.

producers in return for the promise of delivery of their future crops. In the shea sector, the company Fludor-SA provides pre-financing and buys the almonds from the association of shea collectors. This type of integration increases the efficiency of the chain and plays an important role in helping small producers access inputs and training.

140. **Banks are increasingly interested in these models to gear credit in the agricultural sector**. This credit scheme via aggregators having the ability to manage and market final or semifinal products creates the conditions for producers to have the means of production, produce in quantity, and sell at one negotiated price. The financial institution deals with aggregators that are the "locomotives" draining the entire chain of value added. These aggregators are generally professionally managed and have sufficient collateral contributing to attracting private financial institutions.

141. **A private institution, FINAGRO facilitating agribusiness access to loans through the provision of guarantees for short-, medium-, and long-term loans is encouraging.** FINAGRO offers loan guarantees to small and medium agro-enterprises, cooperatives, and other professional agricultural organizations. These agricultural enterprises must have a project with funding needs for at least CFAF 5 million and must pay a certain number of commissions to FINAGRO. The guarantee provided by FINAGRO varies from 50 percent to 80 percent of the risk. FINAGRO also offers business development services to agribusinesses. On the supply side, FINAGRO offers financial institutions expertise on the analysis/assessment of agricultural project, the technical follow-up of the project financed by banks, studies on the various agricultural sectors, and the training of bank staffs in agricultural finance. FINAGRO has also started working with some MFIs, in collaboration with the Consortium Alafia. The World Bank-financed Agricultural Diversification Project (PADA) set up a guarantee fund in collaboration with FINAGRO as the technical operator and ORABANK BENIN as the financial intermediary.

Box 4.2: Guarantee Scheme of PADA

PADA set up a guarantee scheme to facilitate access to credit for the agricultural enterprises and professional/interprofessional organizations involved in the value chains supported by the project. A partnership agreement was signed with ORABANK BENIN for 15 months with a capital for the guarantee of CFAF 500 million with a leverage effect of two domiciled in a special account opened in the books of ORABANK BENIN and remunerated at 2 percent per year for balances exceeding CFAF 100 million and 1 percent on downstream commissions. The guarantee fund excludes defaults arising from natural disasters. This guarantee system became effective in April 2016. It covers loans up to a maximum of CFAF 50 million for a maximum maturity period of five years and interest rates of 12 percent per year for investment loans and 10 percent for operating loans. One year after implementation, in April 2017, 47 loan applications prior reviewed by the PIU and FINAGRO had been submitted to ORABANK, of which 16 were rejected and only 3 were approved and disbursed. The loan granting process of ORABANK is considered by beneficiaries as an overly long mechanism.

Source: PADA website (consulted December 2017) http://www.procad.org/pada/public/actu.php?actu=246.

142. **Agriculture insurance started receiving support from development partners.** The PSDSA recognizes the need to develop agriculture insurance mechanisms. The Global Index Insurance Facility (GIIF) of the World Bank Group supported the introduction of index-based insurance in Benin. BOAD is supporting via AMAB the development of index insurance for cotton and rice with an objective to insure 100,000 farmers.

Box 4.3: GIIF intervention in Benin

As a multi-donor trust fund, GIIF's objective is to expand the use of index insurance as a risk management tool in agriculture production, food security, and disaster risk reduction, because it helps farmers and households reduce their risks and protect their assets and livelihoods.

Index insurance is an innovative approach to insurance provision that pays out benefits on the basis of a predetermined index (that is, rainfall level) for loss of assets and investments resulting from weather and catastrophic events, without requiring the traditional services of insurance claims assessors. Before the start of the insurance period, a statistical index is developed that measures deviations from normal for parameters such as rainfall, crop yield, temperature, and so on.

In Benin, GIIF has worked on creating an enabling legal and regulatory environment with AMAB, which requested support from the GIIF World Bank team to design and implement index-based insurance as well as to provide AMAB with capacity building. In 2012, the existing regulatory instruments were revised to include micro and agriculture index insurance, followed by a national workshop organized by the Benin regulatory authority. Five awareness and training workshops were also subsequently provided to producers, microfinance institutions, and AMAB staff on product features, product management and sales techniques, and claims management process. In December 2017, AMAB participated in a regional training organized by GIIF in Senegal on designing and pricing index insurance products.

GIIF (2015) limited its intervention in Benin, as the role and anchorage of AMAB in state-supported agricultural programs was not clearly defined.

Source: World Bank Group. 2016a.

143. Based on these emerging opportunities and constraints identified in this review, the following recommendation are suggested to crowd in more private sector financing in the agriculture sector:

- **Improve risk management in agriculture finance with risk and credit enhancement instrument such as agriculture insurance and partial portfolio credit guarantee (PPCG):**
  - **Develop and implement a dedicated partial portfolio credit guarantee (PPCG) for agriculture sector offer to both banks and MFIs to enhance agriculture finance development**. Credit guarantees aim to absorb part of the default risk of the borrower and by providing this level of comfort, financial institutions would increase credit supply to credit constrained firms and farmers. They can be assigned to each loan (individual) or can cover a portfolio of loans for the targeted group of beneficiaries. The portfolio coverage is recommended and offer to bank as well as MFIs. This is suggestion aims to encounter the challenges of existing guarantees schemes (analysis of the credit request at two levels: by the guarantee fund and the lending bank, long processing time, mainly offered through banks). The PPCG is based on the principle of symmetrical automaticity under which all credits respecting predefined eligibility criteria agreed are automatically cover without carrying out an analysis of the quality of the risk of the credit application. The definition of eligibility criteria brings flexibility to the PPCG. As such, it would be possible for the government to define criteria taking into account their priorities in supporting producers and MSMEs. The role of women in Benin's agricultural sector is important, and any meaningful initiative to support agricultural development must explicitly take into account gender specificities related to the multiple problems of collateral women face to access to credit. Eligible criteria for the PPCG could be gender sensitive. **To** operationalize **such PPCG in Benin, the following are suggested:**
    - **The creation of an "agriculture" window within one of the existing Guarantee schemes (FONAGA, FINAGRO)**. It will be necessary first to conduct a thorough

analysis of the capacities of these structures on the basis of sustainability, efficiency, and credibility conditions to select a managing structure for the PPCG.

- **For a guarantee fund to cover its management costs, a minimum capital of U.S.$5 million is required, which will provide guarantees for a maximum outstanding loans portfolio of U.S.$20[23] million**. This calculation is based on the following assumptions; however, it is important to note that a detailed assessment of the PPCG volume in Benin will require an analysis of the potential demand for credit for each value chain.

  a) Minimum management costs: U.S.$300 000

  b) Fees charged to participating financial institutions as a percentage of the credit amount: at least 1.5 percent

  c) Leverage effect of the guarantee: maximum 4

- **The success of PCG is the accompaniment with technical assistance for the managing structure of the PPCG and for the participating financial institutions (banks and MFIs).**

  d) A technical assistance to help launch the PPCG and to train the managing structure staff capacities on the management of such guarantee.

  e) Technical assistance to banks and MFIs using the PPCG.

Box 4.4: PPCG in Madagascar

The Government of Madagascar with the support of the World Bank set up in 2014 a PPCG for SMEs. Eight financial institutions participated in this scheme (six banks and two MFIs). At the end of 2017, loans guaranteed since the launch represented in total U.S.$46 million. The outstanding credits to SMEs in the guarantee in March 2018 were U.S.$26.5 million for 2,065 credits. In early 2018, a new window under the PPCG dedicated to agricultural credits to farmers and agri-SMEs was started. The outstanding agricultural credits in the guarantee in March 2018 (2 months of activity) amounted to U.S.$1.4 million for 370 credits. In Madagascar, there are two guarantee schemes (a national guarantee fund and a private). The PPCG is managed by a private guarantee structure.

- **Promote the adoption of agriculture insurance as the country has already a dedicated insurance company offering agriculture insurance products** with the following actions:

  - Strengthen the capacity of AMAB to diversify its supply of insurance products and conduct a feasibility study on developing index insurance products on strategic crops and livestock other than cotton.

  - Strengthen the capacities of the regulator of the insurance sector, Insurance Directorate, on agricultural insurance including innovations such as index insurance.

  - Link insurance products to credits granted by financial institutions to producers using government's facilitation to credit instruments such as FAARF, FNDA.

[23] Agriculture Finance Diagnostic Dissemination ppt: At international level, a recent World Bank study of 60 PCGs for SMEs shows that the average fee charged by the guarantee funds amounts to 2.4 percent, with a minimum of 1 percent and a maximum of 3 percent. The average leverage rate is 3.3. In Africa, the average leverage rate is 1.7 (World Bank Group 2016b)

- Support the adoption of insurance by producers through incentives measures to make it affordable such as VAT exemption and premium subsidies. Countries in the WAEMU zone have implemented measures such as subsidies and VAT exemptions on agricultural insurance premiums. In Senegal, the government subsidizes agricultural insurance premiums at 50 percent and exempts it from VAT. In Cote d'Ivoire, the government opts for VAT exemption on agricultural insurance premiums.

- **Conduct a readiness assessment for the Warehouse Receipt Finance**. Benin has a variety of ecosystems and microclimates that allow for a diversity of productions. However, commodity-backed financing is nascent with warrantage offered by few MFIs. The readiness assessments will assess the commodities likely to be used; the potential users of the system, warehousing industry, financial institutions, institutional capabilities, and the financial viability of a WRS.

- **Strengthen the offer of agriculture finance by MFIs and banks and set up the conditions for its sustainable expansion**:
  - **Strengthen the capacity of financial institutions (MFIs and banks) in all actions and procedures to supply agricultural credit.** It would be key to strengthening the skills of the financial institutions' staff on agricultural lending techniques to improve and sustain the products offered by leveraging digital solution emerging in the market. Some synergies can be put in place for this action with agricultural projects supported by development partners.
  - **Despite the significant challenges faced by MFIs in Benin, they provide an average of CFAF 16 billion financing to the agricultural sector (see Chapter 2). Improving the microfinance sector is a prerequisite for the development of agricultural finance**, as the poor performance of many MFIs limits their ability to provide sustainable financial services in general and agriculture in particular.

- **Strengthen the demand (producers/agri-MSMEs) for agriculture finance**. Thus, it is suggested to:
  - **Improve the professionalization of agricultural cooperatives and facilitate access (cooperative and their members) to formal financial services** through:
    - **A deeper analysis of the set up and institutional health of producer cooperatives**.
    - **Establishment of a rating system for agricultural cooperatives**. According to the rating of a cooperative, technical assistance to build capacity could be provided.
    - **Development of a targeted financial education campaign for agricultural stakeholders**. Given the literacy level (see Chapter 2), it is recommended that the tools of this campaign be in local language and developed in the DIFAE, the professional associations of banks and MFIs.
    - **Targeted technical support to enhance the capacity of emerging farmers and agricultural MSMEs is required to strengthen and increase the effective demand for agricultural finance.** A binding constraint to developing robust agricultural banking systems is the lack of effective demand. Business development services for agriculture enterprises will be particularly important for the country to achieve its value chain and agro-industrial development objectives. Structures such as FINAGRO

and the Center for the Promotion and Assistance of Small and Medium Enterprises (CEFEPE) could be envisaged for such services.

4.8 Annex

Box. 4.5 Credit Guarantee Scheme Principles

Principle 1: The CGS should be established as an independent legal entity on the basis of sound and clearly defined legal and regulatory framework to support the effective implementation of the CGS' operations and the achievement of its policy objectives.

Principle 2: The CGS should have adequate funding to achieve its policy objectives, and the sources of funding, including any reliance on explicit and implicit subsidies, should be transparent and publicly disclosed.

Principle 3: The legal and regulatory framework should promote mixed ownership of the CGS, ensuring equitable treatment of minority shareholders.

Principle 4: The CGS should be independently and effectively supervised on the basis of risk-proportionate regulation scaled by products and service offered.

Principle 5: The CGS should have a clearly defined mandate supported by strategies and operational goals consistent with policy objectives.

Principle 6; The CGS should have a sound corporate governance structure with an independent and competent board of directors appointed according to clearly defined criteria.

Principle 7: The CGS should have a sound internal control framework to safeguard the integrity and efficiency of its governance and operations.

Principle 8: The CGS should have an effective and comprehensive enterprise risk management framework that identifies, assesses, and manages the risks related to CGS operations.

Principle 9: The CGS should adopt clearly defined and transparent eligibility and qualifications criteria for SMEs, lenders, and credit instruments.

Principle 10: The CGS's guarantee delivery approach should appropriately reflect a trade-off between outreach, additionality, and financial sustainability, taking into account the level of financial sector development of the country.

Principle 11: The guarantee issued by the CGS should be partial, thus providing the right incentive for SME borrowers and lenders and should be designed to ensure compliance with the relevant prudential requirements from lenders, in particular with capital requirements for credit risk.

Principle 12: The CGS should adopt a transparent and consistent risk-based pricing policy to ensure that the guarantee program is financially sustainable and effective for both SMEs and lenders.

Principle 13: The claim management process should be efficient, clearly documented. and transparent providing incentives for loan loss recovery and should align with the home country's legal and regulatory framework.

Principle 14: The CGS should be subject to rigorous financial reporting requirements and should have its external financial statements audited externally.

Principle 15: The CGS should periodically and publicly disclose nonfinancial information related to its operations.

Principle 16: The performance of the CGS—in particular outreach, additionality, and financial sustainability—should be systematically and periodically evaluated and the findings from the evaluation should be publicly disclosed

Source: World Bank Group 2016b.

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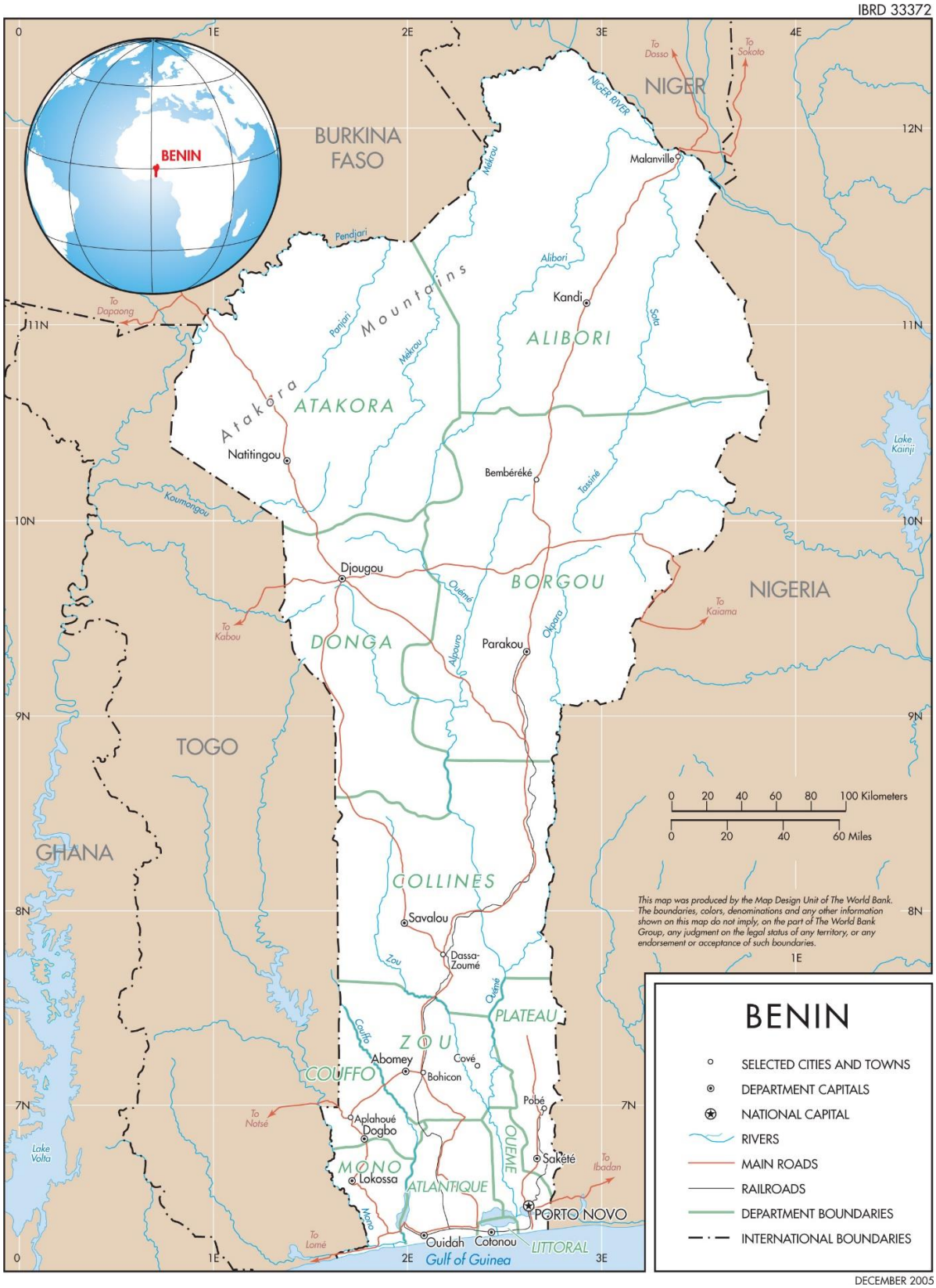
Map


IBRD 33372
BENIN
BURKINA FASO
NIGER
NIGERIA
TOGO
GHANA
NIGER RIVER
Malanville
Kandi
ALIBORI
ATAKORA
Atakora Mountains
Natitingou
Bembéréké
BORGOU
Djougou
DONGA
Parakou
COLLINES
Savalou
Dassa-Zoumé
ZOU
PLATEAU
COUFFO
Abomey
Bohicon
Covè
Pobè
Aplahoué
Dogbo
OUEME
Sakété
MONO
Lokossa
ATLANTIQUE
PORTO NOVO
Ouidah
Cotonou
LITTORAL
Gulf of Guinea
Lake Kainji
Lake Volta
To Dosso
To Sokoto
To Dapaong
To Kabou
To Kaiama
To Natsé
To Ibadan
To Lomé
0 20 40 60 80 100 Kilometers
0 20 40 60 Miles
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BENIN
SELECTED CITIES AND TOWNS
DEPARTMENT CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
DEPARTMENT BOUNDARIES
INTERNATIONAL BOUNDARIES
DECEMBER 2005