BENIN

COUNTRY-LEVEL SAVINGS ASSESSMENT
CGAP SAVINGS INITIATIVE

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Brigit Helms, Lead Microfinance Specialist, CGAP
Rani Deshpande, Microfinance Analyst, CGAP
Mark Pickens, Associate Microfinance Analyst, CGAP
Nazaire Sado, BIM
**LIST OF ACRONYMS**

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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AgeFIB</td>
<td>Agence de Financement des Initiatives de Base</td>
</tr>
<tr>
<td>ATM</td>
<td>Automatic teller machine</td>
</tr>
<tr>
<td>BCEAO</td>
<td>Banque Centrale des Etats de l’Afrique de l’Ouest</td>
</tr>
<tr>
<td>CMF</td>
<td>Cellule de Microfinance</td>
</tr>
<tr>
<td>CNE</td>
<td>Caisse Nationale d’Epargne</td>
</tr>
<tr>
<td>FCFA</td>
<td>Franc de la Communauté Financière Africaine</td>
</tr>
<tr>
<td>GEC</td>
<td>Groupement d’épargne et de crédit</td>
</tr>
<tr>
<td>IMCEC</td>
<td>Institutions mutualistes ou coopératives d’épargne et de crédit</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance institution</td>
</tr>
<tr>
<td>FECECAM</td>
<td>Fédération de Caisses d’Epargne et de Crédit Agricole Mutuel</td>
</tr>
<tr>
<td>MIS</td>
<td>Management information system</td>
</tr>
<tr>
<td>PAPME</td>
<td>Projet d’Appui aux Petites et Moyennes Entreprises</td>
</tr>
<tr>
<td>PADME</td>
<td>Projet d’Appui aux Développement des Micro-Entreprises</td>
</tr>
<tr>
<td>PARMEC</td>
<td>Projet d’Appui à la Réglementation sur les Mutuelles d’Epargne et de Crédit</td>
</tr>
<tr>
<td>SFD</td>
<td>Système financier decentralisé</td>
</tr>
<tr>
<td>UEMOA</td>
<td>Union Economique et Monétaire Ouest-Africaine</td>
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EXECUTIVE SUMMARY

This report summarizes the results of the third test of the Country-Level Savings Assessment Toolkit being developed as part of CGAP’s Savings Initiative. The purpose of the toolkit is to help government agencies, donors, and others identify opportunities and constraints in increasing poor people’s access to high-quality deposit services. The methodology examines four levels of the financial system: clients, financial institutions (micro), supporting infrastructure (meso), and policy (macro). It concludes with suggestions for possible strategies to improve the quality and quantity of deposit services available to poor and low-income households.

A decade-and-a-half after a banking collapse that saw the failure of all three of Benin’s state-run banks, mistrust of the banking system is still widespread. At the same time, a lack of data on client patterns and preferences with respect to savings perpetuates a widespread perception that low-income Beninese do not or cannot save.

In reality, there is a deeply entrenched tradition of saving in Benin. Much of it occurs in the informal sector. Despite the number and variety of formal deposit-taking institutions, they have been largely unsuccessful in competing with informal deposit service providers in terms of costs and convenience. Moreover, the safety of savings in formal institutions is not guaranteed because institutional financial performance is highly variable.

The quality of management support available to retail institutions is also variable, although training and TA providers are numerous. This issue is especially worrisome for cooperative networks, which are delegated supervision responsibility by the Ministry of Finance. In addition, institutions and networks have not established internal liquidity management mechanisms, and they must accomplish this task by transacting with banks. Easily available bank refinancing, along with donor and government lines of credit, diminish the incentives for retail institutions to focus on deposit mobilization.

At the macro level, the assessment does not find that the much-analyzed regulatory framework in Benin significantly hinders small deposit mobilization, although some conservative prudential ratios reduce the attractiveness of deposits for banks. Regarding MFIs, the framework is, if anything, too permissive, resulting in a plethora of often weak deposit-taking institutions that cannot be effectively monitored with current supervisory resources. Also of concern are state-run initiatives that undermine strong MFIs’ viability and incentives to mobilize deposits.

This analysis suggests nine strategies to improve small deposit mobilization in Benin that warrant further research and reflection:

1. **Research client preferences** to understand the size and characteristics of the market.
2. **Design and actively market deposit products and delivery mechanisms** tailored to the needs of specific low-income client niches.
3. **Create a system that enables the public to distinguish among different types of institutions** based on their regulatory status and financial soundness.
4. **Conduct consumer education campaigns** about the importance of saving in regulated institutions.
5. **Consider consolidating institutions and networks**—but ensure management capacity to match their size.
6. **Accelerate the use of e-payment mechanisms** to integrate proximity to customers, security, and cost-effectiveness in deposit service delivery.
7. **Improve supervision methods and increase supervision capacity** within the government.
8. **Consider adjusting certain provisions in the regulatory framework** that reduce the attractiveness of deposits as a source of funds.
9. **Review the proposed National Microfinance Policy** through a savings mobilization lens.
INTRODUCTION

This report summarizes the results of CGAP’s country-level savings assessment in Benin. The assessment was conducted to test a Country-Level Savings Assessment Toolkit being developed as part of CGAP’s Savings Initiative. The purpose of the toolkit is to help government agencies, donors, and other interested parties define potential strategies for increasing poor people’s access to high-quality deposit services.

Deposit services play multiple roles in development. For the economy, collecting large numbers of small-balance deposits produces pools of capital that can be efficiently invested. Financial institutions can also derive substantial benefits from deposit mobilization, including customer acquisition, product diversification, and access to a potentially inexpensive and stable source of funds. Most important, well-designed deposit services can help low-income clients build a cushion against economic shocks, enabling poor households to smooth consumption and reduce vulnerability.

The toolkit examines evidence on demand for deposit services among low-income clients and identifies opportunities and constraints to meeting that demand. It examines three levels of the financial system: (1) the capacity for small deposit mobilization among financial service providers (“micro” level); (2) financial infrastructure and second-tier support for the micro-level institutions to reach scale (“meso” level); and (3) public policies and government entities that create an enabling environment for savings mobilization (“macro” level). It concludes by identifying promising strategies to improve the quality and quantity of deposit services available to low-income households.

The assessment draws on (1) analysis of existing studies and information on demand levels, institutional capacity, and the macro environment in Benin (see Annex II for the list of documents consulted); (2) interviews with 55 informants related to small deposit mobilization in Benin during the in-country assessment carried out July 11–23, 2005 (see Annex II for the list of individuals consulted); (3) a focus group with representatives of 12 microfinance institutions (MFIs), who provided information on their deposit products for this study; and (4) visits to financial institutions to collect information on savings products.

Defining Savings: Poor people save in various forms—financial and non-financial, formal and informal. The focus of the assessment is on deposits in formal financial institutions, defined as non-compulsory liabilities that come from clients.

Overview of savings in the Beninese economy and financial system

Benin’s combination of political and economic stability should, in theory, provide highly favorable conditions for the mobilization of financial savings. Inflation has been low and steady for the past several years, averaging 2.7 percent between 1999 and 2002. The economy has simultaneously registered impressive performance, growing at an average annual rate of 8 percent over the same period. However, this drops to only 2.3 percent when adjusted for inflation and population growth. Moreover, 2004 performance is widely expected to be worse, as the economy suffered shocks to two of its main drivers: cotton farming and trade with Nigeria. The country’s 2003 GNI of $3 billion ($440 per capita) is therefore not expected to grow significantly.

The small size of the economy partly explains the small size of Benin’s banking sector. In 2004, the country’s nine banks had 42 branches

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1 For more information on CGAP’s savings initiative and information on savings mobilization visit the CGAP Savings Information Resource Center (SIRC) at www.cgap.org/savings.


3 The assessment team consisted of CGAP staff Brigit Helms, lead microfinance specialist; Rani Deshpande, microfinance analyst; and Mark Pickens, research analyst; and consultant Nazaire Sado. Consortium Alafia organized meetings and mission logistics for the team.
Table 1: Key Economic and Banking Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (2003)</td>
<td>6,769,914</td>
</tr>
<tr>
<td>Economically active population (2003)</td>
<td>2,830,876</td>
</tr>
<tr>
<td>Total number of households (2003)</td>
<td>1,210,463</td>
</tr>
<tr>
<td>Average US dollar exchange rate, 2004</td>
<td>528 FCFA</td>
</tr>
<tr>
<td>Inflation (2003)</td>
<td>1.5%</td>
</tr>
<tr>
<td>GNI per capita (2003, Atlas method)</td>
<td>$440</td>
</tr>
<tr>
<td>National savings rate (2002)</td>
<td>9.9%</td>
</tr>
<tr>
<td>Liquid liabilities/GDP (2002)</td>
<td>26.4%</td>
</tr>
<tr>
<td>Savings in banks/GDP (2002)</td>
<td>16.4%</td>
</tr>
<tr>
<td>Cash in circulation/deposits in banks (2003)</td>
<td>70.9%</td>
</tr>
<tr>
<td>Private credit/GDP (2002)</td>
<td>10.5%</td>
</tr>
<tr>
<td>Savings in banks/private credit</td>
<td>156.2%</td>
</tr>
<tr>
<td>Daily minimum wage (2004)</td>
<td>$1.71</td>
</tr>
<tr>
<td>Daily income at national poverty line, rural areas (2000)</td>
<td>$0.27</td>
</tr>
<tr>
<td>Daily income at national poverty line, urban areas (2000)</td>
<td>$0.48</td>
</tr>
<tr>
<td>% Population under national poverty line (2001)</td>
<td>33%</td>
</tr>
<tr>
<td>Estimated number of accounts in financial institutions</td>
<td>1,394,498</td>
</tr>
<tr>
<td>Estimated total financial institution branches</td>
<td>1,446</td>
</tr>
<tr>
<td>Population/financial institution branch</td>
<td>4,682</td>
</tr>
<tr>
<td>Financial institution branches/million inhabitants</td>
<td>214</td>
</tr>
</tbody>
</table>

Sources: World Bank, BCEAO, UNDP, CNE. Note: Totals for branches and accounts are based on the most recent data available (2003–2005) from BCEAO reports on the banking sector and a survey of 79 MFIs, the CNE, and CGAP estimates. Not all of these institutions take deposits; when only authorized deposit-taking institutions are counted, the figure for population per branch rises to just under 12,000:1. See Table 3 for breakdown of branches by type of institution.

These figures must be viewed in the context of the complete disappearance of the sector that occurred as a result of a banking crisis in the late 1980s. In a crash that preceded a generalized crisis in Benin’s then-communist economy, all three state-run banks failed, and 11 billion FCFA (US$21 million) of deposits were frozen. While two of the banks were liquidated, clients of the failed Caisse Nationale de Crédit Agricole were transferred to the newly created FECECAM, now the country’s largest network of savings and credit cooperatives. The only large financial institution to survive the crisis was not a bank, but rather the Caisse National d’Epargne (CNE), the financial services arm of the post office.¹

¹ The 7% figure assumes each bank account belongs to a unique user; stakeholder interviews indicated that a rate of 4–5% was more likely.


⁸ These latter figures are roughly similar to those in neighboring Togo (23.6% and 16% respectively), which is similar from a size and economic development standpoint, but lower than the region’s economic powerhouse Nigeria (28.5% and 20% respectively).¹

⁴ Unless otherwise specified, all BCEAO data cited in this paper were drawn from documents published by the head office in Dakar, Senegal.

⁷ The CNE is currently in the process of becoming independent from the post office.
La génération méfiante (the mistrustful generation)

The relatively recent memory of the banking crisis, along with the deep devaluation of the regional currency in 1994, largely explains the often-cited problem of client mistrust of financial institutions. One interviewee termed those who lived through this crisis “la génération méfiante,” because the memory of the loss of their savings continues to color their savings behavior today.

However, client mistrust is far from limited to the banks. Anecdotes abound of fly-by-night institutions and unscrupulous informal operators who have made off with client savings. For honest institutions, this translates into an uphill battle to convince clients that their deposits are safe. The lack of deposit insurance for the microfinance institutions (MFIs) does not help this cause.

Lack of confidence is mutual

Many institutions seem to believe that poor clients are incapable of saving. Many stakeholders commented that (1) most clients are too poor to save, so improving savings mobilization means increasing incomes, for example through access to credit; and (2) when clients do save, it is only to access a loan.

These widespread beliefs are not necessarily backed up by documented evidence on client savings practices. Studies focusing on microcredit are plentiful, but the subject of small-balance savings is usually addressed only tangentially and in the context of informal savings mechanisms. The one study that touched most directly on savings preferences contradicts the conventional wisdom. It indicates that 70 percent of clients of two well-known MFIs did save without necessarily expecting a loan later.9

This result suggests that beliefs about savings may be shaped by particular institutional policies as much as actual client preferences or behavior. For example, in many deposit-taking institutions, loan sizes are based on a multiple of client savings. It is therefore possible that institutions themselves view deposits mainly as collateral for a loan. Deposit products are therefore not designed to attract truly voluntary savings (for example, through simple withdrawal procedures and attractive interest rates). Institutions’ belief that clients only save to get loans is thus communicated to clients through their product design and may end up becoming a self-fulfilling prophecy.

Hope for the believers

Despite the dearth of studies on savings behavior in Benin, other types of evidence support the prevalence of saving. In the informal sector, the widespread use of tontines (ROSCAs) attests to how deeply rooted the act of putting something aside is in Beninese culture. In the same study cited above, tontine participation among clients of the two MFIs studied was 81–89 percent. Another paper estimated the volume of savings mobilized annually by tontines at 1 billion FCFA (roughly $2 million) in 1995.10

Perhaps an even better demonstration of the demand for savings services is the success of informal banquiers ambulants. These roving savings collectors mobilize substantial amounts of money in daily deposits as small as 100 FCFA and typically charge the equivalent of one day’s deposit per month for their services. In other words, for the right deposit service, demand is so strong that clients are willing to accept a negative interest rate.

Main finding: Steady deposit growth unconnected to credit belies the common assumption that Beninese clients only save to access loans, although consumer confidence remains a barrier.

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8 MFIs are referred to as systèmes financiers decentralisés (SFDs) in West Africa. The two terms are used interchangeably in this paper.


According to the only study available on banquiers ambulants, clients seemed to value two aspects of the service most highly: convenience, and their interactions with a particular individual. Convenience relates to the ability to deposit daily or on a schedule that suits the client; the fact that the collector comes to the client; and the speed of transactions (three minutes on average). Clients appreciate that savings collectors come from the area, speak the local language, and demonstrate “the qualities of a good person.”

Institutional experiences in the formal sector also indicate a strong demand for deposit services. As illustrated in Figure 1 and Table 2, total deposits have increased steadily among formal sector institutions, growing by at least twice the rate of the overall economy in both banks and non-bank institutions between 2000 and 2003.

The spike in deposit growth rates among non-FECECAM MFIs beginning in 2001 was due to the launch of several credit-only MFIs mobilizing compulsory deposits. However, in absolute terms, increases among institutions that collect voluntary deposits have historically been higher than for credit-only institutions.

Much of this increase comes from the CNE, whose deposits have experienced particularly fast growth. As shown in Figure 2, CNE deposits have almost doubled in the last four years (from $31.5 million to $54.8 million), despite the fact that the institution does not offer credit. It is currently the largest non-bank deposit-taking institution and mobilizes more savings than several banks as well. The demand for CNE’s savings services—both in volume of savings as well as growth—is strong evidence of the independent demand for savings, completely unlinked to credit.

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**Figure 1: Deposits over Time, by Type of Institution**

![Graph showing deposits over time by type of institution](image)

*Source: BCEAO.*

**Table 2: Deposit Growth Rates 2000–2003, by Type of Institution**

<table>
<thead>
<tr>
<th>Year</th>
<th>Banks</th>
<th>CNE</th>
<th>FECECAM</th>
<th>Other MFIs</th>
<th>All MFIs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>21%</td>
<td>20%</td>
<td>6%</td>
<td>21%</td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td>2001</td>
<td>46%</td>
<td>15%</td>
<td>11%</td>
<td>169%</td>
<td>21%</td>
<td>36%</td>
</tr>
<tr>
<td>2002</td>
<td>7%</td>
<td>17%</td>
<td>19%</td>
<td>42%</td>
<td>23%</td>
<td>10%</td>
</tr>
<tr>
<td>2003</td>
<td>10%</td>
<td>7%</td>
<td>4%</td>
<td>108%</td>
<td>21%</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Source: BCEAO.*

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11 Ibid.
Further evidence of demand for savings services independent of the demand for credit comes from FECECAM. Figure 3 shows that deposits continued to grow even during FECECAM’s recent crisis, when the loan portfolio volume and quality decreased precipitously, eventually necessitating significant write-offs.

Finally, credit-only institutions report that their clients demand savings services. When PAPME introduced voluntary savings products in 2000, it saw deposits rise from less than 200 million FCFA ($400,000) to 4.5 billion FCFA ($8.5 million) in five years, despite no active marketing campaign. PADME, currently the largest credit-only institution, is also seeing demand for voluntary deposits, with compulsory savings currently in excess of the level required by the portfolio. Vital Finance has also received requests from its clients to keep their savings.

Some observers attribute FECECAM’s success in mobilizing deposits to its broad outreach, which could be said of the CNE as well. However, FECECAM and the CNE do not reach as far outside of urban areas as some smaller institutions. Their attraction for small depositors is thus no doubt due mostly to these institutions’ apparent security and stability, perhaps stemming from a perceived state guarantee (in the case of the CNE and FECECAM).

Despite this anecdotal evidence, few institutions have made proactive attempts to study client savings habits and preferences. Thus, little is known about what actually motivates small depositors to move their money from the mattress (or the canari) into a financial institution.

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12 Until it started mobilizing savings, PAPME was the country’s largest credit-only institution.

13 A canari is an earthenware jar often used to hide money in Beninese homes.
MICRO: INSTITUTIONAL CAPACITY AND SUPPLY OF DEPOSIT SERVICES

Main finding: Current and potential suppliers of small-balance deposit services are plentiful, but offer varying quality. Perceptions of high costs prevent most financial institutions from prioritizing voluntary savings mobilization.

A rich and diverse landscape of providers

Both the formal and informal sectors in Benin feature numerous providers of deposit services. In the informal sector, the three main forms of savings mobilization are the tontine, the banquier ambulant, and the groupement de crédit et d’épargne (GEC). Unfortunately, quantitative information on such informal mechanisms is scarce, and the available data vary significantly. While a 1992 study found 11,000 banquiers ambulants plying their trade, a 1995 paper estimated their number at only 440. A more recent survey conducted by AgeFIB indicated that there were 1,400–1,800 informal financial service providers in operation, mostly GEC. Current numbers from the Ministry of Finance count only 793 GEC, but these are likely to only be groups that have been formally recognized.

The Ministry of Finance does not monitor the amounts of savings mobilized informally. The most recent estimate of this amount was made in 1995 and indicated that informal deposit schemes mobilized approximately 10 billion FCFA annually (almost $19 million). No figures were available for the amount of savings mobilized by GEC.

In the formal sector, the most recent numbers available indicate that Benin has 1,441 legally recognized points of access to financial services (see Table 3). The three major types are banks, the CNE, and various types of SFDs (systèmes financiers decentralisés, or MFIs). SFDs include savings and credit cooperatives, NGOs and associations, donor projects with financial service components, private companies, and GEC. With one point of service for every 4,682 people, the Beninese enjoy greater physical access to financial service providers compared with other developing countries, even much wealthier ones.

Table 3: Distribution of Points of Service, by Type of Institution

<table>
<thead>
<tr>
<th>Type of institution</th>
<th>Number of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>42</td>
</tr>
<tr>
<td>CNE</td>
<td>96</td>
</tr>
<tr>
<td>SFDs</td>
<td></td>
</tr>
<tr>
<td>Savings and credit cooperatives</td>
<td>293</td>
</tr>
<tr>
<td>Associations and NGOs</td>
<td>222</td>
</tr>
<tr>
<td>Donor projects with financial service components</td>
<td>35</td>
</tr>
<tr>
<td>Private companies</td>
<td>19</td>
</tr>
<tr>
<td>GEC (formally recognized)</td>
<td>739</td>
</tr>
<tr>
<td>Total</td>
<td>1,446</td>
</tr>
</tbody>
</table>


However, not all SFDs are licensed to mobilize voluntary deposits. While all savings and credit cooperatives can take deposits by legal definition, associations and NGOs must negotiate permission on a case-by-case basis with the Ministry of Finance and BCEAO. Donor projects rarely mobilize voluntary savings; at this time, neither do any private companies. By definition, GEC do mobilize members’ voluntary savings; however, they are not “licensed” by the authorities but rather only “recognized.” While this legally makes them formal-sector entities, GEC are not supervised. When only licensed deposit-taking institutions are counted, the ratio of population to points of service drops to just under 12,000:1. From a legal point of view, then, clients’ options for voluntary deposit services are more restricted than branch numbers would suggest.

A vast majority of deposits are concentrated in a small number of institutions. As illustrated in Table 4, as a group, banks mobilized the lion’s share of savings, with almost 364 billion FCFA ($689 million) in deposits. This is 11–12 times greater than the next largest deposit-taking institutions, the CNE and FECECAM, respectively. Although FECECAM’s share of SFD

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14 Proposed changes in the IMCEC law (commonly known as the PARMEC law) will eliminate “recognition” and give GECs up to two years to become authorized.

15 Nine billion FCFA of this amount was estimated to be mobilized by banquiers ambulants and the remainder by tontines. See Gracia.

deposits has been declining over the last few years, it still represents 72 percent of deposits in all SFDs. It should be noted that, in terms of people served, the CNE and FECECAM each far surpasses all banks combined (see Table 4).

Figure 4 indicates the level of fragmentation in the market for deposits among SFDs, where all other institutions aside from FECECAM (78 institutions for which figures are tracked) collect only 3 percent of all deposits and serve 20 percent of depositors.

Figure 5 illustrates the phenomenon in more detail, with the very unequal distribution of deposits even among the CNE and the top 13 deposit-taking MFIs. The variability in the performance of these institutions (discussed below) and the density of points of service in Benin as compared with other countries may suggest that the sector is ripe for consolidation.

Figure 5 also shows the great diversity of average deposit balances among the top 13 deposit-taking SFDs. It is possible that this diversity is tied to conscious targeting of different client segments by these institutions. Interestingly, the largest two institutions have very similar average balances, which are among the smaller of those in the group. This distribution further demonstrates the significant number of clients that can be attracted by small-balance deposit facilities.

Table 4: Key Indicators on Deposit-taking Institutions

<table>
<thead>
<tr>
<th></th>
<th>Deposits (FCFA millions)</th>
<th>Clients/ accounts</th>
<th>Average deposit balance (FCFA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>355,866</td>
<td>185,600</td>
<td>1,917,381</td>
</tr>
<tr>
<td>CNE</td>
<td>31,416</td>
<td>409,592</td>
<td>76,701</td>
</tr>
<tr>
<td>FECECAM</td>
<td>28,245</td>
<td>436,924</td>
<td>64,645</td>
</tr>
<tr>
<td>All other SFDs</td>
<td>10,995</td>
<td>253,504</td>
<td>43,372</td>
</tr>
</tbody>
</table>

Sources: BCEAO, CNE, CMF. All figures are the latest available: bank numbers from end 2003; CNE numbers from May 2005; FECECAM and SFD numbers from end 2004.
Fulfilling the demand?

Unfortunately, the sheer number and variety of providers does not imply that client demand is being met with appropriate deposit products. A rough comparison of the level of savings mobilized by formal and informal sector mechanisms illustrates this point. In 1995, banquiers ambulants were estimated to mobilize 9 billion FCFA ($17 million). By contrast, in 1999, all SFDs other than FECECAM together mobilized only about 1 billion FCFA in savings. It can be assumed, then, that formal savings equals at most around one tenth of that collected by the informal sector.\(^{17}\) Clearly there is room for the formal sector to capture more market share.

Why is it difficult for the formal sector to compete with its informal counterparts? The following analysis compares formal sector financial service providers to informal ones. It focuses on five factors of prime importance to low-income savers: security, proximity, remuneration, availability, and minimum balance.

\[^{17}\] Earlier numbers are not available for SFDs because the authorities only began tracking their performance after the passage of the PARMEC law in Benin in 1997.

Security

Security is cited time and again as the attribute clients worldwide most value in a deposit institution, especially low-income clients.\(^ {18}\) Unfortunately, the performance of Beninese deposit institutions on this front is rather variable. Although there have not been any bank liquidations since the crisis of the late 1980s, a few banks have recently emerged from administration provisoire; one still is under this temporary administration by the authorities.\(^ {19}\) Bank provisioning and compliance with prudential ratios is reported to be inconsistent, and several banks are undercapitalized. Nonetheless, bank performance is being closely monitored by the BCEAO and Banking Commission.


The performance of top SFDs is also extremely variable, but their depositors do not benefit from similar safety nets. Figure 6 shows profitability and delinquency in the largest eight deposit-taking SFDs by number of clients. There is no discernable pattern of performance, although a few of the institutions with the widest outreach are among the worst performing.

At the same time, those SFDs more accessible to poor clients seem to be the least well supervised. Certain GEC are at least registered with the government, which is more than can be said for informal sector providers. Customers of the banquiers ambulants have no legal recourse if they lose their savings, making them, in theory at least, less secure than either SFDs or banks.

**Proximity**

Proximity to customers is a paramount consideration in the attractiveness of deposit services, especially because clients are generally not willing to travel as far to deposit their savings as they are to access a loan. Although Benin has relatively many points of service, the distribution of formal sector deposit providers is far from equal across the country. Figure 7 illustrates the difference in population per point of access to financial services by département. In other countries, the distribution of deposit providers is strongly correlated with indicators of marginalization: the more marginal the region, the fewer financial institution branches. In Benin the pattern is more uneven, but the inequality of access to points of service for regulated financial service providers is clear.
This map does not include GECs.
Availability
Immediate availability can perhaps be seen as the flip side of security. In many clients’ eyes, if their savings are not available on demand, they are not likely to be secure. With well-developed liquidity management systems, banks are normally able to satisfy this requirement. Banquiers ambulants also have a good reputation in this regard, apparently making advances on future savings available with fairly quick turnaround.

Cooperatives and other non-bank institutions (e.g., CNE, MFIs) are the subject of most complaints with respect to availability of funds. This is perhaps not surprising given the restrictions on withdrawals that are written into many cooperative deposit products, particularly requirements about advance notice for large withdrawals. Many of the financial institutions interviewed spontaneously admitted that their internal liquidity/treasury management systems need improvement.

Remuneration
Although interest rates on deposits in Benin are comparable to those in many other countries, inadequate remuneration was cited as an impediment to savings mobilization. The distinction between the three types of providers is clear. Banks are required by law to pay at least 3.5 percent per year on passbook savings accounts (although some seem to apply this rule only to balances above a certain minimum). Cooperatives typically do not pay any interest on liquid savings; however, our sample reveals rates of up to 12 percent per year on term accounts.

On the face of it, banquiers ambulants seem to fare the worst on this parameter, charging a negative interest rate. However, the services they offer save customers the cost of traveling to an institution to make their deposits. Depending on where the institution is located, these costs can be considerable. Figure 8 charts the net returns of the three options, including hypothetical travel costs for weekly trips to the local cooperative and monthly trips to the bank, for different amounts of monthly savings. Under these assumptions, the client would need to save 36,000 FCFA ($68) per month before the cooperative became as attractive as the banquier ambulant, and approximately 130,000 FCFA ($246) per month before the same could be said of the bank. The lower the amount saved, the more attractive banquier ambulant’s explicit negative interest rate of 3 percent per month. Given income levels in Benin, even the cooperative is likely to be unaffordable for the vast majority of potential clients.

21 Assumptions: (1) Banquier ambulant collects 30 deposits per month for a fee equal to 1 daily deposit; (2) client makes weekly trips to local cooperative at a per trip cost of 150 FCFA, cooperative pays no interest; (3) client makes monthly trips to the bank at a per trip cost of 5000 FCFA, bank pays 3.5% annual interest.
Minimum opening balance

Although other features may make certain providers more or less attractive, the minimum balance needed to open an account can inhibit access from the start. Banks’ opening balances effectively exclude the vast majority of the population, explaining in large part why only 7 percent of economically active adults in Benin possess a bank account (see Table 5 for a comparison of entry-level account conditions of eight deposit collecting institutions). This leaves the remaining 93% with essentially two options for their savings: non-bank institutions (SFDs and the CNE) and the informal sector.

Cooperatives have much lower opening balances but still pose affordability barriers with enrollment and application fees. Eight hundred to 1,000 FCFA ($1.60–$2.00) may not sound prohibitive, but in Benin, it is the equivalent of a full day’s minimum wage. Comparing fees to even this income level may be optimistic, because one-third of Beninese are estimated to have incomes far below the poverty level ($0.27 in rural areas and $0.48 in urban areas). Required share purchases also add to the expense and bring down the effective interest rate on deposits in cases where such interest is paid.

Figure 9 presents a stylized summary of the comparison of different types of financial service providers. Note that although bank services are, on balance, slightly more attractive than the other two, access to them is effectively impossible for the majority of clients because of the minimum balance requirement. The question that presents itself is why institutions that could take advantage of a relatively wide-open market for deposits have not developed products and delivery mechanisms to compete effectively with the informal sector.

Table 5: Entry-Level Deposit Product Features at Sample Institutions

<table>
<thead>
<tr>
<th>Source: Survey of financial institutions.</th>
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<tbody>
<tr>
<td>All figures in FCFA</td>
</tr>
<tr>
<td>Minimum balance to open</td>
</tr>
<tr>
<td>ID and other requirements to open account</td>
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<tr>
<td>Other costs to open account</td>
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<td>Minimum maintaining balance</td>
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<tr>
<td>Minimum withdrawal amount</td>
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<td>Minimum balance to earn interest</td>
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<td>Annual interest rate</td>
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</table>
What prevents MFIs from competing more effectively for deposits?

The fundamental problem is that SFDs find it difficult to identify the right business model to capture market share from the informal sector. Several institutions have experimented with institutionalizing the banquier ambulant model itself but have encountered problems. A benefit, in terms of cost-effectiveness, of the banquier ambulant model is that it can be run by one person. Apparently, the temptation to have a one-person business has often been too strong for many MFI agents. Although the banquier might be working as the agent of an MFI, he still owns the customer relationships—and can take the customers with him if he decides to leave.22

Failed experiments like these have contributed to the notion among many MFIs that safely mobilizing small savings is prohibitively expensive. These perceptions are reinforced by assumptions about the small total amount of savings that might be mobilized, as well as the small and frequent nature of transactions in such accounts. This assumption was also echoed by banks. However, the review team was not able to find costing studies conducted by financial institutions in order to investigate the question.

 Nonetheless, a few MFIs do see potential in savings mobilization as a relatively cheaper source of funding compared with bank refinancing, as well as a way to increase customer loyalty.23 For these institutions, the biggest obstacle seems to be organizational: putting in place the systems and staff to conduct true financial intermediation, as opposed to mainly managing credit. One of the biggest hurdles is developing management information systems (MIS) to process deposits and cope with small, frequent transactions. Although multiple donors have invested in developing software for different institutions, most have been focused on areas like portfolio management, accounting, and financial management. Development efforts have also largely been conducted in isolation from one another. Worse, they often depend on a single technician, meaning that the system developed is not maintained when the technician leaves.

It is encouraging that credit-only (or credit-mainly) institutions understand the fundamental changes necessary before they start collecting deposits. As the review team heard from several interviewees, “L’épargne, c’est tout un autre métier” (Savings is a completely different line of work).

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22 Focus group with 12 MFIs, Cotonou, July 19, 2005. For more information on client preferences regarding services of banquiers ambulants, see Gracia.

23 One practitioner estimated that his institution would be able to mobilize small savings at a 5% all-in cost.
MESO: SUPPORTING INFRASTRUCTURE FOR DEPOSIT MOBILIZATION

Main finding: The most serious meso-level gaps are liquidity management and payment systems for institutions that serve the poor.

Management support for financial institutions varies in quality

Financial institutions serving the poor have a wide choice of professional support services in Benin. Practitioners reported having access to a number of well-regarded providers, including rating, audit, and IT. In addition, there is a range of organizations and individuals that conducts training, technical assistance, consulting, and lobbying/advocacy activities. These organizations include international and local NGOs, donor projects, private consultants, and networks of retail institutions.

Despite this variety, the review team found little specialized expertise in savings mobilization. Moreover, the quality of service providers is reported to be inconsistent, especially within large networks that represent the bulk of the country’s points of service. Cooperative networks are perhaps the most important of this group, not only because of their size but because of the special supervision responsibilities delegated to them by the Ministry of Finance.

The Ministry of Finance relies on networks, such as FECECAM, CBDBIA, and APHED, to ensure the safety and soundness of their member cooperatives through both on-site and remote inspection and monitoring. While government supervisors can take a more indirect or delegated approach to supervising these individual unit cooperatives, in reality, the lack of capacity and resources within many networks has forced them to become more closely involved. They may partially take over a network’s responsibilities for on-site inspections or fully take over the network themselves in the case of insolvency.

How to strengthen the networks to properly assume their responsibilities vis-à-vis their member institutions is currently the subject of lively debate. Some feel that the ineffectiveness of large networks is because of their physical and bureaucratic separation from member institutions. This renders monitoring and management support harder to deliver and those who would deliver it less aware of actual conditions on the ground.

According to this line of reasoning, networks should remain small and regional.

However, performance of networks does not necessarily correlate with size; UEMOA and other regions feature many examples of strong, large cooperative networks covering countries much bigger than Benin. The quality of management is the real determining factor in the strength of a network, not the number of institutions it includes.

But quality management and technical experts are expensive, and the overall cost of these resources to the sector is multiplied as small networks proliferate. Larger networks that can spread human resource costs over a greater number of members benefit from economies of scale, reduced cost burdens per institution, and more viable services. From this point of view, it is encouraging that at least one cooperative federation, AssEF, has already begun a process of internal consolidation.

In addition, given their supervisory responsibilities, the multiplication and fragmentation of networks may create opportunities for regulatory arbitrage among member institutions. In some countries with multiple networks, institutions have been known to switch their affiliation to avoid strict supervision and/or a negative rating.

Abundant resources reduce incentives to mobilize small savings

Plentiful savings obtained from wealthier, easier-to-reach clients and institutions—paired with conservatism in lending—have resulted in excess liquidity in the financial system. Savings in banks equal 156 percent of private credit. Successful institutions have managed to capture deposits relatively effortlessly, eliminating the need for them to proactively develop better deposit services. At the same time, many institutions, especially banks, believe there is a dearth of good investment opportunities on the asset side of the balance sheet. The incentives to devote energy and resources to mobilizing small-balance savings are thus low to non-existent.

On top of this, financial institutions of all types seem to have ready access to refinancing. Between 1998 and 2003, local commercial banks extended 16 billion FCFA ($30 million) in loans to the microfinance sector. Bank refinancing has increased relative to donor funds; in 2003, bank loans were over 6 times greater than donor and government funds in the sector (see Figure 10).
Easy access to credit lines is less encouraging from a deposit mobilization perspective, however. Because they do not demand the time, effort, and investment of mobilizing small savings from the public, bank loans can end up being more attractive to financial institutions even if interest rates are higher.

The standard rationale for these credit lines is a “financing gap” in long-term resources (over 1 year in tenor), but it may be that this gap can be filled by currently mobilized deposits. Although no formal studies have been done, stakeholder interviews indicated that these deposits—even sight deposits—may be much more stable than previously thought.

For example, analysis of CNE passbook account balances over 18 months reveals only 4 months when the total volume of deposits decreased, and these were predictably during the holidays and the beginning of the school year. As illustrated in Figure 11, savings increase steadily from the beginning of the year through July, then plateau until the following January or February. Thus, even though small savers may deposit and withdraw frequently, these transactions do not necessarily imply volatility in the aggregate balance.
Liquidity management and payment systems lacking

Effective systems to manage excess liquidity could help mitigate the disincentives it poses to additional savings mobilization. Unfortunately, second-tier structures have not been deemed strong enough by the Ministry of Finance to establish their own organes financiers (essentially cooperative banks) to manage liquidity among network member institutions. Nonetheless, several of them are currently doing it through accounts at commercial banks.\(^{24}\) Dedicated organes financiers would be more efficient, making excess liquidity available where it is needed at a lower cost. They could also facilitate liquidity transfers between different institutions (as opposed to within the same institution or network), which several stakeholders mentioned as a gap in the system. However, they would require much stronger institutions/networks and supervisory capacity than currently exist.

Well-functioning payment mechanisms accessible to low-income customers can encourage them to deposit more of their funds. Connecting financial institutions, branches, and other potential points of service, such as retailers and ATMs, gives customers more functionality in their accounts and better access to their money anywhere in the country. This flexibility is key for mobilizing small savings.

Apparently, plans are currently under way to build an UEMOA-wide ATM network for banks. Simultaneously, MFIs in Benin are attempting to construct an ATM network appropriate for low-income clients. Making these two systems interoperable would give low-income clients a level of access to their accounts that would be unprecedented in the region.

\(^{24}\) One MFI is partnering with several foreign commercial banks to launch an investment bank to help it manage liquidity, among other functions.
Main finding: The legal and regulatory framework is not a major obstacle to savings mobilization in Benin, although the Ministry of Finance does not have adequate resources to monitor the number of existing institutions. 

An open regulatory framework results in numerous unsupervised institutions

Much has been written about regulatory context for microfinance in UEMOA because it operates at a regional level and was one of the first microfinance-specific schemes. On the whole, the framework is fairly favorable to deposit taking by non-bank institutions—perhaps too favorable. The law allows several different types of institutions to offer services and imposes no minimum capital requirements—resulting in a plethora of small players entering the field. The large number of institutions is good for access, but creates a supervisory burden that authorities are ill-equipped to bear. There also seems to be a lack of clarity on the ground regarding which institutions are equipped to bear. There also seems to be a lack of clarity on the ground regarding which institutions are allowed to mobilize voluntary deposits.

In addition, certain prudential regulations lessen the attractiveness of savings vis-à-vis other sources of funding. Double reserve requirements, in particular, means that banks must mobilize $1.30 in savings for every dollar they wish to lend. Conservative maximum loan-to-deposit ratios for both banks and non-bank institutions also decrease incentives for savings mobilization by limiting the proportion of funds available to earn revenue through loans. Although these ratios were established with the memory of crises in mind, there may be room to raise this ceiling for well-performing institutions.

As it is, prudential norms are often ignored by banks and non-banks alike, which regularly use short-term deposits to cover longer-term loans. Fortunately, bank performance is closely monitored by the BCEAO, with a staff of six inspectors to supervise the country’s nine banks.

Non-bank institutions do not benefit from the same level of supervision. Only 191 out of 1,308 legally recognized SFDs are licensed to take deposits and are, therefore, supervised by the Ministry of Finance’s microfinance unit (Cellule de Microfinance, or CMF). However, many non-licensed institutions do take deposits, even if only from a limited circle of members. A vast majority of deposit service providers are probably not in compliance with many of the prudential regulations applied to licensed SFDs.

If the CMF were to inspect these 191 institutions itself, at its current level of human resources, it could visit each institution only once every four years. Under the delegated supervision system, 164 individual deposit-taking institutions are supposed to be directly supervised by their networks. However, the largely inadequate capacity of these networks means that the CMF must still take on a substantial portion of inspections itself. It currently conducts about 50 inspections per year, which corresponds to the maximum theoretically possible (see box below). From this point of view, BCEAO’s increasing role in supervising larger MFIs is a welcome development. It should also be noted that several interviewees underlined the need for more efficiency in the Ministry’s inspections, which currently require 48 person-days each. More rigorous enforcement of regulations in cases where infractions are found would also increase the deterrence value of inspections, even among institutions that are not inspected.

How many institutions could the Cellule theoretically inspect?

The CMF currently has eight inspectors qualified to conduct on-site supervision. Each inspection mission requires four people to visit the institution for a total of approximately 12 days, including travel to sometimes remote locations. Given these numbers, it would require 229 person-weeks per year to inspect all 191 institutions. Under current supervision methods, the maximum possible supervision missions per year is 44. So the CMF could visit the 27 institutions and federations requiring direct inspection and conduct spot-checks of 17 institutions under supervision by their federations. However, given the weakness within federations and the number of institutions under federations, 17 such inspections per year is clearly insufficient—as are the current level of CMF resources.

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26 Focus group with 12 MFIs, Cotonou, July 19, 2005.

27 Ouattara, August 2004.
**Government- and donor-funded initiatives can undermine financial institutions’ viability and incentives to mobilize deposits**

Another important, yet less high-profile, facet of the policy environment is the impact of government credit programs—many of which are backed and funded by foreign donors—on small-balance savings mobilization. Because they are often subsidized and do not maintain adequate borrower discipline, government credit schemes can make certain markets unviable, crowding out sustainable financial intermediaries that might otherwise be interested in serving poor clients.28

A report commissioned by the Ministry of Planning in 2003 indicates that the Beninese government was the sole or a significant funder to 26 microfinance programs through at least eight line ministries. Of these, only four programs were deemed to adhere to best practice, which is defined through the pursuit of four main goals (institutionalization, scale, depth of outreach, and financial sustainability).29

The newly proposed National Microfinance Policy emphasizes distributing credit to underserved populations. It also establishes a national fund for that purpose. Emerging evidence in Benin indicates that credit may not be the most appropriate financial management tool for all poor clients. Encouraging the distribution of more credit through mechanisms like a national fund may be at cross-purposes with the goal of alleviating poverty.

Subsidizing this credit may cause additional harm to poor borrowers by saddling them with unpayable debts. Furthermore, subsidized competition makes lower-income market niches less attractive for sustainable institutions, which are more likely to continue offering services when government and donor subsidies run out. Ironically, these sustainable institutions are also often the same ones that can offer secure, high-quality deposit services. Undermining sustainable institutions’ credit business, therefore, also undermines client access to savings services.

Easing the availability of portfolio financing by establishing an on-lending fund would also diminish these institutions’ incentives to develop products capable of attracting poor clients’ deposits—short-, medium-, and long-term. It would also displace domestic funds mobilized by already over-liquid banks. Instead of channeling additional external funding into the sector, the government should work with development partners to overcome banks’ reluctance to extend longer-term financing to MFIs, and the government should work with MFIs to develop appropriate deposit products.

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29 Ibid.
This section suggests potential strategies for increasing and improving the quality of small-balance deposit mobilization in Benin. Rather than offer definitive recommendations or prescriptions, these suggestions raise key points that warrant further research and reflection among stakeholders.

1. Research client preferences to understand the size and characteristics of the market. The study should document client savings behavior and preferences, investigating who saves, in what form, how much, where, and why. Particular emphasis should be placed on understanding informal savings mechanisms to determine their most attractive characteristics and the level of deposits they elicit. Such information would enable institutions to understand how much could be mobilized and under what conditions. In addition, an analysis of the stability of small-balance savings would help institutions evaluate the contribution small savings could make to their funding base.

Numerous alternatives exist for conducting such a study. One interesting option involves pooling public and private funding from a combination of government, donors, and financial institutions that would use the information. The FinScope surveys currently being implemented in southern and eastern Africa employ this type of a model, with declining public funding over time. Because they combine resources from many different institutions, MFI networks may be well placed to coordinate such an effort.

2. Design and actively market deposit products and delivery mechanisms tailored to the needs of specific low-income client niches. New products could be targeted to current clients. But given the current emphasis of most institutions on credit, the bulk of potential depositors probably lie outside the current clientele. For example, one bank indicated it was cultivating individual banquiers ambulants as clients, by giving them a higher interest rate when they deposit their collected funds, and access to well-priced short-term loans to honor end-clients’ requests. These banquiers ambulants essentially act as “retailers” for financial institutions’ “wholesale” services.

Other potential products could include the following:
- Savings boxes, such as those used in the Philippines, where savings box keys are held at the financial institutions so the savings box can be opened only when it is brought into the institution by either a collector or the client.
- Housing savings, especially given the strong cultural preoccupation with owning one’s own home in Benin. Linking savings to these purchases (potentially involving a loan as well) could serve to attract longer-term deposits.

However, better products will not sell themselves: institutions must match efforts to diversify product offerings with better, more active marketing efforts that effectively communicate product benefits to customers. Product development also needs to be accompanied by investments in adequate internal systems, such as treasury management, process improvements to enhance efficiency, and proper management information systems (MIS). A common MIS platform, developed jointly by several smaller institutions with a local IT provider, might produce cost savings for each institution and facilitate a standardized reporting format.

3. Create a system that enables the public to distinguish among different types of institutions. Given the diversity of savings providers in Benin, it is paramount that depositors understand the nature and quality of the institution in which they choose to save. A system to help customers understand the quality of financial institutions might be developed in two consecutive phases. The first phase would distinguish between institutions that are licensed to take deposits and those that are not. Information about whether an institution is licensed could, for example, be communicated through a symbol displayed on their premises and in documentation. Such marketing-oriented material could be included as part of the package issued by the Ministry of Finance when it issues a license.

In theory, informal operators would not be part of this classification system; however, given the success of banquiers ambulants at mobilizing savings, the supervisory authorities might eventually consider creating an official category for those who submit to regular off-site reporting. Interviews indicated that certain banquiers ambulants had actually expressed a desire to become recognized legally for tax reasons. Such a system would also help financial authorities by enabling them to better quantify the level of savings mobilized in the informal sector.

31 www.finscope.co.za
A second phase would classify supervised, licensed institutions according to their financial performance. Without any visible indicators of institutional quality, consumers cannot make informed choices about where to deposit their funds. A mechanism for disclosing more information about institutional performance would increase transparency for clients, enhancing incentives for institutions to improve that performance.

Such a mechanism might be implemented by an industry association or, if this proves too difficult because of conflicts of interest, by an independent non-governmental entity. It could also be implemented within a single cooperative federation, as a pilot. It should not be seen as a substitute for increasing the currently insufficient level of supervisory resources within the Ministry of Finance, but rather as a complementary effort.

4. **Conduct consumer education campaigns about the importance of saving in regulated institutions.** A grading system like the one suggested above needs to be accompanied by concerted efforts to help the public understand the meaning of the various categories of institutions. A generalized consumer education campaign should focus on the importance of saving in regulated institutions and on communicating the meaning of the symbols used for different types and categories of institutions. It could also touch on a range of educational themes having to do with personal financial management.

Typically, such messages are disseminated by public organizations like the government (often through a consumer protection agency) or NGOs. Because of the link to the classification system, the agency charged with publicizing information on performance might be well-positioned to coordinate consumer education. Ideally, such an effort would be a joint project between the two (i.e., between the CMF and Consortium Alafia).

5. **Consider consolidating institutions and networks—but ensure management capacity to match their size.** Especially among cooperatives, there are perceived trade-offs related to increasing access (through more points of service) and reducing costs on the retail level; and increasingmanageability (through smaller, more numerous networks) and achieving economies of scale at the wholesale level.

The level of market fragmentation among deposit-taking retail institutions in Benin suggests that consolidation through mergers, acquisitions, and even closures could improve efficiency and the quality of deposit services offered. Implementing a classification system and public education campaign as suggested above would give additional impetus to this process sector-wide, by encouraging depositors to “vote with their feet.” Non-licensed and poorly performing institutions would likely see a drop off in their business, thereby facilitating consolidation of the sector.

At the second-tier level, increasing management capacity within networks is the key to improving performance. Evidence from other countries indicates that, in terms of their size, Beninese networks are far from hitting a manageability ceiling. Reinforcing management capacity would allow them to grow and capture economies of scale while preserving their financial stability.

However, in light of repeated and largely unsuccessful attempts to accomplish this goal, the way to reinforce management capacity must be the subject of deeper reflection by the Ministry of Finance, donors, retail institutions, and the networks. Structural changes that have proven fruitful elsewhere should also be considered. These changes include clarifying the role of networks as either a fee-for-service TA provider, with a rational and enforced fee schedule, or increasing centralized control, with the federation acting as a head office, and member institutions evolving eventually into branches of a single institution.

6. **Accelerate the use of e-payment mechanisms.** IT-enabled devices are currently the most promising solution to two major impediments to small-balance savings mobilization in Benin. First is the difficulty of integrating proximity to customers, security, and cost-effectiveness in a single deposit-service delivery model. Second is the inability of most small-balance depositors to make payments and move money around the country using their accounts. Promising technologies in this area include ATMs, POS terminals, and mobile phone banking applications, in combination with debit cards and possibly biometric technology. Such devices could enable the most secure (or at least, the most closely supervised) institutions to reach out to lower-income clients without incurring the costs of additional
branches. At least one bank indicated that if automation could lower the costs of reaching these customers, it would be motivated to pursue them.

The plans currently under way for MFIs to establish a network of “smart” ATMs, appropriate even for illiterate clients, are also to be encouraged. Assuming such technologies were deployed according to a sound business plan, they could represent a worthy area for donor subsidy. Advocates for the sector should also strongly urge that any such system set up for SFDs eventually becomes interoperable with the UEMOA-wide system being implemented for banks.

7. Improve supervision methods and increase supervision capacity within the government. Strengthening the networks will likely make more, not fewer, demands on the CMF initially. Further pressure will be placed on CMF by the current proposal to eliminate the recognized (reconnaissance) category, which will trigger a process of regulatory conversion and capacity upgrades for many small institutions. Both these developments mean that the CMF will need increased capacity.

However, the demands on the CMF could be mitigated if the BCEAO plays a bigger role in supervising the country’s largest MFIs and networks, as has been proposed. More of the Cellule’s resources could then be directed toward supervising the medium and smaller institutions currently engaged in deposit collection. However, given the fragmentation in that segment of the market, the Cellule is likely to run into similar problems of resource insufficiency.

Authorities should also consider introducing other supervisory methods to reduce their burden. Requiring MFIs, at least of a certain size, to have yearly audits might be one way of accomplishing this. Relying more on off-site methods backed up by spot checks, rather than on-site inspection missions as is currently the practice, would also maximize supervisory resources.

8. Consider adjusting certain provisions in the regulatory framework. The specific regulations governing deposit taking should be reviewed in relation to their effect on small-balance savings mobilization. Specific examples include double reserve requirements and strict term-based asset-liability matching rules for banks, and the lack of minimum capital requirements (which encourages market fragmentation) for deposit-taking MFIs. Institutions of both types might find it useful to identify potential constraints in the current and proposed norms and to develop a joint position for advocating to the regional authorities. Industry consortia, such as Alafia and the bankers’ association, would be well placed to conduct such analysis and lobbying.

9. Review the proposed National Microfinance Policy through a savings mobilization lens. The goal of building inclusive financial sectors is not to provide a conduit for subsidized or foreign funds, but rather to promote the intermediation of locally generated resources. The current version of the proposed national microfinance policy focuses too much on access to credit, especially through the establishment of a national microcredit fund. The government should review the policy to determine its potential impact on low-income clients’ access to deposit services.
## ANNEX I: SUMMARY MATRIX OF FINDINGS AND SUGGESTIONS

<table>
<thead>
<tr>
<th>Level</th>
<th>Opportunities</th>
<th>Obstacles</th>
<th>Suggestions</th>
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</table>
| **Clients** | - Deeply entrenched tradition of saving  
- Positive demand response to appropriately designed deposit products | - Client mistrust of financial institutions  
- Lack of data on savings preferences leading to perception that poor clients don’t save | → Research client preferences to understand demand for deposit services  
→ Create a system that enables clients to differentiate among institutions  
→ Educate consumers about saving in regulated institutions |
| **Micro** | - Dense and varied landscape of deposit-taking institutions | - Inappropriately designed and expensive products that cannot compete with informal sector providers  
- Inability to find cost-effective business model to collect small-balance savings  
- Highly variable financial performance of institutions | → Design and market deposit products tailored to specific low-income market segments  
→ Accelerate the use of e-payment mechanisms  
→ Create a system that enables clients to differentiate among institutions  
→ Consider consolidating institutions |
| **Meso** | - Numerous providers of management support and training for financial institutions | - Variable quality of management support to MFIs, especially from networks  
- Inadequate liquidity management and payment systems  
- Abundant non-deposit sources of portfolio financing | → Consider consolidating networks  
→ Accelerate the use of e-payment mechanisms |
| **Macro** | - Low and stable inflation  
- Enabling regulatory framework | - Proliferation of institutions resulting from permissive regulatory framework  
- Authorities who are unable to cope with supervisory burden  
- Government initiatives that undermine strong institutions’ viability and incentives to mobilize deposits | → Consider adjusting the regulatory framework  
→ Improve supervision methods and increase capacity within government  
→ Review impact of proposed National Microfinance Policy on small-balance savings mobilization |
ANNEX II: LIST OF SOURCES CONSULTED

Individuals

Jonathan Georges Aballo, Transco
Denis Aclassato, FASEC Université Abomey-Calavi
Luce Kuassi Accrombessi, PAPME
Franck Adammado, Association pour la Promotion des Initiatives Locales
Michelle Guidigbi Adjalla, Africare
Wakil Adjibi, Vital Finance
Simon Pierre Adovelande, Présidence de la Republique
Dieudonné Affossogbe, Caisse de Financement à la Base de ACFB
Alexis A. Agassounon, CLCAM Ste. Rita, Cotonou
Janine Senou Agnikpe, AssEF
Hugues Agossou, Banque Mondiale
Corneille Agossou, PNUD
Celestin Ahonon, Continental Bank Benin
Max Franck Ahouandjinou, PADSA II
Nicolas Ahouissoussi, Banque Mondiale
Victor Akplogan, Borne Fonden
Henri Cornelle P. Akuesson, Programme de relance du secteur privé
Abd-El Whahab C. Amoussa, Programme de relance du secteur privé
Patrice Amoussou, MCA BENIN
Dieudonné C. Assogba, MFE
Damienne Atigossou, CBEC
Bonaventure Avagbo, PAPME
René Azokli, PADME
Mouritalabi Badarou, Ministère des finances et de l’économie
Gabriel Bankole, Continental Bank Benin
Louis Biao, Ministère des finances et de l’économie
Zakari Bouraima, Caisse Nationale d’Epargne
Jean François Cavana, AFD
Mamadou Chabi, Chambre nationale d’agriculture
A. Rahamane Chitou, Vital Finance
Jean Dah Hounnon, Consortium ALAFIA
Dieudonné Bleossi Dahoun, MFE
Cilia de Cock, SNV
Jean Noël de Meester, CASPA
Gabriel Degbegni, Présidence de la République
François-Constant Diogo, BCEAO
Yvette Doubogan, Coopération Suisse
Teddy K. Ekoue, Prism/CARE International
Camille Eteka, FENACREP
Gilbert Fanou, AssEF
Arnaud Flimatin, GRAPAD
Emmanuel Gahou, ACFB
Jean Pierre Galibert, Bank of Africa
Solange Gnacadja, CT/MAEIA
Mathieu Gracia, BASF
Albert Honlonkou, AFRIDAS
Lazare Hoton, SUD Consulting
Josiane Houehanou Agossou, CPEC
Cossi Houeninvo, Planet Finance
Latif Houndeve, MODEC
Antoine Houngbedji, SNV
Valentin Hounkonnou, FENACREP
Jelus Hounnouga, FIFA
Valere Houssou, Initiative Développement
Victorin Codjo Huedanou, FECECAM
Ousmane Kadiri, Chambre d’agriculture
Gilbert Kakpossa, Ministère de la famille
Jean-Claude Sourou Keke, CAPE
Berthe Bada Kougblenou, PNDCC
Michel Kouveglo, Initiative Développement
Eliane Kuadjo, IAMD
Jean Luc Labonte, Financial Bank
Late M. Lawson-Lartego, CARE International
Patrick Lelong, FINADEV
Martial Lipeb, ISPEC
Hyacinthe S. Lodeou, Plan International
Jean-Baptiste Mamah, Ecobank-Benin
Wilfrid Aubert Serge Martin, La Poste SA
Maximin Megnigbeto, Mutualité Chrétienne
Nassirou Moussa, PROMIC
Hanzize Abdou Oceni, CAT/PRSP
Francis G. Oke, USAID
Pierre Marie Alex Pathinvo, BECM
Martin Pilser, Union Européenne
Amzat Bissiriou Salami, CAT/PRSP
Marcos Lauro Sampablo, Union Européenne
Prosper Soglo, Mutuelle pour le Développement à la Base
Mathieu Soglonou, Consortium Alafia
Amelie Soukossi Hessou, Plan International
Eustache Tokpa, ACFB
Resmin Tomanaga, FENACREP
Thierry Tossa, Convergence 2000
Herman Van De Voorde, PADSA
Julien Yegangbede, MODEC
S. Fiacre Armel Yemadjro, Caisse CODES
Zacharie A. Yometowu, Ministère des finances et de l’économie
Georges Zola, CMMB
Cosme Lucien Zounon, Projet National d’appui au Développement Conduit par les Communautés

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