

Responsible Finance Market Overview: Benin



Microfinance Sector in Benin

Benin is part of the West African Economic and Monetary Union (WAEMU) and overseen by the Union's Central Bank (BCEAO). Several **regulatory changes** were enacted by BCEAO in 2008 improve the stability of the microfinance sector. These changes included strengthening the microfinance institution (MFI) licensing process and prudential ratios as well as setting up accounting standards and reporting processes. The 2008 law also included rules related client protection by requiring MFIs to include pricing information in all contracts and to publicize pricing widely.

In March of 2012, Benin adopted **Act No. 2012-14**, following the BCEAO regulations. This new law gives all MFIs a two-year implementation phase before being required to fully comply with the new rules and mandates all licensed MFIs to join the national microfinance association (MFA). The law also defines specific obligations of the association such as capacity building, political representation of its members and defense of the interests of the sector. The legal framework in Benin also includes laws No. 83-008 and 2003-22, which define and stipulate punishment for usury lending.

Despite its small size, Benin has a healthy microfinance sector, with a diverse range of financial products and services and a strong relationship with the banking sector. These strengths contributed to the robust performance of the sector, which has attracted commercial bank involvement in microcredit activities, both directly (the bank Financial BC in the MFI FINADEV, for example) and indirectly (Société Générale, Ecobank and Bank of Africa-BOA).

Available financial services include deposit services (especially non-term deposits) as well as short-term (3-4 month) and medium term (2-3 year) credit products. The conditions to access these services are not

extremely demanding. Clients generally belong to low and middle-income strata. MFI activities are carried out in twelve provinces in Benin but are concentrated in major cities, namely, Cotonou, Porto Novo and Parakou.

Despite a tremendous expansion in recent years, the sector continues to face challenges that hamper its development and integration into the financial sector. These challenges include the proliferation of unregulated institutions, the existence of small institutions that have difficulties in complying with prudential norms, increasing default rates and multiple borrowing by some clients. However, the diversity of MFI products and services, the professionalism of the sector, the dynamism of the microfinance association and the commitment of the Government of Benin and other development partners offset these challenges and encourage continued investments in the sector.

Although there has been minimal interest from the government thus far, awareness of the need for more consumer protection is beginning to emerge. There has been a recent rash of Ponzi schemes posing as MFIs, which threatened MFI clients' deposits, the credibility of legitimate MFIs and the stability of the entire microfinance sector.

Sector Issues for Responsible Finance

- › MFIs struggle with over-indebtedness and multiple borrowing by clients.
- › Competing credit reference systems, in the Association-led Centrale d'Echange et d'Information (CEI) and the pending BCEAO system, have delayed widespread use of a credit bureau by the sector.

- › The Usury Law caps MFIs' effective interest rate at 27 percent, which decreased to 24 percent in January 2014 (the rate is calculated on a declining basis, and includes fees and commissions but excludes compulsory savings). These rates are perceived by MFIs as unsustainable and non-conducive to financial inclusion, and are routinely disrespected.
- › This challenging legal environment makes it difficult to implement real pricing transparency for products and carry out effective financial education, as MFIs are reluctant to explain and publish their true APRs.

Consortium Alafia (Alafia)

Alafia is one of the oldest and largest microfinance associations in West Africa. Alafia is very active both at the regional and international levels and is recognized by peers in Africa as a model association. The association works with a range of partners such as **CGAP**, **MISION Africa**, the **Smart Campaign** and **MIX Market**, and is highly visible and respected by all stakeholders in the microfinance sector for its know-how and its interventions. Alafia is working to promote transparency and good consumer protection practices in the MFI sector.

Consortium Alafia's Presence in the Sector

	Microfinance Sector (Oct. 2012)	MFA Members (Oct. 2012)	
Number of legally registered MFIs	47	40	Membership Ratio (Number of members vs. number of MFIs eligible for membership) 71%
Number of persons benefiting from MFI services (members, borrowers, or depositors) [57 registered, 47 active]	1,577,936	1,459,950	
Market penetration rate (for total population over 18 Year-old)	33%	31%	Member Coverage (Number of members' clients vs. number of clients in the market) 93%

Consortium Alafia's Responsible Finance Agenda

Objective: Strengthen the association's ability to promote better consumer protection practices and contribute to transparency in the sector through improved industry-wide performance monitoring and benchmarking reporting.

Steps toward better consumer protection practices

- ✓ Alafia signed an agreement with the Smart Campaign through which it provided training to members in client protection
- ✓ Alafia's Code of Conduct includes client protection, and outlines sanctions that could be applied for violations
- ✓ Alafia played a crucial role in launching public information campaigns to explain how to distinguish legitimate MFIs from fake ones

Priority Actions

- » Promote awareness and implementation of the code of conduct by developing tools to facilitate its implementation (for instance on recourse mechanisms and transparency)
- » Encourage all members to adhere to the Smart Campaign client protection principles
- » Find additional financial investment and support to enable the CEI to become commercially viable

Steps toward more transparent markets

- ✓ Members regularly submit their audited annual financial statements to Alafia
- ✓ Under a joint program with **MISION Africa**, Alafia is assisting 12 members to install a reporting system
- ✓ Eighteen MFIs have submitted reports to MIX Market with either financial or social performance data (15 MFIs submitted both financial and social data)

Priority Actions

- » Sign an MOU with **MIX** and increase the number of members reporting to MIX by 30%
- » Upgrade ALAFIA PERFORM PLUS, the in-house reporting system, to be able to capture data remotely and produce comprehensive reports
- » Set up minimum rules for social performance reporting for all members