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FINANCIAL SECTOR ASSESSMENT – DEVELOPMENT MODULE

MALI

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A World Bank team visited Mali from March 2-13, 2015, to complete the Financial Sector Assessment Program (FSAP) Development module.¹ This report summarizes the main findings of the mission, identifies key financial sector vulnerabilities, and provides policy recommendations.

¹ The team comprised Mehnaz Safavian (Team Leader), Axel Gastambide, Ann Rennie, Pierre Fabrice Amariglio, Pierre Larocque, Maria Pagura, Peter Wrede, Simon Walley, Mahamoud Magassouba and Fatoumata Diourté Berthe.

CONTENTS

GLOSSARY	3
PREFACE	4
TABLE OF KEY RECOMMENDATIONS	5
CONTEXT	7
ACCESS TO FINANCE CHALLENGE	7
BANKING SECTOR	9
A. Context	9
B. Challenges	12
C. Recommendations	13
MICROFINANCE SECTOR	15
A. Context	15
B. Challenges	16
C. Recommendations	20
AGRICULTURAL FINANCE	21
A. Context	21
B. Challenges	22
C. Recommendations	23
INSURANCE SECTOR	24
A. Context	24
B. Challenges	25
C. Recommendations	26
HOUSING FINANCE	27
A. Context	27
B. Challenges	28
C. Recommendations	29

GLOSSARY

AFD	Agence Française de Développement
AP/SFD	Association Professionnelle des SFD
APBEF	Association Professionnelle des Banques et des Établissements Financiers
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BIC	Bureau Information sur le Crédit
BRVM	Bourse Régionale des Valeurs Mobilières
CB-UMOA	Commission Bancaire de l'UMOA
CCJA	Cour Commune de Justice et d'Arbitrage
CCS/SFD	Cellule de Contrôle et de Suivi des Systèmes Financiers décentralisés
CDF	Code Domanial et Foncier
CIMA	Conférence Interafricaine des Marchés d'Assurance
CNO	Commission Nationale de l'OHADA
CONASCOH-M	Confédération nationale des sociétés coopératives d'habitat du Mali
CMDT	Compagnie Malienne de Développement des Textiles
CPA/SFD	Centre de Promotion et d'Appui des Systèmes Financiers Décentralisés
CR	Centrale des Risques
CRRH	Caisse de Régionale de Refinancement Hypothécaire de l'UEMOA
CUH	Concession Urbaine d'Habitation
CUT/ STA	Compte Unique du Trésor / Single Treasury Account
CVECA	Caisses Villageoises d'Épargne et de Crédit Autogérées
DNTCP	Direction Nationale du Trésor et de la Comptabilité Publique
FCFA	Franc de la Communauté Financière Africaine
FGHM	Fonds de Garantie Hypothécaire du Mali
IMCEC	Institutions Mutualistes ou Coopératives d'Épargne et de Crédit
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires
OPI	Organisation Patronale des Industriels
MFI	Microfinance Institution.
MTPL	Motor Third Party Liability Insurance
PESF	Programme d'Évaluation du Secteur Financier
PME	Petites et Moyennes Entreprises
RCCM	Registres de Commerce et de Crédit Mobilier
SFD	Systèmes Financiers Décentralisés
SIG	Systèmes d'Information et de Gestion
TAF	Taxe sur les Activités Financières
UEMOA/WAEMU	Union Économique et Monétaire Ouest Africaine

PREFACE

The FSAP Development Module focused on: i) the banking sector and legal framework (credit to the economy); ii) microfinance; iii) agricultural finance; iv) insurance; and v) housing finance². The mission carried out in-depth assessments on each topic and provided recommendations aiming at mitigating financial vulnerabilities and supporting the development of the financial sector (i.e. development the credit to the economy while insuring financial stability).

The mission met with the Ministry of Economy and Finance, the BCEAO, the Ministry of Urban and Housing, the CCS-SFD, National Commission of OHADA, the CMDT, the Commercial Court, professional associations for the financial sector and the private sector, banks, microfinance institutions ,the IMF representative and donors.

The team is grateful to the authorities for their cooperation and for the fruitful meetings held throughout the mission.

Mali undertook a national FSAP in February 2008, following the regional WAEMU FSAP in 2007. The assessment addressed both stability and development issues related to the financial sector, and in particular it addressed concerns about the vulnerability of the banking sector to sectoral shocks (especially the cotton sector) and concentration risk. The mission had provided recommendations on reforms of the regional legal framework (notably an increase of the capital adequacy requirement), and reform of the cotton value chain. Finally, the earlier FSAP supported strengthening access to financial services (payment system, agricultural value chains), the microfinance sector, housing finance, and the legal and judicial framework.

² Each topic is assessed further through 6 technical notes: i) banking sector; ii) Legal and judicial environment; iii) microfinance sector; iv) agricultural finance; v) insurance sector; vi) housing finance.

TABLE OF KEY RECOMMENDATIONS

Recommendations ³	Priority	Time Frame	Principal player
Banking Sector			
Tighten provisioning requirements and bring greater transparency to bank balance sheets	M	M	BCEAO and Banking Commission
Strictly enforce the existing limits on large exposures, and reduce the single exposure limit in line with international standards	H	S/M	Banking Commission and BCEAO
Reconsider certain features that favor investment in government securities over private sector credit, notably tax exempt status and zero risk weighting	M	M	Council of Ministers, BCEAO
Promote wider usage of digital financial services by shifting bulk payment streams from cash to digital platforms	M	M	MoF and private sector providers
Legal and Judicial Environment			
Once adopted by the National Assembly, implement the uniform law on Credit Information Bureau	H	S	MoF, BIC, APBEF-
Complete the full automation of the Bamako RCCM	H	S	Ministry of Justice
Microfinance Sector			
Strengthen the capacity and the autonomy of the CCS/SFD	H	M	MoF
Implement the emergency plan in close coordination with the action plan for Mali on "la préservation et la consolidation de la viabilité du secteur de la microfinance dans l'UMOA"	H	S	MoF and CCS/SFD
Render operational the compensatory mechanism with funding participation of Malian government.	H	S	MoF and CCS/SFD
Agricultural Finance			
Build up the capacity of banks and well-established MFIs to offer agricultural banking services to clients in high potential value chains	M	M	MoF and Ministry of Agriculture

³ H/M: High or medium priority level. S/M: indicates the time span in which the recommendation could be implemented (short or medium term).

Accelerate actions to develop a supportive regulatory environment for leasing of equipment	H	M	BCEAO and MoF
Insurance Sector			
Address deficiencies in motor insurance, including the low coverage of mandatory MTPL and the absence of a motor guarantee fund.	H	M	MoF
Housing Finance			
Complete the privatization of BHM	H	S	MoF
Revise the current business model of the "Fonds de Garantie Hypothécaire du Mali" with a clear focus on potential synergies with regional initiatives.	M	M	MoF

CONTEXT

1. Mali is a vast, land-locked country in West Africa with a population of approximately 14.9 million, and a GDP per capita of USD480. The economy is largely rural, with over two-thirds of the population living off agriculture, notably cotton. Gold is the country's largest export, though production has been declining and the industry faces an uncertain future as proven reserves are limited. The service sector, which represents 40 percent of GDP, is dominated by trade and commerce. Mali's dependence on crops and gold makes it vulnerable to terms of trade shocks. Industry, which employs just 3 percent of the active population, consists largely of small-scale food processing and textile plants. The overwhelming majority of the population (over 90 percent) works in the informal sector.

2. In 2012, Mali suffered a grave political and security crisis from which it is now recovering. In early 2012, insurgents took control of northern Mali, displacing over half a million people. A military coup a few months later further de-stabilized the country and its economy, and resulted in the withdrawal of donor support. A French-led military intervention allowed the government to regain control over the north by mid-2013, and new presidential and parliamentary elections were held later that year to re-establish democracy.

3. Economic growth has resumed and inflation is low. GDP registered zero growth in 2012 due to the political crisis, and just 1.7 percent in 2013 due to poor agricultural output. Mali's economy returned to strong growth in 2014, with an estimated increase in GDP of 7.2 percent, and a projected growth of 5.5 percent in 2015. This year's projected growth represents a return to Mali's normal growth path, which averaged just over 5 percent for nearly a decade before the crisis of 2012. Inflation is low (1 percent in 2014), and projected to remain well within the BCEAO's target of under 3 percent.

ACCESS TO FINANCE CHALLENGE

4. It is well recognized that access to finance is a binding constraint to support growth and development. Credit to the private sector in Mali has not passed 21 percent, and less than 12 percent of SMEs have a loan or line of credit. Bank lending is concentrated in T-bills, direct investment into state owned enterprises, and large companies. Firms report that most investments (80 percent on average) are financed primarily from internal funds or retained earnings, while only 10 percent come from bank financing.

5. Most of banks' private sector loan is short-term, and firms find it difficult to finance their longer-term investment needs. This in turn can be attributed to higher risks on term lending, lack of long-term resources, and regulatory constraints. Since challenges in contract enforcement and the secured transactions framework make it difficult for banks to recover loans or realize security, they prefer to finance short-term, self-liquidating transactions with identified cash-flows.

6. Contributing 40 percent to GDP and employing approximately 65 percent of the active population, agricultural production (except cotton) remains widely underfunded by financial

institutions. It is estimated that agricultural production only receives 5 percent of overall private sector credit of the banking sector.

7. The microfinance sector is an important player in financing agriculture but the sector has experienced an important crisis. Beyond this crisis, MFI products (e.g. working capital with regular reimbursement) could not fit with agricultural seasonality. It is largely recognized that informal methods (tontines, borrowing from friends and family) remain by far the most used methods to save and access credit in rural areas.

8. The insurance market in Mali is small today, in absolute terms, relative to the size of its economy, and compared to local neighbors. Mali ranks 158th in terms of insurance penetration out of the 181, between the Democratic Republic of Congo and Haiti. Insurance penetration in Mali is 0.52% of GDP, compared to 0.81% in Burkina Faso which has a comparable GDP per capita and population size, and 1.04% in Benin. Insurance penetration averages 1% in the CIMA countries and is 3.5% for the African continent. 2014 figures are not available yet, but it is believed that growth has remained flat, further reducing Mali's share of the CIMA market.

9. The housing finance market in Mali remains small and under developed. In 2013 just 452 mortgage loans were granted, representing just 3 per cent of all mortgage lending across the WAEMU region. The value of loans approved in 2013 was FCFA6.1 billion (USD 10.2 m). The typical loan size was FCFA11.4 million (USD 19 thousand). The typical interest rate has reduced from 10.49 per cent in 2005 to 8.75 per cent in 2013. Overall in terms of loan maturity, interest rates and volumes of loans, Mali lags its WAEMU peers with the exception of Guinea Bissau.

10. Weaknesses in financial infrastructure, the legal and judicial environment, and in the broader macroeconomic framework represent obstacles to further diversifying and broadening credit to the economy. Major constraints include: i) poor contract enforcement; ii) inadequate credit information systems; iii) weaknesses in the secured transactions framework; iv) the preponderance of the informal sector in the economy; v) the lack of organized supply chains outside of the cotton sector; and vi) the scarcity of long-term resources to finance investment. The national and regional authorities are cognizant of the need to address these constraints, and a number of relevant reform efforts are underway (e.g. establishment of a regional private Credit Information Bureau).

11. For SMEs and rural non-farm businesses, financial products such as factoring, leasing, warehouse receipts, could mean increased productivity and competitiveness, particularly in manufacturing and agriculture sectors. Factoring plays an important role for SMEs and new firms in emerging markets that often have difficulty accessing bank financing. Similarly, for farmers and rural businesses, warehouse receipt systems can foster higher productivity, higher producer prices, greater access to financial services, and better quality crops. For example, following the introduction of a warehouse receipt system in Tanzania for cashew nuts, farmers doubled both prices and output over a two year period.

BANKING SECTOR

A. Context

12. There has been significant development of Mali's banking sector in recent years, but it remains shallow, and access to banking services is limited. Banking overwhelmingly dominates Mali's financial sector, with some 97 percent of financial sector assets. Private credit/GDP stood at 21.8 percent in 2013, placing it above the median for Africa (17.4 percent) and for all low-income countries (16.4 percent). Domestic deposits/GDP, at 23.1 percent, is roughly in line with the median for low income countries (23.5 percent)⁴. The trade sector accounts for the most important part of banks' credit portfolio (33 percent) followed by manufacturing (17 percent). Mining (gold) accounts for 2/3 of exports and is mostly funded abroad.

13. With the opening of a new bank in 2014, there are 14 commercial banks operating in Mali. The sector is only moderately concentrated, with the top three banks controlling 48 percent of deposits and 40 percent of loans. Only one of the banks is a specialized bank, the troubled housing bank, Banque de l'Habitat du Mali. The Banque Nationale de Développement Agricole (BNDA), was an agricultural development bank and still has a focus in that area, but now operates as a commercial bank. The remaining 13 banks compete largely for the same clients in a narrow market. In addition to the banks, there are three small non-bank financial institutions, a leasing company and two guarantee funds, one for mortgages and the other for SMEs. These 17 financial institutions are subject to the WAEMU regional banking regulations and supervised by the WAEMU Banking Commission

14. Table 1 below shows the evolution of the banking sector in Mali from 2009-13. While the mission did not receive 2014 data, credit to the economy reportedly increased by approximately 15 percent in 2014.

Table 1: Banking Sector Trends

	2009	2010	2011	2012	2013
Total assets (FCFA B)	1572.7	1844.2	2041.3	2167	2530.8
Deposits (FCFA B)	1161.4	1337.7	1457.2	1531.1	1702.8
Loans (FCFA B)	818	936.8	1124.7	1174.7	1344.5
Private sector credit/GDP-%	17.6	18.1	20.9	21.4	21.8
# bank branches	249	281	343	400	433
Branches per 100,000 inh.	1.72	1.87	2.20	2.46	2.52
# bank accounts	594784	655355	901584	1101688	1104057

Source: CB-UEMOA, BCEAO.

15. The banking sector is dominated by foreign shareholders (63 percent of the total), many from Africa. The largest Malian bank, the Banque de Développement du Mali (BDM), has also begun to expand in the region. The government shareholding in the system has declined from 39 percent in

⁴ Finstats 2015.

2008 to 21 percent, and there remains only one bank with majority government ownership, the Banque de l'Habitat du Mali, which is slated for privatization in 2015.

Soundness and performance of the Banking sector

16. Overall, the banking sector appears to be adequately capitalized and profitable, though performance varies widely among banks. The overall capital adequacy of the system (Basel I) was 12.9 percent in 2013, above the WAEMU average of 10.6 percent, though one bank failed to meet the minimum CAR of 8 percent (Basel I). Banks are moderately profitable, with an overall ROA of 1.2 percent and ROE of 14.1 percent. Gross intermediation margins have averaged around 8 percent over the past 3 years, with a declining trend (7.7 percent in 2013), below the African and low income medians of 8.8 percent and 9.6 percent respectively⁵. The margins reflect a relatively high cost base and high credit risks.

17. Asset quality is weak. Gross non-performing loans (NPL) were 19.3 percent in 2013, and net NPLs stood at 8.3 percent, above the WAEMU average of 15.3 percent and 6.6 percent, respectively. Conflict and political instability resulted in a sharp increase in NPLs in 2012, but preliminary (unaudited) figures for 2014 show an improvement in asset quality over the past year (15.9 percent gross and 5.59 percent net). Banks typically leave NPLs on their books for many years, even if fully provisioned, awaiting final resolution of lengthy legal proceedings before writing off loans. The reported level of gross NPLs is therefore inflated, sometimes by legacy bad loans of banks that were restructured and privatized years ago. These legacy NPLs represent roughly 30 percent of the bad loans of the system.

18. A key weakness of the system is the level of risk concentration. Under WAEMU regulations, banks can lend up to 75 percent of their capital to a single borrower, and exposures exceeding 25 percent of net worth is limited to 8 times the net worth. Yet, even with these weak norms, some banks fail to comply, particularly during seasonal high-points. Regional authorities have indicated that the proposed move to Basel II/III will address this issue.

19. Weak prudential standards and lax enforcement pose potential problems for bank soundness, but reforms are underway. Loan classification and provisioning regulations, capital adequacy, and risk concentration norms fall short of international standards. BCEAO has initiated a gradual implementation of Basle II/III standards, and has also taken measures to improve credit information, adopt international accounting standards, and implement consolidated supervision, which is becoming increasingly important given the increased presence of regional bank groups in Mali. While awaiting full implementation of these measures, the Banking Commission (BC) should step up its enforcement of existing norms.

⁵ Finstats 2015, IFS.

Table 2: Financial soundness indicators

	in %				
	2009	2010	2011	2012	2013
Capital Adequacy					
CAR	7.7	13.7	11.7	11.4	12.9
NW/total assets	4.6	7.5	8.3	7.7	7.9
Asset Quality					
gross NPLs/total loans	25.4	18.9	18.6	21.5	19.3
net NPLs/total loans	11.6	8.4	6.5	8.7	8.3
Provisions/gross NPLs	61.4	60.6	68.8	63.4	62.1
Net NPLs/net worth	82.9	44.8	38.7	50.8	52.1
Profitability					
Ave. cost of borrowed funds	1.9	1.9	1.8	1.9	1.8
Ave. int. on loans	9.8	9.4	10.0	9.9	9.5
gross intermediation margin	7.9	7.5	8.2	8.0	7.7
ROA	na	1.4	1.7	1.3	1.2
ROE	6.8	8.6	14.9	12.5	14.1
non-int. expense/net banking inc.	63.1	59.6	56.5	57.5	59.6
Liquidity					
Loan-to-Deposit ratio	72.2	82.6	88.0	88.5	89.7
Liquid assets/total assets	33.8	32.7	36.7	34.8	34.4

Source: BCEAO.

Financial Inclusion

20. Mali's high poverty levels and large landmass make financial inclusion a challenge. It has been improving in recent years, but remains low, with just 12.4 percent of the adult population having a bank account (up from 7.4 percent in 2009, and slightly above the WAEMU average of 12.2 percent). When other types of financial institutions and services are included, however, the picture looks brighter. The rapid growth in mobile money holds promise for bringing financial services to Mali's rural areas, which cannot be sustainably served by traditional branch banking. Growth was particularly rapid in 2014⁶,

⁶ Orange Money currently has 2,500,000 accounts, roughly twice the number of electronic money accounts given for all providers end 2013.

Table 3: Financial Inclusion Indicators

	Financial Inclusion Indicators-% of Malians > 15 yrs. Old				
	2009	2010	2011	2012	2013
Accounts with Commercial banks	7.3	9.3	11	13	12.4
Microfinance Institutions	12.7	15.7	14.5	13.5	20.4
Broader FI⁷	20	25	25.5	26.5	32.8
Broader+electronic money providers	20	27.4	31.4	35.9	47.9

Source: BCEAO

B. Challenges

Diversifying credit to the economy and reducing risk concentrations

21. Banks in Mali have traditionally provided credit to a relatively limited universe of companies, and were able to earn comfortable spreads on this traditional client base. However, with new entrants and healthier banks, competition for these companies has increased, and banks are actively looking for new and more profitable lending opportunities among retail clients (primarily urban salaried workers) and SMEs. Banks are also increasingly investing in WAMU government securities, which provide an attractive alternative to private sector credit given their tax-exempt status, 0 capital weighting, and the ability to use them to secure liquidity as needed at the BCEAO at attractive rates.

22. Banks face a number of challenges and risks in seeking to diversity their private sector customer base, notably:

i) Execution of contracts and judicial debt collection procedures. Banks lack confidence in the courts, which do not provide either predictability or legal security.

ii) Law on secured transactions. The OHADA Uniform Act on Secured Transaction provides Mali with a modern framework but the Company and Movable Collateral Registries (RCCMs) are in practice essentially non-operational. Mortgages have limited application because of the lack of formal property titles and the lack of a comprehensive land registry

iii) Law on insolvency. The OHADA Uniform Act on insolvency must be reformed to take account of new international best practices. Preventive settlement procedures are currently used as a stalling tactic by bad faith debtors. While the process is paralyzed the debtor sometimes squanders his assets. The draft new uniform act automatically limits the time during which the proceedings can be suspended.

iv) Credit information. There is currently no platform for sharing information on customers, so banks do not have a readily accessible database in which they can verify a borrower's credit history. To address this, the Uniform Law on the Credit Information Bureau (BIC) proposed by the BCEAO

⁷ Broader financial inclusion includes postal accounts and national savings accounts.

should be voted on as soon as possible, and other players, such as utility companies, should be brought in.

Funding and liquidity constraints, especially for medium and long-term finance

23. As growth in credit has outstripped deposit mobilization liquidity has become tighter.

This shortfall in deposits has been exacerbated by both increased purchases of non-Malian WAEMU treasury securities by Malian banks, and the ongoing move to a single treasury account (STA) for government, which has kept significant deposits at commercial banks in recent years. While banks have generally been able to maintain adequate liquidity (thanks in part to ample injections of liquidity by the BCEAO), competition for deposits, particularly wholesale time deposits, has intensified.

24. Sixty-five percent of lending in Mali is short-term, and firms find it difficult to finance their longer-term investment needs⁸.

Bank funding consists overwhelmingly of demand and short-term time deposits, and banks are constrained in the amount of term transformation they can do, both by risk considerations and by regulation⁹. The regional bond market has not yet been tapped by Malian banks.

C. Recommendations

25. It is understood that matters pertaining to banking regulation and supervision are regional matters that must be addressed at the WAEMU level.

Nonetheless, where appropriate, we have included such recommendations, as Mali participates in regional decision-making, and the recommendations in question would generally be beneficial to all WAEMU countries.

26. Reduce risk concentrations.

The WAEMU single exposure limit of 75 percent of capital is imprudent and discourages banks from broadening their borrower base.

27. Tighten provisioning requirements and bring greater transparency to bank balance sheets.

Again, the move to Basel II/III should bring about improvements, but in the meantime, tighter provisioning requirements (e.g. requiring banks to classify and start provisioning loans after 90 days—rather than 180 days) would be a step in the right direction.

28. Review rules that favor investment in government securities over private sector credit.

WAEMU government securities are currently tax-exempt, zero-weighted for capital purposes, and can be refinanced at the BCEAO at any time at favorable rates (currently 2.5-3.5 percent, below rates paid on savings accounts, time deposits or inter-bank borrowings), resulting in a rapid rise in bank holdings of government securities (+37 percent in 2013).

29. Legal and judicial environment:

- Commercial justice:

⁸ Short-term credit is defined in the UEMOA as under 2 years.

⁹ A prudential norm in WAEMU restricts term transformation to 50 percent of short-term deposits (recently reduced from 75 percent).

- Set up a system for the publication of judicial decisions, possibly beginning with a pilot project at the Bamako Commercial Court;
- Introduce mandatory training for commercial court judges as soon as they are appointed, particularly training in business law;
- Promote alternative methods for settling disputes, particularly by making the CCAM independent of the Chamber of Commerce.
- Law on secured transactions:
 - Complete the full automation of the Bamako RCCM with a view to (i) fully safeguarding existing movable collateral and ensuring automated registration in the future; (ii) ensuring public access via a dedicated website; and (iii) ensuring interoperability with the central records of the Common Court of Justice and Arbitration (CCJA);
 - Implement the property management reform aimed at introducing a land registry in Mali.
- Law on insolvency :
 - Support the rapid adoption of the new Uniform Act;
 - Prepare implementing measures for the Act now, by establishing the National Commission for the Supervision of Trustees.
- Credit Information Bureau (BIC)
 - Support the adoption of the uniform law by the National Assembly as soon as possible;
 - Involve other sectoral ministries to bring telecommunications, water and electricity companies into the BIC.

30. Collect and disseminate detailed supply and demand side data on the financial sector.

In order to increase transparency and better inform financial policy, more frequent and granular information on the sector is needed.

31. Promote financial inclusion by expanding access to digital financial services. Mobile banking services are expanding rapidly, though need to be broadened from basic payment services to a more comprehensive menu of remittance, savings, credit, and insurance products. While product development and promotion is the responsibility of private sector providers, national and regional regulators have an important role to play by ensuring inter-operability, competition, and promoting greater financial capability and consumer protection for users. Another means of accelerating change would be to shift bulk payment streams from cash to digital platforms, including government payments such as wages and other government-to-person (G2P payments such as pensions, and social transfers); government to business payments (G2B), and person to government (P2B) flows such as fees and taxes. Insofar as possible, the government should minimize or eliminate the use of cash, by shifting payments to bank accounts or digital accounts.

MICROFINANCE SECTOR

A. Context

32. The microfinance sector in Mali plays an important role in providing financial services to underserved households, microenterprises, and farmers, and reaches approximately the same number of individuals as the banking sector. While not systemically important, there are close to 1 million microfinance clients and about 1.4 million beneficiaries¹⁰.

33. Microfinance services are equally important for both urban and rural borrowers, and for women as well as men. While data on the rural/urban breakdown of clients is not available, estimates suggest that approximately half of all microfinance loans are extended to rural borrowers. Data (from a sample that accounts for 85 percent of the sector) show that almost 50 percent of MFIs' credit portfolio has been strictly for agricultural purposes (inputs, small equipment, warehouse credit). In 2013, one third of users were women, without taking into account the members of women's groups which constitute the majority of groups classed as Legal Persons. Therefore, the percentage of women served by the sector is likely to be much higher than 30%

34. Microfinance institutions in Mali provide both savings and credit services, and are licensed to mobilize deposits from their members. In WAEMU, there are three types of legal status for MFIs, referred to as "Systèmes Financiers Décentralisés" (SFD) in the WAEMU area: mutuals, associations and limited liabilities companies. Cooperatives and their networks/federations have historically been the dominant institutional type.

35. While there are 126 licensed structures, there are only 33 MFIs that are regularly reporting and in operation. Over 45.5% of these active MFIs are classified as mutual organizations, and account for 62.5% of users. There are numerous solidarity credit associations (10 MFIs), but they only account for 14.7% of users. Following consolidations in recent years, there are currently only five village and savings associations¹¹, but they account for 21.7% of users. Finally, limited companies only account for 1.1% of users¹². For the MFIs for which information is available, financial services are accessible at 702 access points.

36. The political turmoil in 2012 led to a deterioration of the financial health of the active microfinance sector. Non-performing loan (NPL) peaked in 2012, with a portfolio at risk (PAR) of 90 days of 11.8%. In 2013, the PAR 90 days was lower (9.2%) but still higher than the limit of 5%. Since 2010, the total amount of assets have declined significantly between 2010 and 2013 (-24.7%) due to losses, and a decrease in both deposits and refinancing from banks and other financial institutions. The decreasing trend of total assets have been partly offset by Microcred (the greenfield entrant) that

¹⁰ Clients and beneficiaries numbers differ because mutual group are considered as one client that serve a group comprised of 8-15 persons.

¹¹ CVECA: Caisse Villageoise d'Épargne et de Crédit Autogérée (self-managed village savings and credit financial cooperative).

¹² Microcred is the only limited liability company and is the most recent entrant into the market. It is also an IFC investment, and does not mobilize deposits.

starts its operation in 2014, and is an IFC investment, but still cannot access any refinancing facility. Refinancing by banks and other financial institutions fell by 38.2% during this period.

B. Challenges

Crisis of the microfinance sector

37. The microfinance sector in Mali has experienced a major crisis for over 6 years. The beginning of the crisis started in 2009 with few large MFIs that became distressed: Union Kondo Jigima and Union Jéméni, third and fifth MFIs at this time, have left outstanding deposits of about CFA 8.9 billion of deposits¹³. Since then, the situation has deteriorated significantly with the peak of the crisis in the aftermath of the 2012 political crisis. Indicators show negative growth in the sector between 2010 and 2013. The number of clients or members with an account in a financial institution decreased by 15.4% between 2010 and 2013.

38. Today, there is a loss of confidence in the sector. Refinancing from the banking sector has completely dried up, unresolved institutions remain, depositors await indemnification. The crisis has spilled over even into the handful of remaining and viable institutions (potentially 90 percent of the sector if few MFIs are consolidated). The viable institutions have not been able to expand their scale of lending (with the exception of one greenfield MFI).

39. While the active MFIs are dominated by few big institutions not requiring immediate supervisory measures, other active MFIs need to be closely monitored or liquidated. Based on Alia 2014 report and discussion with the national supervisory body (CCS/SFD), only 10 of the 33 active MFIs would not require supervisory measures. Special supervisory measures are not planned for the 6 largest MFIs.

40. For the rest of the active sector (23 MFIs) specific supervisory measures are needed. Audits need to be carried out to assess the real situation for these 23 MFI, notwithstanding, it could be estimated that 8 MFIs would require close monitoring and 7 MFIs should be placed under provisional administration. In addition, according to the national supervisory body (CCS/SFD), 8 MFIs should be liquidated. It is expected that some of the access points of MFIs to be liquidated will be consolidated into existing networks.

41. The rest of the licensed microfinance sector consists essentially in small retail structures (78 licensed MFI¹⁴). For these MFIs, it's critical to underline that there is no reliable data and audits need to be carried out (about thirty audits are supposed to be launch soon). For 24 MFIs that never started their activities, the Ministry of Finances should sign the decree for license revocation. It is estimated this measure should be considered for twenty or so additional MFI. For about thirty MFIs,

¹³ Most of the deposits lost in distressed MFI are located in these two MFIs. It could be estimated that about 85 percent of deposits frozen in MFI are located at Kondo Jigima and Jéméni.

¹⁴ Total number of MFIs (33 active MFI + 2 failed MFI + 78 small MFI = 115) does not correspond to the 126 registered in 2012 with the CCS/SFD, because there have been 13 consolidations since that time, particularly in the village savings and cooperatives sectors. It should be noted that licensing of consolidated MFIs has still not been granted.

the situation is not sufficiently clear and audits also need to carry out (some of these may be still active).

Regulatory and supervisory framework

42. The main cause of the microfinance crisis in Mali is due to weaknesses of the previous regulatory and supervisory framework (dated of 1993) that was not able to prevent the too rapid expansion of the sector. Under the previous law effective until 2010, the licensing process was too lax. From 2002 to 2010, over 300 licenses or temporary agreements were issued, including to institutions that did not present the minimal conditions for ensuring the security of savings deposits.

43. The ready availability of external funds for refinancing, offered by national and international financial institutions, contributed to the proliferation of new institutions and the rapid expansion of existing programs. Most beneficiary MFIs were not able to modernize their management systems to deal with growth, qualified staff were not hired, and capacity building for existing staff was insufficient, in particular with regard to managing credit risk.

44. The microfinance crisis was exacerbated by the absence of adequate prudential framework (no solvency ratio), the low requirements for reporting and low capacity of the supervision carried out exclusively at the national level until 2010. The national supervisory body (CCS/SFD¹⁵) did not have the budget or staff to assume its supervisory mandate, and when anomalies were detected, it was often too late to intervene. In addition, the quality of governance was deficient on the part of both technical staff and elected officers.

45. The former WAEMU legal framework was changed in 2007 with a new law that reinforced the role of the regional institutions (BCEAO and Banking Commission) respect to the national supervisory body (CCS/SFD). The law has significantly strengthen the regulatory (licensing, prudential requirement, reporting) and supervisory framework (see table 5). With the tightening of the legal framework it is expected there will be a consolidation of the sector and a reduction in the number of MFIs over time. In Mali, the new law came into effect in July 2010.

46. Under the new law, the BCEAO has to approve any new licenses issuance. Since 2010, the CCS/SFD has issued only one new license (Microcred). BCEAO is also responsible for recommending the revocation of licenses.

47. The law imposes prudential requirements and more frequent reporting requirements. MFIs compliance with the new requirement was expected to be met by July 2012 but delays have been observed in the process so far.

¹⁵ Cellule de Contrôle et de Suivi des SFD. The CCS/SFD is located at the Ministry of Finances (the service is directly tied to the General Secretariat of the Ministry of Finance). The CCS/SFD has four units: 1) licensing, recognition and agreements, 2) financial analysis, surveillance and control, 3) studies and statistics, 4) administration and accounting. The CCS/SFD currently has 25 agents, of whom 16 are professionals.

Table 4: Main change in the WAEMU microfinance law

	Initial law (1994–2007)	New law (since 2007)
Legal status for MFIs	Cooperative only Other MFIs could, however, request a 5-year authorization from the Ministry of Finance	Cooperative, association, LLC (single licensing regime)
Licensing	Licensing by Ministries of Finance only	Licensing process submitted to approval of BCEAO
Prudential/reporting requirements	No solvency norms Reporting requirements: annual financial statements	9 prudential ratios, including a solvency ratio—prudential ratios are tighter and more in line with banking norms New requirements, especially for cooperatives (e.g., obligation to set up an internal “security fund”) New accounting framework specific to microfinance Reporting requirements: annual financial statements and indicators sent every month (MFIs with savings/loans greater than US\$4 million) or every term (smaller MFIs) Larger MFIs must have certified accounts
Supervision	Ministries of Finance only	BCEAO/Banking Commission for large MFIs (savings/loans greater than US\$4 million), Ministries of Finance for smaller ones

Source: CGAP (2013).

48. Henceforth, the WAMU Banking Commission is responsible of the supervision for large MFIs (with total savings or outstanding loans exceeding CFA franc 2 billion) while the Malian supervisory body (CCS/SFD) remains responsible for smaller MFIs. The CCS/SFD has to provide regular supervision reports to the BCEAO. Supervision of the MFIs involves on-site and off-site inspections.

49. The supervision of MFIs is still challenging due to insufficient resources, too few inspections, and limited follow-up or monitoring. From 2010 to 2014, the CCS/SFD carried out some twenty supervision missions each year that is not sufficient regarding the size of the sector. The Banking Commission accompanies the CCS/SFD on one or two control missions each year to support the CCS/SFD teams. In 2013-2014, the Banking Commission carried out 2 on-site supervision missions for large MFIs.

Strategy and action plan to the recovery of the sector

50. A major development for the sector was the adoption by the Council of Ministers of the Emergency Plan for the Microfinance Sector in March of 2015. The Plan underwent widespread

stakeholder consultations (including CPA/SFD¹⁶ and AP/SFD¹⁷), and envisions undertaking the following steps in order to clean up the sector.

51. The National Emergency is in line with the regional action plan for the preservation and consolidation of the viability of the microfinance sector for WAEMU¹⁸. It is key to keep close cooperation between BCEAO national direction and Malian authorities (MoF, CCS/SFD) in the implementation of the emergency plan.

52. The Emergency Plan for the microfinance sector calls for the following measures: i) restructuring of the sector (including depositors compensation mechanism), ii) implementation of the legal framework, iii) capacity building for supervisory body (CCS-SFD) and promoting body (AP/SFD), iv) support for viable MFIs, v) improved support to develop the infrastructure of the sector, and vi) expansion of microfinance services. This Emergency Plan is under the responsibility of the CCS/SFD.

53. The Emergency Plan includes all the required measures to undertake the microfinance sector restructuring. Specifically, it is planned 1) audits of distressed institutions, 2) provisional administration or 3) close supervision, 4) revocation of licenses and 5) liquidations. Technical assistance is planned for MFIs that are potentially viable.

54. Importantly, the plan includes a depositor's indemnization mechanism (1.5 billion CFA), that provide a key signal on the willingness of the State to clean-up the sector. The exact mechanism needs to be defined and any concrete implementation will be very challenging. Rather than expecting a full funding from the donors, it is highly recommended for the Malian government to contribute to such mechanism to improve the overall credibility of the emergency plan and attract funding from donors.

55. Without previous audits, it's difficult to estimate if the current costing for indemnization (1.5 billion CFA) would be sufficient. While no reliable figures are available before auditing distressed MFIs, preliminary estimates suggest that close to 100,000 depositors will need to be indemnified, with an estimated gross cost of US\$ 20 million. Nevertheless, according to some actors in the sector, the net indemnization (i.e. deposits minus default on loan payment) could much less and would be manageable.

56. The second most important activity of the Emergency Plan in terms of financing (1 billion CFA) is the transformation of the CCS-SFD into an independent Agency (inspection agency). Right now, the CCS is under the Ministry of Finance. This arrangement limits its independence, makes it difficult to take autonomous decisions, relies on year to year budget allocations making it difficult to retain staff, among other challenges. This reform is key because the CCS/SFD needs to be more independent to carry out its mandate effectively. This measure is in line

¹⁶ Promoting and Support for MFI (*Centre de Promotion et d'Appui des SFD*). The CPA is an organization dedicated to promoting and supporting the microfinance sector, and is housed under the Ministry of Commerce and Industry.

¹⁷ Professional association of MFIs. AP/SFD is the organization that represents and advocates for the sector. It is responsible for representing and educating its members, and all licensed MFIs are required to be members of the AP.

¹⁸ *Plan d'actions pour la préservation et la consolidation de la viabilité du secteur de la microfinance dans l'UEMOA.*

with international best practice and this type of agency already exists in Niger and recently the Ministry of Finance of Benin opted for this type of structure. Financing of the agency would be provided by the government, the minimum estimated cost would be 500 million CFA francs per year.

57. The total budget for the Emergency Plan is 5.8 billion CFA francs, however it is possibly and likely that the costs of provisional administration and liquidations underestimate the full costs of their implementation by 2.8 billion CFA francs.

58. The financing of the emergency plan remain very challenging. AFD is expected to contribute through a contribution of about one billion CFA francs, in terms of technical assistance to the CCS/SFD. Importantly, a component of the Programme de Microfinance Rurale (PMR) will fund audits for 32 MFIs. For restructuring measures, other sources of financing have been identified. There are already development partners involved in consolidating rural MFIs (Canadian cooperation program, Terrafina).

C. Recommendations

59. The emergency plan need to be implemented as soon as possible. Regarding the difficulty to manage such plan the following sub-recommendations are:

- **Coordination.** The emergency plan needs to be implemented in close coordination with the regional action plan for Mali.
- **Audits.** The CCS/SFD should launch as soon as possible the required audits for distressed MFIs.
- **Major distressed MFIs.** The emergency plan needs to prioritize the larger MFIs and, in particular the two major distressed MFIs that have jeopardized the overall recovery of the sector for years.
- **Government contribution.** The Malian government should contribute to the financing of the depositors indemnization mechanism in order to improve the credibility of the government commitment and to attract donors financing.
- **Transparency:** A transparent communications strategy should be adopted and implemented throughout the restructuring and consolidation period, in order to reestablish public confidence.

60. The transformation of the CCS-SFD in a supervisory agency should be implemented to get more independence. Control methods should be strengthened and capacity building provided for personnel. Specific operating budgets for the CCS/SFD should be adopted for the recovery period.

61. Technical assistance should be provided to the few MFIs potentially viable to consolidate them in order to preserve the gains made so far.

AGRICULTURAL FINANCE

A. Context

62. Despite its importance to the economy, agricultural production receives a very small portion of overall private sector credit. Contributing 40 percent to GDP and employing approximately 65 percent of the active population, agricultural production only receives 5 percent of overall private sector credit¹⁹, in large part for financing of the cotton sector.

63. The main suppliers of agricultural credit are commercial banks and microfinance institutions, and both depend on producer cooperatives as an important way to distribute credit to small producers. Banks typically finance larger agro-industries, input suppliers and agro-processing companies, like the CMDT. With the exception of BNDA, they rarely finance producer cooperatives and/or farmers directly. On the other hand, MFIs finance cooperatives and individual farmers.

64. The cotton sector is well organized and well-financed by the banking sector. Cotton is an important sector to the Malian economy, accounting for 20 percent of export earnings and providing a livelihood for 25 percent of the population. CMDT, the only cotton company, has negotiated a pooled financing mechanism with the banks to fund cotton production and trade.

65. Producer organizations are an important player in the distribution of finance to the small producers. Banks, MFIs and CMDT use producer organizations to minimize costs and risks of financing small producers. Therefore, bank and MFI credit flowing to producers is highly contingent on the institutional and managerial capacity of producer organizations in the country, which seems to be very weak by most measures.

66. Only a few commercial banks are active in financing agriculture outside of the cotton sector. BNDA, and BMS to a much lesser extent, provide the bulk of funding to the agriculture sector outside of the cotton sector. They are the only banks that provide direct financing to the producer cooperatives. When it comes to financing small and medium farmers and agri-entrepreneurs, other players are starting to come into the market, including BOA, Ecobank, and Bank Atlantique.

67. A new micro insurance products for agriculture is showing promising results with maize producers in Mali. Agricultural insurance does not exist in Mali. However with the recently adopted regional law on micro insurance, a small pilot on micro-agricultural insurance has been started and initial results are promising. In 2014, Alliance, through an experienced micro insurance facilitator, Planet Guarantee, has insured 20,000 small producers in the maize sector. Based on the good results, Allianz has decided to extend this product to 50,000 in 2015.

68. MFIs are still an important player in financing agriculture, especially at the small farmer level. In spite of the difficulties facing the sector, the 11 MFIs listed below, which make up 80 percent of the microfinance market, have a major presence in rural areas. Of their total loans outstanding, 47 percent goes to finance agricultural production, primarily to small producers. MFIs agricultural finance

¹⁹ BCEAO, Indicateurs de solidité financières du secteur bancaire, 2013.

product offering is more diverse than commercial banks as some MFIs offer equipment loans, inventory credit for producer organizations and micro-leasing products in addition to short-term production loans.

Intense competition in Bamako is pushing commercial banks to expand their presence in regional and sub-regional markets. This could have a positive impact on agricultural finance market as banks compete for new clients with new products and services. In response to this trend, BNDA has become more strategic and commercial in its orientation to the sector.

B. Challenges

69. The development of the agriculture sector continues to be constrained by long standing, well-known challenges which weaken the supply and demand for agricultural financial services.

These include, but are not limited to: poor infrastructure, highly dispersed clientele, low value addition, poor production and post-harvest management, weak and unorganized marketing systems, inadequate agricultural training and education services, and an absence of effective risk management systems to address vulnerabilities.

70. Agricultural policies and support programs have not favored a well-diversified and commercially-oriented agricultural sector. Massive support, mainly for input subsidies, has gone to increase production in cotton and rice. In contrast, marketing and trade systems of most other value chains are underfunded and are poorly organized. This deters banks from investing in other sectors beyond cotton.

71. There is a serious lack of information on the agriculture sector, which impedes investment and financing to the sector. It is very difficult to obtain reliable statistics on the agricultural sector in Mali. There has not been an agricultural census since 2004 and the data that does exist is missing key information on the segmentation of the rural population across farm size, crops produced, assets held, etc.

72. Although input finance to farmers is working reasonably well, especially in cotton, there is a significant funding gap for equipment. There seems to be a large unmet demand amongst small producers for equipment financing.

73. Low capacity of banks to serve agricultural clientele. In Mali, banks have not specialized in agricultural lending and therefore often lack the capacity to analyze risks related to agriculture, especially for larger-scale farming and agribusiness projects.

74. Agricultural finance products offered by banks consist of mainly short-term production and trade credit products for both small and large borrowers. In general banks offer only short term loans, less than a year, for production and trade of agricultural commodities and inputs, including small equipment.

75. “High-priority/low-value” cotton value chain is weakening “high-value/high-priority” value chains, such as livestock, rice, mango, shea, and sesame among others. Mali could overcome the concentration and risks associated with the cotton sector and diversify its exports, most

importantly through regional markets by i) improving the supply for export, ii) promoting industrial processing to focus on regionally tradable and exportable goods, and iii) increasing access to appropriate funding to commercial farming and export-related industries.

76. Agricultural value chain investments are constrained due to limited access to long-term funding. Availability of large agricultural loans for investment are limited because banks do not have adequate long term deposits or other funding liabilities to finance the larger term loan portfolios.

77. Agricultural entrepreneurs have difficulty presenting bankable projects in agriculture. Many banks face substantial difficulties in getting bankable projects formulated based on identified market's needs.

C. Recommendations

78. Set up a multi-stakeholder task force to develop an agricultural finance strategy. A dedicated small taskforce made up of representatives from Ministry of Finance, Ministry of Agriculture, banks, MFIs, donor community, producer and agribusinesses and their associations to analyze the problems agricultural finance market.

79. Investment is required to support the development of agricultural micro- insurance through market research and capacity building for insurers and farmer awareness and education programs. Small farmers in developing countries face significant risks relative to their income, yet many do not have access to insurance.

80. Accelerate actions to develop a supportive regulatory environment for leasing of equipment in Mali. It is important to work with the private sector and donors to remove all legal and regulatory barriers to develop and reinforce market conditions in leasing.

81. Investment is required to build a commercially-oriented agricultural banking sector. Ultimately this is a private sector issue; however, leveraging public-private funding for skills development offered to all banks interested in agricultural lending could have a significant impact on credit flows to farming and agribusiness segments.

82. An agricultural finance demand-side study, with a particular focus on the state of producer cooperatives would help banks, MFIs and others better understand the financing needs of the sector. In complement to the planned agricultural census to be carried out in 2015, a deeper analysis into the make-up and institutional health of producer cooperative would be of great benefit to the banking and MFI sectors. This information could inform new strategies and product development to better and more inclusively serve small producers.

INSURANCE SECTOR

A. Context

83. The insurance market in Mali is small today, in absolute terms, relative to the size of its economy, and compared to local neighbors. Mali ranks 158th in terms of insurance penetration out of the 181 countries listed by the AXCO Global Statistics, between the Democratic Republic of Congo and Haiti. Insurance penetration in Mali is 0.52% of GDP, compared to 0.81% in Burkina Faso which has a comparable GDP per capita and population size, and 1.04% in Benin²⁰. Insurance penetration averages 1% in the CIMA countries and is 3.5% for the African continent²¹. 2014 figures are not available yet, but it is believed that growth has remained flat, further reducing Mali's share of the CIMA market.

84. Overall, the enabling environment for insurance is supportive in Mali. On one hand, adherence to the CIMA regulatory framework limits Mali's autonomy with respect to insurance regulation and supervision. For example, the supervisor in Mali can only conducted on-site inspections together with representatives of the Commission Regionale de Controle des Assurances (CRCA), and corrective measures can only be imposed on Malian insurers once approved by CRCA. On the other hand, the CIMA framework has a positive effect on the discipline of insurance supervision in the country and contributes positively to a stable and prosperous insurance markets.

85. The insurance sector in Mali also has supportive professional associations and good access to reinsurance. Both the Fédération des Sociétés d'Assurances de Droit National Africaines, a supra-national association of insurance companies representing 186 insurers in 26 countries, and the Comité des Compagnies d'Assurance de Mali are effective advocates for the interests of the industry.

86. The CIMA countries were among the first to adopt a regulation for microinsurance, and the first region to address the regulation of index based insurance. While the microinsurance regulation has not yet led to microinsurance so far – it contributed to attract attention and interest to this approach for more inclusive insurance markets, and various innovative products are currently available (in various stages of pilot testing or maturity). The comparative success of index based agriculture insurance for smallholder farmers is especially encouraging, given the large number of people who depend on agriculture activities in Mali.

87. A reasonably developed capital market in Mali should allow insurers to diversify investments and obtain appropriate investment income, although so far insurers' investments are overly concentrated in liquidity (54% of life insurance assets and 41% of non life insurance assets) and real estate (18% of life insurance assets and 22% of non life insurance assets); accordingly, investment income has been low in 2013 (4% for life insurers and 3% for non-life insurers).

²⁰ Source: AXCO Insurance Services.

²¹ Swiss Re Economic Research and Consulting. Key indicators for insurance in Africa are driven by South Africa which makes up 74% of Africa's insurance premium and where the penetration exceeds 15%.

88. The existence and growing penetration of mobile phone based banking services offers the opportunity to reduce the cost of premium collection and claims payments, thus making insurance premium more affordable and available to larger populations. Partnering with mobile network operators, insurers reached one million new clients in Ghana, and 2 million in Zambia. Millions more are added in an increasing number of countries every year.

89. The insurance market in Mali is diversified and well capitalized, but its reputation among the population is low, driven by perceptions of unfair claims handling. A stronger focus on client centric service quality is a precondition for the insurance market in Mali to achieve its potential and to make its unique contribution to the country's economic development.

90. The fact that there are a number of multinational insurance groups, who bring international expertise to the market, highlights how Mali has considerable market potential, especially in life insurance. It is encouraging that roughly one fifth of total insurance premium comes from life insurance, even though that is below the CIMA average of one quarter. It is also encouraging that almost half of life insurance premium is for individual insurance (as opposed to group insurance which is usually sold to employers), as it shows that the insurance industry serves households as well as corporate and industrial clients that often account for almost all insurance in developing markets.

B. Challenges

91. While being part of CIMA, Mali differs in a number of important aspects from other CIMA countries, primarily around insurance supervision. Insurance supervision in Mali is not provided by a Direction d'Assurances like in the other countries, but by a Division d'Assurances which is part of the Treasury. This implies that every communication –within the Ministry of Finance, within CIMA and with the insurance industry – has to go through the director of Treasury, slowing and diluting the decision-making process. More importantly, the fact that the insurance supervisor is not a directorate negatively affects how the supervisory role is viewed by the general public and the institutions the supervisor oversees.

92. The 2% of revenue that insurers in Mali have to pay to fund supervision are higher than in other CIMA countries, where they are typically 1.5% for non-life insurers and 1% for life insurers, and sometimes even less. More importantly, taxes on insurance premium (20% for all lines except life and transport insurance since 1992) are higher in Mali than in most other CIMA countries.

93. Although required by CIMA, Mali has not yet established a motor guarantee fund to cover injuries and deaths caused by uninsured or unidentifiable motorists. The delay is regrettable, because such a fund is a crucial measure to prove the importance and value of MTPL²² (and by consequence of insurance in general) to a population that is still suspicious of this industry and prefers to avoid even mandatory insurance whenever possible.

94. A major challenge for the insurance industry in Mali is to improve service delivery, given that Mali is among the lowest performers for honoring claims in CIMA. Non-life claims ratios,

²² MTPL (Motor Third Party Liability Insurance).

averaging 31% of earned premium between 2009 and 2013, are low both by international standards and compared to CIMA peers where the average was 41% in 2013 – in that year, only 2 insurance markets had claims ratios lower than Mali.

95. Considerable insurance needs in Mali do not reach the insurance market. While lenders are concerned that the death or disability of a borrower may result in loan default, they rarely use formal insurance to address this straightforward risk. Moreover, banks and microfinance providers usually use internal “funds” which accumulate compulsory contributions required from the borrowers and pay outstanding loan amounts in cases of death

96. Collateral required as a guarantee for a loan is rarely required to be insured.²³ In most other countries, lenders are worried that insurable events may impair the collateral and therefore demand suitable property insurance; this contributes considerably to some markets’ insurance volume.

C. Recommendations

97. It will be critical to strengthen the role of the supervisor and develop effective consumer protection that can improve the population’s trust in the industry. Establishing a Direction d’Assurance instead of a Division d’Assurance will allow the supervisor to interact more directly with the insurance market.

98. Addressing deficiencies in motor insurance is a priority, since it is the ‘face’ of the insurance industry. Addressing the deficits of car insurance offers considerable promise to improve the public perception of insurance, and thus encourage the purchase and use of more voluntary insurance by households and enterprises.

99. Lenders should begin to formalize borrower death and disability insurance.

100. The Government of Mali could consider a review of insurance taxation. Reducing the tax rate to levels more commensurate with other CIMA countries for example for agriculture, health and motor insurance will reduce fiscal revenue in the short term.

101. Exploring paperless insurance could significantly improve uptake. The distribution of insurance through mobile network operators has grown insurance markets impressively in other countries, allowing millions of Africans to discover that insurance is not a privilege of the wealthy but can make their lives better as well.

102. There is needed investment to increase insurance awareness, and consumer protection. While the mandate to a suitably empowered insurance supervisor is a necessary condition to improve the service quality and public appreciation of insurance in Mali, it requires funds to implement the appropriate systems (for example to collect, edit and publish relevant information), support industry-

²³ With the exception of mandatory MTPL in the case of cars, to avoid their confiscation.

wide efforts to increase quality (for example through codes of conduct and optimization of processes), and support mass communication and insurance literacy campaigns.

103. The provision of technical assistance to catalyze microinsurance could have a considerable impact. Having a suitable regulatory framework for microinsurance is helpful, but in itself will not achieve a vibrant and sizeable microinsurance market.

HOUSING FINANCE

A. Context

104. The housing finance market in Mali remains small and under developed. In 2013 just 452 mortgage loans were granted, representing just 3 per cent of all mortgage lending across the WAEMU region. The value of loans approved in 2013 was CFA6.1 billion (USD 10.2 m). The typical loan size was CFA11.4 million (USD 19 thousand). The typical interest rate has reduced from 10.49 per cent in 2005 to 8.75 per cent in 2013. Overall in terms of loan maturity, interest rates and volumes of loans, Mali lags its WAEMU peers with the exception of Guinea Bissau.

105. The total annual housing need in Mali based on the household formation rate amounts to 82,500, split between 51,100 urban units and 31,400 rural units.²⁴ At present, this is not being met although reliable data on housing supply are not available. The housing needs will accelerate as the population continues to grow and the urbanization rate increases from the current level of 39.9 per cent to 50 per cent by 2030. The President has pledged to construct 50,000 new affordable 'social housing' units, of which 40,000 are to be completed during the current presidential term which runs to 2018.

106. Access levels to housing finance are particularly low even when compared to WAEMU peers, with just 2 per cent of the adult population having a loan to buy, construct or renovate a dwelling. The root cause is an overall low level of financial inclusion which does not then provide opportunity to develop and cross-sell other financial products.

107. Overall some social housing is constructed and support is provided by the state for low income housing through the Office Malienne de l'Habitat (OMH), but the numbers remain small. OMH has three principal objectives which are to (i) support development of construction techniques and materials, (ii) invest directly into institutions aligned with OMH goals and (iii) provide support across public sector in terms of housing activities. It is resourced from two sources which are firstly a 1 per cent payroll tax levied on all salaried employees and secondly on a portfolio of social rental housing, giving a total budget of CFA 6 to 7 billion (USD 10 million). Much of this budget is spent in subsidies for the social housing program. These are given in the way of interest rate buy downs on private loans for social housing, or in providing financing for social housing which is sold on a rent to own basis over a 25 year period.

²⁴ Calculated using UN Populations Division population forecasts, and household size data from the 2001 Mali Demographic and Health Survey.

B. Challenges

108. Few banks currently offer a full mortgage product with Banque Malienne de Solidarité, BHM, Bank of Africa and EcoBank being the main lenders although at minimal levels. Some Banks entered the sector upon receipt of long term funds from donors (FMO for example), while others simply offer a product to good clients when demanded without actively marketing the product. The key reasons for not providing housing finance, are (i) the lack of long term funds and regulatory constraints of the transformation ratio, (ii) a perception that BHM should be doing more in this sector and that it is BHM's responsibility, (iii) a lack of mortgageable properties, and lastly, (iv) difficulties in enforcing collateral due to inefficient and unpredictable judicial process.

109. The Mali Housing Bank (BHM) only has a marginal impact on the housing finance market given its lack of resources. BHM is currently being prepared for privatization and is benefiting from technical assistance from the IMF in this process as well as having recourse to a consulting firm. Several key issues have been raised which block a potential privatization notably (i) the large number of small individual shareholders who have been heavily diluted following several recapitalizations by the State, (ii) limited profitability and market share putting into question its long term viability, and (iii) the large amount of fixed assets currently on its balance sheet which are in breach of regulatory norms and are also not generating any income. The latest available accounts for 2013, show that loan assets fell slightly, as did its own funds due to increased provisioning.

110. Housing microfinance remains extremely limited with no specific products or specialized providers. Overall the microfinance sector is struggling with its core business and for the most part lenders are not in a position to contemplate more complex products. There are 126 authorized microfinance institutions as at end 2013²⁵. Together they had deposits worth CFA51.3 billion (USD 86 million) and loans amounting to CFA57.9 billion (USD 97 million). Of these loans, 13.9 per cent are non performing, a ratio which has steadily been rising since 2010, while at the same time overall portfolio has shrunk from a high of CFA77.7 billion in 2011. Micro-finance loans are granted for shorter periods than is ideal for housing purposes and are also directed at productive purposes only. It is estimated²⁶ that up to 30 per cent of the loans end up being used for housing purposes which is in line with experience elsewhere.

111. A key obstacle to growing the housing finance market is the lack of available mortgageable titles. As little as 15 per cent of Bamako is formally registered with title with a much smaller proportion across rest of the country. The banking regulator, now requires that any mortgage loans be granted only against full legal title. Previously the so-called 'titre precaire' could be used. Although they did not have the same legal value, banks were able to physically keep the title documents which gave the creditor good leverage in enforcing repayment discipline. This could be done by way of a 'pledge'²⁷ which would be recorded in the land use register. This system is still used

²⁵ BCEAO data provided to the FSAP mission.

²⁶ Based on anecdotal evidence from market practitioners.

²⁷ See article 63 of the Code Domaniale et Foncier which provides details of how a loan can be made supported by a collateral pledge.

by many and is more effective than a legal mortgage which can languish in the courts for years when the creditor tries to enforce his or her rights.

112. Around 207 housing cooperatives exist which are brought together under an umbrella organization of the National Federation of Housing Cooperative Societies of Mali (CONASCOH)²⁸. The cooperatives are typically organized around professions, such as the teachers housing cooperative, and require regular payments or 'cotisation'. They receive some support from OMH, the main government housing agency. This is in the form of loans or loan guarantees. However this remains limited and insufficient to meet the housing needs of the housing societies. The Mali Housing Bank (BHM), should be the main counterpart for loans to housing cooperative but in practice it has limited resources and not able to meet demand. In response, housing cooperative are seeking to set up an apex savings and credit institution to better serve their needs. In practice only one cooperative thus far has managed to build housing. This is in the case of the SISO cooperative for teachers, which has built 100 units for its members. However, the reality for most cooperatives at present is that they have managed to acquire some land from the state but then not been able to access finance for building houses, in turn this has meant that they are no longer contributing to their cooperatives solidarity pool through 'cotisation'.

C. Recommendations

113. Ahead of a possible privatization, BHM should consider fully cleaning up its balance sheet, to allow it to restart lending and fulfilling its leadership role in the housing finance market. The fixed assets on its balance sheet are largely real estate, residential and commercial, which it has obtained after enforcing collateral on non-performing loans. Unlike other banks which have struggled to do this, BHM was able to convert the status of its loans to state debts which gave it greater enforcement powers. However, it is likely that the value of the collateral has been over estimated and would not be able to be realized if sold at market value. This is the reason why its balance sheet should be cleaned up to ensure it is able to start afresh once in the private sector. Without a fresh start it will struggle to gain investor confidence and access to credit lines. It is key that it is able to raise long term funding as its reliance on diaspora deposits or government funding will not be sufficient going forward.

114. The Mortgage Guarantee Fund (FGHM) is having a minimal impact on developing the mortgage market at present. It covers up to 70 per cent of credit losses and pays out on losses before they are fully finalized through the court system. In theory this is an attractive product for lenders facing a difficult credit environment with no credit bureau and poor credit rights for enforcing collateral. Yet, FGHM is barely surviving with a shortfall in capital and minimal levels of new business. This is in large part due to the failures of BHM on which the FGHM model is largely dependent. A fundamental review of the FGHM business model is required to ensure its long term survival. Such a review should take account of the following areas (i) setting of premium levels based on actuarial calculations of risk (ii) reaching out to all banks to increase levels of business (iii) operating on a sustainable basis with any subsidies being clearly segregated from FGHM accounting and pricing, (iv)

²⁸ Confédération nationale des sociétés coopératives d'habitat du Mali (CONASCOH-Mali).

consider expanding coverage to provide support for those working in the informal sector (similar to the Moroccan FOGARIM model) and lastly (v) explore possible regional options for how the guarantee could work in parallel with the regional refinance facility, CRRH.

115. A potential growth channel which could be better leveraged for housing and funding for housing is the Malian diaspora and the flow of remittances they send back to Mali. A large proportion of formal construction is made up of Malians abroad funding the construction of a home for their return to Mali or for their family remaining in Mali. It is estimated that as much as 40 per cent of remittances are destined to be used for housing purposes. Several banks have tapped into this market by providing correspondent banking services to attract remittances into deposit accounts. BHM has one of the largest flows owing to its established presence in Paris and its former history as a postal savings bank.

116. Cooperative movement should be developed as a channel for delivering housing to Maliens across economic classes. This will require a number of steps in order to ensure sufficient financing can reach cooperatives. The recommendation would be to (i) provide technical support to cooperatives in terms of planning housing needs, as well as the general planning support for issues like schools, health clinics and transport, (ii) the cooperatives need to be made credit worthy, this may require them to change their legal status or to create a vehicle which allows them to borrow directly (much like UK Housing Associations). (iii) borrowing from banks would necessitate Cooperatives to have some own funds, alongside their land holdings, this implies stronger enforcement of the 'cotisation' savings product, (iv) there are governance issues at some cooperatives, again support could be provided, the envisaged body for this is CAMASC²⁹ which has never been established and lastly (vi) there has to be some clear criteria for prioritizing members who receive housing, this is critical as some cooperatives have mixed membership in terms of economic strata.

117. Housing Policy for low income households as implemented through OMH is clearly insufficient at present and lacks some clarity. OMH needs greater resources if it is to come close to meeting the 50,000 unit target by 2018. Some suggestions at present include using a cement tax which could then be redistributed in social housing. The advantage of this is that increased activity in housing sector would raise demand for cement, thereby overall balancing out impact of tax. This approach has been used in a number of other countries including Morocco. Alongside this OMH, should consider better defining its programs with clear published criteria for receiving subsidies, together with a program specifically targeted at Housing Cooperatives. All of this should be prepared as a business plan with targets on number of social housing units to be delivered annually.

118. Full property titles should be made more available at cheaper cost if housing finance is really to be developed. Estimates suggest that anything from just 5-15 per cent of titles in Bamako are formal titles with lower ratios outside of Bamako. A program is underway to develop cadastral map which will lead to an easier process for registering titles. However, the cost remains very high with little incentive for an individual to convert their titles at present. A more systematic approach is needed with much reduced costs to formalize titling system. This could either be done as systematic

²⁹ Centre d'appui au association mutuelle et societe cooperative.

titling program where, once cadastral map is done, titles are granted across the country for a nominal cost, or a sporadic titling approach could be taken, which is more gradual and done on a transaction by transaction basis. Either way, the cost has to be brought down. At present FGHM provides some support in formalizing titles as part of its guarantee service. A 'fast-track' titling program could be considered also with many of the fees waived. This would provide a clear benefit for mortgage borrowers and remove many of the blockages which prevent banks from lending.

119. Several of the recommendations above could be put into practice by implementing a specific program focusing on housing for military personnel. This could include working with a housing cooperative or mutual organization for the military, it could also include using the OHM's interest buy down subsidy scheme and could furthermore bring in private sector lenders and developers. Such a pilot project could be used to assess the merits of a 'fast track' property titling and registration system ahead of a larger scale roll out.