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Niger: Rural Financial Services

Expanding Financial Access to the Rural Poor

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Niger: Rural Financial Services
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CURRENCY EQUIVALENTS
(Exchange Rate as of December 31, 2009**)**

Currency unit	=	CFA franc (CFAF)
US$1.00	=	CFAF 455.60

Abbreviations and Acronyms

ANFO	*Association Nationale pour la Filière Oignon*
ANIP	*Association Nigérienne des institutions Professionnelles de la Microfinance*
ARSM	*Agence de Régulation du Secteur de la Microfinance*
ATM	Automatic Teller Machine
BAGRI	*Banque Agricole du Niger*
BCEAO	*Banque Centrale des Etats d'Afrique de l'Ouest*
BDRN	*Banque de Développement de la République du Niger*
BIA	*Banque Internationale pour l'Afrique au Niger*
BOA	Bank of Africa
BRS	*Banque Régionale de Solidarité*
BRVM	*Bourse Régionale des Valeurs Mobilières*
CAADP	Comprehensive African Agricultural Development Program
CAIMA	*Centre d'Approvisionnement en Intrant et Matériel Agricole*
CDD	Community Driven Development
CDN	*Crédit du Niger*
CGAP	Consultative Group to Assist the Poor
CIMA	*Conférence Interafricaine des Marchés d'Assurance*
CIPRES	*Conférence Interafricaine de la Prévoyance Sociale*
CPCT	*Caisse de Prêts aux Collectivités Territoriales*
CPS	*Centre de Prestation de Service*
CREMPF	*Conseil Régional de l'Epargne Publique et des Marchés Financiers*
CNCA	*Caisse Nationale de Crédit Agricole*
CNE	*Caisse Nationale d'Epargne*
DTIS	Diagnostic Trade Integration Study
EAN	*Entreprendre Au Niger*
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
FSAP	Financial Assessment Program
FUCOPRI	*Fédération des Unions des Coopératives Productrices de Riz*

FY	Fiscal Year
GDP	Gross Domestic Product
HSL	Hides Skins and Leather
ICA	Investment Climate Assessment
MCPEC	*Mouvement des Caisses Populaires d'Epargne et de Crédit*
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprise
NEPAD	New Partnership for Africa's Development
NGO	Non Governmental Organization
OHADA	*Organisation pour l'Harmonisation en Afrique Du Droit des Affaires*
OPVN	*Office des Produits Vivriers du Niger*
PAC	*Programme d'Action Communautaire*
PAD	Project Appraisal Document
PFPN	*Plate Forme Paysanne du Niger*
PNIA	*Plan National d'Investissement Agricole*
PDSF	*Projet de Développement du Secteur Financier*
PRODEX	*Projet de Développement des Exportations et des Marchés Agro-Sylvo-Pastoraux*
PRSP	Poverty Reduction Strategy Paper
RDS	Rural Development Strategy
RECA	*Réseau National des Chambres d'Agriculture du Niger*
RINI	*Rizerie du Niger*
SA	*Société Anonyme*
SAHFI	*Société Sahélienne d'Investissement*
SME	Small and Medium Enterprise
SONARA	*Société Nigériennne de Commercialisation de l'Arachide et du Niébé*
TA	Technical Assistance
UEMOA	*Union Economique et Monétaire de l'Afrique de l'Ouest*
UMEC	*Union des Mutuelles d'Epargne et de Crédit*
WAMU	West African Monetary Union
WAEMU	West African Economic and Monetary Union

Preface

The Niger Rural Finance Study was prepared by a World Bank team composed of staff from the Africa Finance and Private Sector Unit (AFTFP) and Agriculture and Rural Development (AFTAR). The members of the team included: Korotoumou Ouattara (Sr. Financial Economist & team leader); André Ryba (Lead Consultant, Financial Sector) ; Aminata NDiaye (JPA), El Hadj Adama Touré (Sr. Agricultural Specialist) ; and Amadou Alassane (Sr. Agricultural Specialist).

Valuable contributions were made by peer reviewers: Ajai Nair, Djibrilla Adamou Issa, Guillemette Jaffrin, Henry Bagazonzya, and Quy-Toan Do. Other contributors to the study included Guillermo Arenas, and Lissandra N. Ellyne.

The purpose of the study is to improve World Bank's knowledge of rural finance and enlighten policy decisions by the Government of Niger.

A mission was held in June 2010 during which several discussions were held in Niamey and outside of Niamey with main stakeholders including financial institutions, government officials, farmers groups, and other private sector entities as well as potential beneficiaries. A questionnaire was then distributed to financial institutions (banks and microfinance institutions). The final report will be translated in French and its conclusions and recommendations discussed for inclusion in the Financial Sector Development Strategy to be finalized in December 2011.

The study team wishes to thank the Government of Niger and notably the Ministry of Economy and Finance, the *Agence de Régulation du Secteur de la Microfinance* (ARSM), financial institutions, farmers' groups, and other private sector entities that kindly provided their support during the study period.

Niger: Rural Financial Services

Expanding Financial Access to the Rural Poor

Executive Summary

1. Almost 85 percent of the population in Niger lives in rural areas with increasing population concentration in the most productive zone, more than 60 percent of them below the poverty line. The economy of Niger is principally based on agriculture and services. Agriculture sustains roughly 80 percent of the population.

2. Despite its important contribution to the gross domestic product (GDP) of about 46 percent, agriculture accounts for about 1.5 percent of bank lending to the private sector, and about 35 percent of microfinance credit is granted to the rural sector. Less than 1 percent of the rural population has a bank account or uses banking services, which is one of the lowest rates in the world. Lack of access to financial services remains, therefore, a key impediment to the development of the agro-pastoral sectors in Niger, and rural development more generally.

3. In its development strategy, the Government of Niger shows a clear appreciation for the role of the rural sector and the importance of rural access to finance. The current framework of Government's actions, defined by the 2003 Rural Development Strategy and its 2006 Action Plan[1], includes a Structuring Program on Rural Finance Systems and targets improved access by 15 percent in rural areas. Furthermore, the 2007 Government Poverty Reduction Strategy Paper (PRSP) expressed concerns about the financial system's weak capacity to effectively support initiatives in the commercialization of agricultural products, to mobilize adequate domestic resources, and to finance the rural sector. Rural development occupies an important place in the June 2011 declaration of general policy by the Prime Minister.

4. In the past few years several developments that have the potential to increase access to rural finance have been witnessed. They include : the increase in the number of bank branches, and in the number of microfinance institutions (MFIs); improved interconnection between MFIs and banks, with most banks refinancing MFIs; and the emergence of non-traditional providers of financial services such as telephone operators with mobile banking and IT-companies with instant cash transfers.

[1] The SDR Action Plan was later updated in 2009 as the National agricultural Investment Plan (NIAP) under the New Partnership for Africa's Development (NEPAD)'s Comprehensive African Agricultural Development Program (CAADP).

5. Despite this notable progress, rural finance remains a problem that is yet to find a solid resolution. Several state-owned institutions (SONARA, CNCA and BDRN) that were created to deal with agricultural and rural finance have failed, leaving the rural sector still faced with the same issues that were diagnosed 10 to 20 years ago. These experiences have also shown the limit of the State trying to substitute itself to the private sector rather than remaining a facilitator.

Objective of the Study

6. The main objective of this study is to identify the major impediments to access to financial services in rural areas, and provide practical recommendations to address the identified problems. The study aims to inform on rural finance policies and innovative instruments by examining both supply and demand sides including an identification of non-financial issues that restrict development of the rural financial sector.

7. Addressing the lack of rural access to financial services in the Niger development process continues to figure prominently on the Government agenda without, however, a systematic action plan and strategy. Adopting ad hoc solutions (such as the creation of an agricultural development bank) without addressing the structural issues that limit access to financial services will, unfortunately, not yield any positive long lasting results.

Methodology of the Study

8. The information and data used in the study was obtained from several sources including: (a) official public organizations such as the Central Bank (BCEAO), the microfinance regulatory agency (ARSM), and relevant ministries, (b) questionnaires sent to commercial banks and microfinance institutions; and (c) field visits and interviews with all nine universal commercial banks, the major microfinance institutions, farmer organizations, and service providers in the agriculture sector. The study has also drawn on information and analysis provided by previous studies and Government strategies including the FSAP (financial Sector Assessment Project), the ICA (Investment Climate Assessment), the RDS (Rural Development Strategy), the DTIS (Diagnostic Trade Integration Study), the Niger Microfinance Strategy, the World Bank Project Appraisal Documents (PAD), etc. Relevant programs and activities by other partners and donors have also been reviewed

Key Findings

9. The study reveals that both the demand and supply sides have to be engaged for a sustainable expansion of rural finance. In addition, key structural and business environment constraints need to be addressed to foster the development of financial services in rural areas.

The demand side

10. **The Niger rural and agricultural sectors exhibit great development potentials**, especially in key agro-pastoral subsectors defined in the Government strategy such as livestock and animal products, onion, cowpeas (*niébé*), sesame, and gum arabic. These subsectors, and in particular on-hoof animals and animal products (meat, hide and skins), onion and cowpeas offer the best growth potential in terms of exports revenues and poverty reduction as revealed by the DTIS in 2008. However the other priority subsectors including horticulture also offer good potential to expand and contribute to rural poverty reduction.

11. **The demand for financial services includes** demand for short term funding (inputs, working capital, storage facilities and commercialization) as well as medium to long term funding (investment in tree plantations, development of irrigation schemes, acquisition of related equipment such as pumps and pipes, acquisition of tools and implants, slaughter equipment, storage and packing facilities, as well as, processing units).

12. **Several weaknesses that have been previously identified remain today**. These include the lack of structured demand, power and transport infrastructure, research and extension services, business development including marketing services, market information, and transparency on the borrower side. These constraints make the rural sector difficult for financial institutions to serve.

The supply side

13. Niger's traditional rural finance service providers, i.e. banks and microfinance institutions have somewhat reinforced their presence in rural areas. However, this remains inadequate to respond effectively to the demand in the agro-pastoral sector and in rural areas. Bank branch openings in rural Niger have been increasing rapidly but the banking sector still has a strong urban bias. Even Automated teller machines (ATMs) tend to be located in urban rather than rural areas. However, it is worth noting that more banks now offer refinancing to MFIs, particularly the better performing ones, thus contributing to increase the availability of financing in rural areas.

14. **Microfinance institutions have a stronger presence in rural areas than commercial banks** but the sector remains weak and highly dependent on donor funding. The median self-sufficiency rate of 58 percent of MFIs clearly indicates that, without grants and donor subsidies, MFIs would operate at a loss. Two of the three networks which are active and present in rural areas, MCPEC and UMEC, have important shortcomings and are among the most problematic institutions in the sector in Niger. A credible and successful rural finance strategy will require taking that into consideration.

15. **Non-traditional providers of financial services include telephone operators, associations of farmers and a non bank financial establishment**. These providers that generally target smaller producers, play a useful role in expanding access.

(i) Two telephone operators have launched mobile-banking activities, but operations remain limited by the lack of interoperability between systems. Efficiency and usefulness will increase as more cell phone users join;

(ii) Farmers' associations mobilize savings or extend credit to their members either through MFI that they have created or through lines of credit. Also, an increasing number of associations are created to provide technical assistance to farmers/producers/breeders to support their activities and help them gain access to finance;

(iii) *Société Sahélienne de Financement* (SAHFI) which operates as a non-bank financial establishment has developed an original approach with commercial banks to provide services to SMEs. This approach brings together financing, a partial credit guarantee, and technical assistance to firms to elaborate financial statements and/or business plans and to prepare a credit application. After commercial bank funding is approved, SAHFI monitors the use of the credit and repayments. This approach helps overcome the constraints linked to the lack of capacity of firms to prepare bankable loan requests and that of banks to analyze SMEs. SAHFI does not yet operate in rural areas.

Constraints to Rural Financing

16. **Although, banks are increasing their presence outside the capital city, Niamey**, **they have failed to adapt their products and practices to the need of rural populations**. For instance, requirements for the opening of accounts or for a loan application exclude a large share of the rural population; and the amount of the loan as well as collateral requirements are not adapted to agricultural borrowers.

17. **Reasons for the reluctance of banks and large urban-based MFIs to finance the agriculture and rural sectors** are to be found in the difficulty in assessing and pricing risk, and the high transaction costs involved. Major constraints to lending activities include: (i) an inadequate structure of demand for agricultural credit; (ii) lack of well organized agricultural supply chains; (iii) lack of business skills and financial statements; (iv) lack of adequate collateral; (v) lack of knowledgeable staff on agriculture and rural credit in financial institutions; and (vi) lack of access to up-to-date information on potential borrowers. Costs and risks are compounded by deficiencies in land tenure and the judicial system.

18. **MFIs position in the financing chain of the rural economy explains their great potential** in expanding access to financial services in the rural area. MFIs are much more present in rural areas than commercial banks. Seventy five percent of operating MFIs have their

headquarters or main office outside Niamey. However, their development is hindered considerably by their lack of technology and financial resources, the weak linkages with the financial system and the constraining regulatory environment. For example, the new microfinance law still prohibits MFIs from undertaking leasing activities.

19. **Additional barriers to the growth of rural finance come from government policy and regulations**, and include:

i. Interest rate ceilings hampering lending to clients in the rural areas who resort to informal lenders at much higher costs. MFIs practicing higher rates tend to operate in a non-transparent manner.
ii. BCEAO's exclusion of loans to MFIs as eligible for Central Bank refinancing discourages refinancing of MFIs by commercial banks;
iii. The regulatory framework, although relatively modern and broadly in line with international standards, includes provisions which discourage financing in rural areas such as portfolio structure requirements, and restriction of leasing activities.
iv. The dysfunctional land tenure system, despite the reform introduced in the 2006 Budget Law limits land use as collateral.

Conclusions and Recommendations for the Way Forward

20. The findings of this study show that improving access to financial services in rural areas will involve actions dealing with: (a) the supply of financial services; (b) the demand for financial services; and (c) the legal, regulatory, and judiciary environments.

Recommendations to increase and strengthen the supply of financial services

21. Increasing the supply of financial services is a necessary condition to improve access to rural finance. That would involve strengthening existing banks and microfinance, promoting new institutions (e.g. leasing institutions) and developing more adapted products.

22. **Two possible approaches exist for banks to increase their financing to rural areas:** (i) by increasing their presence in rural areas and their direct lending to agriculture and livestock. For that, they would need to develop the expertise through technical assistance, and they may have to establish a special department with specialized staff, such as agriculturalists; and (ii) by linking up with MFIs that are closer to the rural clientele and contribute to agriculture financing by refinancing MFIs. A mixture of the two approaches is possible depending on the individual strategies of commercial banks and on the impact of increased competition. Banks should also increase the number of ATMs, particularly outside of Niamey as they make their debit/credit cards available to more clients.

23. **Microfinance institutions need to maintain and expand their activities in rural areas**. For MFIs to fully play their role, they need to be financially strong, viable and sustainable. Those in difficulty would need to be either restructured or closed with the help of the regulatory agency (ARSM). This should result in a healthier microfinance sector constituted by strong competitive MFIs that provide services at the lowest cost possible.

24. **The restructuring of MFIs and the reinforcement of supervision should increase the confidence** of the banking sector in refinancing MFIs to on-lend to the rural world. Smaller independent MFIs should also be encouraged to join existing networks to improve their long term viability and enjoy economies of scale. Indeed, networks allow member institutions to share costs and information, contribute to improved governance and benefit from back office services such as audit and other related activities provided by the Apex organization. Apex organizations could also consider creating their own financial organization with a bank license. Under the current laws, that would allow MFI network members to access the payment system, foreign exchange transactions, international transfers, leasing products, through that bank.

25. **Technical assistance should be provided to MFIs** to improve MIS, lending procedures, and internal controls. Capacity building is also required to improve MFI knowledge of agricultural lending and development of more appropriate products including mobile banking, warehouse receipt, etc.

26. **Partial credit guarantee initiatives offered to financial institutions could help increase lending to the agricultural sector**. A portfolio guarantee, by opposition to an individual loan guarantee is preferable as it avoids the risk of having only bad loans registered under the guarantee and reduces the cost of the guarantee. Experience in other countries (Mali, Madagascar) has shown that a partial portfolio guarantee initiative delivers better results when accompanied by technical assistance aimed at understanding the product and better analyzing credit applications. Technical assistance providers such as SAHFI and *Entreprendre au Niger* could play a bigger role by extending their activities to rural populations and firms.

27. **Longer term resources are needed to finance investment by borrowers**. In addition to donor lines of credit which are not sustainable in the long run, commercial banks should tap the regional capital market for longer term resources. It is worth noting that changes recently introduced in the capital market (with respect to guarantee and costs) do facilitate the issuing of bonds. Some of the longer term resources acquired by banks through the market could in turn be made available to MFIs through refinancing.

Recommendations to Increase the Attractiveness of the Demand

28. **Technical assistance to producers' and farmers' organizations remains crucial** in strengthening the effective and potential demand for rural financial services. In addition,

recognized local service providers should also be empowered. While technical assistance providers should be private organizations, Government could help fund their activities directed at cooperatives, and farmers. Indeed, capacity building generates externalities for the economy as a whole by permitting the development of a crucial sector of the economy (agriculture). Education/training of farmers and their associations could happen at two levels: (i) on techniques of growing products and breeding cattle, irrigation, marketing, etc.; and (ii) on financial issues, developing a savings culture and financial literacy, etc.

29. **Strengthening the value chain of key agricultural products will make a big difference** in convincing banks to finance agriculture and agribusiness. Value chain financing will happen when key constraints along the chain from production to marketing and sale are lifted. That may include dealing with regulatory constraints, infrastructure, support structures to the value chain such as input supply, agricultural services, availability of detailed technical as well as experience agricultural support staff to strengthen the structure and professionalization of actors in the chain. In addition, lifting barriers to private sector investment (access to finance and land) will facilitate investment in agribusiness and promote competitiveness in specific subsectors.

30. **There is a need to develop guarantees and collateral adapted to the rural areas such as warehouse receipt and leasing** that are acceptable to the banks and MFIs supervisors. Consideration may be given to equipment, livestock, as well as to assets that women clients tend to own. In addition, lending mechanisms based on cash flow without requiring a guarantee could be developed with the support of technical assistance as needed.

31. **Appropriate insurance products should be developed**. In particular, weather-based insurance products would reduce the risks of lending for agricultural activities. A World Bank project in Senegal has launched a pilot project in that area. A study needs to be undertaken to assess the feasibility and the contours of such an insurance scheme in Niger.

Recommendations for a more Conducive Regulatory/judicial environment and Government Policy

32. **Usury rates for both commercial banks and microfinance institutions should be lifted** as costs of providing credit to rural clients may indeed exceed the usury rate. Otherwise, in addition to remaining non-transparent, banks and MFIs may not enter some markets, most of which are in hard to reach rural areas, where they cannot cover their costs, hence reducing access to finance. For instance, the regional Central Bank (BCEAO) has a 27 percent usury rate for

microfinance and recent studies commissioned by BCEAO in three member countries showed that the usury rate is insufficient to cover costs and risks. Indeed, operating costs per CFAF lent are much higher for MFIs than for banks, because of the small amount of the loan (granting and monitoring a small loan costs at least as much as for a large loan) and the fact that the rural population is scattered over large areas. Interest rates ceilings may thus limit access to finance in rural areas.

33. **Leasing by microfinance institutions should be allowed so that they can make equipment loans** to clients who do not have other guarantees. This would require, however, that the regional microfinance law be amended and that may prove very difficult and very long to undertake. Alternatives to changing the law might include creating a subsidiary of the MFI to provide non-financial leasing activities. The new company would only need to be registered with the commercial registry (*registre du commerce*) and it would share premises and staff with the MFI. Another alternative would be for the MFI to establish a financial organization with a bank license which permits financial leasing activities. New financial leasing companies could also be created by private sector investors to operate in rural as well as urban areas. An analysis should be conducted to assess existing barriers to the development of leasing companies in Niger and measures taken to remove these barriers.

34. **Supervision of MFIs should be strengthened**. Indeed, only healthy MFI could contribute to improve access to financial services. Supervision should ensure that MFIs stay healthy or take corrective measures at the first sign of difficulties.

35. **Regulation regarding mobile banking in the WAEMU region may need to be revised** to enhance its development given its huge potential to increase financial access very rapidly in rural areas. The regulator/supervisor should impose interoperability between operators. This would require full coordination between the bank and telecom regulators. With time, interoperability should be introduced between the telephone and the card system.

36. **The judicial system needs to function better to facilitate the enforcement of contracts and loan recovery**. Some magistrates should be specialized in financial/banking issues. To be adapted to rural areas, the legal framework needs to be simple. The legal treatment of land in rural areas should be improved. In the absence of a full-fledge credit bureau, a risk registry ought to be created for MFIs.

37. **The primary role of the Government should be that of a facilitator rather than supplier of financial services**. However, the Government of Niger has been trying to deal with the lack of rural finance through several pro-active initiatives as supplier of financial services. The newest initiatives include the creation of an agricultural development bank – *La Banque Agricole du Niger* (BAGRI), as well as three funds, a credit guarantee fund, a credit subsidy fund and a calamity fund. However, unless the main constraints to financing agriculture are lifted, BAGRI is unlikely to be more successful than the commercial banks. For BAGRI to be

sustainable and to avoid introducing distortions in the market, in particular crowding out commercial banks, it should be run as a private entity on the basis of sound commercial principles. In addition, the capital of BAGRI should be opened to private sector entities as soon as feasible. Should BAGRI prove unsuccessful, like other initiatives which have failed in the past, the authorities should be prepared to close it down quickly before it costs taxpayers too much.

Niger Rural Financial Services

Expanding Financial Access to the Rural Poor

I. INTRODUCTION

1. **Niger is a vast, landlocked country,** measuring 1,267,000 km^2 with a population of nearly 15 million in 2010. The majority of the active population, roughly 84 percent of men and 97 percent of women live in rural areas and are engaged in agricultural activities including crop growing and raising livestock.

2. **The economy of Niger is principally based on agriculture and services**. The primary and tertiary sectors account for 42 and 38 percent of GDP respectively. Agriculture sustains roughly 80 percent of the population, while service activities largely center on trade, especially with neighboring Nigeria.

3. **Niger has made substantial economic and social strides in connection with implementing its growth and poverty reduction strategies.** The economy grew at an average annual rate of 5.3 percent from 2005 to 2007, thanks to a stable sociopolitical environment, favorable weather conditions, a solid government fiscal policy, as well as investments to improve the country's infrastructure including telecommunications and the water sector. That was higher than the growth rate in other neighboring countries. Recent investments in the mining sector (uranium and oil), telecommunications, and agriculture may well cause this growth rate to increase in the coming years, should the country enjoy a stable political environment.

4. **The economy of Niger remains, nonetheless, very sensitive to climate-related shocks as other countries in the Sahelian region**. The agricultural sector is at the mercy of weather vagaries with unpredictable impacts on the economy. In 2004 for example, a drought as well as a locust attack brought about a one percent decrease in real GDP for the year and a subsequent 4.4 percent decline in real GDP/capita, all a manifestation of a 13 percent fall in agricultural production, leading to starvation and food crisis in 2005 and again in 2010. In addition to heightened sensitivity to climate-related shocks in this Sahelian region, the country's economy is very vulnerable to fluctuations in world commodity prices, namely for uranium, the mining of which was opened to international competition in 2006.

5. **Rainfall shortages and unfavorable rainfall distribution** have a negative effect on agricultural output and thus on all economic activity, particularly banking. Following the drought, the 2004 downturn in economic activity led to a 10 percent decline in credits to the economy by the end of 2005, versus an increase of 24 percent one year before. Similarly, private sector deposits grew by just 3 percent by the end of 2005, versus an increase of 22 percent the year before. In addition, the downturn in trade between Nigeria and Niger, which involves agricultural products and accounts for a sizable portion of bank credits, also has a negative effect on banking activity during drought years.

A. Rural Finance in Niger and Motivation of the Study

6. **The Financial Sector Assessment Program (FSAP) undertaken in 2008 revealed that the financial sector of Niger is small and underdeveloped**. Although, the financial sector depth (M2/GDP) has increased from 7.68 percent in 2000 to 19.07 percent in 2009, it remains extremely low compared to the 41 percent average for Sub Saharan Africa or the 52 percent for Low Income Countries[2]. In spite of some recent progress, financial intermediation in Niger is weaker than in any other country of the Union (excluding Guinea Bissau).

7. **According to the FSAP, access to financial services in rural areas is extremely limited**. Less than 1 percent of the rural population has a bank account or uses banking services, which is one of the lowest rates in the world. Credit distribution does not reflect the relative importance of the economic sectors. Agriculture, which contributes to 46 percent of GDP, accounts for about 1.5 percent of bank lending to the private sector. Under these circumstances, efforts to promote agricultural production and productivity cannot be very successful unless there is an increased access to financial services and resources to help with the development of agriculture and the rural economy in general.

8. **Previous studies such as the Investment Climate Assessment (ICA) in 2008 identified the limited outreach of the financial sector as an important constraint to the economy's absorptive capacity**. According to the ICA, more than 50 percent of enterprises in Niger rated the cost of financing as a major or severe problem, and more than 70 percent rated access to financing as a major business constraint. The Doing Business (2010) ranks Niger as 150 (out of 183) for "ease of getting credit" which represents a 3 point drop in rating from the previous year.

9. **The FSAP recognized that the lack of access to financing is a major obstacle to the development of the agro-pastoral sectors in Niger**. The assessment found that less than 1 percent of farmers and cattle raisers have access to formal banking services. In addition, microfinance loans which totaled CFAF 8.5 billion represented only 6 percent of total financial sector loans.

10. **The Government Poverty Reduction Strategy Paper (PRSP)** of 2007 expressed concerns about the financial system's weak capacity to effectively support initiatives in the commercialization of agricultural products, and to its lack of capacity for adequate domestic resource mobilization, and for financing of the rural sector and more generally private sector development.

[2] World Development Indicators (2006)

B. Objective of the Study

11. **The main objective of the Niger rural finance study** is to identify the major impediments to rural financial sector development that should be removed in order to increase access to financial services in rural areas.

12. **Addressing the lack of rural access to financial services in the Niger development process** continues to figure prominently on the Government agenda without, however, a systematic action plan and strategy. Identifying and understanding the constraints in the financial sector as well as the real sector and what can realistically be done to develop rural financial services remains a critical part of helping the Government implement its program that aims at reducing poverty through the development of productive activities in rural areas.

13. **Successful dissemination of a rural finance study and its conclusions** should result in the approval by the Government of an action plan and reform measures, which if implemented will contribute to increased access to finance in rural areas, in term of development of new instruments and institutions. In particular, this study could be a major input into the financial sector development strategy currently under preparation with financial and technical support from First Initiative.

C. Methodology and Outline of the Study

14. **This study or Economic and Sector Work (ESW)** which is a joint endeavor between the financial and rural development departments is consistent with the World Bank FY08-11 Country Assistance Strategy (CAS) for Niger. The study will support the first pillar of the CAS that focuses on *Accelerating sustainable economic Growth that is equitably shared*. Accelerating growth in Niger is closely linked to its ability to unlock the growth potential of the rural and agricultural sectors. The study addresses both supply and demand issues by an analysis of data collected primarily through questionnaires to financial institutions, and interviews with groups representing rural populations, farmers' associations, and potential beneficiaries of rural financial services. Complementary information was obtained from the Central Bank (BCEAO) and other relevant ministries. The study also draws on information and the analysis provided by previous studies, diagnosis, and government strategies including the FSAP, ICA, RDS (Rural Development Strategy), DTIS (Diagnostic Trade Integration Strategy), Niger Microfinance Strategy, World Bank Project Appraisal Documents (PAD), etc. Relevant programs and activities by other partners and donors have also been reviewed.

15. **Following the Introductory Chapter I** on the background, motivation and the objective of the Study, Chapter II provides an analysis of the demand side with an overview of the rural and agro-pastoral sector as well as of the Government strategy for the sector. In Chapter III, the major suppliers of rural financial services are described as well as the main constraints and opportunities to increase access. Chapter IV discusses the way forward and provides recommendations to increase access to rural finance in Niger.

II. THE RURAL SECTOR OF NIGER AND GOVERNMENT STRATEGY

16. **Despite unfavorable agro-climatic conditions and recurrent natural disasters, agriculture and rural development continues to play a key role in Niger's economy**. The rural sector contributes to about 40 percent of GDP, a declining trend since 1980, with agriculture accounting for about 52 percent and livestock about 30 percent of the rural output. Ago-pastoral products account for about 85 percent of export revenues (uranium excluded), with the livestock sector contributing to 56 percent (mostly live exports). Overall, the country's agricultural trade balance remains heavily in deficit, as imports of foodstuff represent a third of the country's import bill.

17. **Subsistence farming and animal husbandry, based on low-productivity and traditional techniques, are pursued by the majority of the rural population**. Almost 85 percent of the country's population lives in rural areas, most of them below the poverty line. With increasing population concentration in the most productive zones, the sustainable management of productive natural resources, particularly land and water, has become essential to Niger's agricultural growth and rural poverty reduction.

Government of Niger Strategy

18. **With an average annual growth below 2 percent over the past 40 years**, well below the annual population growth rate, the challenges for the rural economy to remain an engine of growth are daunting**.** Above all, overcoming these challenges requires adequate policies and effective institutions to capitalize on the existing potential, and to provide a strategic framework conducive to much-needed modernization of the country's agriculture and livestock sectors. This framework exists and is defined by the 2003 Rural Development Strategy (RDS), and its 2006 Action Plan. This framework has been complemented in 2009 by a National Agricultural Investment Plan (PNIA), which has been prepared under the New Partnership for Africa Development (NEPAD) Comprehensive African Agricultural Development Program (CAADP) Compact process and the assistance provided by the Economic Community of West African States (ECOWAS).

19. **The RDS and the PNIA provide a policy and institutional framework for comprehensive reforms pertinent to the rural sector.** Through this strategy, which presents a unique reference framework for economic and social policies in rural development, the Government reaffirms the role of the rural sector as the country's engine of growth. The RDS is linked directly to the country's key PRSP pillar which is the "development of productive sectors, especially in rural areas, to mitigate vulnerability and stimulate income generation".

20. **The ultimate goal of the RDS is to reduce the incidence of rural poverty** from 66 percent to 52 percent by 2015, through the creation of a policy and institutional environment conducive to sustainable economic and social development. This was elaborated on the basis of a medium-term approach focused on providing an operational framework for the definition and implementation of the country's rural development policy and sectoral components. To achieve its objective, the RDS is structured around three strategic pillars which are: (i) the creation of a stable macro-economic environment; (ii) the development of productive sectors; and (iii) the promotion

of good governance and strengthening human and institutional capacities. Fourteen programs have been identified for the operationalization of RDS which relies on a variety of initiatives, including 10 Restructuring Programs (*Programmes structurants),* of which the number 5 is Rural Finance Systems with an objective of improving access by 15 percent in rural areas. RDS also includes four high-priority programs (*programmes sectoriels prioritaires*) which focus on cross-cutting and Government top priorities such as Food Security, and Natural Resource Management. As expected, the Rural Finance component of the RDS goes beyond the Microfinance Strategy elaborated in 2001 which focused primarily on building the capacity of microfinance institutions to increase access in a sustainable manner.[3]

21. **Implementation of RDS initiatives has relied primarily on donor support**. Thus, the World Bank provided support to two rural development operations in Niger through analytical and lending instruments. Ongoing operations include (i) the Second Community Action Program (PAC2), a Community Driven Development (CDD) Project in support of decentralization and community-based sustainable land management and (ii) the Agro-Sylvo-Pastoral Exports and Markets Development Project (PRODEX) which intends to support the implementation of RDS Program 3 that focuses on strengthening professional organizations and supporting key agro-sylvo-pastoral supply chains. PRODEX also includes activities aimed at developing financing instruments to support producer cooperatives and entrepreneurs in promising agribusiness value chains. In the financial sector, support to the Niger structural reforms was being carried out under a financial sector development project (PDSF), though with little focus on rural and agricultural finance. In general, it is too early to report on any results or accomplishments of these donor initiatives, still being implemented.

22. **The RDS acknowledges that access to financing is a major constraint to the development of the rural sector**, where less than 1 percent of rural populations of Niger have access to credit. The commercial bank dominated financial system is failing to provide entrepreneurs and small enterprises with sufficient access to financial services, especially in rural areas. Understanding the organization of the rural and agricultural economy as well as the structure of the demand for financial services is crucial for the right policies to be formulated and implemented.

Main agricultural and agricultural export products

23. **The agro-sylvo-pastoral sector accounts for the second largest share of Niger's export earnings**, after the mining sector, and its development can improve sustainable, pro-poor economic growth. The roughly estimated gross value per year of the five major agro-sylvo-pastoral export sub-sectors is presented in Table 1. Onions make up over half of the value of the

[3] Implementation of the microfinance strategy was primarily done through the IFAD rural finance development project (PDSFR). Unfortunately, the PDSFR closed early, because of poor project management, without achieving the objectives of the national microfinance strategy of building a viable and sustainable microfinance sector.

exports of these five sub-sectors and cowpeas another 30-40 percent. The other three sub-sectors are small but in some cases (e.g. sesame) have substantial potential to expand. Forecasts of the potential for growth by the year 2017 are also provided in Table 1. While these results are far from certain, they do underline that the two most important sub-sectors today (onion and Cowpea) also have the greatest potential for growth in revenues in absolute terms. However, the production systems face various constraints that need to be alleviated to induce growth.

Table 1: Estimated Values of Five Key Agricultural Exports and Projections for 2017

Sub-sector	Exports (in tons)	Sale Price (US$ per ton)	Gross Value of Exports (US$ million)	
			2006	2017
Onion	125,000	$700 wholesale in coastal markets	88	264
Cowpea	200,000	$340 in Northern Nigeria	68	136
Souchet	9,000 to sub-region 9,000 to Spain	$300 in sub-region (informal) $800 fob Cotonou (formal)	3 7 Total : 10	6 14 Total : 20
Sesame	5,000 to Asia	$650 fob Cotonou	3	12
Gum Arabic	500 *Senegal* gum 150 *Seyal* gum 2,000 *Senegal*	$1,200 fob Cotonou (formal) $ 900 fob Cotonou (formal) $ 400 in Nigeria (informal)	0.6 0.1 0.8 Total : 1.5	2,4 0.2 1.2 Total : 3.8
Total Gross Value			**$170 mil.**	**$436 mil.**

Source: DTIS, World Bank 2008

Organization of Rural and Agricultural Production & Demand Structure

24. **Promising agro-pastoral supply chains** as identified by the 2008 DTIS and the Government Rural Development Strategy include onion, cowpea, sesame, gum arabic, livestock and animal products. That explains why the on-going World Bank-financed Agro-Sylvo-Pastoral Exports and Markets Development Project (PRODEX) focuses its support on these promising supply chains. In addition, these key agro-pastoral products, as well as rice, represent untapped business opportunities for financial institutions operating in Niger.

Onion

25. **The Niger production of onion has almost doubled over the last decade,** reaching 400,000 tons in 2008, of which 55% (220,000 tons) will be exported to the regional market. The production zone includes Agadez, Tahoua, Maradi and Zinder, and land cultivated amounts to 10,000 ha. The growth of this crop has been driven by the expansion of land cultivated as the yield has remained stable over the decade: 39 to 54 ton/ha. The country's comparative advantage resides in the quality of the *Violet de Galmi* seed and the existence of two cropping seasons, allowing the Niger production to be in the market 8 to 9 months per year. The domestic market absorbs only

5% of the production. On the regional market, Ivory Coast is the first destination with approximately 40% of total export, followed by Ghana and Nigeria which receive 25% each. There are approximately 32,000 producers involved in the production of onions. Indirect beneficiaries are estimated at 50,000 persons.

26. **The lack of adequate storage facilities**, coupled with the non-compliance by producers with the technical practices, results in a 57% loss of production. Producers are price-takers, and the price of the commodity varies significantly, with higher prices offered when onions are scarce in the market.

Cowpea (Niébé)

27. **With 686,000 tons of cowpeas produced annually, Niger is the second largest cowpea-producing country in the world**, after Nigeria (over 2 million ton). Still, Nigeria absorbs the bulk of the Niger production. It is estimated that 50 to 75% of the production crosses the border without any count in the official statistics. The major cropping period is the short rainy season (June-September). The cowpea production occurs in 5 regions (Zinder, Maradi, Tahoua, Tilaberi and Dosso). The production has continuously increased since the independence due to the expansion of land cultivated, as the yield has remained stable over this period.

28. **Insects attack both in the field and in storage,** resulting in a high loss rate, and pesticide use has been escalating dramatically, raising concerns among stakeholders on health and environment hazards linked to misused and inappropriate synthetic pesticides. Cowpea storage remains a problem.

Sesame

29. **Niger, potentially exporting 5 to 10 thousand tons of sesame seed (formally and informally) will be contributing only one to two percent of the commodity in world trade**. Thus, it will be an absolute “price-taker”, only able to increase its market share if it can deliver products that meet buyer quality requirements, and at a competitive price.

30. **In some development projects, sesame production has been encouraged as a minor crop for women’s associations**. This follows from production traditions where some minor crops were traditionally cultivated mostly by women so that they might earn extra cash to pay for household cash needs. This approach will have to be expanded to include men if a major expansion in production is envisaged.

31. **One of the lessons learned from the Burkina sesame experience is that it is possible to substantially expand production** if exporters can provide key elements of the input package (especially good quality seeds, and agronomic and post-harvest handling advice) and assure marketing at pre-announced prices. This requires a formal or implied production-marketing contract between the exporter and producing villages, which can be disrupted by buyers who have not had the expense of providing inputs and extension services earlier in the year.

32. **Other recommendations to increase sesame value chain include**:

(i) *Improve Quality and Productivity by the* development of better technical packages for targeted varieties and markets. This covers all aspects of the "chain" from production to processing, packaging, and exporting.

(ii) *Support to the Inter-Professional Organization of the Sub-Sector with* a collaborative state-private effort that aims at developing (a) higher professional business standards in contracting with village-level production groups (especially to counter side-selling by "pirate" exporters), (b) product quality norms, (c) the ability of the state to play a normal regulatory and promotional role, and (d) training for stakeholders at all levels.

(iii) *Provide Incentives for a larger private sector operator to play a "Sub-sector Leader" role* as past experience has demonstrated some of the advantages for sub-sector development of having a larger, better financed company playing a leadership role. It also demonstrated the pitfalls of having this role played by a state firm with inadequate market savvy, and little technical and managerial competence.

Gum Arabic

33. **Niger has a long history of gum arabic exports**. In the early 1970s gum exports were over 2,500 tons, largely through the work of the state company, Copro-Niger, long since dissolved due to poor management and financial losses. As a result, exports collapsed. The sector was revitalized by a private Nigerien operator (ASI) who collects most of his production from a network of 6000 rural families in Niger and neighboring Chad and Burkina Faso and, to a small degree, from his own plantations. His yearly exports have increased rapidly from 400 Mt in 2000 to a current level between 1,500 and 2,000 Mt. At present, local processing is limited to cleaning, removing foreign materials, sorting and packing; the operator subsequently ships the product to France where he is a partner in an industrial plant for final processing. There are some informal exports to Nigeria of an unknown amount.

34. **There are over 160,000 hectares in Niger with some density of naturally-occurring or planted gum trees**. If these existing Acacia groves were rehabilitated (through fill-in planting) and/or optimally managed (through fencing, pruning, and replacement tree planting), over 10,000 tons of gum could be harvested from these areas in 5-7 years.

35. **Niger has had one of the largest private efforts in West Africa to establish new gum tree plantations** with over 500 hectares recently planted in larger-scale plantations. But the most important development is the government's *Programme d'action Communautaire* (PAC) which aims to plant another 17,700 hectares of gum groves with higher-yielding Acacia Senegal trees on communal lands in 30 communities in different regions of the country.

Rice

36. **While not a promising export value chain in the short run, rice has the advantage of being better structured and thus been able to attract bank financing.** For that reason, rice value chain is an interesting experience to review. Paddy rice production is estimated at 132,000 tons. It takes place in the Niger River valley, where the land can be easily irrigated. However, this production covers only about one-third of the domestic demand. Niger is obliged to import between 200 to 300 thousand tons of rice per year.

37. **There are three rice production systems**: (i) the traditional system (small areas average size 0.3 ha; yield of 1-1.5tons/ha) is a bit archaic and is influenced by rising and receding waters; (ii) the pumping system (*motopompe*) (average size 0.3-.05 ha, yield 5 tons/ha) benefits from some irrigation; and (iii) the AHA (*Aménagement Hydro Agricoles*) system (average size 0,3 ha, yield 4.5 tons/ha) which masters water fully with a possibility of a double harvest per year. By far the largest rice production comes from the AHA system with 60,000 tons followed by the traditional system with 11,000 tons and the pump system with 6,500 tons.

38. **The rice value chain used to include: the AHA producers, the cooperatives and Rizerie du Niger RINI, the husking company.** RINI used to purchase the inputs (fertilizers, pesticides) from the distribution center - le Centre *d'Approvisionnement en Intrant et Matériel Agricole* (CAIMA) and provide them to the cooperatives which would distribute them to the producers. RINI was also responsible for the collection of the paddy, transformation, and commercialization of rice. RINI received bank financing for its operations, particularly from BDRN primarily. RINI ran into financial difficulties when it could not sell all the production and left unpaid balances in the banks. It has since reduced its activities to husking.

39. **A Government agency, Office des Produits Vivriers du Niger (OPVN) now purchases the rice paddy from the cooperatives with Government funding.** The cooperatives collect the rice paddy from the producers. The Federation (FUCOPRI) serves as an intermediary between the cooperatives and OPVN by negotiating the purchase price with OPVN. In turn OPVN signs contracts with the husking factories, including RINI which receives the lion's share and ensures the transport between the cooperatives and the factories. OPVN also runs storage facilities. FUCOPRI also negotiates credit contracts with banks on behalf of the cooperatives for the purchase of inputs.

Livestock

40. **The livestock subsector is the second largest export sector after uranium and is of vital importance in households and the national economy in Niger**. However, its performance remains far below expectations. The sub-sector is based on a social pastoral economy with low inputs, and its growth potential is hampered by relatively inelastic supply and product marketing that is motivated by risk management considerations and poverty reduction strategies. The reduction in the quality and quantity of grazing land and the poor development of intensive systems diminish the possibilities of benefiting from the development opportunities offered by an increase in demand.

41. **The sector operates in an environment where there is a shortage of support/consulting services and virtually no access to loans.** The very low level of sector organization and structuring and the informal nature of transactions prevent actors from benefiting from the advantages of contracting and grouping of inputs and outputs. The absence of cooperation, common vision, and coordination of efforts reduces the chances of dealing with problems in any other way but in an isolated, *ad hoc*, and unsustainable manner.

Hides, Skins and Leather Value Chain (HSL)

42. **Despite an export-oriented market, the Niger *Hides, Skins and Leather Value Chain (HSL)* still remains undeveloped**. Global demand for small hides (goats and sheep) is, however, sustained and expanding. The major suppliers are Asian countries, Pakistan and Indonesia. Africa comes second with Nigeria, Kenya, South Africa and Ethiopia as the major suppliers. The major buyers are from Europe, but demand from the Maghreb and Asia has been increasing significantly.

43. **At present, less than 10 percent of installed tanning capacity is exploited, and the majority of skins collected are exported wet to Nigeria.** In addition to the organization and structuring problem facing actors in all sectors, the current problem in the sector is the quality of finished products, the capacity of actors to build (maintain) this quality throughout the different processing phases. In spite of the international reputation of Maradi Red Goat (*Chèvre Rousse de Maradi*) skins, no specialized (or quality-assured) line has been developed to date to benefit from this comparative advantage.

44. **However, if figures on processing capacity (35,000 skins per day) are accurate, then the upcoming opening of the Niamey Tan-Aliz tannery, with a capacity of 35,000 skins per day, will drastically change the entire sector.** Niger may suddenly have a processing overcapacity. Aside from the competition from Nigeria, current actors and industrial tannery rehabilitation projects under study will also face local competition for the supply of skins. In this context, evidence suggests that the unit price of wet skins will increase, resulting in a high risk of loss of competitiveness on the international market. The option of developing a premium "grade" to compensate for the higher cost of raw materials seems to have become a key condition for the survival of actors in the sector, including those in the traditional sector.

45. In rural development, the biggest challenge facing Niger is to achieve rapid and sustainable modernization of the agriculture and livestock sectors conducive to rural growth and poverty reduction. However much of Niger's rural growth potential remains untapped. As an example, the estimated irrigable land covers 270,000 ha, of which only 85,000 ha have been developed, with even less actually irrigated. The absence of market access opportunities, insufficient land tenure security, and lack of access to finance, knowledge and information, private investment for the expansion of irrigated agriculture, for the improvement of rain-fed farming systems, and for the intensification of livestock production all limit agricultural sector growth.

Demand side constraints to increase access to rural finance

46. Efforts to develop the supply of financial services to the various links in the supply chains for agro-sylvo-pastoral products in Niger are hampered by factors associated with the demand side, including:

- Unstructured demand: the lack of structured and solvent economic entities and the absence of credible borrowers;
- Poorly structured value chains
- Lack of market knowledge and rudimentary start-up conditions, illustrated by the fact that there is little segmentation of product supply and no grading or formal standards for sizing and packaging of certain products such as onions, despite the still timid and unsystematic attempts made by the professional onion producers' association (ANFO);
- Difficulty of grouping and storing products, which increases the atomicity of supply and concentrates it into a short marketing period, increasing the pressure on services linked to physical and financial flows. Warehouse receipts as a form of collateral is being developed with promising results.
- Obstacles to trade which reduce competitiveness and lower producer prices. These barriers are more restrictive inside Niger's borders, with a large number of inspection points and payments, often irregular, which increases cost price structure and the time taken to deliver products to destination points.

47. Key financing needs are for:

- Seasonal credit (*crédit de campagne*), input supply (seeds, fertilizers and pesticides); particularly for rice, cowpeas and onions
- Equipment such as motor pumps, plows, slaughter equipment for livestock, which would require term financing or leasing
- Working capital
- Storage facilities for term financing through warehouse receipt or *warrantage*
- Plants such as tanneries, slaughter houses which requires longer term financing
- Tree plantation, purchase of cattle
- Commercialization
- Agricultural services such as research, advice, training

The Demand for Agricultural Credit

48. Precise quantifications of all key financing needs in agriculture are available. However, estimates for the demand for credit for input financing are possible and based on farm budgets and areas cultivated for selected crops, namely irrigated crops including rice, onion and other horticultural produce (see Table 2). Irrigated crops require upstream and downstream markets

integration. Indeed for such crops to be profitable because of the initial investment required, farmers need to buy inputs such as seeds and agrochemical (fertilizers and pesticides), cover operation and maintenance costs of their schemes. Surpluses are sold to cover the production costs. Most farmers engaged in such production systems would request short term credit (*crédit de campagne*) from financial institutions when available, and usually regardless of the interest rate.

Table 2: Estimates of Demand in Inputs Credit for Selected Crops

Crop (year)	Production (tons)	Area cultivated (hectares)	Tradable Inputs per ha (CFAF)	Total in billion CFAF
Onion (2009)	350,000	19,000	233,750	4.441
Rice (2009)	75,000	13,700	335,000	4.589
Millet (average 2000-2010)	2,715,000	6,012,000	2,700	16.232
Sorghum (average 2000-2010)	834,000	2,582,000	2,700	6.971
Cowpeas (average 2000-2010)	793,000	4,125,000	2,700	11.137
TOTAL				**43.372**

Source: Team estimates

49. ***Onion* which is one of Niger main irrigated and exports crops require improved seeds, and chemicals (fertilizers, herbicides and pesticides)** in addition to the operation and maintenance of irrigation equipments. At current levels of production, the demand for such inputs are estimated around CFAF 4.5 billion (US$9 million) per year, which can easily be absorbed and paid back given the high profitability of this commodity (See Table 2). The small size of farms (less than 1 ha per farmer) would require using farmers cooperatives for borrowing, and substantial technical assistance to establish sustainable relationship with the financial institutions

50. ***Rice* production is becoming competitive driven by the soaring international prices and improvement in yields**. Cooperatives are improving existing irrigation schemes and using more and more improved seeds. Total financing demand for operating such schemes and for covering costs related to improved inputs (fertilizers, seeds and pesticides) is estimated at CFAF 4.6 billion (US$9 million) (See Table 2). Some cooperatives, mostly those sponsored by FUCOPRI (paddy producer's apex association) and CPS (a private business management service provider) are successfully covering such charges through bank credit and have therefore established profitable relationship with the financial sector.

51. ***Rain fed crops* such as millet, sorghum and cowpeas, continue to drive the country crop production**. The use of improved inputs (namely seeds and fertilizers) is one of the lowest in the world (less than 5 kg per hectare). As a risk aversion tactic to weather vagaries, farmers stick on a low input/low output approach. However a conservative assumption of increasing use of

fertilizers to 10kg/ha would result in an important demand for credit of up to CFAF 35 billion (US$70 million) in total for the three main crops, namely millet, cowpeas and sorghum, given the size of the areas involved.

III. THE FINANCIAL SECTOR OF NIGER: THE MAIN ACTORS

52. **At end-December 2009, the financial sector of Niger was composed of** 10 commercial banks[4], 104 licensed and authorized microfinance institutions (MFIs), four insurance companies, one specialized non-bank financial institution, [5] and two pension schemes, as well as a local branch of the regional stock exchange (BRVM), and the national office of the regional Central Bank (BCEAO). A project to establish a postal bank (FINAPOSTE) has not materialized. FINAPOSTE was established in April 2007 as a subsidiary of Niger Poste. However, faced with administrative delays and mounting costs, the FINAPOSTE project was finally abandoned. The Nigerien authorities have, instead created an agricultural bank (BAGRI) and would like to set up a housing bank to replace Credit du Niger (CDN) which is to be liquidated.

53. As member of the West African Economic and Monetary Union (WAEMU), Niger shares with the seven other countries[6] a common central bank, *Banque Centrale des Etats d'Afrique de l'Ouest* (BCEAO), a common banking commission and microfinance supervisor, *Commission Bancaire de l'Afrique de l'Ouest*, a common money market, a common bond and equity market, and a common financial market regulator, le *Conseil Régional de l'Epargne Publique et des Marchés Financiers* (CREPMF). With the other Franc zone countries[7], it shares a common regulator of insurance companies, la *Conférence Interafricaine des Marchés d'Assurance* (CIMA) and a common pension fund regulator la *Conférence Interafricaine de la Prévoyance Sociale* (CIPRES).

54. **Access to financial services in Niger remains the lowest of the WAEMU zone.** In 2005, there were just nine bank loan accounts per 1,000 residents, compared to an average of roughly 40 in the Union as a whole (Table 3). The number of banking agencies per 100,000 residents was 0.27 (versus the WAEMU average of 1.07). The credit to GDP ratio rose from 7.9 percent at the end of 2006 to 9.6 percent at the end of 2007, but still remained the lowest in the Union except for Guinea-Bissau. The financial sector is overwhelmingly dominated by banks, which account for over 75 percent of its total assets but with very little outreach. The microfinance sector which is evolving in a difficult environment with low population density is the least developed in the WAEMU region with a penetration ratio of 7.5 costumers per 1000 inhabitants versus the average 29 per thousand for the WAEMU region.

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[4] The 10 banks include the CDN which liquidation process was started at the end of December 2010. An agricultural bank, BAGRI, which obtained its license and started operations in early 2011 is not included in the statistics.

[5] SAHFI is the only operating financial establishment and it specializes in SME financing. Another financial establishment specializing in local communities financing, CPCT, was placed in liquidation in 2009.

[6] Members of WAEMU include: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo

[7] In addition to WAEMU countries, the other Franc zone countries include Cameroon, Central African Republic, Chad, Equatorial Guinea and Gabon.

Table 3: Use of Banking Services and Density of Bank Branches in the WAEMU

	Loan accounts per 1,000 residents	Average loan/GDP per capita 1/	Average deposit/GDP per capita 2/	Branches per 1,000 km2	Branches/ 100,000 residents
WAEMU	***39.29***	***4.76***	***5.58***	***0.26***	***1.07***
Benin	36.26	5.3	6.81	0.67	0.97
Burkina Faso	61.71	2.9	3.09	0.51	0.99
Côte d'Ivoire	37.24	4.4	4.87	0.55	0.87
Guinea-Bissau	15.38	3.8	7.57	0.08	0.23
Mali	47.76	4.2	5.13	0.15	1.70
Niger	**8.54**	**10.7**	**12.53**	**0.03**	**0.27**
Senegal	47.32	5.4	6.53	1.01	1.75
Togo	39.75	5.8	7.40	1.43	1.53
Other Sub-Saharan African countries					
Cameroon	14.39	11.7	7.54	0.27	0.8
Namibia	80.74	5.16	1.27	0.11	4.47
Kenya	0	0	6.26	0.77	1.38
Mauritius	207.13	2.75	0.53	71.92	11.92
Uganda	5.79	10.74	3.93	0.67	0.53
Zimbabwe	0	0	7.98	1.11	3.27
Mean	51.34	5.21	4.59	6.28	2.93
Median	36.75	4.77	5.10	0.67	1.60

Source: BC-WAEMU, BCEAO, Beck et al. (2005).
Note: 1/ 2/The higher the ratio, the less access there is to financial services.

A. The Banking Sector and Rural Finance

55. **At the end of 2009, the 10 commercial banks and the financial establishment** in operation in Niger had total assets of CFAF 527 billion (US$1.1 billion), outstanding deposits of CFAF 343 billion (US$ 715 million) and credit outstanding of CFAF 325 billion (US$ 677 million) (See Table 4). From 2008 to 2009, assets increased by 18.4 percent, deposits by 10.1 percent and credits by 22.7 percent. The ratio of gross non performing loans to total gross loans stood at a high 14.7 percent in 2009 but down from 16.0 percent in 2008 and 21.8 percent in 2006. The operating ratio which measures general expenses with respect to net banking product has been improving over the years. It was 57.9 percent in 2009, down from 64.3 percent in 2008 and 71.2 percent in 2007. The gross bank margin was a respectable 8.1 percent and profitability increased. The most important risk facing the commercial banks is credit risk.

56. **Several banks are part of groups with pan-African networks.** They account for 55 percent of the banking market. An important recent development in West Africa (and in other parts of the continent as well), is the rapid growth of these pan-African banking groups, which compete on a regional rather than on a national level. Their relative importance is increasing from year to year and independent national banks will have difficulty resisting the growing competition from the groups.

Table 4: Banks and non bank financial institutions in Niger as of December 2009

Banks	Denomination	Date of license	Capital in CFAF million	Shareholding status			Assets in CFAF million	Number of accounts	Number of employees
				Government of Niger	**Private Nigeriens**	**Foreign entities**			
Société Nigérienne de Banque	SONIBANK	09/11/1990	2 000	43%	12%	45%	113,576	35, 139	154
Bank of Africa	BOA	04/22/1994	2 800	0%	15%	85%	110,415	35, 403	132
Banque Internationale pour l'Afrique au Niger	BIA-Niger	01/13/1993	2 800		35%	65%	94,726	26,148	200
Ecobank	ECOBANK	01/14/199	5 100	0%	0%	100%	100,487	43, 336	172
Banque Atlantique-Niger	BA-Niger	10/07/2005	6 927		22%	78%	32,183	15, 927	72
Banque Sahélo-Saharienne pour l'Investissement et le Commerce- Niger	BSIC-Niger	07/25/2003	7 255	0%	0%	100%	32,123	2 ,300	103
Banque Commerciale du Niger	BCN	09/19/1998	5 000	17%	83%	0%	17,379	8, 647	47
Banque Régionale de Solidarité du Niger	BRS-Niger	11/04/2005	2 000	10%		90%	14,888	13, 857	76
Banque Islamique du Niger pour le Commerce et l'Investissement	BINCI	06/03/1997	1 810	33%	0%	67%	6,068	3, 056	35
Crédit du Niger	CDN	12/17/1957	1 720	69%	31%	0%	897	1 201	19
TOTAL			**38 112**				**522,742**	**185, 014**	**810**
Non Bank Financial Establishment									
Société Sahélienne d'Investissement	SAHFI	06/14/2005	1 315	0%	100%	0%	3,829	n/a	13

Source: Banking Commission 2009 Annual Report

57. The impact of this development on rural finance is unclear at this stage. On the one hand, the members of groups dispose of larger resources, including longer term resources; on the other hand, they may give less attention to local issues, focusing rather on large clients they can follow throughout the region.

58. **The past few years have seen the number of bank branches in Niger experience a noticeable increase**. Forty five percent of bank branches are outside Niamey, the capital city. Most of the regions have at least one bank branch, several have branches from different banks spurring competition. However, the 10 banks in operation have most of their branches (40/73) located in Niamey and most banks do not have activities in rural areas. They have opened branches to be close to large clients (for instance, AREVA in the Agadez-Arlit region), although the deployment of banks outside Niamey could facilitate lending in rural areas as many banks view the distance from the client as one of the reasons for not funding agriculture/rural areas. In addition, while some banks open branches outside Niamey to get the business of large merchants and manufacturing or extractive industries, these merchants may in turn finance producers whose products they purchase.

59. **In general, the decision to open a bank branch is based on** the level of population, the concentration of enterprises and the existence of infrastructure. Competitors' behavior and Government incentives have less influence. Not unexpectedly, population and the income of local population take a greater importance in the decision to open a bank branch in rural areas.

Financial Services offered by banks

60. **The distribution of bank credit by sectors** seems to confirm that bank lending for agriculture is rather small (Table 5). In 2009, only 1.5 percent of bank credit went to agriculture, while agriculture represented 46 percent of GDP. Thirty eight percent of credit went to commerce and over 18 percent to transport and communication. Extractive industries came in third, with 11.1 percent. It is interesting to note that the relative importance of commerce declined over the past five years. In 2004, it represented almost half of all bank credits. On the other hand, the relative importance of communication has increased with the rapid expansion of cellular phone companies. The continuous increase of the relative importance of extractive industries reflects the development of the mining industry. The increase of credit to financial institutions, which has quadrupled since 2005, reflects to a large extent the rise in lending to microfinance institutions. A non negligible part of the latter will have been redirected to rural areas by the MFIs.[8]

61. Interest rates for bank loans remain relatively high. Personal loans fetch rates of interest of between 11 and 15.5 percent with most of the banks at the higher end. Loans to firms bear rates between 7 and 15.5 percent with most of the loans carrying rates around 11 percent. This is higher than the average 8 percent rate for the WAEMU zone. Both personal and business loans could have a term to maturity up to 5 years, depending on the bank and the circumstance. Interest rates on MFI refinancing range from 8 to 11.75 percent with 10 percent being a rate often quoted.

[8] See section on MFIs below

Table 5: Commercial banks: Uses of credits declared at the BCEAO Risk Registry

Purpose of loan	2009		2004
	Amount in CFAF million	**In percent (%)**	**In percent (%)**
Agriculture	4 295	1.5	0.6
Extractive Industry	31 208	11.1	2.8
manufacturing	14 602	5.2	5.0
Water-electricity-gas	14 995	5.3	4.5
Public works	27 232	9.7	7.8
Commerce	107 607	38.4	49.1
Transport & communication	51 605	18.4	10.9
Services	14 894	5.3	19.3
Financial Institutions	13 998	5.1	n/a
Total	**280 336***	**100.0**	**106 911**

Source: BCEAO: Niger national branch.

Notes: *Total of credits registered at the Risk registry is less than the amount of total credits granted by banks, as only credits above a certain value have to be registered.

62. **In rural areas, banks offer loans primarily to large merchants, larger companies and their employees**. They also finance exporters of agricultural products and livestock and to a lesser extent, the transformation of milk, skins and hides as well as leather. Most banks admit to not have a strategy for rural areas.

63. **Only a few banks are involved in direct agriculture financing**. BRS is involved in financing of the rice subsector (through FUCOPRI), sesame, onion, potato, nuts, bovine fattening (*embouche de bovins*), vegetables and women groups active in rural areas. SONIBANK is a partner in donors projects (e.g. AfDB) and works closely with MFIs to extend loans to farmers in remote villages through contracts with rice cooperatives for the financing of fertilizer. SONIBANK provides funding for farming of cowpea, nut, millet, sorghum and sesame. It is also active through SAHFI which analyzes the loan requests, monitors the loans and provides a partial guarantee. The presence of BRS in the rural areas is attributable to its original mandate of filling a financing gap in the WAEMU region. SONIBANK, which is the successor to BDRN, has a long history of providing funding to agriculture and rural customers.

Reasons why banks do not lend to agriculture

64. **Banks cite several reasons for their reluctance to lend to the agricultural sector which is seen as being risky and difficult to master**. Weather vagaries, climate changes, exposure to natural disasters, make agriculture a high risk business[9]. In order to properly assess

[9] See Niger: Modernizing Trade during a Mining Trade Boom. A diagnostic Integration Study for the Integrated Frame work Program. The World Bank and al, June 2008,

the risks, price and cover them, banks need structured borrowers (individuals or organizations) that can take charge and responsibility; banks need financial statements, even if only rudimentary; they need internal human resources capable of analyzing the borrower and reconstruct a financial situation with at least some cash flow projections. To cover risks, they need some form of guarantee or close monitoring of the borrowers' activities by a third party.

65. **Although there is some financing by commercial banks available to the agriculture and rural sectors, it is limited and is delivered in the absence of a coherent framework and without being integrated in a business plan with a vision for the future.** To a large extent bank financing reaches rural areas via MFIs. As indicated above, the main reason behind this situation is the difficulty in assessing and pricing risk. It is this difficulty that leads banks to impose conditions that the rural/agricultural borrower cannot satisfy. This problem has been identified a couple of decades ago, but there has been only marginal improvement since.

66. **The agriculture sector suffers from a lack of structure of its main components.** However, the situation has been improving with the growing role of associations and technical assistance (TA) providers.[10] Farmer organizations remain weak and insufficiently structured. The rice sub-sector appears to be an exception. Few potential borrowers have financial statements and/or business plans. Rural borrowers have few guarantees, particularly those most often required by commercial banks namely land titles. Farmers lack education, generally and in financial matters, in particular. Rural incomes are low and farmers often do not generate sufficient monetary income to be able to reimburse a loan.

67. **Fragile water resources and constraints on the marketing of agricultural products** including poor transportation, storage and market infrastructure compound the risks in agriculture[11]. In addition, as discussed below, costs and risks are increased by deficiencies in the judicial system.

68. **Banks do not have a good knowledge/understanding of agriculture and rural areas.** Some have little or no presence in the interior, although as discussed above, this is changing. Banks lack specialized staff knowledgeable in the agricultural and rural sectors. Very few banks have a department which specializes in rural credit. In addition, the clientele is dispersed over a large area, which makes it quite costly to instruct a loan and monitor it once granted.[12]

Bank Practices that limit access to financial services

[10] See below

[11] see Niger: Modernizing Trade during a Mining Trade Boom

[12] The World Bank financed PDSF, the only project funding capacity building at banks, did not cover lending to rural areas. At the time the PDSF was designed, these issues were left for the PDSFR.

69. **The lack of access to financial services by populations**, especially those in rural areas can be explained in part by certain bank behavior or practices that make access difficult.

70. **Opening a bank account remains a painful process for potential bank clients.** Banks do not facilitate the opening of deposit accounts. To have the privilege to write checks, most banks require from individuals an identity card and a salary slip as well as a proof of residence. A firm will be required to provide a copy of its inscription in the registry of companies. Requirements are less stringent to open a savings account although a minimum de posit amount is required which is also a requirement to open a checking account. Although the amount required for a savings account is smaller than for checking, these amounts remain beyond the means of most low income populations living in rural areas.[13]Some of the procedures to open bank accounts are imposed by BCEAO regulation and anti money laundering procedures.

71. **Getting a bank loan is a long process**. Most banks take the decision on the granting of a loan exclusively at headquarters, although requests can be made at branches or even, for one bank, initiated through the internet.[14] For banks that decentralize the process, the credit limit of a branch manager varies from CFAF 1.5 to 3 million, which are rather low limits.

72. **All banks require a mortgage guarantee for a loan to a firm** and sometimes for a consumer loan as well. A domiciliation of salary and a guarantee in the form of a deposit are required for credit to individuals. These stringent requirements end up limiting access in rural areas to smaller firms, public servants and employees of companies such as mining concerns.

73. **Lending to agriculture is based on surety, borrower reputation and credit history.** These are the most important factors considered in the decision to grant a loan. Financial statements, business plan and cash flow are important but not as important as the former. This limits access to credit for agricultural borrowers. Few have sureties, credit histories, financial statements and business plans. For non agricultural rural lending, financial statements, business plan, borrower reputation and cash flow come ahead of surety.

74. **Banks generally favor large loans, well above the needs of agricultural and rural borrowers**. Loans over CFAF 5 million represented over 80 percent of total credit outstanding for the majority of banks. That amount remains too large for the credit needs of low income rural farmers.

75. **The payment system in Niger lags behind the other WAEMU countries**. The card system in particular remains under developed. Banks in Niger have very few ATMs in the country resulting in almost no coverage of rural areas. Of the 23 ATM reported, 11 were in Niamey. For banks who issue debit cards, only a minority allows the use of other banks' cards in their machines or at their wickets. Only one bank offers the facility to pay utilities bills at head office or branches.

[13] The minimum for a savings account runs from CFAF 25 000 to CFAF 200 000.

[14] This is one of the two banks active in rural areas

B. The Microfinance Institutions and Rural Finance

76. **As of December 31, 2009, there were 104 licensed microfinance institutions,** including three financial cooperative networks (MCPEC, UMEC and Crédit Mutuel) and 59 independent organizations. [15] Data available from the Ministry of Finance and microfinance regulator (ARSM) revealed that licensed microfinance institutions operated through 175 points of service, provided financial services to 161 904 clients, had CFAF 26.6 billion (US$ 58.3 million) in assets, mobilized CFAF 9.3 billion (US$21.05 million) in deposits and had CFAF 18.6 billion (US$40.8 million) in loans outstanding. The 20 largest MFIs by asset size had 150,805 clients, CFAF 25.5 billion in assets (US$55.9 million), CFAF 8.4 billion (US$18.4 million) in savings and CFAF 17.5 billion (US$38.4 million) in loans outstanding (see Table 6). These MFIs accounted for about 93 percent of clients and 96 percent of total industry assets. The majority of MFIs are financial cooperatives whose proximity to the rural world gives them an opportunity to provide financial services tailored to the needs and activities of farmers. More than 75 percent of MFIs have their headquarters or main office outside Niamey. In addition many Niamey-based MFIs have offices outside the capital city.

Table 6: Major Characteristics of Niger 20 largest MFIs by Assets Size as of December 31, 2009

MFI	Points of service	Members/ Clients	Assets (CFAF million)	Savings (CFAF million)	Credit (CFAF million)
Asusu SA	19	16 570	6 009	1 299	3 999
TAANADI	25	1 412	2 898	338	1 831
SICR Kokari	16	1 164	1 988	328	2 418
MECREF	3	16 800	1 794	850	960
TAIMAKO	6	3 824	1 741	468	830
MCPEC	19	31 726	1 737	1 092	897
YARDA TARKA	4	5 152	1 511	267	1 110
KAANI	7	12 580	1 454	471	1 460
Capital finance	4	11 559	1186	837	729
Union Crédit Mutuel	10	9 741	1 090	1 065	720
YARDA ZINDER	5	1 870	798	122	601
UMEC	21	20 240	760	413	378
Asusun Keita	1	1 272	493	224	210
Crédit Populaire	9	4 040	377	92	268
SDSA	1	387	350	52	202
Hinfani Dosso	1	441	342	6	259
Asusu Raya Karkara	1	3 294	328	142	242
N'Gada	2	3 096	252	156	111
Bon Batu	1	2 805	217	145	153
NIYYA	1	2 832	189	80	150
Total	**156**	**150,805**	**25,514**	**8,447**	**17,528**

Source: Agence de Régulation et de Supervision de la Microfinance (ARSM)

[15] The 104 microfinance institutions include 19 MCPEC, 18 UMEC and 8 Crédit Mutuel du Niger

77. In Niger as in many other countries, microfinance was seen as a vehicle for financing agriculture. [16] In order to make that become a lasting reality, it is important that MFIs be viable and sustainable. However, the major microfinance networks in Niger have been experiencing difficulties for many years. These MFIs, which are among the largest in the country, also have the most operations in rural areas and their demise could hurt the provision of rural finance.

78. **The microfinance industry in Niger is very dependent on donor funding to finance the shortfall in deposits in relation to credits** (see Table 6). Not only does credit activity often rely on donor funding, but also 25 percent of MFIs net worth came from donor subsidy in 2008 and subsidies contributed about 27 percent to their net income.[17][18]

MFI Activities, Instruments, Products and Clients

79. **Although a minority of MFIs is exclusively rural, most of them are active in rural areas**. Contrary to commercial banks, MFIs have a noticeable presence in rural areas and consider that they are essentially rural institutions even if headquartered in Niamey. (See Table 7). In fact, many MFIs have been established by farmers or their associations and the overwhelming majority of MFIs (88 percent) have a strategy to deal with their clients in rural areas.

Table 7: Microfinance Institutions Regional Distribution in Niger (June 2009)

Region	Number of Licensed MFIs in Operation
Tillaberi	24
Niamey	23
Dosso	15
Maradi	13
Tahoua	10
Agadez	4
Zinder	3
Diffa	2
Total	**94**

Source: ARSM, Ministry of Finance

80. **The decision by MFIs to open new points of sale or branches in rural areas** hinges primarily upon the size and income level of the population as well as the infrastructure and economic potential of the area. Government incentives play a much smaller role in that decision. It is worth noting that these are the same factors commercial banks take into account. Contrary to

[16] République du Niger Stratégie Nationale de la Microfinance, Octobre 2001, page 2.

[17] See Madrenes : report to ARSM, 2010

[18] In the late nineties and early eighties, many donors which supported MFIs withdrew because of lack of adequate supervision of the sector and because of the political turmoil n the country

commercial banks, however, MFIs make it quite easy to open a deposit account. An identity card and a picture are the most frequent requirements. Salary slips are seldom demanded.

81. **MFIs clients are low income populations** who are asked between CFAF 500 (US$1) and CFAF 30 000 (US$60) to open a savings account. The higher amount is often requested when the depositor is a farmers' organization. These amounts remain affordable for rural populations and are much lower than those required by commercial banks. MFIs do not have the ability to offer checking accounts as they do not participate in the payment system. This, therefore, limits access of MFI rural customers to the payment system and prevents them from using the facilities offered by credit or debit cards. Under the current microfinance law, an MFI can issue a debit/credit card only through an agreement with a commercial bank. Some large MFIs located in urban areas are able to facilitate the payment of utility bills for their customers.

82. **MFIs in Niger offer primarily savings and credit services to their clients**. Nominal interest rates for microfinance loans are between 20 to 27 percent per annum with a median at 24 percent per annum. Credit goes to groups, agricultural cooperatives, farmers' organizations, micro and small firms as well as individuals. A significant portion of MFI loans are directed to women groups, most of whom are involved in income generating activities. Despite their noticeable presence in rural areas, data available for 2005 show that about 36 percent of MFI loans went to agriculture (Table 8). This is very close to the percentage (46 percent) contribution of agriculture/livestock to GDP and shows that rural financial institutions are able to adapt to their environment.

Table 8: MFIs Distribution of Credits by Sector in Niger

Sector	Credit outstanding (N= 56 MFI)		Number of loans	
	Amount (FCFA million)	Percent distribution	Number	Percent distribution
Commerce	845	25.3	6 081	29.3
Agriculture*	565	16.9	2 117	10.2
Cattle Fattening*	419	12.5	3 469	16.7
Campaign credit*	54	1.6	1 394	6.7
Livestock*	51	1.5	446	2.1
Warehouse receipts*	29	0.9	68	0.3
Investment	274	8.2	955	4.6
Social loans	94	2.8	351	1.7
Handicraft	72	2.2	842	4.1
Construction	32	1.0	218	1.1
Schooling	4	0.1	21	0.1
Others	903	27.0	4 793	23.1
TOTAL	**3 342**	**100.0**	**20 755**	**100.0**

Source: ARSM, Ministry of Finance, 2005 survey

Note: *Lending to rural sector includes credit to agriculture + cattle fattening + campaign credit + livestock + warehouse receipts credit

83. **The failure of development banks and state owned financial institutions** created in the 1960s to offer services to rural populations left a void that provided an opportunity for MFIs. After the liquidation of CNCA, BDRN and CNE[19], commercial banks did not provide financing to rural areas considering these activities too risky and generating too high transactions costs. This paved the way for the development of MFIs in rural areas for the financing of small trade, agricultural inputs (fertilizers, seeds), small agricultural equipment, cattle fattening, livestock rearing, warehousing credit, and seasonal credit (*crédit de campagne)*. MFIs also finance commercialization and transformation of agricultural products using a number of instruments and mechanisms including leasing and warehouse receipts.

84. Leasing is used by MFIs to finance equipment, whereby an MFI purchases equipment that is given to a farmer for a monthly fee. The MFI retains the ownership of the equipment (carts, ploughs, motor pump, tractors, etc.) until a number of pre-agreed payments have been made. In situations where the borrower does not have any other guarantee to offer, the leased equipment becomes the guarantee. In other instances, MFIs grant loans taking the equipment as a guarantee. It is worth noting that leasing by MIFs is not allowed under the WAEMU Microfinance Law, despite the fact that it is well adapted to the financing of small investment in agriculture. However, leasing might become legal for MFIs once the latest OHADA Act which regulates business practices in francophone Africa becomes effective.

85. **Warehouse receipts (*warrantage*)** are negotiable instruments backed by the underlying commodities that can be used as collateral to support borrowing. The warehouse receipts system, also known as inventory credits, can facilitate credit for inventory or products held in storage. These receipts, sometimes known as warrants, when backed by legal provisions that guarantee quality, provide a secure system whereby stored agricultural commodities can serve as collateral, be sold, traded or used for delivery against financial instruments including futures contracts. These receipts are documents that state the ownership of a specific quantity of products with specific characteristics and stored in a specific warehouse. In Niger, the warehouse receipt system is used by MFIs as a mechanism to finance crops and livestock rearing as well as the marketing of agricultural products. The system is also widespread and used more extensively in several other WAEMU countries such as Mali.

86. **MFIs put great emphasis on joint group guarantee in their decision to grant a loan.** The purpose of the loan, the amount of the loan and the borrower reputation are also important factors considered in the decision to grant a loan to an individual. By contrast, commercial banks place a greater emphasis on collateral such as land title which MFIs require only for loans to enterprises. Land titles are difficult to obtain in rural areas and land is often the collective property of the family and does not belong to an individual. Financial cooperatives which are the dominant form of MFIs in Niger will also ask a potential borrower to have a deposit account. Access to credit is often linked to savings history (which could be as short as several months) with the institution. Other types of collateral required by MFIs include equipment and jewelry that most borrowers, and especially women, own.

[19] Annex 2 provides a historical review of CNCA, BDRN and SONARA, all state owned institutions.

87. **The judicial system is almost never used to deal with delinquent loans**. MFIs prefer an out of court settlement because judicial procedures are long, costly, and not very friendly for those who cannot read or write.

88. **The constraints faced by MFIs in lending to agriculture and rural areas are similar to those of the commercial banks** and include: lack of structured demand, low visibility on the borrower to a large extent because of the absence of financial statements and business plans, poor infrastructure (road/electricity/water), weather vagaries, low income and low savings. The lack of internal capacity and difficult financial situation of some MFIs further limits their ability to respond to demand. Nonetheless, MFIs are able to do more in rural areas than commercial banks because of their proximity to the client and their willingness to play a role in these areas. However, the capacity of several fragile large MFIs needs to be strengthened to preserve the long term provision of financial services to low income populations, and especially women in rural areas.

Performance of Microfinance Institutions

89. **The financial performance of MFIs in Niger shows a sector that is highly dependent on donor subsidies and several major institutions in difficulty**. An assessment of 70 MFIs (i.e. 74 percent of all MFIs in Niger) reveals a median financial self-sufficiency rate[20] of 58 percent which clearly indicates that, without grants and donor subsidies MFIs would operate at a loss (see Table 9). Only 14 MFIs out of 72 show a self-sufficiency ratio greater than 80 percent, of which only one MFI is financially self-sufficient. When expenses are adjusted for inflation, cost-of-funds and in-kind subsidy, the median self-sufficiency rate drops to 37 percent. MFIs cannot cover even half of their expenses. Only three MFIs achieve a financial self-sufficiency rate higher than 80 percent; none is financially self-sufficient. The level of non-performing loans, i.e., portfolio at risk (PAR>90 days) remains high by international standards at 8 percent in 2009.

Table 9: Financial Performance of MFIs in Niger

	All MFIs	Independent	MCPEC	UMEC	Credit Mutuel
Median adjusted Financial Self Sufficiency	37%	49%	25%	34%	43%
Maximum	92%	92%	62%	62%	56%
Median non-adjusted Financial Self Sufficiency	58%	63%	50%	61%	66%
Maximum	110%	110%	81%	83%	82%

Source: World Bank Survey data

90. **In Niger, larger independent MFIs perform on average better than financial cooperative networks, with the exception of Credit Mutuel.** In addition, two of the three networks which are active and present in rural areas, MCPEC and UMEC, have been experiencing

[20] Financial self-sufficiency is the extent to which the accounting revenue (excluding grants) covers expenses.

difficulties. MCPEC has been in receivership (*administration provisoire*) for the past 10 years. The apex organization of UMEC was placed in liquidation after its license was withdrawn in 2010. Now, UMEC retail institutions are trying to reorganize by creating a new apex or joining other existing networks. MCPEC is still undergoing restructuring.

91. **The financial difficulties experienced by 25 percent of MFIs in Niger can be traced back to weaknesses in governance, non performing information systems, as well as weak internal control systems.** Many institutions are not operationally self sustainable. Two MFIs have been under interim administration for a very long time; several have closed. As MFIs are much more present in rural areas than commercial banks, these problems which have plagued the sector for several years will hurt the financing of the rural world if no action is taken to restructure the industry. The microfinance strategy adopted in 2004 already recommended several actions which were only partially implemented by 2010 (See Annex 1). It is clear that the microfinance sector is in fragile health and the need to strengthen institutions must be part of any rural finance strategy. Despite its difficulties, the future of microfinance in Niger is promising in view of the recent emergence of dynamic institutions that are showing strong growth. However, the sector remains vulnerable and needs targeted capacity building efforts.

Supply-Side Constraints in the delivery of Rural Financial Services

92. **The supply of rural financial services is limited by several constraints inherent to the institutions themselves.** The location of most bank branches in urban centers makes it difficult for them to cater to rural populations. Banks also readily admit their lack of expertise in the area of rural financing. In addition, some bad experiences have led them to review their strategy vis-à-vis the agricultural sector. In the case of microfinance institutions which have developed financial products and methodologies suited to the needs of the rural and agricultural sector, their development is hindered considerably by their lack of technology and financial resources. In addition, as noted above, the largest MFI networks with the greatest rural reach are experiencing performance problems that threaten their viability.

93. **Government policies and regulations are also a constraint to the expansion of rural finance**. In the past decade, the Government of Niger has implemented policy reforms aimed at creating an enabling environment for financial sector development. As part of reforms undertaken by the West African Monetary Union (WAMU), the authorities have taken a number of steps to strengthen the financial sector: (i) they discontinued directed lending and monetary funding of the Government deficit, (ii) created a regional banking supervision body, and (iii) opened the financial sector to foreign institutions. These measures have resulted in a more stable system that is better able to weather exogenous shocks and economic downturns. However, some policies and the regulatory framework and supervision practices directly affect the growth of rural finance.

Regulation of Banks and Microfinance Institutions

94. **Banks and leasing companies are regulated under the Banking Law of 1990, as modified in 2008 and microfinance under a regional law which latest update was adopted by Niger in 2010**. Although in general the legislation is relatively modern and in line with

international standards, the regulatory framework includes provisions which discourage financing in rural areas.

(i) **Interest rate ceilings** have hampered lending to clients in the rural areas who have had to rely on informal lenders at much higher costs. The regional microfinance law imposes a usury rate of 27 percent on loans although that has proven insufficient for MFIs to cover their costs, especially in hard to reach rural areas. Recent pilot studies commissioned by BCEAO in three member countries confirmed that the usury rate is insufficient to cover costs and risks. Indeed, operating costs per CFAF lent are much higher for MFIs than for banks, because of the small amount of the loan (granting and monitoring a small loan costs at least as much as for a large loan) and the fact that the rural population is scattered over large areas. Interest rates ceilings may thus limit access to finance in rural areas. In addition, BCEAO's exclusion of credit to MFIs from being eligible for Central Bank refinancing discourages financing of MFIs by commercial banks.

(ii) **Regulations limiting conversion of short term deposits** (25 percent) into long-term credit are intended protect depositors but affect bank's willingness to provide medium and long term financing.

(iii) **The regulatory framework for leasing remains rather restrictive**. As indicated above, MFIs who could use leasing for equipment financing in rural areas are not legally allow to do so under the new regional microfinance law which was recently adopted by the Niger Parliament.

95. **The judicial system continues to be a barrier to access to financial services.** As indicated by respondents to the study questionnaire, judicial procedures are long and costly and there are too many postponements. Obtaining a land title is also a lengthy procedure. Registration of mortgages could take up to two years. Attachments and public auctions are rare, not to say nonexistent. Magistrates are not specialized and take time to understand relevant documents. The writing up of the decision often takes a long time, delaying its implementation.

96. **Land ownership in Niger remains an issue despite recent reforms**. According to the rule prevailing throughout OHADA, full ownership requires land titles, which must be registered and announced publicly. Such titles confer rights that may be invoked against third parties. A very significant reform of the land tenure system was introduced by the 2006 Budget Law (Law of November 15, 2005). It created a simplified formality for the establishment of land titles ("Sheida" titles) and even lowered costs. However, the Law contains certain ambiguities which, initially, caused some banks to refrain from granting mortgages for property covered by a "Sheida" title, but today commercial banks accept "Sheida" titles without reservation. However, the land tenure legislation is in need of update. (See Annex 3 on Land Tenure System).

C. Innovative Institutions and Instruments to Increase Access

97. **Other providers of financial services include** telephone operators, associations of farmers and non bank financial establishments.

Telephone Operators

98. **Mobile banking which is registering fast growth throughout the world has the potential to substantially increase access to financial services to unbanked rural populations in Niger** as witnessed by experiences throughout the world (See Box 1). Two telephone operators (Zain and Orange) have launched services that provide money transfers, payments for the purchase of goods and services, payments of utility bills and repayment of bank and MFI loans. The systems were developed by the private sector, without any financial support from Government or donors. As more and more owners of cell phones join in, the efficiency and usefulness of the systems will increase, particularly as the chain of transactions using electronic value without conversion into cash broadens. Of particular interest in rural areas is the possibility of using the phone to pay for commercial transactions, i.e. the purchase of goods and services. However, operations are still limited by the lack of interoperability between the two networks and between the network and the debit/credit card systems.

99. **ZapZain** started operations in Niger[21] at the beginning of 2010 by capturing 76,000 clients out of 1.7 million mobile phone Zain customers. ZapZain operates through partnerships with several financial institutions (Ecobank, Asusu SA and another NGO in the Tahoua region). It is developing a network of dealers, mainly merchants with sufficient liquidity. As more and more merchants join in, ZapZain hopes that it can be used as a means of payment, without having the electronic value converted into cash, an individual paying the merchant, the merchant paying a supplier, and so on.

100. **Orange Money** which just started its Niger[22] operations in May 2010, has about 3,000 subscribers. It maintains a partnership with BOA which issues the electronic value and with three micro finance institutions for account openings and cash-in/cash-out operations.

Mooriben

101. **Among farmers' organizations, Mooriben,[23] a federation of 25 unions bringing together 1 496 farmers organizations and 62 683 members of which 21 percent are women, plays an important role as service provider**. Mooriben's activities include: (a) support for production and commercialization of products and food security; (b) natural resources management; (c) capacity building; (d) financial services; and (e) representation of farmers' interests.

102. **The financial services activities to farmers take place either through microfinance institutions, some of which were created by Mooriben or through lines of credit**. The financial services are accompanied by technical support and advice. In particular support is provided for warehouse facilities, cereal banks, savings mobilization, and management of credit.

[21] ZapZain is also operational in Kenya and Tanzania and is looking into going to Chad and Burkina Faso.
[22] Orange Money has launched similar products in Cote d'Ivoire, Senegal and Mali.
[23] Mooribeen means "misery has ended" in Djerma-Songrai

Box 1: The Development of Mobile banking to improve access to finance worldwide

Mobile banking has grown rapidly and has the potential to dramatically increase access to financial services. It is estimated that 1.7 billion low-income cell phone worldwide users do not have a bank account. They could potentially gain access to financial services through their mobile phone.

There have been a number of interesting experiences of improving access to financial services by using cellular telephones, as documented by several CGAP briefs and focus notes.[24] Examples include Gcash and SMART MONEY in the Philippines, and Telenor/Tameer in Pakistan. In Africa, there are eTransact and Flash-me-Cash in Ghana and Nigeria, WIZZIT and MTN Banking in South Africa , INOVA in Burkina Faso and M-PESA in Kenya. In addition, some banks, such as First National Bank (FNB) of South Africa operate mobile channels. FNB had, in 2010, two million mobile customers. Many of these could not be served efficiently and profitably through traditional banking channels.

In Kenya, M-PESA, owned by SAFARICOM, Kenya's largest mobile network operator, offers mobile banking to 9.5 million customers in a country with only 8.4 million bank accounts. Half of M-PESA users are unbanked. More than 10,000 merchants act as agents throughout the country. Clients can use their mobile phone to check their balance, send money, pay bills, pay for the purchase of goods and services, repay a bank loan and even save by keeping an unused balance in their account in the form of electronic value. In addition, through an agreement with Equity Bank a package of financial products issued by Equity Bank is made available to M-PESA users under the brand name M-Kesho. M-PESA is launching services in South Africa with Vodacom in conjunction with Nedbank. According to Vodacom Chief Executive, "it may not be long before people are paying for taxi rides using their phones". [25]

In Burkina Faso, INOVA which operates under BCEAO's Instruction No. 01/2006/SP regulating the Issuing of Electronic Money and Electric Money Establishments offers similar services to those of M-PESA. It maintains, by law, links to banks and insurance companies.

[24] Ivatury and Mas: " The Early Experience with Branchless Banking" CGAP, focus note No 46 April 2008; Mas and Kumar: " Banking on Mobiles : Why, How for Whom? " CGAP focus note No 48, June 2008; Morawczynski and Pickens: " Poor People using Mobile Financial Services: Observations on Customer Usage and Impact from M-PESA" CGAP Brief, August 2009; Pickens: " Window on the Unbanked: Mobile Money in the Philippines" CGAP brief, December 2009; Kumar, Mckay and Rotman:" Microfinance and Mobile Banking: The Story So Far", CGAP focus note no 62; Terasi and Brelof: " Nonbank E-Money Issuers: Regulatory Approaches to Protecting Customer Funds"

[25] CGAP Etude Spéciale" Le plafonnement des taux d'intérêt en microfinance : qu'en est-il à présent ? September 2004.

103. **Mooriben created six micro credit institutions** linked to the farmers' unions of Tera, Sawani, Falwel, Karabédji, Baro Koara and Goberi. In addition, it extended CFAF 206 million in lines of credit managed by around 10 MFIs (including three created by Mooriben). However, only one of the six Mooriben MFIs, Falwel, has a license to operate, as required by law. In addition, these MFIs do not appear to be viable and are plagued with deficient internal management controls, high non performing loans, and very weak capacity. Although Mooriben is trying to fill a void in rural finance, it is doing so by operating outside of the law, and the institutions facing difficulties cannot benefit from the help of the regulator. Discussions are ongoing for Mooriben to structure a licensed federation and transform the individual institutions into points of sale.

SAHFI

104. **The *Société Sahélienne de Financement* (SAHFI)** operates with a license as a non bank financial establishment and has developed an original approach with three commercial banks (BIA, BOA and Sonibank) and the support of the European Investment Bank (EIB) to extend term credit to small and medium enterprises. This approach brings together financing, a partial credit guarantee and technical assistance. SAHFI provides technical assistance to firms to elaborate financial statements and/or business plans and to prepare a credit application. If funding is approved, SAHFI monitors the use of the loan as well as it repayment. This approach permits to overcome the constraints linked to the lack of capacity of SMEs to prepare loan requests of quality and that of banks to analyze SMEs. Banks will finance the credit on their own funds or on a line of credit from the EIB.[26] In addition, SAHFI provides a 50 percent guarantee on the credit extended. This approach has been quite successful and merits to be extended more widely, particularly in rural areas.[27]

D. Rural Finance Support Organizations

105. **To accompany the provision of financial services, technical assistance is often needed to both financial institutions and clients**. Several organizations including associations and other technical assistance providers have thus been created to support farmers and producers and help them access financial services. However, most of these providers face financial constraints that limit their outreach and may endanger their long term viability.

106. ***FUCOPRI* is the Apex organization of the cooperatives of rice growers.** FUCOPRI facilitates the financing of the cooperatives and provides technical assistance as well. For instance, SONIBANK finances FUCOPRI which buys the inputs (seeds and fertilizers) for rice producers through a tripartite contract SONIBANK/FUCOPRI/CPS. FUCOPRI sells the production and reimburses SONIBANK. FUCOPRI is a member of The *Plate Forme Paysanne du Niger* (PFPN), a lobbying and consultative group made up of 29 farmers' groups.

107. **The *Centre de prestation de services* (CPS)** provides support to 10 rice cooperatives in accounting services and water management. CPS assists member cooperatives in establishing their

[26] Two lines of credit, respectively of 5 and 8 million Euros; a third one of 8 million euro has been half utilized.

[27] 220 projects have received financing since the start of operations of SAHFI in 2006.

financial statements as well as managing their cash flow. CPS helps its members prepare financing requests to SAHFI and other financial institutions. CPS also conducts studies on various topics of interest to its members.

108. **The *Réseau National des Chambres d'Agriculture du Niger* (RECA)** has a membership composed of eight regional chambers of agriculture. Cooperatives are member of the regional chambers. RECA's objective/mandate is to represent and defend the interests of the rural world and provide technical assistance to its members.

109. ***Entreprendre au Niger* (EAN)** has a similar approach to SAHFI, but is not a financial establishment. EAN, created with the support of UNDP, assists in the establishment and development of micro and small enterprises. Its activities include: training for the creation and managements of micro, small and medium enterprises (MSMEs), establishing management tools within MSMEs, providing management and development advice, identifying and selecting projects, preparing financing requests and, guaranteeing financing offered by financial institutions (50 percent for banks and between 25 and 50 percent for MFIs). EAN has developed partnerships with several commercial banks and MFIs and has a presence in three regions outside Niamey in an effort to cover rural areas.

IV. RECOMMENDATIONS FOR THE WAY FORWARD

110. **Improving access to financial services in rural areas will involve actions on several fronts dealing with**: (a) the supply of financial services and innovative instruments; (b) the demand for financial services; as well as (c) the judicial and regulatory environment and Government policies.

The Supply Side

111. **Boosting the supply of financial services is a necessary condition to improve access to rural finance**. That would involve strengthening existing banks and microfinance, promoting new institutions and developing existing and new products. As previously shown, commercial banks and microfinance institutions are providing services to rural areas either timidly or in the absence of a coherent global approach.

112. **Two possible approaches exist for banks to increase their financing to rural areas**: (i) by increasing their presence in rural areas and their direct lending to agriculture and livestock. For that, they would need to develop the expertise to do so through technical assistance, and they may have to establish a special department with specialized staff, such as agriculturalists; (ii) by linking up with MFIs that are closer to the rural clientele and contribute to agriculture financing by refinancing MFIs. A mixture of the two approaches is possible depending on the individual strategies of commercial banks and on the impact of increased competition. Banks should also increase the number of ATMs, particularly outside of Niamey as they make their debit/credit cards available to more clients.

113. **Microfinance institutions need to maintain and expand their activities in rural areas**. For MFIs to fully play their role, they need to be financially strong, viable and sustainable. Those in difficulty would need to be either restructured or closed with the help of the regulatory agency (ARSM). This should result in a healthier microfinance sector constituted by strong competitive MFIs that provide services at the lowest cost possible. The restructuring of MFIs and the reinforcement of supervision should increase the confidence of the banking sector in refinancing MFIs to on-lend to the rural world.

114. **Smaller independent MFIs should be encouraged to join existing networks to improve their long term viability and enjoy economies of scale**. Indeed, networks provide an opportunity to share costs and information, contribute to improve governance and benefit from back-office services provided by the Apex organization such as audit and other related activities. To achieve this objective, ARSM could restrict the issuing of licenses to MFI that join a network and could charge special fees for supervising the small independent MFIs. Apex organizations could also consider creating their own financial organisms that would be delivered a bank license. Under the current laws, that would provide MFI network members with access to the payment system, foreign exchange transactions, international transfers, leasing products, etc.

115. **Technical assistance should be provided to MFIs** to improve MIS, lending procedures, emphasize savings mobilization and internal controls. Capacity building is also required to improve their knowledge of agricultural lending and to assist in the development of more appropriate products including mobile banking, warehouse receipt, etc. The professional association (ANIP) should be strengthened to make it more effective in carrying out sector training and other capacity building initiatives.

116. **To maximize the impact of the technical assistance provided to the banks and MFIs, a partial portfolio guarantee could be put in place for lending to the agricultural sector**. All loans of participating institutions falling within well defined specifications will have to be registered under the guarantee, whether they are considered risky or not and whether or not the participating institution would have extended the loan in the absence of a guarantee. Such a portfolio guarantee, by opposition to an individual loan guarantee, avoids the risk of having only delinquent loans registered under the guarantee and reduces the cost of the guarantee. Experience in other countries (Mali, Madagascar) has shown that a partial portfolio guarantee has little impact unless accompanied by technical assistance aimed at marketing and at analyzing credit applications. Technical assistance providers such as SAHFI and *Entreprendre au Niger* could play a bigger role by extending their activities to rural populations and firms.

117. **Mobile banking needs to be further developed**. It offers an exceptional opportunity to increase access to financial services in rural areas and will facilitate the transfer of funds and the extension of loans. Loans could be disbursed via the mobile phone and reimbursements made the same way, without the need for the borrower to go to a bank branch. Mobile banking would also permit banks to operate efficiently with fewer branches.

The Demand Side

118. **The demand for rural financial services is subject to several constraints that restrict the development of rural finance.** They include lack of infrastructure (feeder roads, storage facilities and warehouses, etc.) market information, as well as weak producer associations and cooperatives. The lack of land titles that can be used as guarantee for a bank loan, well organized value chains from producers, processing companies, traders, retail and export enterprises makes it difficult for banks to extend agricultural loans.

119. **Technical assistance to producers' and farmers' organizations remains crucial** in strengthening the effective and potential demand for rural financial services. In addition, recognized service providers should also be empowered. While technical assistance providers should be private organizations, Government could help fund their activities directed at cooperatives, and farmers themselves. Indeed, capacity building generates externalities for the economy as a whole by permitting the development of a crucial sector of the economy (agriculture). Education/training of farmers and their associations could happen at two levels: (i) on techniques of growing products and breeding cattle, irrigation, marketing, etc.; and (ii) on financial issues, developing a savings culture and financial literacy, etc. Funding could come from a "capacity building fund" (*Fonds d'Investissement pour le Renforcement des Capacités pour l'Agriculture* – FIRCA) to be established by Government and donors.

120. **Strengthening the value chain of key agricultural products** will make a big difference in convincing banks to finance agriculture and agribusiness. Value chain financing will happen when key constraints along the value chain from production to marketing and commercialization are lifted. That may include dealing with regulatory constraints, infrastructure, support structures to the value chain such as input supply, agricultural services, availability of detailed technical as well as experience agricultural support staff to strengthen the structure and professionalization of actors in the chain. In addition, lifting barriers to private sector investment (access to finance and land) will facilitate investment in agribusiness and promote competitiveness in specific subsectors.

Regulatory/judicial environment and Government Policies

121. The regulatory environment in which financial institutions operate in Niger is not always conducive to providing rural finance.

122. **Usury rates for both commercial banks and microfinance institutions should be lifted** as costs of providing credit to rural clients may indeed exceed the usury rate. Otherwise, banks and MFIs may not enter markets, most of which are in hard to reach rural areas, where they cannot cover their costs, hence reducing access to finance.

123. **Leasing by microfinance institutions should be allowed** so that MFIs can make longer term loans for investment to their clients who do not have other guarantees. This would require, however, that the regional microfinance law be amended and that may prove difficult and long to undertake. Alternatives to changing the law might include creating a subsidiary of the MFI to provide non-financial leasing activities. The new company would only need to be registered with the commercial registry (*registre du commerce*); it could share premises and staff with the MFI. The company would purchase the equipment (cart, motorized pump) and lease them to the farmers

under the same kind of deal as a car lease. Another alternative would be for the MFI to establish a financial organism with a bank license which permits financial leasing activities. New financial leasing companies could also be created by private sector investors to operate in rural as well as urban areas. An analysis should be conducted to assess existing barriers to the development of leasing companies in Niger and measures taken to remove these barriers.

124. **Supervision of MFIs should be strengthened**. Indeed, only healthy MFI could contribute to improve access to financial services. Supervision should ensure that MFIs stay healthy or take corrective measures at the first sign of difficulties.

125. **Regulation regarding mobile banking in the UEMOA may need to be revised** to enhance its development given its huge potential to increase financial access very rapidly in rural areas. Some constraints, would, therefore need to be lifted to permit that loans be disbursed via the cellular phone and reimbursements made the same way, without the need for the borrower to go to a bank branch. The regulator/supervisor should impose the interoperability between operators. This would require full coordination between the bank and telecom regulators. With time, interoperability should be introduced between the telephone and the card systems.

126. **The judicial system needs to function better to facilitate the enforcement of contracts and loan recovery**. To be adapted to rural areas, it needs to be simple. OHADA Acts should be revised to simplify procedures of land/building foreclosures. More generally, there is a need to improve the legal treatment of land in rural areas. Some magistrates should be specialized in financial/banking issues. In the absence of a full-fledge credit bureau, the risk registry at the Central bank should be improved to provide accurate information on potential borrowers and mitigate the risk of default.

127. **The Government of Niger has been trying to deal with the lack of rural finance** through several initiatives. They include the establishment of an agricultural development bank – *La Banque Agricole du Niger* (BAGRI) in July 2010, together with three funds, a credit guarantee fund, a credit subsidy fund and a calamity fund. However, unless the main constraints to financing agriculture are lifted, BAGRI is unlikely to be more successful than the commercial banks (See Box 2). For BAGRI to be sustainable and to avoid introducing distortions in the market, in particular crowding out commercial banks, it should be run as a private entity based on sound commercial principles. Should it prove unsuccessful, the authorities ought to be prepared to close it down quickly before it cost taxpayers too much. Every year, BAGRI should be the object of a comprehensive audit to assess to what extent it meets its objectives and whether other banks could deliver the same services at a lower cost. BAGRI should diversify the products it offers and include wholesale loans to MFIs as one of its activities.

Box 2: Agricultural development bank and guarantee funds

An agricultural bank, *Banque Agricole du Niger* (BAGRI-Niger SA) was created on July 20 2010 with a capital of CFAF 10 billion. Following a non objection ("*avis conforme*") from the Banking Commission on January 4, 2011, the Minister of Finance issued a license on January 7, 2011 and the bank started operations on February 18, 2011. BAGRI's objective/mandate is to provide funding (for inputs, acquisition of modern equipment, building of infrastructure, transformation and commercialization) to millet, sorghum, wheat and rice crops. BAGRI will also fund agri-food business as well as the leather and hinds sub-sector. Funding will go to farmers' organizations and cooperatives. It will also provide refinancing to MFIs. The creation of BAGRI was accompanied by the establishment of three funds: (i) a **credit guarantee fund** for producers and cattle breeders providing a partial guarantee to BAGRI and other financial institutions funded by the Government, donors and producers; (ii) a **credit subsidy fund** to lower the cost of credit (by five percentage points) while maintaining the viability of BAGRI and other financial institutions funded by the Government and donors; and (iii) a **calamity fund** to guaranty credits to producers and breeders in case of calamity (drought, floods, crickets, etc,) funded by the Government and donors. The funds that were created by three ordinances dated August 19, 2010 are domiciled at, and managed by, BAGRI which has already received an endowment of CFAF 1.2 billion for all the three funds.

There is nothing inherently wrong with a specialized institution if it is competitive, well managed and could survive in a competitive environment. This implies a policy of pursuing participation from many financial intermediaries in agriculture financing, rather than maintaining the position of a national agricultural bank as an exclusive intermediary.[28]

As witnessed in other countries in Latin America for example, an agricultural development bank could play a demonstration role by introducing innovative methods, approaches and instruments to test their workability. Once the private sector has followed suite, the development bank withdraws or at least accepts to share the market on an equal footing. An additional role for BAGRI could be to provide long term resources to MFIs for on-lending to producers, their cooperatives and associations. Direct lending by BAGRI to growers/breeders should be short term until MFIs can take its place. Indeed, direct lending by BAGRI to rural population would mean setting up the infrastructure needed to be close to the clients and that would be very expensive. Even BRS whose mandate is to lend to those that do not have access to bank credit did not put in place a decentralized infrastructure.

Several factors, as noted above need to co-exist for BAGRI to have a chance of success. First it should be managed as a private sector entity to avoid the pitfalls of previous agricultural credit initiatives such as CNCA and BDRN. Second, solutions should be found to the constraints that plague the rural sector, namely the lack of structured demand, the absence of financial statements by firms seeking a loan, absence of business plans and adequate guarantees, the lack of capacity within financial institutions to assess potential clients in the agricultural/rural sector, and the inadequacies of the judiciary. If these constraints are not removed or alleviated somehow. BAGRI will not be any more successful than commercial banks have been thus far.

Care should also be taken with regards to the instruments that will be made available to BAGRI such as the credit guarantee. Partial portfolio guarantees have proven to be effective in increasing access to particular segments of the market. However, a partial portfolio guarantee given to an institution which does not have the capacity to assess agricultural/rural borrowers will not fulfill its purpose unless accompanied by technical assistance aimed at capacity building within the financial institution.

The credit subsidy fund will permit to lower interest rates without compromising BAGRI's financial situation. But an interest rate subsidy introduces unwelcome distortions in the financial market. In addition the impact of the fund will depend on the way it is set up. Will it impose interest rate ceilings on BAGRI and if so, will the subsidy fully compensate for the difference between the market rate and the

[28] See: Jacob Yaron : "Rural Finance in Developing Countries", Policy Research working paper, Agricultural and rural development department, World Bank. March 1992.

ceiling? How will the beneficiaries of the subsidy be chosen? Will the Fund have a light structure? Caution should also be taken not to subsidize the inefficiency of institutions and end up providing larger subsidies to institutions that do not control their costs. It might be better to subsidize farmers/producers/breeders through direct grants rather than credit at unsustainable low rate of interest. For many borrowers access to finance is more important than the cost of credit. Without access to banks or MFIs they will turn to usurers or money lenders at much higher rates. Interest rates will come down with increased competition and better disclosure of full cost of credit by institutions under "truth in lending" requirements. In India, a study of rural financial institutions determined that out of 600 rural poor who contracted a loan 92 percent did not know the rate of interest at which the credit was extended, 28 percent did not know the amount to be paid back and 29 percent did not know their remaining balance.

The three funds have been explicitly created to support BAGRI, although enabling legislation for two of them specifically state that they are open to all financial institutions. But their management by BAGRI will not facilitate their access by other financial institutions. To avoid introducing market distortions and provide BAGRI with an unfair competitive advantage, the funds should be removed from BAGRI and made explicitly available to all financial institutions.

128. **There is a need to develop guarantees adapted to the rural areas such as warehouse receipt** and leasing that are acceptable to the banks and MFIs supervisors. Consideration may be given to equipment, livestock, etc. In addition, lending mechanisms based on cash flow without requiring a guarantee could be developed with the support of technical assistance as needed.

129. **Appropriate insurance products should be developed**. In particular, weather-based insurance would reduce the risks of lending for agricultural activities. The recently created calamity fund (see Box 2) could be a first step in that direction, but there is a need to go much further. A World Bank project in Senegal has launched a pilot project in that area. Studies need to be undertaken to assess the feasibility and the contours of such an insurance scheme in Niger.

130. **Longer term resources are needed to finance investment by borrowers**. In addition to donor lines of credit which are not sustainable in the long run, commercial banks should tap the regional financial capital market for longer term resources. It is worth noting that changes recently introduced to the capital market (with respect to guarantee and costs) do facilitate the issuing of bonds. Some of the longer term resources acquired by banks through the market could in term be made available to MFIs through refinancing.

131. While all proposed measures are important and should ultimately be implemented, the emphasis should be placed in the short run on the following actions:

- Structuring and strengthening the demand with capacity building, technical assistance provided to producers/cattle growers and associations through a value chain approach.
- Building capacity at banks and MFIs
- Cleaning up the microfinance sector
- Developing mobile banking, leasing and warehouse receipts.

132. **In this context the Government should play the role of regulator, supervisor and facilitator.** It should encourage the private sector (financial and non financial enterprises) to provide the needed services. It should remove the obstacle to the provision of services, legal, regulatory, fiscal and others, and may, at times, intervene to have a demonstration effect where the private sector shows some hesitation, but must withdraw as soon as the private sector is responding. A case in point is the contribution of the Government (on its budget or through donors) to the financing of private consulting firms assisting rural clients in the preparation of credit requests to banks ad MFIs. The Government should also ensure that the conclusions and recommendations of this study will be acted upon. A first step is their inclusion in the financial sector development strategy under preparation.

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ANNEXES

Annex 1. Status of Implementation of the Main Recommendations of the Niger 2001 National Microfinance Strategy

2001 Recommendations	Situation in 2010
Strengthening of regulation and supervision	A regional law modernizing the MFI regulatory framework was adopted by the Niger National Assembly in January 2010[1] and an implementation decree issued in June 2010.[2] An independent regulatory agency, l'Agence de Régulation du Secteur de la Microfinance (ARSM)[3] created in 2007 became operational in 2008
Oblige all operating MFIs to have a license	A number of MFIs still operate without a license
Restore the financial health of MFIs	The measures taken were insufficient and several MFIs continue to face institutional, operational and financial difficulties;
Develop business plans	While some MFIs have developed business plans, many still do not have one.
Strengthen human resources	Some capacity building took place but has been insufficient in view of the needs,
Develop internal controls	Some progress, but several MFIs still lack internal controls.
Develop management tools (planning accounting, information systems, procedure manuals)	Some progress was achieved in the mid to late 2000s, thanks to the PDSF, but much remains to be done
Encourage MFIs which are small financial cooperatives to join networks	This task proved difficult in view of the poor performance of some networks.
Strengthen loan recovery	Some MFIs still plagued by large non performing portfolios
Strengthen the MFI association	ANIP-MF still in need of strengthening
Establish a dialogue framework	Needs to be implemented
Develop links between banks and MFIs	Several MFIs have deposits in bank; Banks refinance the largest and most dynamic MFIs
Encourage the development of MFIs in rural areas*	MFIs have developed in rural areas.

Source : Niger Microfinance Strategy2001

Notes: [29] Loi No 2010-04 du 21 janvier 2010 portant réglementation des systèmes financiers décentralisés.

[30] Décret no 2010-472/PCSRD/ME/F du 4 juin 2010, portant modalités d'application de la Loi No 2010 du 21 janvier 2010 portant règlementation des Systèmes Financiers Décentralisés. Problems remain with the implementation decree and it will need to be modified. It does not take into account the SA which was permitted by the new law.

[31] ARSM is composed of a decision body La Commission Nationale de Régulation de la Microfinance (CNRM) and of a secretariat, le Secretariat Executif (SE) which at end 2009 had 14 employees.

Annex 2. The Story of Liquidated State-Owned Rural Finance Institutions: SONARA, CNCA and BDRN

SONARA

1. The Société *Nigérienne de Commercialisation de l'Arachide et du Nié*bé, SONARA, was created in 1964. Its mandate was the marketing of groundnuts and cowpea (niébé). Nuts were sold in Niger and in Europe. Nigeria was the main market for cowpea. Over time, nuts became less important as producers abandoned it and cowpea became the main staple.

2. At first, SONARA was functioning well and did not need external finance as it was endowed with sufficient funds. However, later on, it turned to banks and when the latter tightened their funding it turned to BDRN, a Government owned development bank.

3. In the mid eighties, SONARA was experiencing serious difficulties; mismanagement and macroeconomic factors were was the main cause. In particular, it suffered from (a) the large drop in the Naira and the imposition of import and exchange controls ; and (b) the establishment by the Government of the price of its products at a level above the market price, leading, in particular to overpayment to producers. It accumulated large unpaid loans to the banking system. It was placed in liquidation in June 1990. SONARA left an unpaid debt of over CFA 7 billion to BDRN.

CNCA

4. The Caisse Nationale de Crédit Agricole (CNCA) was established in 1967 by the Government to finance agriculture.

5. First and foremost CNCA financed commercialization of agricultural products. It financed the Union Nationale de Credit et Cooperatives (UNCC) for the purchase of millet and sorghum. It also financed the Office des Produits Vivriers du Niger (OPVN) and SONARA. Total amount outstanding was about CFAF 20 billion. UNCC and SONARA had difficulty repaying.

6. Second, in importance, it financed development projects. Resources came from donors with a counter party from the Government. The Government funds did not materialize.

7. Third, it financed the manufacturing of equipment which it delivered to users while keeping its ownership. CNCA had difficulty collecting the rent from the users of the equipment.

8. Its resources came from the African Development Fund and central bank refinancing at a preferential rate in the context of agriculture campaign financing.

9. Faced with a large level of nonperforming loans (commercialization and equipment credit), with non forthcoming Government funding and high operating expenses, CNCA ran out

of funds and closed in June 1988. It left CFAF 8 billion in refinancing at BCEAO, which was assumed by the Government.

BDRN

10. The *Banque de Développement de la République du Niger* (BDRN) was created in 1961 with Government, a majority shareholder, accompanied by the *Société Tunisienne de Banque* (STB), a Tunisian bank, the *Caisse Centrale de Coopération Economique*, now *Agence Francaise de Développement* and German KFW. It was not an agricultural development bank; it funded imports and exports and investment projects. Its only agricultural funding went to SONARA for campaign credits. In its best years it had credit outstanding of CFAF 70 billion.

11. Since 1983, BDRN was facing difficulties, with a large level of under-provisioned non performing loans, high operating expenses (overstaffed with a complement of 600). Among the delinquent borrowers were private importers/exporters, a Government owned public works company, a cement manufacturer, SONARA, etc. It was hiding these difficulties and distributing fictitious dividends. Finally, its problems caught up with it and it was closed in 1990, leaving unpaid balances of about CFAF 13 billion to BCEAO. SONIBANK was established in the wake of the failure of BDRN and took over all the small depositors.

Lessons Learned

12. Foremost, poor management and bloated operating costs were the cause of the downfall of these state owned enterprises. Their sate ownership greatly contributed to their management failure. High non-performing loans caused by inappropriate lending and inadequate loan recovery were additional factors. An unfavorable macroeconomic environment and Government interference can also be blamed for these institutions' plight.

Annex 3. Land Tenure System in Niger: The Main Features

1. Land ownership in Niger is divided between three sectors in Niger, as in all the other countries of sub-Saharan Africa: customary law owners, public owners (the State, which was the general owner of land until 1971, and local communities) and private owners.

2. *The types of possession and corresponding land titles* can be summarized as follows:

- Certificates of customary holdings. These are issued by mayors' offices to customary owners so that they can make their rights official. They must be registered in order to be invoked against third parties;

- Urban Residence Permits. These are permissive enjoyment titles regulated by a 1959 ordinance, which were granted at one time in order to regularize "traditional" occupation in urban areas and give undocumented inhabitants a modicum of security;

- Grant of usage. A provisional title by which a public community grants enjoyment of land for a specific period against payment of a fee. The land may be residential, rural and – above all – industrial or commercial. A grant may be converted into a permanent land title after development;

- Deeds of transfer. These are the titles used for the transfer of property from the private domain of the State or the local communities to private individuals. These titles are precarious, insofar as the transfer of rights may be cancelled and the property returned to the public community, if certain conditions are not met within a certain period of time: payment of conveyance fees (one month), submission of a construction permit application (three months), completion of construction (four years). These last two conditions constitute an obligation to "develop" the land, which is designed to prevent purely speculative land purchases. Compliance with this obligation is verified by Development Verification Commissions. Deeds are transferable, but transfers must be registered in order to be invoked against third parties. In practice, property under this system is often the subject of multiple sales without the assistance of a notary and without registration with the land conservation agency. The result is discrepancies with records kept by the communes and risks of litigation and even of fraud;

- Land titles. According to the rule prevailing throughout OHADA, full ownership requires land titles, which must be registered and announced publicly. Such titles confer rights that may be invoked against third parties.

3. *The transition from customary rights to official rights* is a major issue in areas where urban expansion involves programmed development and construction to be financed, requiring clear situations and safeguards so that mortgages can be obtained. The conversion, which until recently was always initiated by a public initiative (usually creation of housing estates) but which may result from private projects, involves roughly the following stages:

- Preliminary survey to ascertain the rights of customary owners. This process, in which village chiefs are involved, includes the possibility of challenges and their settlement by judicial means;

- First registration, which gives the land its original land tenure classification and results in the creation of a land title – in practice this has so far been in the name of the Government or of a local community;

- Transfers of land, by deeds of transfer, if the initial owner is a public community;

- Recording of deeds of transfer and registration of land parcels. This formality is still optional (explicit provision of the decree of July 26, 1932 on land ownership in French West Africa, still in force in Niger);

- Conversion into land titles.

4. A very significant reform of this system was introduced by the 2006 Budget Law (Law of November 15, 2005), which created a simplified formality for the establishment of land titles ("Sheida" titles). The main improvements relate to:

5. Removal of the development requirement as a prerequisite for the granting of a land title, which is applicable to base ground. The applicant simply has to already hold a duly registered lower-ranking title, deed of transfer or certification of customary holding. The land title "cancels and replaces" the deed of transfer, resulting in abolition of the development clause.

6. Large reduction in the fees payable when this title is granted: CFAF 15,000 or 20,000 for land parcels, CFAF 75,000 to 400,000 for individual dwellings, depending on their type (from adobe huts to villas with outhouses). In addition, intervention by the Minister of Finance, who previously authorized the creation of each land title by decree, is no longer required and the procedure is now completed at the level of the Director for Rural Land Tenure.

7. Registration fees were also lowered considerably starting in 2007: declining scale from 4 percent to 3 percent for individuals and 5 percent (compared with 10 percent previously) for companies.

8. However, the Law contains an ambiguity which, at least initially, caused some banks to refrain from granting mortgages for property covered by a "Sheida" title. Article 5 of the Law stipulates that the building lease will be registered upon presentation of the certification of development. Firstly, this provision may imply that ownership is still between the ground and the constructions – a subdivision that would be incompatible with the strict concept of land title. In fact, the vague concept of the building lease, which dates back to the 1932 decree, is fiscal and not legal. The operation consists of having the authorities certify that construction is taking place and attribute a value to it, which serves as the basis for payment of a fee of 0.75 percent. Secondly, the text encouraged the erroneous view that reference to the property value on the land title would be a prerequisite for the title to be fully valid, especially as the use of the

mandatory “shall”, may be interpreted as a command. In fact, registration of the building lease is optional, and of little interest as regards a mortgage loan, since the lender itself arranges for an estimate to be made of the value of the collateral property. It seems that these problems of interpretation have gradually disappeared and that banks now accept “Sheida” titles without reservation. However, it remains that the land tenure legislation should be updated.

9. The other disadvantage of the reform is the counterpart of its success. There was a sudden increase in the number of land titles issued (1,000 a year compared with 150 previously), while the resources of the Directorate for Rural Land Tenure remained the same. The result was a considerable slow-down, and almost a year may elapse in certain cases.

10. *Conveyance* of property already registered requires a notarial act and a registration application validated by the Director for Rural Land Tenure. There is only one land conservation agency, covering the whole country from Niamey, and the Director signs all documents in person, although in his view there is nothing to prevent him from delegating his authority. He has no authority over transfers, but may reject registration applications, particularly on grounds of procedural irregularities or disproportionate prices. Conveyance fees amount to 0.75 percent for individuals[29], plus notary fees (maximum of 4 percent or 3 percent).

11. *Registration of mortgages* with land conservation agencies is done by notaries (mortgage contracts must follow the authentic model). There is a fee of 0.75 percent of the amount of the loan (individuals), plus a small registration fee and stamp duties. According to the OHADA rules (Uniform Act providing for simplified collection procedures and enforcement measures), a foreclosure sale can be held only for registered property, after a land title has been issued. In view of the predominance of provisional or permissive titles, banks have developed practices for working around this obligation:

- Private selling instructions given in advance by borrowers to lenders to be followed in case of default. Depending on interpretations, this practice is considered either as a type of immediate execution (procedure of extrajudicial foreclosure) explicitly prohibited by the OHADA texts or as a form of transfer in lieu of payment, which is legally valid but may be criticized for taking advantage of the loan applicant’s situation of relative weakness compared with the banker;

- Surrender of the (actual) deed of transfer to the bank for the entire duration of the loan. This quasi-pledging seems to have little legal value. Its main value is as proof of the borrower’s commitment and as a means of pressure in the hands of the lender. This is because the lender can impose registration of the deed of transfer in the name of and at the expense of the debtor, which is a prerequisite for initiation of valid foreclosure proceedings.

[29] 1.5 percent for companies.

- Commitment to take a mortgage. There are few safeguards, because in practice final registration is uncertain and another debt may have been registered in the meantime, relegating the initial debtor to second place.