Making Access Possible

Burkina Faso

Making Access Possible:
Financial Inclusion Diagnostic Report
2017

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Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) in order to promote the inclusive development of the financial sector.

At country level, the core MAP partners, collaborate with government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Burkina Faso was co-financed by UNCDF and the Government of Burkina Faso and produced by Econsult Botswana.

This document sets out the comprehensive diagnostic findings, which feeds into the Roadmap developed in collaboration with the MAP Burkina Faso monitoring committee.

THIS REPORT WAS PRODUCED BY ECONSULT BOTSWANA IN COLLABORATION WITH BERD - LESSOKON

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Abbreviations - English

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
ATM	Automatic Teller Machine
CRS	Catholic Relief Services
DFI	Development Finance Institution
ECOWAS	Economic Community of West African States
EFT	Electronic Funds Transfer
FIS	Financial Inclusion Strategy
FSD	Financial Sector Development
FSP	Financial Service Providers
GDP	Gross Domestic Product
HDI	Human Development Index
KYC	Know Your Customer
MFI	Micro-finance institution
MNO	Mobile network operator
MSME	Medium, small and micro-enterprises
MTO	Money Transfer Operator
NIC	National Identity Card
NPL	Non-performing loan
PAR	Portfolio at risk
POS	Point of Sale
SSA	Sub-Saharan Africa
WAEMU	West African Economic and Monetary Union

Abbreviations - French

ARCEP	Autorité de Régulation des Communications Electroniques et des Postes
ARTP	Autorité de Réglementation des Secteurs de Postes et de Télécommunications (Togo)
BCEAO	Banque Centrale des Etats de L'Afrique de L'Ouest
BOAD	Banque Ouest Africaine de Développement (West African Development Bank)
BRVM	Bourse Régionale des Valeurs Mobilières
CBU	Commission Bancaire UEMOA
CENTIF	Cellule Nationale de Traitement des Informations Financières (National Financial Information Processing Centre)
CIMA	Conférence Interafricaine des Marchés d'Assurance
CNIB	Carte Nationale d'Identité Burkinabé
CNSS	Caisse National de Securité Sociale du Burkina
CREPMF	Conseil Regional de l'Epargne Publique et des Marches Financiers
DA	Direction des Assurances
DAMOF	Direction des Affaires Monétaires et Financieres
DSC	Direction de la Surveillance et du Contrôle (des Systèmes Financiers Décentralisés)
FAARF	Fonds d'Appui aux Activités Rémunératrices des Femmes
FBDES	Fonds Burkinabè pour le Développement Economique et Social
FCPB	Faîtière des Caisses Populaires du Burkina
FE	Fond d'Etat

FN	Fonds Nationaux
FNF	Fond Nationaux de Financement
GIM-UEMOA	Groupement Interbancaire Monétique de l'Union Economique et Monétaire Ouest Africaine
INSD	Institut National de la Statistique et de la Démographie
PNDES	Plan National de Développement économique et Social
SA	Societé Anonyme
SOFIGIB	Societé Financière de Garantie Interbancaire du Burkina
SONAPOST	Societé National des Postes
UEMOA	Union Economique et Monétaire de L'Afrique de L'Ouest
UIT	Union Internationale des Télécommunications

1. About MAP

Making Access to Financial Services Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund[1] (UNCDF), FinMark Trust[2] and the Centre for Financial Regulation and Inclusion[3] (Cenfri). In each country, it aligns stakeholders from within government, private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country. In Burkina Faso, MAP is rolled out under the guidance of the MAP monitoring committee chaired by the Permanent Secretary for the Promotion of Microfinance (SP-PMF) in the Ministère de l'Economie, Des Finances et du Développement. The monitoring committee includes various representatives from other branches of the Ministry, the Central Bank (BCEAO), other ministries, selected Financial Service Providers (FSPs), industry associations, development agencies and development partners.

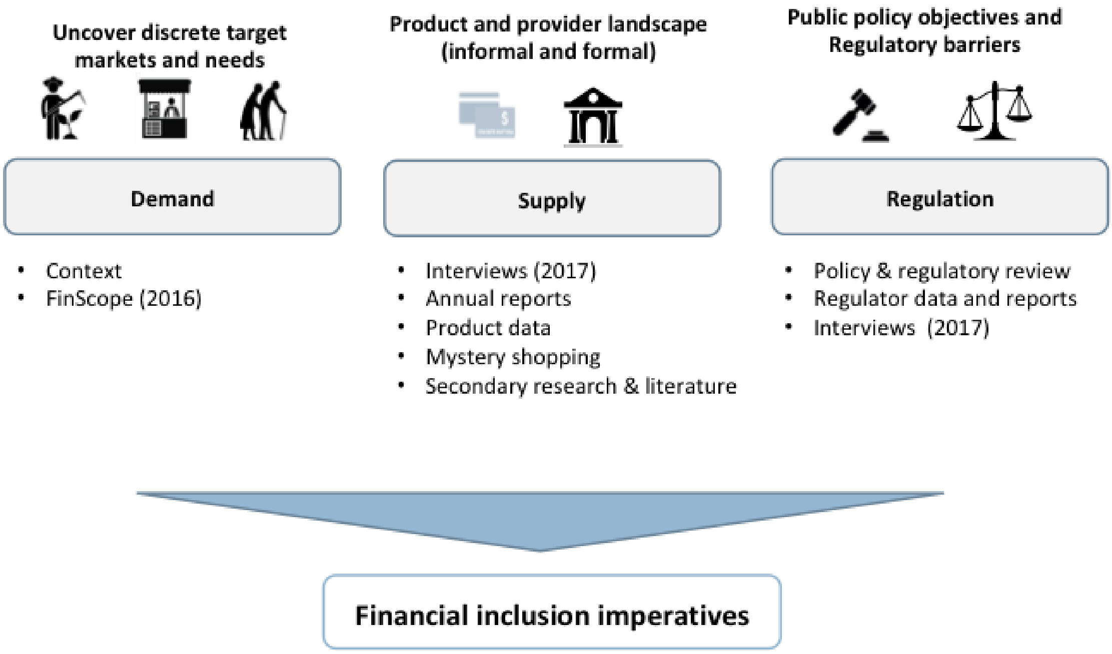
Comprehensive scope. MAP compiles a comprehensive picture of financial inclusion drivers, barriers and opportunities across the **country context**, the **demand** for and **supply** of financial services, and the **regulatory environment** in four core product markets: **savings**, **credit**, **payments** and **insurance**. Figure 1 below summarises the methodology followed and main sources:

1 ***UNCDF*** *(www.uncdf.org) is the UN's capital investment agency for the world's least-developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.*

2 *FinMark Trust (www.finmark.org.za) was established in March 2002 with funding from the UK's Department for International Development (DFID). FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'.*

3 *Cenfri (www.cenfri.org) is a non-profit think-tank based in Cape Town, South Africa. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. They do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.*

Figure 1: The MAP Approach



Source: Authors' own

Data-driven approach. An important part of the MAP approach is to directly gather evidence. On the supply-side this is done through a range of stakeholder consultations conducted in 2017 as well as a mystery shopping exercise at branches/outlets of various financial institutions. On the demand-side, quantitative data is generated and analysed: through the FinScope Burkina consumer survey conducted by FinMark Trust in 2016. FinScope is a nationally representative demand-side survey of consumer behaviour and interaction with financial services, as well as consumers' financial realities and perceptions of financial services. FinScope Burkina is based on a sample of 5,066 adults (individuals aged 15 and older). This sample is representative of the entire adult population of approximately 10 million, and has been weighted accordingly under the supervision of the National Statistics Institute (INSD).

Customer needs at the core. What sets MAP apart from other scoping exercises is that the demand-side perspective is the point of departure. The analysis evaluates the supply of financial services in Burkina Faso against the core customer needs identified. Importantly, these needs differ across parts of the country and target market segments.

Keeping the bigger picture in mind. MAP is a financial inclusion diagnostic. As such, the role of financial inclusion in serving public policy objectives takes centre stage. However, financial inclusion can never be seen in isolation. It forms part of the broader financial sector and economic landscape of the country. The overview of the needs, gaps and drivers of financial inclusion in the rest of this document will speak to this bigger picture.

Overview of financial inclusion. This document summarises the findings of the diagnostic as follows:

- It starts by outlining the Burkina Faso country context, in particular the economic and social aspects that have implications for financial inclusion; (**Section Erreur ! Source du renvoi introuvable.**).

- **Section 3** then reviews the supply of financial services in Burkina Faso, by different types of financial institutions.
- **Section 4** reviews the policy and regulatory landscape relevant to the financial sector
- **Section 5** takes a look at demand for and usage of financial services by different types of consumers, and across different product types.
- **Section 6** concludes with priority actions to bridge the gaps and develop a more inclusive financial sector in Burkina Faso.

Deep dive into critical aspects of inclusion. The main text is supplemented by deep-dive analyses into specific thematic areas to provide the evidence and analytical building blocks for the priorities. These deep dives were selected based on key risks and opportunities for financial inclusion and are presented in the following annexures:

- **Input Note 1: Target market analysis** provides an overview of the demand-side context, the current uptake of financial services in Burkina Faso and the barriers to uptake. It proceeds to segment the sample population into five discrete groups, and to profile each group and outline their current financial services usage and likely future needs across product markets.
- **Input Note 2: Market for Payments** provides an in depth analysis of available data on the payments market. From the demand-side perspective, it covers typical needs for payment services and current uptake of various payments products. On the supply-side, it outlines the providers, distribution and product landscape. It also discusses key barriers to greater penetration, including a list of payments-specific regulatory issues, in order to conclude on gaps and opportunities specifically in the payment market.
- **Input Note 3: Market for Credit** considers in more detail the provision of credit in Burkina Faso, where credit usage is very low, even by the standards of low income countries. It utilises detailed data from FinScope on credit usage and uses this to identify barriers to credit usage and opportunities for improving access to credit.

2. Country Context

The social, economic, and demographic context of Burkina Faso plays an important role in shaping the financial environment, and the availability and usage of financial services by the population. It also influences the nature of the gaps in financial service provision, and the actions that can be taken to improve access to finance.

The economic landscape of Burkina Faso is shaped by two key forces. Burkina Faso is a landlocked country in West Africa, bordered by Mali, Niger, Benin, Togo, Ghana, and Cote D'Ivoire. Ouagadougou, the capital of the country is in the centre of the country. The Black Volta in the south-western part of the country is the major source of water, but much of the country is arid, especially in the north. Agriculture is the largest economic sector, and the most widespread economic activity; farmers make up the largest single economic group of economically active adults, around 80% of the labour force[4]. As a rural population, farmers are unlikely to be in close proximity to urban-based financial service provision.

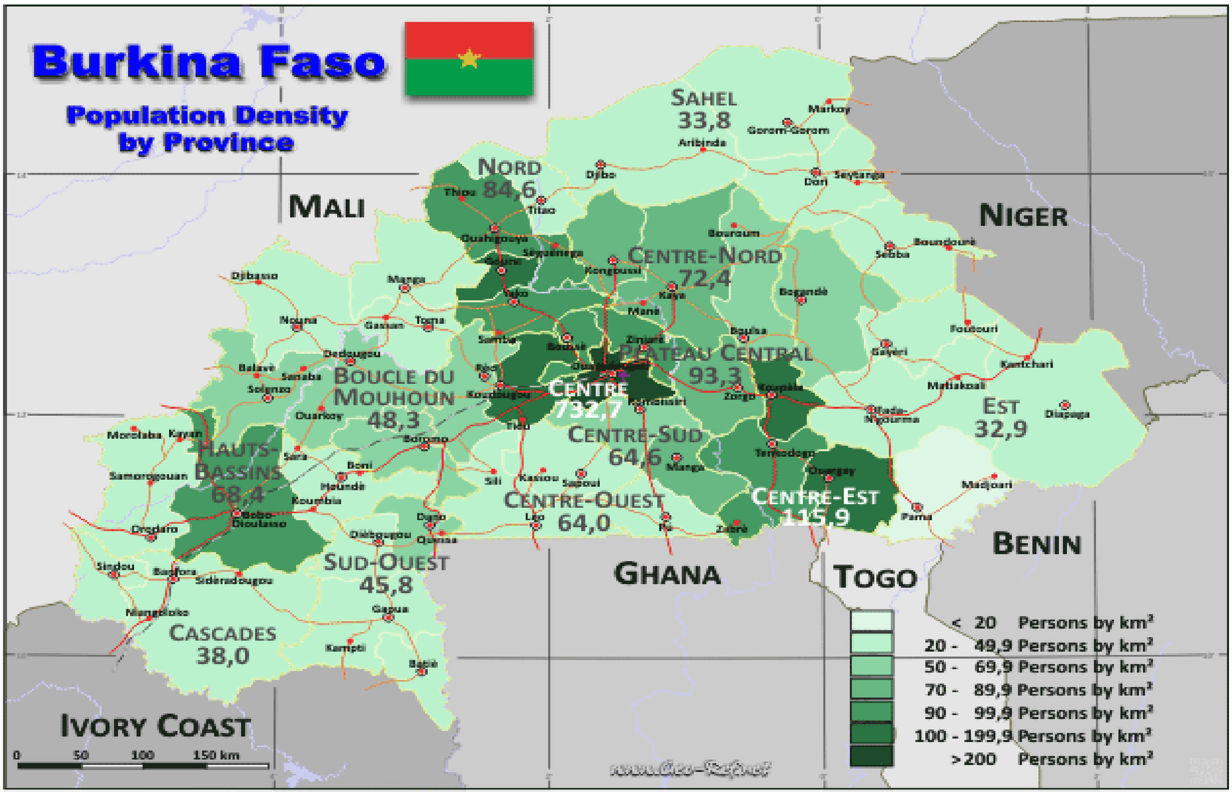
Figure 2: Map of Burkina Faso

The population is predominantly rural but urbanising rapidly. The population of Burkina Faso was estimated at 19.2 million in 2017, with a growth rate of 2.9% per annum (World Bank, 2016). Burkina Faso is a small country (274,200 km²), slightly larger than the United Kingdom; however, it has a high population density – at 70 inhabitants per square kilometre, which is above the continental average of 42 inhabitants per square kilometre. Around 70% of the

[4] *World Bank (2017: 6)*

population live in rural areas. The rate of urbanisation in Burkina Faso is estimated at 5.29%[5] for the period 2015- 2020. The current urban population is estimated at 5,966,657, and is set to increase to 6,290,885 in 2018, which is an increase in the percentage of individuals living in urban settlements from 31.1% to 31.8%[6]. Most of the population live in the central and southern parts due to more favourable living conditions, while the Sahel region and the regions close to Niger have the lowest population densities, approximately 33 inhabitants per square kilometre.

Figure 3: Population Density Map



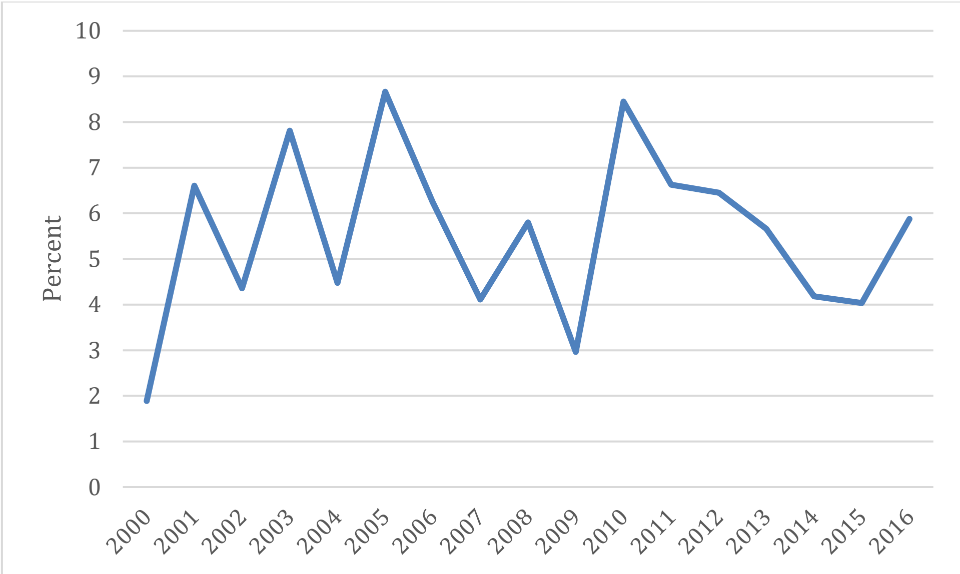
Burkina Faso has faced some political instability since independence from the French. The country has also faced setbacks on its development trajectory with political tensions and security and terrorism concerns in the past three years. In October 2014, former Burkina Faso president Blaise Campaoré's attempt to amend the constitution to allow for a third presidential term led to a popular insurrection and his overthrow. A transitional government headed by President Michel Kafando and Prime Minister Yacouba Isaac Zida was instituted the following month, with the aim of organizing legislative and presidential elections, which were scheduled for October 11, 2015. However, an attempted coup d'état in September 2015 delayed the election; it was eventually held on November 29, 2015, with legislative elections following in May 2016. Current president Roch Marc Christian Kabore assumed office in December 2015, bringing the 13-month transitional government to an end. Burkina Faso ranks 21st in Africa on the Mo Ibrahim Index of Governance (out of 54 countries), and is predicted to slowly improve over the next decade as democratic governance takes firmer root.

[5] *https://www.cia.gov/library/publications/the-world-factbook/*

[6] *http://www.worldometers.info/world-population/burkina-faso-population*

Burkina Faso is a low-income country, but recent economic growth has been respectable. With GDP per capita of USD650 in 2016, Burkina Faso is one of the poorer countries in Sub-Saharan Africa. However, with a real GDP growth rate averaging 6% a year from 2006-16, it is also one of the faster-growing countries in recent years[7]. Nevertheless, Burkina Faso's low income per capita largely reflects its dependency on primary sector activities such as agriculture and mining, with their two major exports raw cotton and gold, both being subject to price fluctuations and natural shocks. The fluctuations in global market prices and demand also make Burkina's economic growth rates volatile.

Figure 4: Real GDP growth, 2000-2016

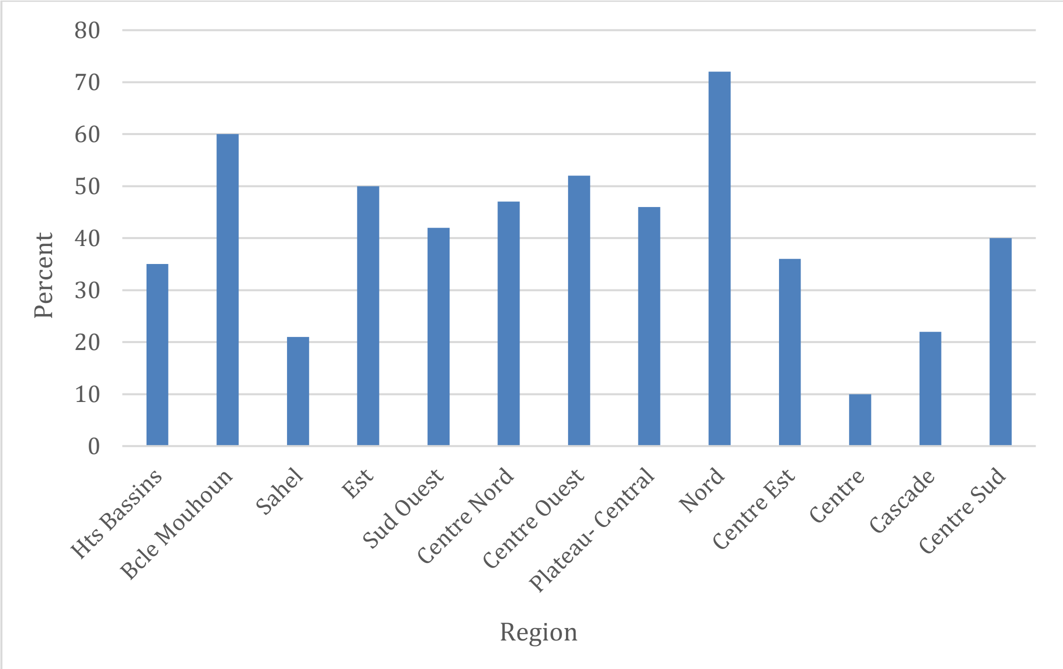


Source: IMF World Economic Outlook database, October 2017

Poverty is high, particularly in rural regions. The national poverty rate was estimated at 40.1% in 2014, down from 46.7% in 2009. The regions of Burkina Faso can be grouped into four categories based on their 2014 levels of poverty. Poverty is very high in Nord, Boucle du Mouhoun, les Cascades, Centre-Ouest, and Est, where at least half of the population lives below the poverty line, with this proportion increasing to seven out of ten people in the Nord region. These four regions share one-third of the population of the country, but half of the total poor population. They represent two poles of concentration of high poverty: one in the east with the Est region and the other in the west, with the other three regions. The second category has three regions Centre-Nord, Plateau- Central, and Sud-Ouest with moderately high poverty. The poverty head count is above the national average, of 40.1%. The two regions of Centre-Est (which lie in the southeast of the country and have borders with Togo and Ghana) and Hauts-Bassins in the west (region which includes Bobo-Dioulasso, the second city) have moderate poverty incidence at around 35 percent. The last group of three regions (Cascades, Sahel, and Centre) has relatively low poverty levels. The Centre Region includes the capital city (Ouagadougou), which has the lowest poverty incidence (below 10 percent). Inequality is low-to-moderate, with a Gini Index of 0.353 in 2014. Taking a broader perspective of well-being, Burkina Faso was ranked at number 185 (out of 188 countries) on the UNDP Human Development Index in 2015.

[7] *IMF World Economic Outlook database, October 2017*

Figure 5: Poverty Rate by Region



Source: World Bank (2016) Burkina Faso: Poverty, Vulnerability, and Income Source

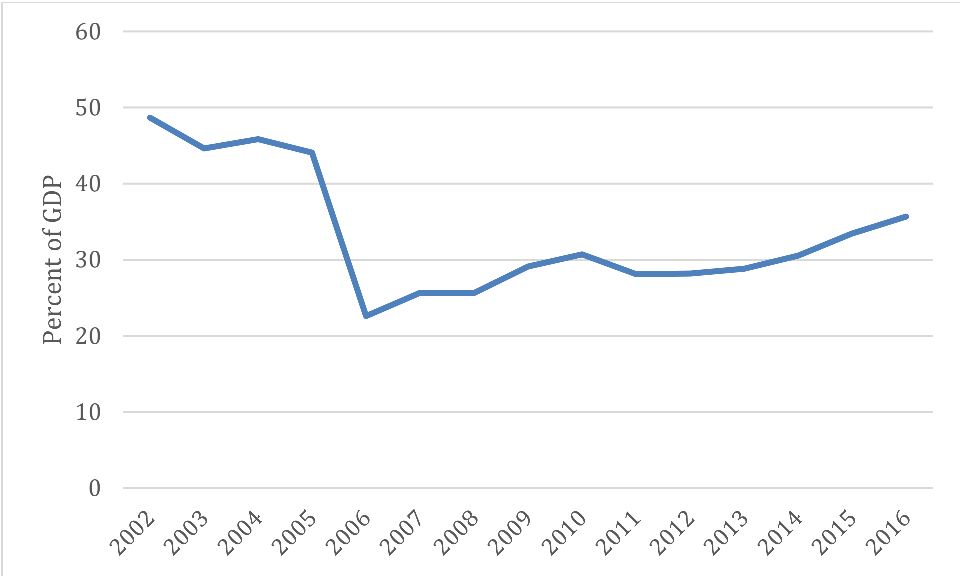
Policy framework based on boosting human capital development and sustainable growth. In July 2016, the Burkinabe government adopted the National Economic and Social Development Plan (PNDES) as a national reference system to meet its development challenges between 2016 and 2020. Its overall objective is to attain sustainable, resilient, and inclusive growth with a transformed economy that offers decent jobs and ensure social welfare.[8] The PNDES comprises three strategic axes: (i) Axis 1: reforming the institutions and modernizing the administration, (ii) Axis 2: developing human capital and (iii) Axis 3: boosting growth sectors for the economy and jobs. A key focus in this respect is addressing the lack of financial services and support for the informal tertiary sector.[9] It is within this framework that capacity building for low-skilled human capital is taking place, particularly in the areas of agriculture, education and health. To this end, the creation of an agricultural bank is in view, in order to improve Burkina Faso's bank rate by offering accessible agricultural financial products and financing for the development of value chains. The PNDES also identifies energy, transportation and information and communication technologies (ICTs) as engines for economic growth, job-creation, and sustainable and inclusive development

Burkina Faso has low levels of national debt and maintains a sustainable budget deficit. Burkina Faso's public debt (government and state-owned enterprises) has decreased rapidly since 2002, and has averaged 30% over the past decade, which is well below the WAEMU maximum limit of 70%. Despite the volatility of gold and raw cotton prices, Burkina Faso has managed to maintain a steady budget deficit throughout the decade.

[8] *PNDES, 2016*

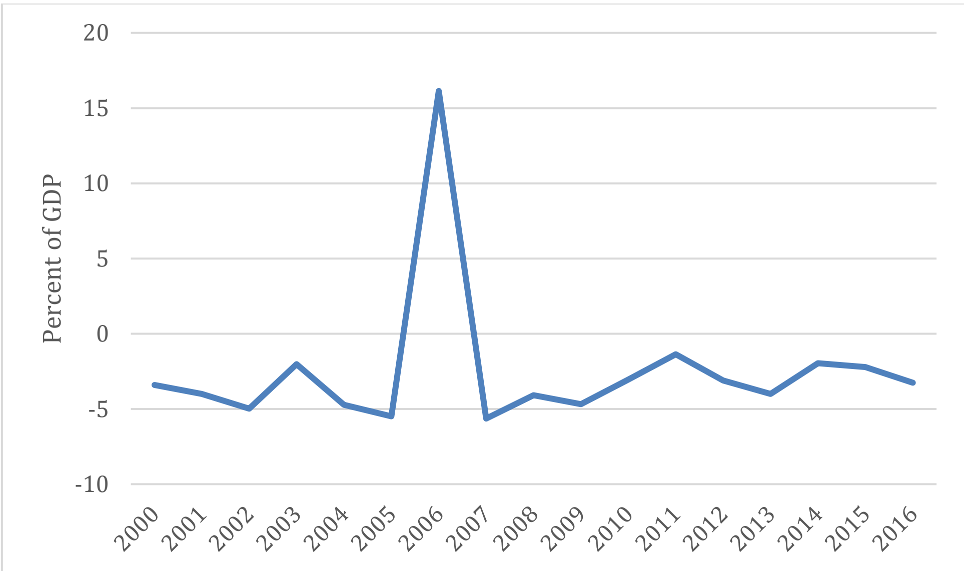
[9] *Ibid.*

Figure 6: Debt as a percentage of GDP



Source: IMF World Economic Outlook Database, October 2017

Figure 7: Budget Balance, 2000- 2016



Source: IMF World Economic Outlook Database, October 2017

Need for improvement in the business environment. Burkina Faso's Government has built an impressive record of economic stability, which it has maintained in the face of serious economic shocks ranging from constant water shortages in its agricultural regions to terrorist attacks and political turmoil. The outlook for Burkina Faso is generally positive, owing to a significant increase of public investment as well as positive prospects for the mining and agricultural sectors. One of the main international assessments of the business climate globally is the World Bank's annual *Doing Business* (DB) report. Burkina Faso's performance on the DB rankings improved marginally from 2016 to 2017, from 51.34 to 51.54. However, Burkina Faso still lags behind other SSA and WAEMU countries, and in 2017 Burkina Faso ranked number 148 out of 190 countries globally, a fall from the previous year's rank of 146[10].

[10] *World Bank, 2017b, Doing Business 2018: Reforming to Create Jobs*

Of the ten components of the business environment that DB evaluates, Burkina Faso's main areas of weakness are Getting Credit and Getting Electricity – both of which are relevant to financial inclusion.

Figure 8: Burkina Faso and Comparator countries - Doing Business ranking, 2018

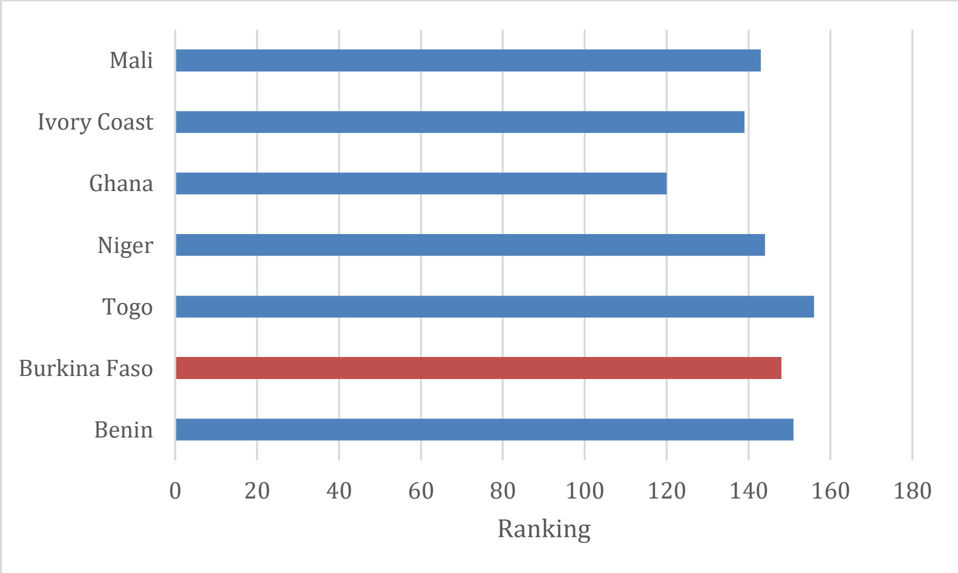


Figure 9: "Distance to Frontier" scores on Doing Business topics[11]

Source: World Bank (2017a) Economy Profile Burkina Faso

Regional integration plays an important role in the Burkina Faso economy. Burkina Faso is a member of a number of regional organisations. The largest is the Economic Community of West African States (ECOWAS), which has 15 members throughout West Africa, and which combines a range of economic and political co-operation areas. The second is the West African Economic and Monetary Union (WAEMU; in French, UEMOA), which has eight West African members, mostly countries that have a French colonial background. The WAEMU is a

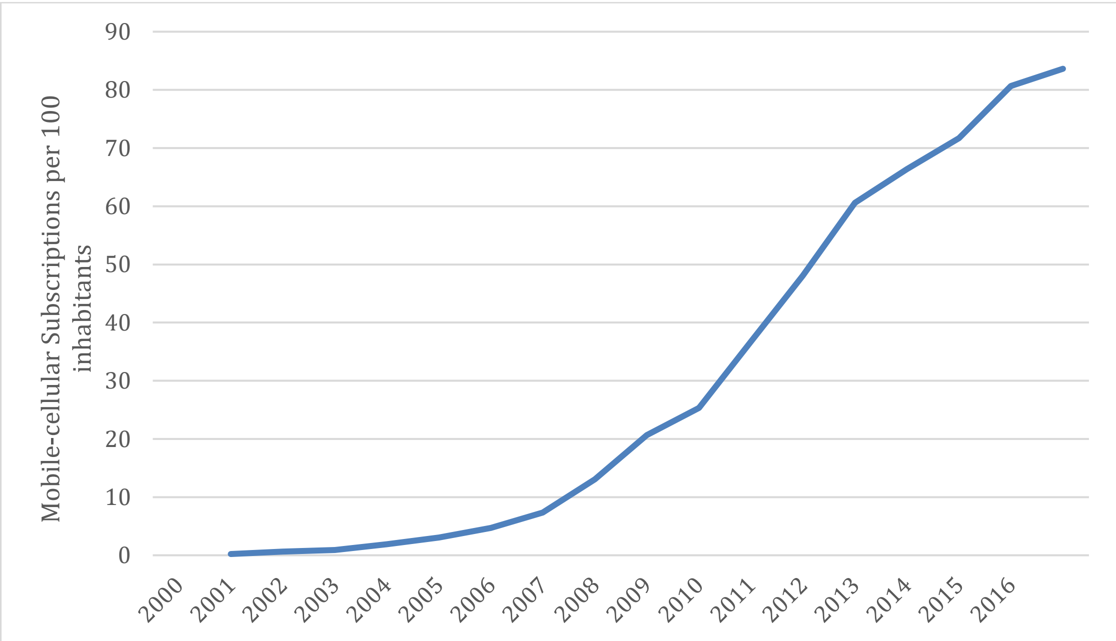
[11] *Note: The "Distance to Frontier" score measures the gap between the country's performance and the best performance on each indicator, where 0 represents the worst performance and 100 the best.*

particularly strong union as members share a common currency (the CFA franc – XOF), and consequently have a single central bank (BCEAO). This has major implications for macroeconomic policy (monetary and exchange rate policy) and for financial sector regulation.

Legal system influenced by colonial history. The Burkinabe legal system is based on civil law, as is the case in most former French colonies. This makes it quite different to the common law systems that prevail in Anglophone countries. The nature of the legal system, combined with the high level of integration of the regional financial system, has important implications for financial legal and regulatory reform.

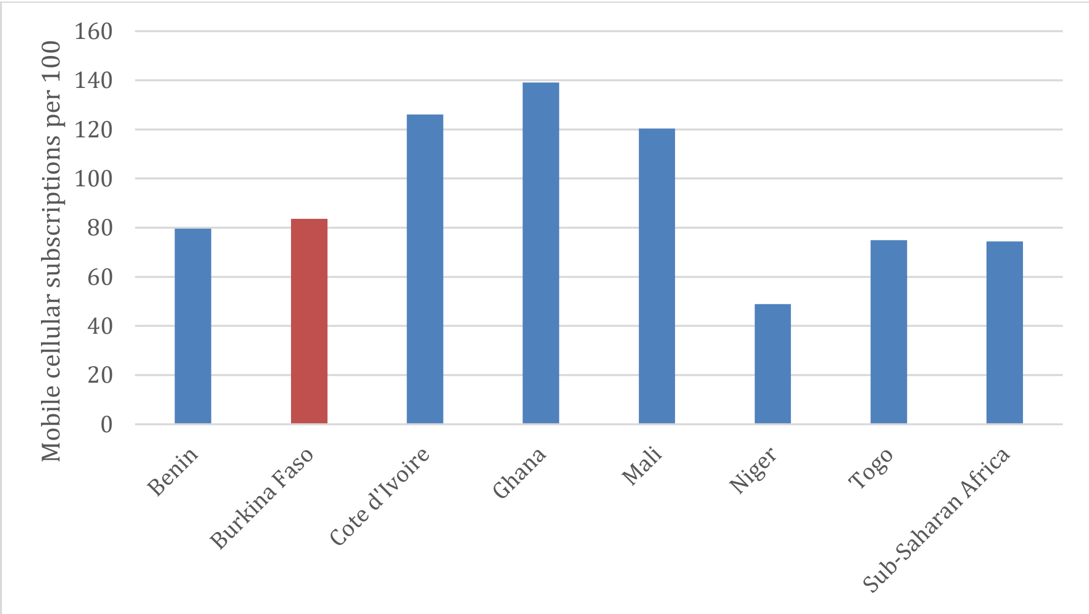
Mobile phone penetration has been rapidly growing over the decade. By 2016, there were 84 mobile phone subscriptions in Burkina Faso per 100 inhabitants, up 128% since 2010. Nevertheless, the overall use of cell phones remains relatively low by the standards of West Africa. Mobile telephony is of crucial importance in terms of improving communications and supporting innovation, improving connectivity between urban and rural areas, and providing a platform for digital financial services. One barrier to mobile phone use in Burkina Faso may be that costs are relatively high; with nearly 20% of income being spent on running a mobile phone, which is above the African average of 14.2%. Furthermore, when compared to their southern neighbour, Ghana, where it costs under 3% (Figure 11). Nevertheless, Burkina Faso is still a rapidly growing market, which ought to push prices down soon. In April 2014, MTN Côte d'Ivoire and Airtel Burkina Faso signed an agreement to inter-operate their mobile money services to facilitate cross-border transfers. Orange Côte d'Ivoire and Airtel Burkina also signed a similar agreement in March 2015[12].

Figure 10: Mobile Cellular Subscriptions, 2000- 2016



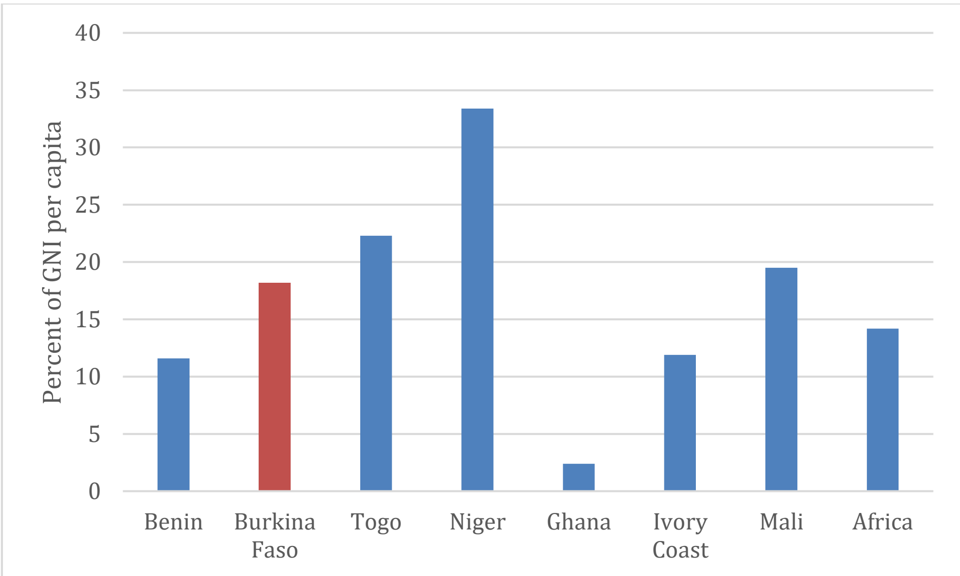
[12] *Airtel Burkina has since been taken over by Orange*

Figure 11: Mobile Cellular Subscriptions (per 100 people), selected countries, 2016



Source: World Bank, World Development Indicators, 2017

Figure 12: Mobile-cellular prices as a percentage of GNI per capita, 2016



Note: this data excludes the cost of the mobile cellular phone.

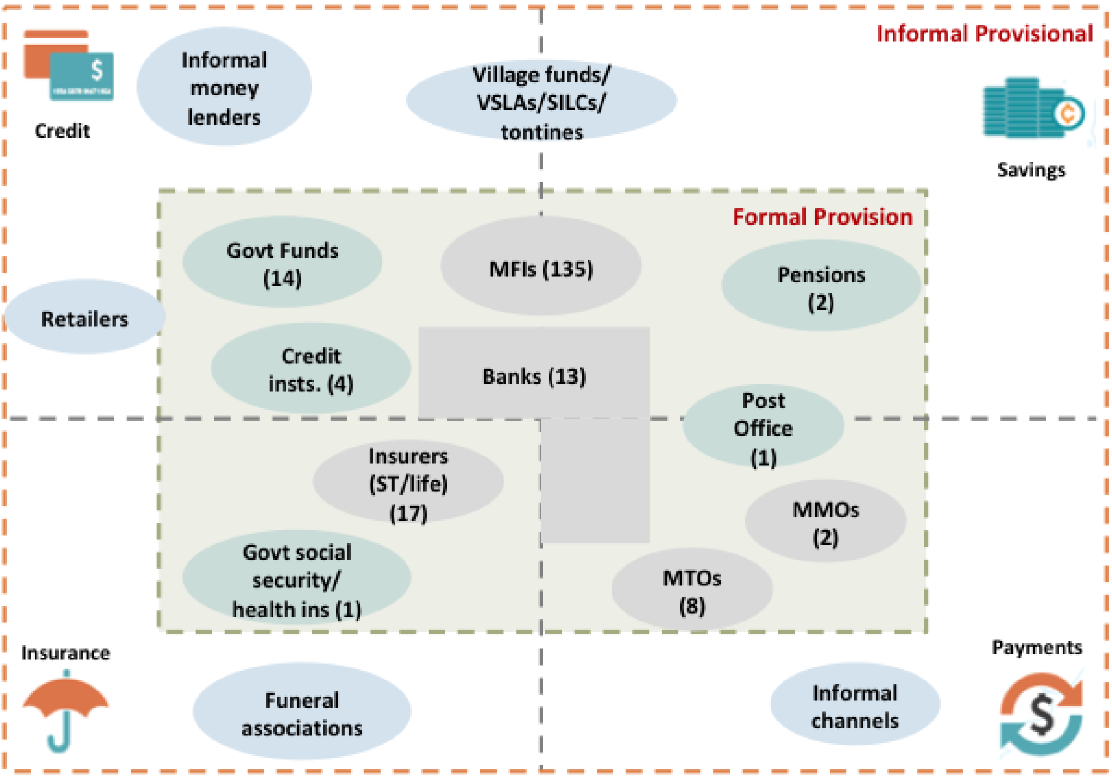
Source: ITU "Measuring the Information Society Report 2017, Volume 2. ICT Country Profiles"

3. Provision of Financial Services: Supply Side Overview

3.1 Financial Services Landscape

The landscape of formal financial services provision in Burkina Faso is dominated by banks and deposit-taking MFIs. Nevertheless, there is a range of formal and informal service providers, as shown in Figure 13 below. Other important formal service providers include insurance companies and mobile money services. For some financial products, informal services are important, especially with regard to savings and credit provision in rural areas.

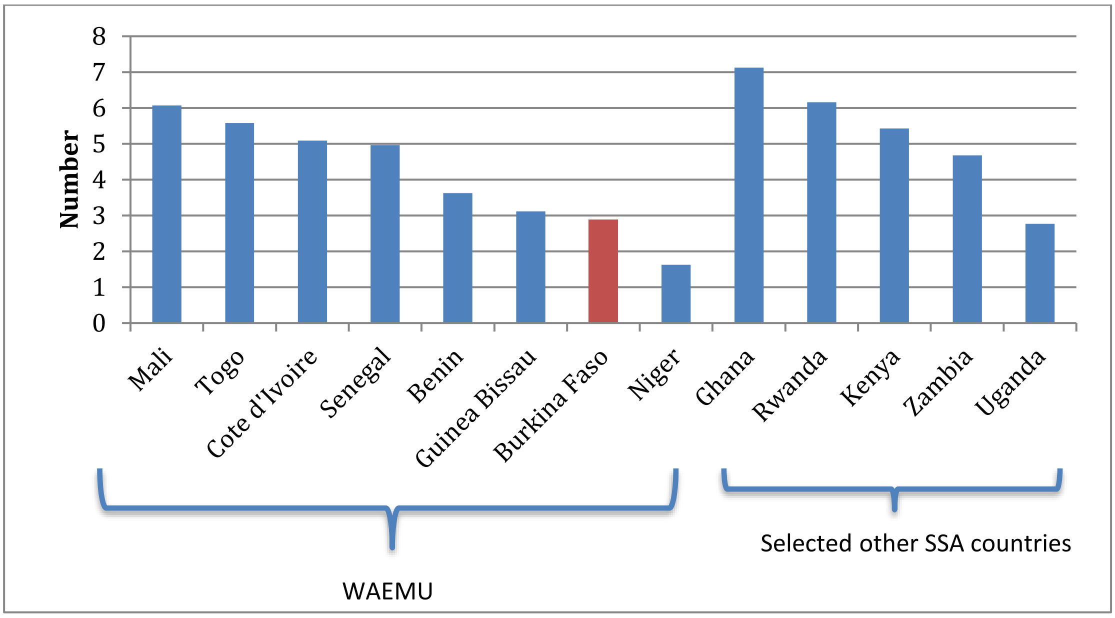
Figure 13: Landscape of financial service provision, formal and informal



Source: MAP research and consultations

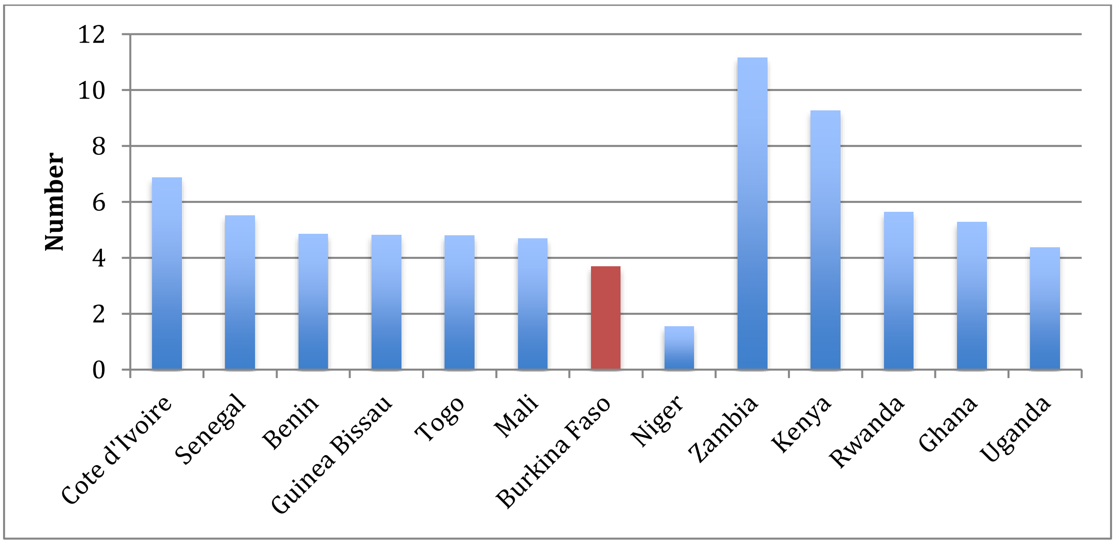
Banking infrastructure is poor by comparative WAEMU standards. With regard to bank branches and ATMs, the level of availability in relation to the size of the population in Burkina Faso, availability is poor relative to other WAEMU countries. Furthermore, the WAEMU region is less developed than some other countries in sub-Saharan Africa. In 2016, Burkina Faso had 281 bank branches and 376 ATMs.

Figure 14: Commercial bank branches per 100,000 inhabitants, 2016



Source: IMF Financial Access Survey, 2017

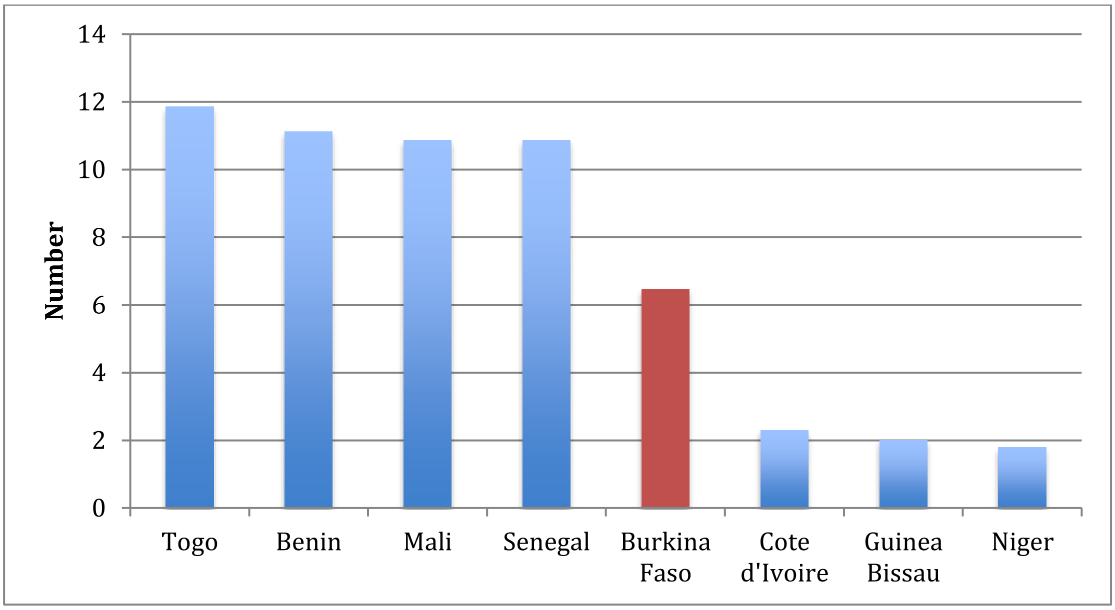
Figure 15: ATMs per 100,000 inhabitants, 2016



Source: IMF Financial Access Survey, 2017

Comparative data also shows that MFI infrastructure is extensive. There are considerably more MFI branches (629) in Burkina Faso than bank branches (281).

Figure 16: Deposit-taking MFI branches per 100,000 inhabitants, 2016 (WAEMU)



Source: IMF Financial Access Survey, 2017

Geographical distribution is uneven; banks are concentrated in urban areas but MFIs are more spread out. Burkina Faso's population is predominantly rural (approximately 30% urban, 70% rural). However, financial services infrastructure is predominantly urban. For banks, 39% of bank branches are in Ouagadougou, and a further 43% are in other major urban settlements. MFI branches are much more evenly distributed around the country. Only 32% of MFI branches are in Ouagadougou and other major urban areas, with the remainder spread across smaller urban and rural settlements, and hence are more reflective of the actual population distribution.

Table 1: Location of financial services outlets

	Ouagadougou	Other urban	Rural [1]	Total
Bank – branch	110	120	51	281
Bank – ATMs				376
MFI	102	103	438	629
Mobile money agent				19,000*
Insurance agent/broker				100*
Money transfer agent				200*
SONAPOST	18			112

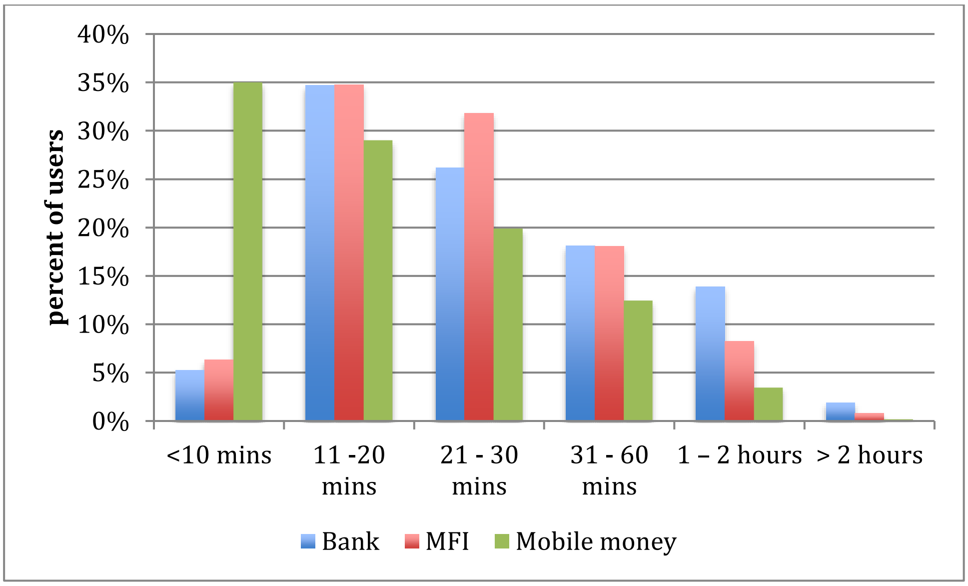
*Note: [1] Rural includes small towns. * approximate number.*

Source: IMF FAS, 2017; MAP research and consultations; BCEAO

MFIs are somewhat more accessible to users than are banks, although the difference is not very big. Of the adults who knew how long it would take to reach an MFI branch, 73% reported that it was less than 30 minutes. Of those who knew how long it would take to reach their nearest bank, 66% reported less than 30 minutes. On average, it takes users 30 minutes to reach the nearest MFI branch and 36 minutes to reach the nearest bank branch.

Mobile money agents are by far the most accessible financial services outlet. Of the adults who knew how long it would take to reach a mobile money agent, 85% reported that it was less than 30 minutes, and it took them 20 minutes on average. As Figure 17 shows, mobile money agents are far closer to most users than banks or MFI branches.

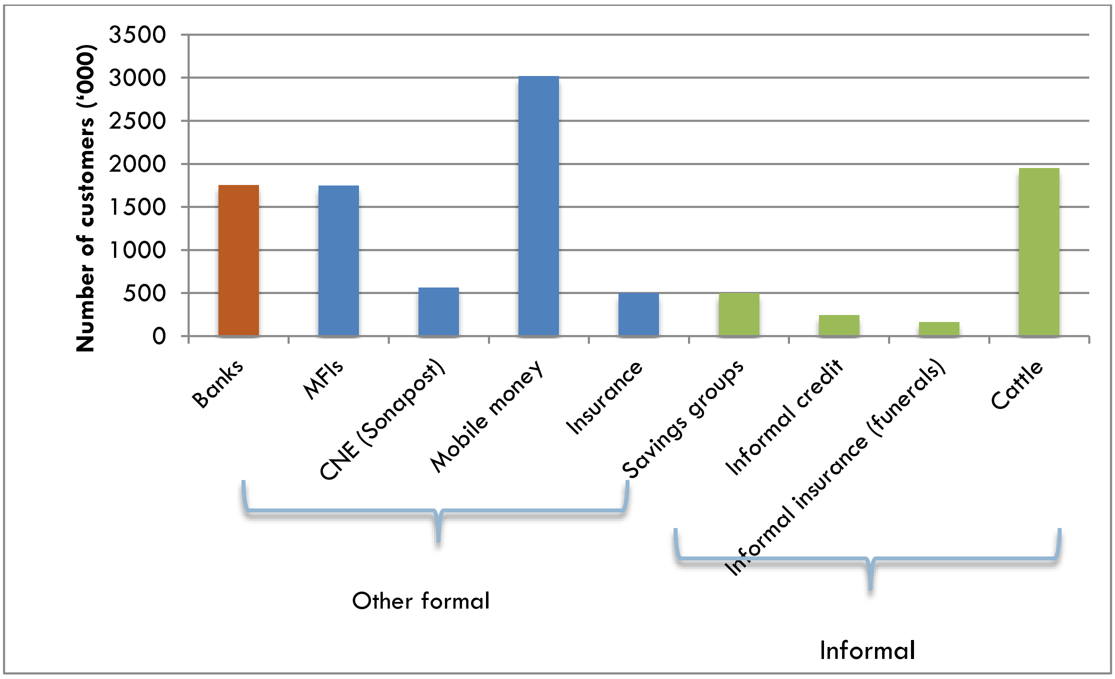
Figure 17: Time taken to reach bank branch, MFI branch or mobile money agent (% of adults who use/know)



Source: FinScope 2016

In terms of number of customers (account holders), mobile money far exceeds both banks and MFIs, although this does not necessarily mean that all account holders are active. There are also large numbers of users of informal service provision, notably informal savings groups and credit providers; the number of informal service users exceeds the numbers of bank and MFI customers.

Figure 18: Number of customers by type of financial service provider (2016)



Source: FinScope 2016 & supplier consultations

3.2 Types of financial service providers

Banking

Burkina Faso has 13 licensed commercial banks, with a reasonable spread of market shares. The largest three banks (Ecobank, Bank of Africa and Coris Bank) account for just over half of the market. Most of the banks are foreign owned, although two are locally owned. The role of government in the ownership of banks is minimal.

Figure 19: Sizes of banks in Burkina Faso (Assets, FCFA million, 2015)[13]

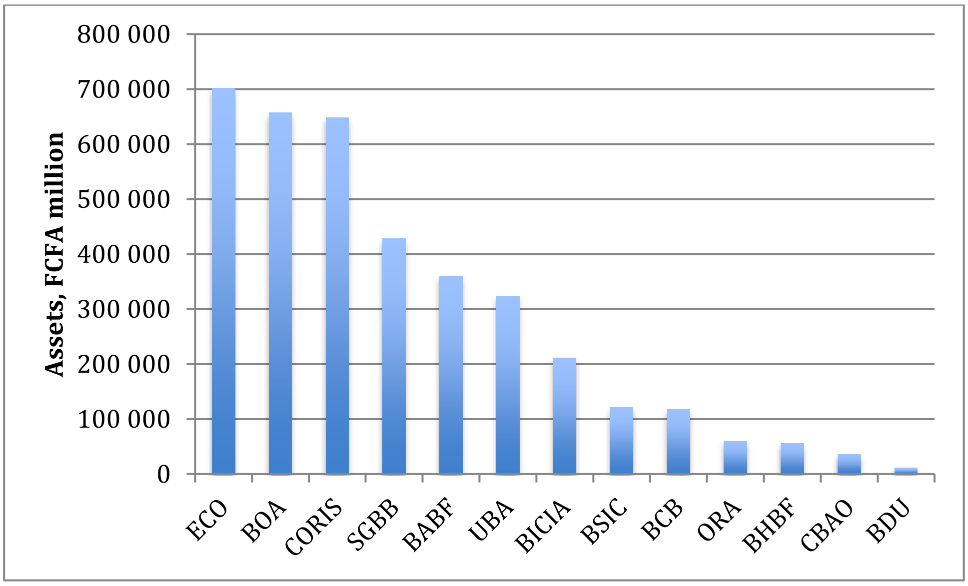


Table 2: Banks in Burkina Faso

Name	Market share (%, 2015)	Majority Ownership			
		Govt.	Local – private	Foreign	Country of beneficial ownership
Ecobank	18.8			X	Togo
Bank of Africa	17.6			X	Benin
Coris Bank	17.4		X		Burkina Faso
Soc Gen	11.5			X	France
Banque Atlantique	9.7			X	Maroc
UBA	8.7			X	Nigeria
BICIA	5.7			X	France
BSIC	3.2			X	Libya
BCB	3.2			X	Libya
Orabank	1.6			X	Cote d'Ivoire
BHBF	1.5	X	X		Burkina Faso
CBAO	1.0			X	Maroc
BDU*	0.3			X	Mali

** Established 2015*

Source: BCEAO; MAP research and consultations

[13] *BCEAO, Bilans et Comptes de Resultats des Banques et Etablissements Financiers, 2015*

Bank credit in Burkina Faso has been increasing steadily in recent years. The average annual growth rate over the period 2011-2016 was 17%. In absolute terms, bank credit reached a total of FCFA 2 055.1 billion at the end of 2016[14].

Banks offer a full range of standard banking products, as well as some innovative ones. The product range includes various types of deposit and savings accounts, secured and unsecured loans, and payments services including money transfer and payments cards. Some innovative dedicated products have been introduced with a focus on low-income customers, such as mobile phone based accounts.

Customer interaction is via branches, ATMs and, increasingly, mobile banking systems, but agents are not currently permitted. As noted above, bank branches are concentrated in Ouagadougou and other major urban centres. Similarly with ATMs, which are largely urban-based. Banks are reluctant to develop rural branch networks, claiming that they are expensive and unprofitable. Under current regulations, banks may use third parties to provide services on their behalf: Intermediaries in Banking Operations (IBO[15]). But the obligations attached to this type of provision of services are binding: the IBOs are governed by the banking law and they must obtain an authorization and a mandate to exercise issued by the BCEAO. There is currently no IBO in Burkina and very little in the UEMOA zone (2 in Benin, 2 in Mali, 2 in Senegal, 1 in Togo). This situation limits the ability to offer services in remote areas where the establishment of traditional branches or ATMs is not financially viable.

The pricing of banking products appears to be reasonable, and shows some variation across different banks. Customers typically pay a monthly fee, which can range from CFA 2,000 to 7,500 a month. This includes some bundled transactions for which there is no additional charge, while certain transactions (such as ATM withdrawals or cash deposits) may incur additional charges. Examples of charges from five selected banks are shown below:

Table 3: Examples of bank charges for transactions accounts (FCFA)

BANK CHARGES/TARIFFS	BoA	Coris	Ecobank	SocGen	Banque Atlantique
Account features					
Minimum opening balance	25,000	50,000	15,000	Nil	Nil
ATM card provided? (Y/N)	Y	Y	Y	Y	Y
Internet banking available? (Y/N)	Y	N	Y	Y	Y
Cellphone banking available? (Y/N)	Y	Y	Y	Y	Y
Maintenance and set-up fees					
Monthly account fee	2,500	2,000	6,000	0	2,000
Internet banking monthly fee	0	0	0	1,800	0
Cellphone banking monthly fee	0	0	0	500	0
Deposits					
Cash deposits - Branch	25	25	0	25	25
Withdrawals/Payments/Transfers					
Cash / cheque withdrawal over the counter	0	0	0	0	0
ATM withdrawal on-us	0	0	0	0	0

[14] *BCEAO, Statistics Yearbook, 2016, Table 3.5.6*

[15] *Instruction No. 015-12 / 2010 / RB setting the conditions for the exercise of the activities of intermediaries in banking operations of December 13, 2010*

ATM withdrawal - other bank (domestic)	500	500	2,500	500	Varies
POS transaction (domestic)	0	0	0	0	0
Transfers between own accounts (internet/ATM)	0	0	0	0	0
Payments to 3rd parties (internet/ATM) other local banks	0	0	0	0	0
Debit order (to another local bank)	0	0	0	0	0
Statements					
Interim Bank Statements (At branch)	0	0	0	2,000	2,500
At ATM - mini-statement	0	0	0	0	0

Source: MAP research and consultations

Bank charges are in line with international norms, but are unaffordable for many people. Total monthly fees depend on the pattern of usage, but based on a standard "package" (used in other country MAP surveys), the monthly cost would amount to CFA2,500 to CFA8,200 (USD5-15). This is in line with results from other countries, which typically vary from USD4-15 a month. Nevertheless, this would make bank accounts unaffordable for many people, given that median monthly income for adults is less than FCFA30,000.

Interest rates vary across banks, within a fairly tight range. Examples are shown below. For banks, The BCEAO imposes a minimum interest rate on savings deposits of 3.5% and a maximum lending rate of 15.0%.

Table 4: Selected bank interest rates (%) (June 2017)

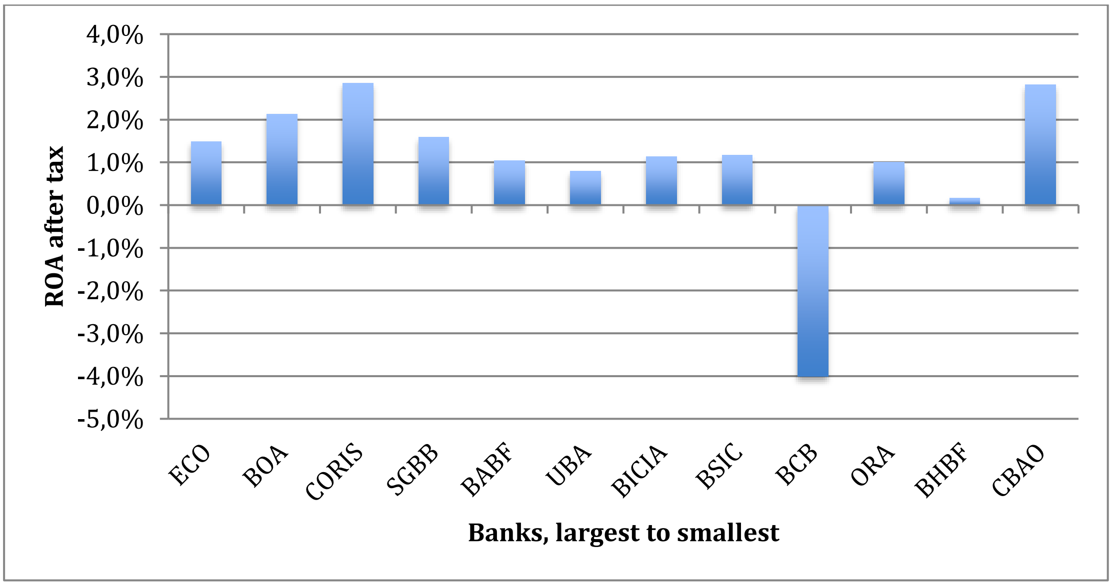
Type of rate	Min	Max
Savings deposits – lower	2.00	3.75
Savings deposits – upper	5.00	7.00
Base lending rate	7.00	11.00
Maximum lending rate	11.00	15.00

Source: BCEAO[16]

Bank profitability has been declining in recent years. Return on assets after tax fell from 1.7% in 2013 to 1.3% in 2015. This is typical of bank profitability in Sub-Saharan Africa, although it is higher than the WAEMU average. Profitably varies considerably across individual banks, with larger banks generally the most profitable. Only one bank (BCB) has been consistently unprofitable over this period.

[16] *BCEAO, Conditions de Banque au 30 juin 2017*

Figure 20: Bank profitability (RoA after tax, %, average 2013-15)



Source: BCEAO

In addition, SONAPOST offers some banking services, including savings accounts, current accounts and money transfers. Savings accounts are offered through the Caisse Nationale d'Epargne (CNE). There have been discussions around the extension of financial services offered through SONAPOST, through the establishment of an MFI or a bank.

Non-bank Credit Institutions

Burkina Faso has four licensed non-bank credit institutions. Three of these (Alios, Fidelis, and SOBCA) provide leasing products (e.g., for vehicles). The fourth institution, SOFIGIB, provides guarantees for bank loans to businesses. SOFIGIB is an interesting financial institution, as it directly addresses one of the frequently cited concerns from businesses around access to credit, which is the need for collateral security or guarantees[17].

Micro-finance Institutions (MFIs)[18]

MFIs are extremely important financial service providers in Burkina Faso, and fill part of the gap left by banks' focus on higher-income urban clients. MFIs can take a number of forms. The majority are mutual organisations (co-operatives), owned by members. A few are unlimited companies (SAs), or Limited Societies (SARLs) or associations. Many of the mutual MFIs are grouped together in one of seven MFI networks, which are umbrella groupings of legally distinct MFIs, providing common services. The largest of these MFI networks by far is the Fatiere des Caisse Populaire du Burkina (FCPB), with an approximately 70% market share in the MFI sector nationally. The FCPB has 39 SACCOs members. There are six other MFI networks (see Table 5) with a total of 26 SACCOs members + CIF which is a separate entity. There are also 7 large individual MFIs (Article 44) and 61 smaller ones (not part of networks). Although MFIs cater for a slightly different socio-economic demographic than banks, they are still largely focused on urban areas and customers with regular incomes.

[17] *More details of credit providers is included in Input Note No.3 on credit (Chapter 9 of this report).*

[18] *In UEMOA, MFIs are generally referred to as SFDs (Système Financier Décentralisé)*

Table 5: MFIs in Burkina Faso

Name	No. of MFI Members	Approx. market share
MFI Networks	**67**	
FCPB	40	64%
URCBAM	5	
UCECS	7	
URC-COM	4	
URC-NAZINON	6	3%
UMECAP	4	
CIF	1	
Major individual MFIs	**7**	
PAMF	*1*	5%
ACEP SA	*1*	4%
Coopec Galor	*1*	3%
SOFIPE SA	*1*	2%
CODEC-Ouaga	*1*	2%
CPB SA	*1*	
CLCMBF	*1*	
Other individual MFIs[19]	**61**	
Total[20]	**135**	

Source: MAP research and consultations

The BCEAO reports data on the largest MFIs (covering approximately 90% of the sector)[21]. At the end of 2016, these MFIs had 1.632 million members, with deposits of 178.7 billion FCFA and credit of 133.7 billion FCFA. This is equivalent to around 6.5% of the credit provided by banks. This is comparable with the number of MFI customers reported in FinScope (1.746 million).

Fees for services at MFIs are much lower than for banks. Using an MFI usually requires an initial deposit (typically FCFA 2,000 - 5,000). Beyond this, a monthly account fee of CFA100 – 200 is usually payable, with no other charges.

Interest rates charged on loans by MFIs are usually higher than those of banks. MFI lending rates typically range from 18%-24%. Savings deposit rates are typically 2.5%-3.5%, similar to those offered by banks.

There are some concerns about the quality of MFI management. While there are some examples of very well-run MFIs, there many cases where management is weak. There have been some failures of MFIs or cases where licenses have been withdrawn, sometimes with losses to depositors. Poor management is sometimes due to overly rapid growth, without the commensurate development of management capacity. In addition, weak supervisory capacity means that poor management may not be readily detected.

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[19] *Example : BTECs whose Union is not yet officially recognized are included in this category*

[20] *The total takes into account all the individually approved SFDs as well as the Confederation of Financial Institutions of West Africa which is headquartered in Ouagadougou but includes mutualist networks from West Africa (RCPB in Burkina, FUCEC Togo, FECECAM Bénin; …*

[21] *BCEAO Direction Générale de la Stabilité et de l'Inclusion Financières, Principaux indicateurs des SFD de l'UMOA au 31/12/2016*

MFIs generally have weak [management] systems. Administration, information and management systems are weak in many MFIs. The low level of staffing of MFIs in terms of IT resources (equipment, software, etc.) and qualified human resources are handicaps for MFIs in digitizing their operations.

Poor credit quality makes it difficult for some MFIs to meet capital requirements. Losses on lending cause capital to be run down, and only a few MFIs meet the statutory 15% capital adequacy ratio.

Mobile Money

Burkina Faso has two mobile money services, Orange Money and Mobicash. Orange Money is provided by Orange MNO through an independent subsidiary, which is directly licensed through the BCEAO. Mobicash is provided by Onatel (owned by Maroc Telecom), but is not an independent subsidiary and follows a "bank-led" model with UBA. Orange Money is the market leader, although information on exact market shares is not available. Services started in 2011 and have grown rapidly; the number of mobile money account holders increased by approximately 80% in both 2015 and 2016. There are considerably more mobile money accounts than bank or MFI accounts. However, it is estimated that 50%-60% of accounts are inactive.

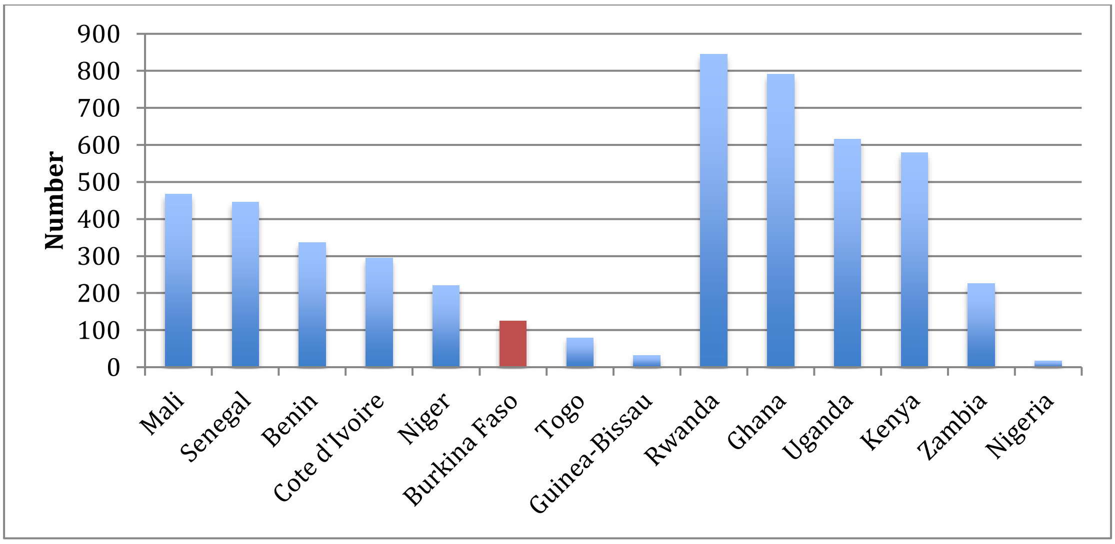
Table 6: Number of Mobile Money Accounts

	2014	2015	2016	2017*
No. of accounts	1,242,476	2,206,563	4,126,128	5,661,588
No. of active accounts	274,535	739,653	1,566,110	2,934,499

Source: IMF FAS, 2017, & BCEAO. Figures for December except for 2017 (June)

A historical weakness of the mobile money system in Burkina Faso has been a limited distribution infrastructure. Comparative data for 2016 show that Burkina Faso had a relatively low number of mobile money agents for the population, and also relative to other WAEMU countries and when compared to Ghana and East Africa, where the growth and impact of mobile money has been dramatic. However, the number of mobile money agents is rising rapidly, so this gap may be addressed in due course.

Figure 21: Mobile money agents (per 100,000 adults) – selected SSA countries (2016)



Source: IMF Financial Access Survey, 2017

Insurance

The insurance industry in Burkina Faso is segmented into long-term (life), short-term (casualty) and microinsurance, according to licensing regulations. The major life insurance companies are SONAR Vie and UAB Vie, which have approximately 60% of the market between them. The major short-term companies are SONAR IARD and SAHAM IARD, which have approximately 45% of the market between them. The main products offered are as follows:

- Short-term: vehicle insurance
- Long-term: credit life; group life/pension

Vehicle insurance in compulsory (by law), but very little respected. Hence many vehicles – estimated at 70% - in Burkina Faso are not insured. The number of formally-insured adults is relatively small, at around 5% of the adult population.

Table 7: Main insurance companies (2016)

Name	Market share (turnover)	Significant Ownership		
		Local – public (govt)	Local – private	Foreign
Long-term				
SONAR – Vie	33%	X	x	
UAB – Vie	30%			
Allianz - Vie	15%			
SUNU – Vie	7%		X	X
GA - Vie	6%		X	
CIF – Vie			X	X
Short-term				
SONAR - IARD	28%	x	X	X
SAHAM - IARD	17%			
UAB – IARD	12%			
ALLIANZ - IARD	12%			
GA - IARD	11%	X	X	X

Source: MAP research and consultations

Pensions

There are two main pension schemes in Burkina Faso, one for government employees and another for the private sector (Caisse Nationale do Securite Social, CNSS). Besides pensions, the CNSS offers some risk coverage, e.g. for maternity costs, accidents, professional risks.

Membership of the CNSS is compulsory for private sector employers and employees. Both contribute 5.5% of salary to the pension fund (for salaries up to FCFA 600 000 per month). The pension benefit is fixed at 2% of salary, measured as the average of the five years of highest salary, multiplied by the number of years of contributions. The CNSS is therefore a contributory, defined benefit scheme, funded on as a pay-as-you-go (PAYG) basis. As at the end of 2016 there were 369 470 contributing members, and 48 954 pensioner members.

There are two additional pension schemes under the CNSS, including one for domestic (household) workers, with 6 500 members, and a voluntary scheme with 10 700 members. The CNSS is promoting the voluntary membership scheme to the informal sector and farmers. Contribution payments can be made annually or on a trimester basis, and have to be made at a bank or at CNSS offices. The CNSS is intending to allow contribution payments via mobile money in the near future.

Informal financial service provision

Informal financial service providers play an important role in Burkina Faso, particularly for insurance, savings and credit. The use of informal financial services is discussed in more detail in the review of different products below. Under insurance, there is important social provision through informal village schemes. These include financial schemes, whereby members make a regular payment in return for benefits in the event of an unexpected event (illness, death), and non-financial (solidarity) schemes where there is an expectation of community support in the event of bereavement. One of the main NGO-supported informal schemes – CRS's SLIC model – includes a "social wallet" that serves this specific purpose.

Informal village savings and loans associations (VSLAs - tontines) exist and play an important role in rural areas, although the full extent of their operations is not well documented. These are mostly for small groups of individuals, usually women, and some are supported by NGOs. The main NGO-supported schemes are PLAN Burkina's Village Savings and Loans (VSL) scheme, and CRS's Savings and Internal Lending Communities (SILC). These provide vehicles for small, regular savings, and short-term credit for productive activities. Some *tontines* maintain accounts with MFIs, although informally, under the name of one of the office bearers. About half a million adults belong to NGO-supported semi-formal VSLAs.

Informal credit is also available from retailers, neighbours and merchants. Farmers in particular make significant use of informal credit from merchants (buyers of produce) and suppliers of inputs).

Box 1: Mystery shopping

The mystery shopping exercise consisted of visiting financial institutions by people pretending to be clients seeking services from these institutions. The objective of this exercise was to check the accessibility of those institutions through the quality of their reception and the information they give to customers as well as the adaptation of their offers to low-income customers.

The results of those visits gave the following results.

Quality of the reception and the general atmosphere of the interviews: 100% of the interviewers were satisfied with the reception and the way in which their interlocutors answered their questions.

Range of financial products offered: 57% of financial institutions proposed to the '' supposed clients '' their default financial products. The others (43%) offered specific products corresponding to the needs and expectations of the '' supposed clients ''.

Banks have lower interest rates on credit than microfinance institutions, but the other conditions of access to their services (formalization of companies, seniority and financial transactions, guarantees, etc.) are difficult to fulfill by low-income people.

Adapted services for low-income clients: the microfinance institutions offer financial products and access conditions adapted to the capacities of low-income populations (group credit without collateral, simplified formalism of microenterprises, etc.).

An insurance company offers long-term microinsurance tailored to the capabilities of low-income populations. However, the products of that company is more like regular savings (daily, weekly, . . .) and retirement savings than conventional life insurance products..

The services of mobile money companies are also accessible to low-income customers.

Reluctance in relation to information: 67% of "supposed clients" find that financial institutions are reluctant to provide certain information on the costs of accessing their services. In addition, essentials informations (seniority in the institution before access to credit, collateral, etc.) are not mentioned in the prospectuses and presentation folders of the institutions.

Government Funds

The government has established a number of National Funds (Fonds nationaux, FN) with the objective of providing credit or other forms of financial support for specific socio-economic activities. They are intended to promote income-generating activities and jobs for those who are excluded from access to conventional financing, e.g youth, women, informal sector, pensioners etc. Although FNs are focused on the provision of credit, some of them also provide training and other forms of enterprise support, as well as credit guarantees or grants (subsidies).

In total, there are currently nineteen (19) National Funds (NF) including ten (10) National Financing Funds (FNF – which provide loans to specific groups) and nine (9) State Fund (FE – they allowed grants for particular operations or groups).

They have varying levels of size and activity. Information on their operations is incomplete. Regarding the FNF, the information collected reveals a total of loans amounting to 22.8 billion FCFA in 2015. This is to be compared to the total bank credit of 1 910.6 billion FCFA and the SFD credit of 115.3 billion FCFA at the end of 2015. With the exception of some FNF (FAARF, FBDES, ...) the information on the number of customers served by these FNF are unreliable. In addition, the effectiveness and impact of the interventions of most of these FNF on their targets remains to be demonstrated. They are funded by subventions from government, as well as by loan repayments and interest.

These figures may under-report the true size of FNs, as some did not report information on their operation. The largest FN is probably FBDES, which reportedly has total lending of around FCFA 15 billion (although no accurate figure has been provided). Their total balance sheet, including assets and other investments as well as lending, amounted to FCFA 60 billion in 2016.

Table 8: Details of National Funds

Acronym	Name (French) and type	Name (English)	Main functions/objectives	Funding amount 2015 FCFA million
FPDCT	Fonds Permanent pour le Développement des Collectivités Territoriales (FE)	Permanent Fund for the Development of Territorial Communities	Support for economic development programmes of local authorities	N/A
FONRID	Fonds National pour la Recherche, l'Innovation et le Développement (FE)	National Fund for Research, Innovation and Development	Support for research & technological innovation	N/A
FAARF	Fonds d'Appui aux Activités Rémunératrices des Femmes (FNF)	Support Fund for Women's Remunerative Activities	Credit to women-owned small businesses	8 445
AFP-PME	Agence de Financement et Promotion de la Petite et Moyenne Entreprise (FNF)	Agency of Financing and Promotion of the Small and Medium Enterprise	Credit and training for SMMEs	357
FAFPA	Fonds d'Appui à la Formation Professionnelle et à l'Apprentissage (FE)	Support Fund for Vocational Training and Apprenticeship	Grants for training, skills development, internships	

Acronym	Name (French) and type	Name (English)	Main functions/objectives	Funding amount 2015 FCFA million
FAIJ	Fonds d'Appui aux Initiatives des Jeunes (FNF)	Youth Initiatives Support Fund	Loans for youth-owned projects	482
FAPE	Fonds d'Appui à la Promotion de l'Emploi (FNF)	Support Fund for the Promotion of Employment	Loans & credit guarantees for selected projects	745
FASI	Fonds d'Appui au Secteur Informel (FNF)	Informal Sector Support Fund	Credits & guarantees for informal micro-enterprises	1 192
FBDES	Fonds Burkinabè pour le Développement Economique et Social (FNF)	Burkina Faso Fund for Economic and Social Development	Credit, subsidies, equity investments in medium & large scale enterprises	N/A
FNPSL	Fonds National pour la Promotion du Sport et des Loisirs (FE)	National Fund for the Promotion of Sport and Leisure	Subsidies for sports & leisure facilities	
FODEL	Fonds de Développement de l'Elevage (FNF)	Livestock Development Fund	Credit & grants for livestock development activities, breeding improvement etc.	857
FONA-DR	Fonds National d'Appui aux Travailleurs Déflatés et Retraités (FNF)	National Support Fund for Retrenched and Retired Workers	Training and credit for retired and retrenched workers	287
FNS	Fonds National de Solidarité (FE)	National Solidarity Fund	Support for victims of natural disasters, emergencies	N/A
FONER	Fonds National pour l'Education et la Recherche (FNF)	National Fund for Education and Research	Student loans, support for educational institutions	10 446
FIE	Fonds d'Intervention de l'Environnement	Environmental Response Fund	Grants for operations to mitigate effects of climate change	N/A
FRSB	Fonds Spécial Routier du Burkina	Burkina Road Special Fund	Road Maintenance Fund	N/A
FAPP	Fonds d'Appui à la Presse Privée	Private Press Support Fund	Grants to support private press enterprises	N/A
FAJ	Fonds d'appui à la Justice	Justice Support Fund	Fund to help litigants who can not hire legal counsel	N/A
FDCT	Fonds de Développement Culturel et Touristique	Cultural and Tourist Development Fund	Cultural and Tourist Business Assistance Fund	N/A
		TOTAL		22 811

Source: MAP research and consultations (DSC-SFD)

Payments

The payments system in Burkina Faso is moderately well developed, and benefits from being part of the WAEMU regional system. Key elements of the payments system are:

The regional high value payments system, operated by BCEAO, known as STAR-UEMOA. This links all banks in the WAEMU, and enables real-time settlements of interbank transactions.

National clearing and settlement systems, operated by BCEAO. In each country, the BCEAO branch operates a clearing and settlement system, known as SICA-UEMOA, for cheques and electronic transfers (EFTs). This service is available to commercial banks.

The regional bank payments system, GIM-UEMOA, provides card services and links ATMs. GIM-UEMOA provides services for its members, which are WAEMU banks, and is licensed by BCEAO.

International card systems, including VISA and Mastercard, also operate in WAEMU and provide alternative ATM linkages.

Commercial banks offer ATMs, POS machines and web-based payments services. ATM density is reasonable by WAEMU standards, but the POS network is not well developed.

15 Money Transfer Operators (MTOs) operate in Burkina Faso. These include Western Union, Moneygram, Wari and RIA. However, they are not directly licensed and work through commercial banks, who are permitted to provide payments services. SONAPOST offers its own service for national money transfers, but works with other operators for cross-border transactions.

MFIs offer some payments services, but these are mainly limited to transfers. MFIs do not have ATM or POS networks or issue payments cards. There do not have access to BCEAO networks and hence must operate via commercial banks.

Mobile money operators provide a range of payments services. These include money transfers (P2P) domestically and within UEMOA, as well as bill payments and merchant payments. Mobicash services are provided in collaboration with a bank (UBA) while Orange Money does so semi-independently.

Other infrastructure

A regional credit information bureau (CIB) has been established, based in Abidjan. In principle all banks and other credit providers (including MFIs registered under Article 44[22]) in WAEMU are required to submit credit information to the CIB, and to consult the CIB before extending credit, in order to ascertain an individual's credit history and other credit exposures. In practice, however, use of the CIB is erratic, with institutions claiming that the information is of poor quality, that its fees are high, and value for money is low.

[22] *The SFD says Article 44 are structures whose outstanding savings and / or credit reaches 2 billion FCFA over at least two successive years*

4. Policy and regulatory framework in relation to financial inclusion

4.1 Policy Framework

The main economic and social development policy framework for Burkina Faso is the PNDES – the *Plan National de Développement économique et Social* (National Economic and Social Development Plan), which covers the period 2016-2020. The PNDES notes the importance of improving access to finance in transforming the economy, especially with regard to strengthening the performance of the agricultural sector and of SMMEs. Although there are few specific policy actions with regard to financial sector development, there is a proposal for the creation of a guarantee fund

Financial sector development policy is the responsibility of the Ministry of the Economy, Finance and Development. However, this is closely co-ordinated with regional institutions given the high level of regional economic and financial integration. National Financial Sector Development (FSD) policy in Burkina Faso has to be consistent with the regional policy and legal framework.

Improving access to finance for vulnerable groups is partly the responsibility of the SPPMF, responsible for promoting microfinance within the Ministry of the Economy, Finance and Development. The SPPMF plays a role in coordinating technical and financial support for the microfinance sector.

A regional Financial Inclusion Strategy has been developed by the BCEAO. The Strategy was adopted in 2016, covering the period through to 2020, and has five main components:

- Promote an effective legal, regulatory and supervisory framework;
- Consolidate and strengthen the microfinance sector;
- Promote innovations supporting financial inclusion, especially for young people, women, SMEs, rural populations and people with lower education;
- Strengthen financial education and client protection in financial services; and
- Develop a tax framework and policies that are supportive of financial inclusion

The Strategy includes a Roadmap and Action Plan, co-ordination structures, and a monitoring and evaluation framework with quantitative targets to be achieved over the life of the Strategy. The Strategy applies to all UEMOA members, including Burkina Faso, and has national as well as regional targets the chosen indicators.

4.2 Financial Sector Regulatory Framework

Regulatory Institutions

Financial sector regulation in Burkina Faso is carried out by a combination of regional and national institutions. Many laws and regulations are formulated at a regional level, and hence are uniform across WAEMU, but have to be implemented at the national level, which sometimes requires being passed into national laws.

The main financial sector regulator in WAEMU is the regional central bank, the BCEAO, and its associated institution, the WAEMU Banking Commission. These two institutions are responsible for the regulation of banks, large MFIs, payments and mobile money, money transfer operators and foreign exchange bureau. While they are regional institutions, they have a national presence in Burkina Faso. Insurance is regulated separately, and falls under the Regional Insurance Control Commission (CIMA).

There are also national regulatory bodies for banks, MFIs and insurance, which fall under the Ministry of Economy and Finance. The Department of Supervision and Control of Decentralised Financial Systems (DSC-SFD) regulates MFIs, although it collaborates with the BCEAO in respect of the largest MFIs. The DA regulates all insurance entities (long-term, short-term, micro insurance, brokers and agents), in line with the regional regulatory framework established by the Regional Insurance Control Commission. DAMOF is the local bank regulator, but most regulatory authority for banks lies with the Banking Commission. The DSC, DA and DAMOF are all part of the Ministry of Economy, Finance and Development.

There are other regulatory institutions with regional responsibilities that are relevant to Burkina Faso. These include:

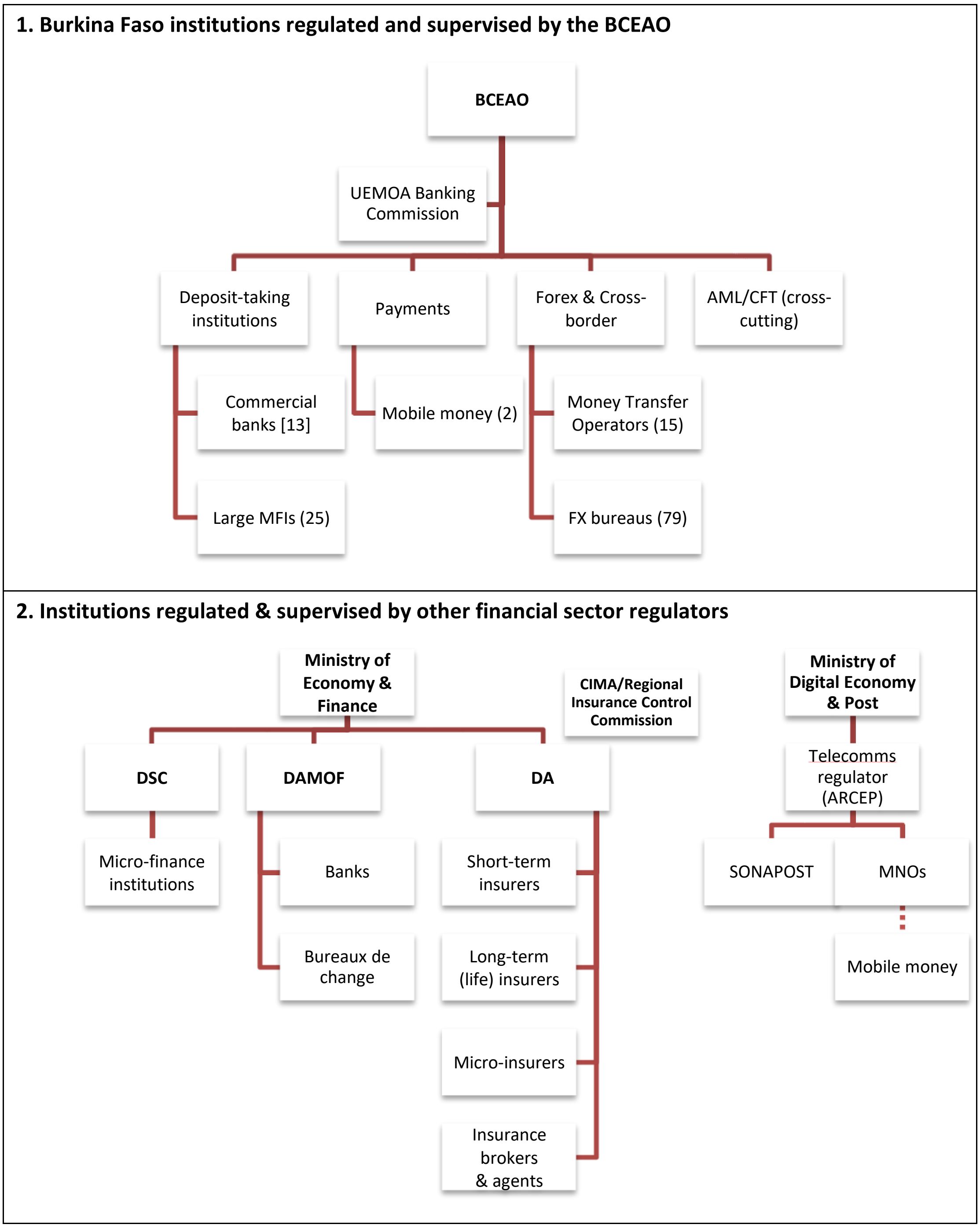
- Capital Markets: the CREPMF[23] regulates the regional stock exchange, based in Abidjan;
- Development Finance Institutions (DFIs): the ECOWAS Commission regulates regional DFIs (BOAD, BIDC);
- The BCEAO also regulates the regional credit information bureau (based in Abidjan) and regional payments operators.

The national telecommunications regulator, ARCEP, is also relevant to financial sector development. ARCEP is responsible for the regulation of SONAPOST, which carries out some financial services activities. However, SONAPOST has to report to the BCEAO, even though it is not a licenced bank. ARCEP also regulates MNOs, which are involved in mobile money services (although the latter are mainly regulated by the BCEAO). The Ministry of Digital Economy and Post also plays a role in MNO regulation, as it is responsible for licensing (following the recommendation of ARCEP).

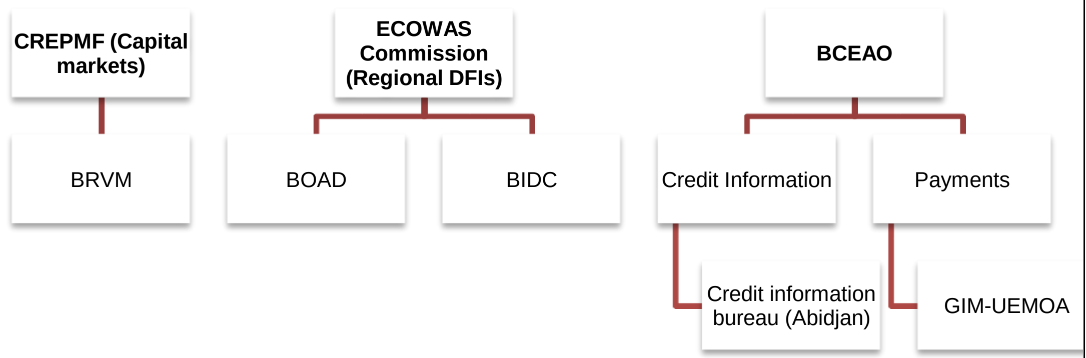
There is also a national financial intelligence agency. Burkina's financial intelligence unit, the National Centre for Financial Information Processing (CENTIF), acts as the chief administrator of the country's laws on anti-money laundering and countering the financing of terrorism. CENTIF analyses suspicious transaction reports and reports of attempts to transport money across borders in excess of the amounts allowed by law. CENTIF falls under the office of the Minister of Economy, Finance and Development.

[23] *CREPMF = Conseil Régional de l'Epargne Publique et des Marchés Financiers (Regional Council of Public Savings and Financial Markets)*

Figure 22: Financial sector regulatory institutions



3. Regional regulatory institutions



Source: MAP consultations

The fact that financial sector regulation is largely determined at a regional level has important implications. The positive aspect is that there is coherence between the rules and the regulatory structures in all Member States. This helps to bring coherence and clarity to economic agents, as well as to minimize the potential for "regulatory arbitrage" across countries. It also means that there are efficiency gains through economies of scale, ie each country does not have to bear the costs of full regulatory infrastructure. The negative aspect is that regulatory changes can be difficult and slow, as this requires the agreement of several countries.

Bank Regulation

The Banking Commission (CBU) is responsible for bank regulation and supervision throughout WAEMU. It was established in 1990, and is governed by a revised Convention adopted in 2007. Amongst its objectives are to ensure uniform surveillance and integration of the banking environment in WAEMU. While legally distinct from the BCEAO, the two organisations are closely related; the BCEAO Governor is the Chairman of the Banking Commission, and the BCEAO provides the Banking Commission secretariat. The BCEAO and CBU derive their authority from WAEMU Treaties, and are overseen by the WAEMU Council of Ministers.

The Uniform Banking Law applies across all WAEMU countries, as legislated by national parliaments. *The* minimum capital requirement for a bank is US$20 million, and the capital adequacy requirement (core capital) is 8% of risk-weighted assets, in line with Basel I requirements. Banks are permitted to undertake deposit-taking, credit and payments activities. Applications for banking licenses are assessed and evaluated by the CBU, although the actual license is granted by the Ministry of Economy, Finance and Development, on the recommendation of the CBU.

Capital requirements are being increased under Basel II/III. In June 2016, the WAEMU Council of Ministers adopted Basel II and II capital standards, which will raise the core capital requirement to 9% of risk-weighted assets, along with the tightening of other regulatory standards for banks. These will be introduced during 2018-22. Their ability to reduce banking sector risks will depend on effective enforcement. There are some concerns that the revised capital requirements and risk weighting under Basel II/III will make it more difficult for banks to lend to higher-risk borrowers such as SMEs, or where collateral security / guarantees are less comprehensive.

Licensed banks have accounts at the BCEAO. This gives them access to the BCEAO payment and settlement system. They can also access emergency borrowing (liquidity) facilities from the BCEAO.

Microfinance Regulation and Supervision

MFIs are regulated differently, depending on their size. Large MFIs, defined as those with assets over FCFA 2 billion, are subject to regulation and supervision by the WAEMU Banking Commission (CBU)[24]. There are 25 "large" MFIs in Burkina Faso supervised by the CBU. The remaining MFIs fall under DSC, part of the Ministry of Economy, Finance and Development. The CBU is a stricter and better-resourced supervisor, which is appropriate for the larger MFIs. The DSC, by contrast, is less well resourced and its supervision is less effective. DSC only has the capacity to supervise around 40 MFIs a year, out of a total of around 125 if MFI network members are counted individually. On average, MFIs therefore get a supervisory visit only once every three years. The requirement for MFIs with assets over CFA 2 billion to be subjected to more stringent supervision (by the CBU) means that some MFIs with assets approaching the limit may deliberately restrict their growth. Nevertheless there are some advantages of being supervised by the CBU, including meeting higher standards, and enhanced credibility.

Capital requirements for MFIs are stricter than for banks. There is no minimum capital requirement (in monetary terms) for MFIs. However, according to the requirements of the OHADA, MFIs in the form of Anonymous Societies (SA – unlimited societies) must have a minimum capital of FCFA 10 million; for Limited societies (SARL), the minimum capital required is 1 million FCFA. However, for all MFIs, the basic requirement for capitalization (total assets equity) is 15% of total assets (i.e., significantly higher than for banks, and calculated on a larger asset base – total assets rather than risk-weighted assets). While higher capital requirements for MFIs may be justified by higher risk exposures, the application of capital requirements to total assets rather than just loans is unusual. MFI licenses are granted by the Ministry of Economy, Finance and Development, but applications by large MFIs must first be evaluated by the CBU. For large MFIs, licensing decisions always follow CBU recommendations.

MFIs do not have accounts at the BCEAO. Hence they are excluded from direct participation in the clearing and settlement system, and have to go through a bank in order to make payments to other financial institutions.

MFIs generally have tighter liquidity than banks (lend out a high proportion of their deposits) and some seek refinancing from banks in order to support lending growth. This is not always easy: some banks are wary of lending to MFIs due to concerns about the risk of non-repayment. One advantage of being supervised by the CBU rather than DSC is that the higher supervisory standards make it easier for MFIs to obtain bank refinancing.

MFIs can be companies, societies or co-operatives. The majority of MFIs are constituted as mutual organisations – essentially savings and credit co-operatives (SACCOs). A few are established as companies – Anonymous Societies (SAs), limited societies (SARLs) – or associations. The main difference between the three forms relates to their governance structures, their ability to raise capital and how they are taxed. Mutual organisations and

[24] *Under Article 44 of the Law regulating Decentralised Financial Systems (SFDs)*

associations have to raise new capital from the sale of shares to members, while SAs and SARLs can sell shares to the public. This has implications for the ability of the two forms to grow and meet statutory capital requirements as they expand. Mutual organisations do not pay tax on their profits, while SAs are taxed.

Capital and regulatory requirements for MFIs are not always enforced, at least for smaller MFIs. Many MFIs do not meet capital adequacy requirements. The DSC receives annual financial reports from MFIs under their supervision, and if a problem is detected an action plan is developed to resolve credit problems. If an MFI is found not to be viable, its licence can be withdrawn by DSC, with the agreement of the Minister and the BCEAO. Although this process is not unduly politicised (unlike in some other countries), it tends to be slow for bureaucratic reasons. The BCEAO requires monthly financial reports from MFIs under Article 44, and has more capacity to enforce compliance with capital requirements.

Insurance regulation

Insurance regulation distinguishes between three types of insurers – long-term (life), short-term, and microinsurance. It also provides for insurance brokers and agents. Insurers have to meet a number of statutory regulatory requirements, including minimum capital and solvency ratios.

Insurance regulation and supervision is shared between DA and CIMA. Insurance law is regional, but actual licensing is done at the national level. CIMA supervises insurance companies, whereas DA supervises intermediaries.

New regulations are being finalised for microinsurance licensing and for electronic signatures to initiate insurance policies. Microinsurance regulation is being finalised, based on premiums being below a certain level. A draft text has been developed for electronic signatures for insurance (which will allow online or phone-based policies), and will be operational shortly.

Payments and Mobile Money regulation

Banks and MFIs are licensed to provide payments services to the public. With the exception of non-bank mobile money (see below), there is no provision for non-bank payments service providers to be licensed by the BCEAO. Money transfer operators must partner with a bank and use their licence. Only the BCEAO can provide payments clearing and settlement services.

Mobile money services in WAEMU can be provided by banks or non-banks, and in Burkina Faso, there is one example of each[25]. One of the two mobile money providers (Orange Money) has its own licence from the BCEAO, granted to a legally distinct financial services subsidiary of the MNO (Orange). Under this non-bank model, the mobile money subsidiary of the MNO issues the mobile money directly. The other mobile money provider (Mobicash) operates on the basis of a bank's licence, and does not have its own separate mobile money licence. Under this bank-led model, e-money has to be issued by a bank and not an MNO. It is not currently permitted for mobile money products to pay interest.

The regulatory environment for MNOs affects the provision of mobile money services. The telecoms regulator, ARCEP, does not have the power to licence MNOs; instead, licensing decisions are taken by the parent Ministry of Digital Economy and Post. The Government, through the Ministry, has a small shareholding in one of the two MNOs (Onatel), but there were no reports that this led to any conflict of interest in the consideration of issuing new

[25] *Mobile money is overseen by the BCEAO under directive No.008-95-2015*

MNO licences. There is no explicit demarcation of the roles of the telecoms regulator (ARCEP) and the payments services regulator (BCEAO) with regard to mobile money, nor any agreement between them as to how regulatory responsibilities should be shared; however, this was not seen to be an issue of concern, although it does not meet with international best practice.

Access to USSD codes by non-banks can be difficult. Access to USSD codes is essential for delivery of financial services via mobile telephony (for phones other than smartphones), and these have to be provided by MNOs. There is no regulatory requirement for MNOs to provide USSD codes to third parties, and this could be a constraint to the provision of cellphone-based financial services.

KYC[26] Regulations

KYC requirements for banks, MFIs, insurers and payments operators are imposed flexibly in Burkina Faso, for low value accounts, but still provide a barrier to access. In principle, customers of financial service providers are required to provide proof of identity and address. Many adults have national identity cards, although there is some disagreement as to exactly how many[27]. Most adults cannot provide proof of address, and are allowed to simply state their address. Mobile money accounts can be opened using registered SIM cards, on the basis that SIM card registration requires proof of identity.

Although there is no formal arrangements for tiered KYC, in practice this exists. Banks and other financial service providers are permitted to open accounts without identification, but these are restricted to amounts of FCFA 200,000 or less. KYC requirements are not in practice a barrier to the opening of low value accounts at financial institutions, up to a limit of FCFA200,000 (approx. USD 360). However, the lack of national ID cards is a barrier to the opening of full service/higher value accounts.

Agency regulations

Mobile money companies can appoint super agents and agents (technically, principal distributors and sub-distributors). Mobile money companies cannot require distributors to operate on an exclusive basis, but nevertheless have a preference for exclusive distributors.

MFIs can use agents for carrying out certain functions. These include collection of savings deposits and loan repayments, credit applications and applications for account opening. However they cannot undertake account opening directly. MFIs mainly use agents for generating credit applications. Banks, however, are not permitted to use independent (3rd party) agents.

Credit information

The BCEAO regulates the provision and use of credit information. In principle, credit providers need to register loans with the regional credit information bureau, and must also carry out credit checks on customers before granting new loans[28]. However, this is relatively new and most credit providers – both banks and non-banks – do not yet participate, and the credit information regulations are not yet enforced. In addition, the lack of unique identifiers

[26] KYC : Know Your Customer

[27] FinScope 2016 results show that 82% of adults (around 8.2 million) claim to have national ID cards. However, one of the mobile money operators stated that the actual number of national ID cards in issue was much less than this (around 6 million), although this number could not be verified.

[28] The BCEAO Uniform Law on Credit Information Bureaus, 2013

for Burkina Faso adults (because of the lack of universal national ID cards) makes it difficult to maintain accurate credit records.

Deposit insurance

Deposit insurance for banks and MFIs is in the process of being introduced, but is not yet effective. Under the Uniform Law for Banks and MFIs, the BCEAO has introduced a deposit insurance scheme to protect depositors in the event of failures of banks or MFIs. However, this is new and is not yet fully functional.

Regulation of interest rates

The BCEAO imposes de facto minimum deposit rates and maximum lending rates. The minimum interest rate on savings deposits for banks and MFIs is 3.5%, although this is not always observed. In practice bank lending rates do not go beyond 15%, and MFI lending rates are capped at 24%, although most are below this. These maximum lending rates are relatively low by international standards, especially for MFIs.

Electronic signatures

Electronic signatures are not explicitly permitted in Burkina, but are used in practice. Although there is no law that permits contracts based on electronic signatures, they are used in some cases. Some accounts can be opened remotely, especially for low-value bank accounts. However, electronic sign-up is not yet permitted for insurance policies, which is a barrier to the distribution of micro-insurance viable mobile money/cell phones.

5. Demand for and usage of financial services

5.1 Introduction

This section unpacks the insights generated by demand-side research into the lives of the adult population of Burkina Faso and the society within which they live. This analysis is based on the quantitative results of the FinScope 2016 survey. This analysis will go further to break down the adult population into target market segments to allow a more intimate understanding of financial services & products usage and needs.

5.2 Take up of Financial Services

Access Strands

This section features an analysis of the Burkina Faso FinScope Survey 2016, using the access strand tool.

The access strand illustrates the take up of financial services and products. It assumes that the goal of financial inclusion initiatives is to improve the uptake of formal financial services and products. MAP has adapted the standard access strand categorisation employed by FinScope to define the following distinct sections or groups of adults in Burkina Faso;

Financially Excluded: This group consists of individuals who do not currently have or do not currently use any form of financial products or services, either regulated or unregulated.

Financially Included. Those that are not excluded, but have access to[29] or are served in some way by formal and/or informal financial services, are divided into two groups:

- **Informally Included-** *Unregulated/informal financial products and services*: This group comprises of individuals who are financially included through the uptake of financial products or services from entities that are unregistered and not supervised for the provision of financial services (or any other aspect of their activities), *but who have no formal products or services*. This includes those who are members of tontines, other savings groups, or who borrow from informal lenders. It also contains individuals who are financially included through the take-up of financial products or services from institutions that are registered but that are not subject to supervision in their provision of financial services, including government funds (FNs).
- **Formally Included-** *Regulated/formal products and services:* This group is made up of individuals who are financially included through the take-up of financial products or services from institutions that are both regulated and supervised for the provision of financial services.
    - *Banked vs. other formal, non-bank products and services*: The regulated component is furthermore disaggregated into those who have a bank account and those who do not have a bank account, but have another formal financial service. The former may also have other financial services, but the latter excludes all with a bank account. Other formal financial services include services such as mobile money, money transfers.

It is important to note that the access strand does not show any overlaps in the use of financial products and services. As such an individual with both regulated and unregulated (formal and

[29] *In line with "access strand" terminology, we often refer to "have access to" as synonymous to "use or have"*

informal) products will only be reflected in the regulated (formal) group, and somebody with both a banked and non-bank formal product, or both a bank account and an informal product, will only be reflected in the banked strand. An individual with a non-bank formal product such as a mobile money account, but no bank account, will only be reflected under the "other formal" strand. In other words, each individual can only appear in one segment of the access strand.

Although the access strand gives weight to formal provision, it is recognised that informal/unregulated financial services play an important role. This may be as a complementary product for those also using formal products, or as a product that extends access for those who do not use formal products. As a result, the discussion of product usage also looks at total usage of different product groups without excluding overlaps, as in the access strand. Hence total informal usage will be larger than "informal only" usage.

The access strand can further be used to illustrate take-up across particular product groups (credit, savings, insurance or payments). At the product group level (e.g. savings or credit), usage of "family and friends" is additionally included in the measurement of access, even though this category is not included in the overall access strand and calculation. All financial products, services, mechanisms and activities that have been included for each category of the product group access strands are listed under each product group below:

Credit strand

Regulated/formal take-up: This relates to uptake of formal credit including bank credit. The main sources are commercial banks and microfinance institutions ("other formal").

Unregulated/informal take-up only: Those without a regulated service who borrowed money from an employer, informal savings group ("tontine"), unlicensed money lender, or a retail store.

Borrowing with family or friends only: Those without regulated or unregulated services who borrowed money from family or friends that you have to pay back.

Savings strand

Regulated take-up: Saving with or having a savings account with a commercial bank, or a formal (nonbank) financial institution such as a microfinance institution.

Unregulated take-up: Those without a formal savings account who belong to an semi-formal or informal savings group, or *tontine*.

Saving with family, friends or self: Saving within the household, family or community who keep it safe for you, saving in a secret place at home, saving in kind (e.g. cattle).

Insurance strand

Regulated/formal take-up: Any formal insurance product with an insurance company, either directly or through a broker or agent, or through a financial institution such as a bank or MFI.

Unregulated/informal take-up: Without a formal product, but belonging to an informal group such as a village mutual support organisation for burials etc. This may involve the payment of regular (e.g. monthly) contributions, or simply an agreement to contribute when a member of the group needs some financial support.

Payments strand: Remittances and Transactions

Regulated/formal take-up: Making payments including remittances via bank transfer (or paying into a bank account), ATM, Mobile Money, the Post Office, a Money Transfer Operator such as Western Union, MoneyGram, Wari etc., or using somebody else's bank account for remittances.

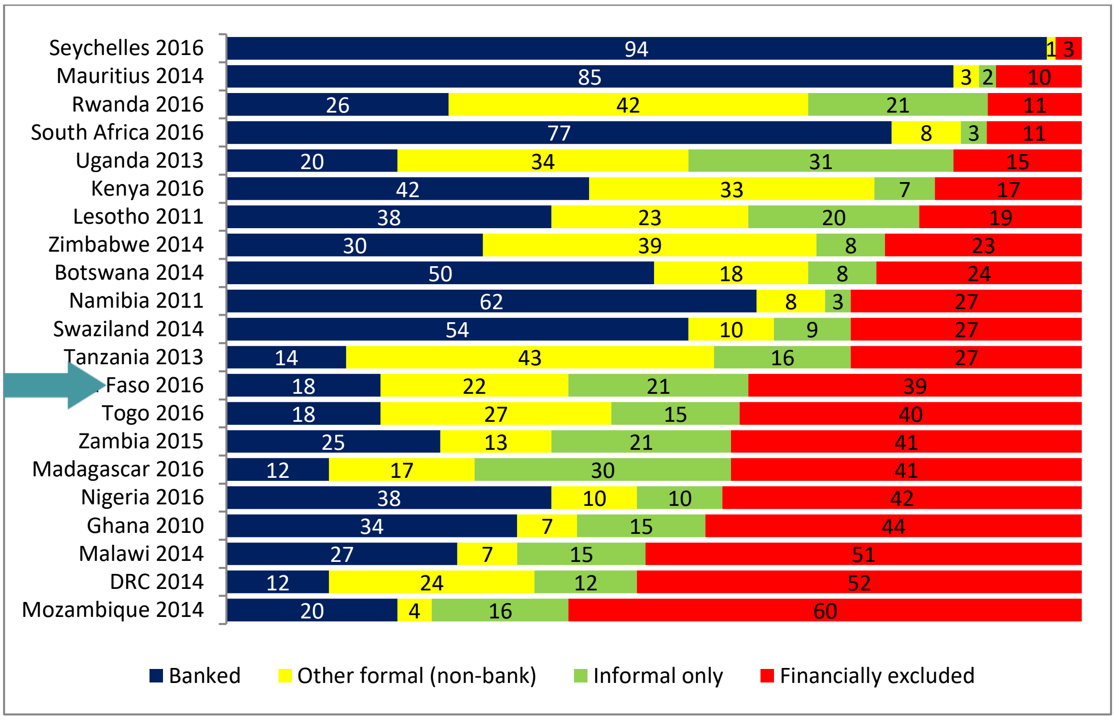
Unregulated/informal take-up: Not making use of regulated services, but have made transactions and remittances in the last 12 month through an unregulated money transfer facility, including informal channels such as bus or taxi drivers.

Sending money with family or friends: None of the above, but have sent or received remittances in the last 12 months directly via friends or family.

Regional Access Comparison

Burkina Faso has moderately low financial inclusion in comparison with other countries in Sub-Saharan Africa; Burkina Faso ranks 13th in terms of overall access to finance among the 21 African countries in which FinScope surveys have been undertaken. Burkina Faso has 39% of the adult population financially excluded, and only 18% of adults are banked. 40% of Burkinabé adults are formally included. Reliance on informal financial services only is comparable to other low-income countries in Africa, with 21% of adults using solely informal channels.

Figure 23: Comparison of financial inclusion in SSA



Source: FinScope 2016

Usage across localities

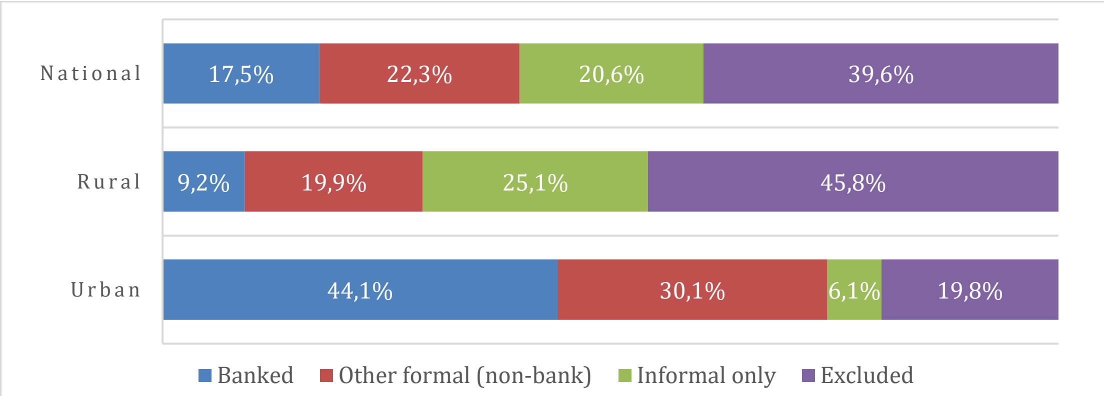
Urban vs rural skew in terms of access to banking. Nationally, 18% of Burkinabe adults are banked, but access varies considerably between urban and rural areas, with 44% of urban adults banked compared to only 9% of rural adults.

"Other Formal" use also higher in urban areas. There is a relatively high uptake of 'other formal' financial services amongst those who are not banked; this refers mainly to use of MFIs and mobile money. As with use of banks, the use of "other formal" only is higher in urban areas, at 30%, than in rural areas, at 20%.

Moderate use of "Informal only". Reliance on informal financial services only (21%) is in line with results from other low-income countries. However, it is evident that because of limited access to banks and other formal financial service providers, far more adults have to use informal finance in rural areas (25%) than in urban areas (6%). Nevertheless, it is important to remember that the access strand masks the fact that there is substantial overlap between usage of bank formal, other formal and informal products.

Financial exclusion is similar to Nigeria and Togo: in West Africa, FinScope-type surveys have been recently been completed only in Nigeria[30] and Togo, both in 2016[31]. The level of financial exclusion in Burkina Faso, at 39%, is similar to the levels in Nigeria (42%) and Togo (40%).

Figure 24: Access strands by location



Source: FinScope 2016

Usage across Products

A core hypothesis of MAP is that people use an array of services to meet their financial needs, and that there are cross linkages between product markets. By analysing use/take-up across product markets we can derive a better understanding of people's financial needs, and make more granular/targeted recommendations.

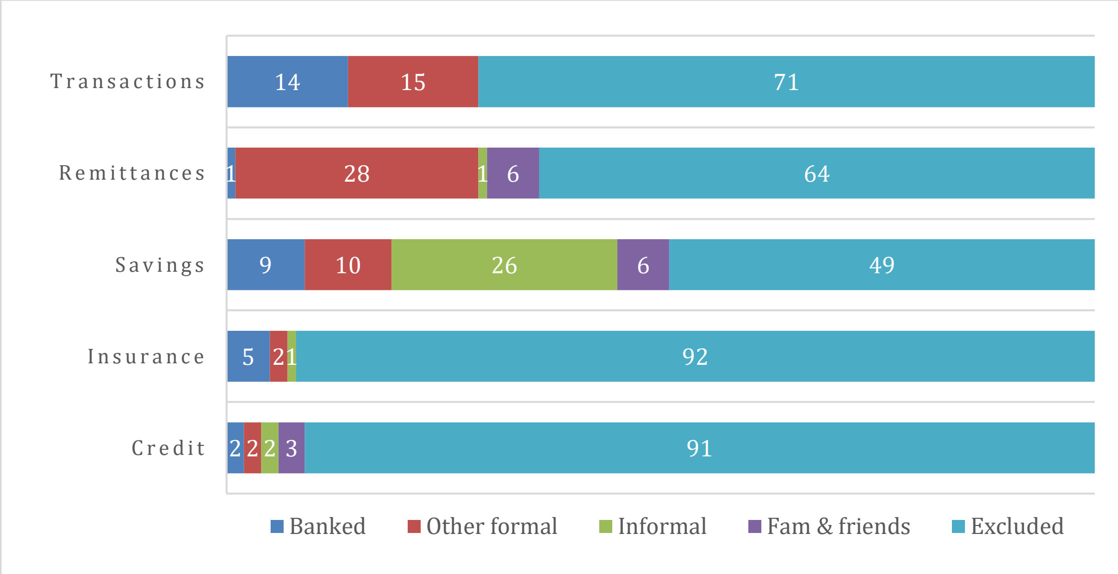
The figure below considers the percentage of adults served in each of the five product markets:

- Insurance
- Savings
- Credit
- Transactions
- Remittances

[30] *The Nigeria survey, conducted by EFInA, is known as the Access to Finance (A2F) survey.*

[31] *There was a FinScope survey in Ghana in 2010, but this is now outdated.*

Figure 25: Product access strands



Source: FinScope 2016

High access to savings products. 51% of adults have access to some form of a savings product, whether formal or informal. Around 18% of adults have a savings account with a bank or a formal non-bank financial institution.

Credit use is low. In comparison to the other products, credit has the second lowest uptake (9%); this is almost evenly got from all available sources.ie. bank, formal non-bank, informal sources and family and friends.

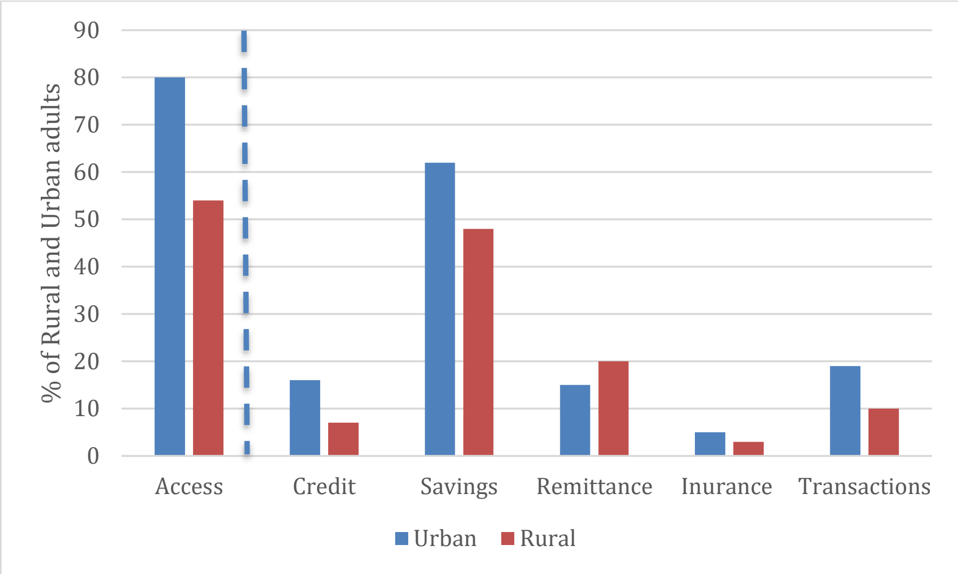
Remittances are mostly done through formal non-banks. Around one third of adults send or receive remittances, but this is mainly through other formal non-bank channels. Some 6% of adults use family and friends, and the remaining (2%) is split between formal and informal channels.

Transactions and payments are still largely cash-based. Over 77% of adults use only cash for payments. Around 14% use instruments issued by banks (likely to be mainly debit cards), while 15% use other formal types of instruments (likely to be mainly mobile money).

Insurance usage is low. Only 7% of adults use insurance products from registered insurance companies. 1% makes use of informal mechanisms.

Product usage varies considerably between urban and rural areas. Although access is higher in urban areas, the use of savings & borrowing is higher in rural areas.

Figure 26: Use of products by location

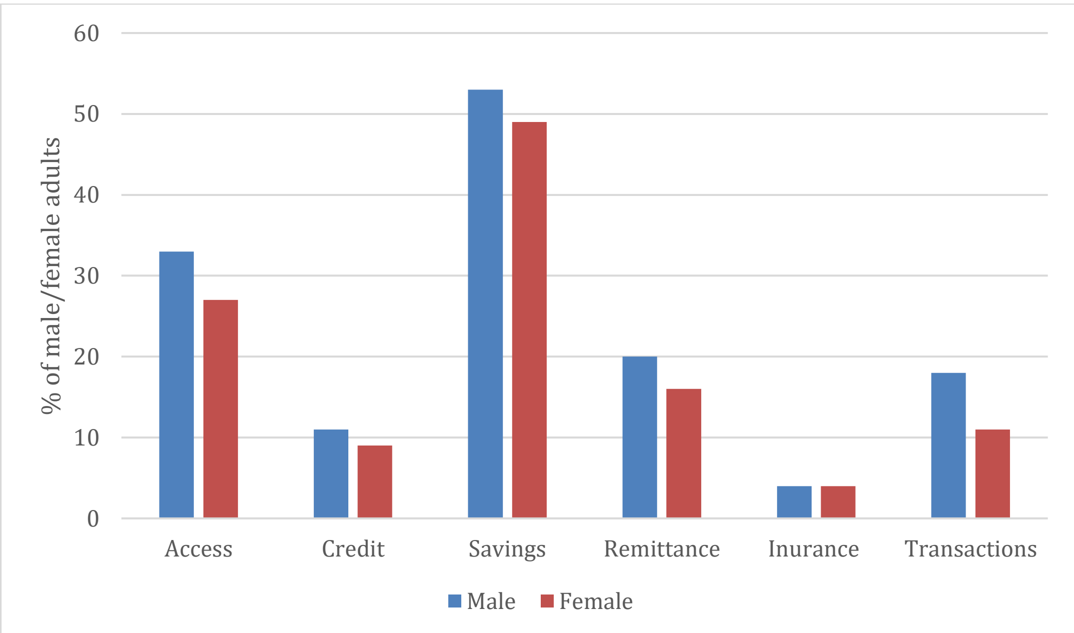


Source: FinScope 2016

Usage by gender

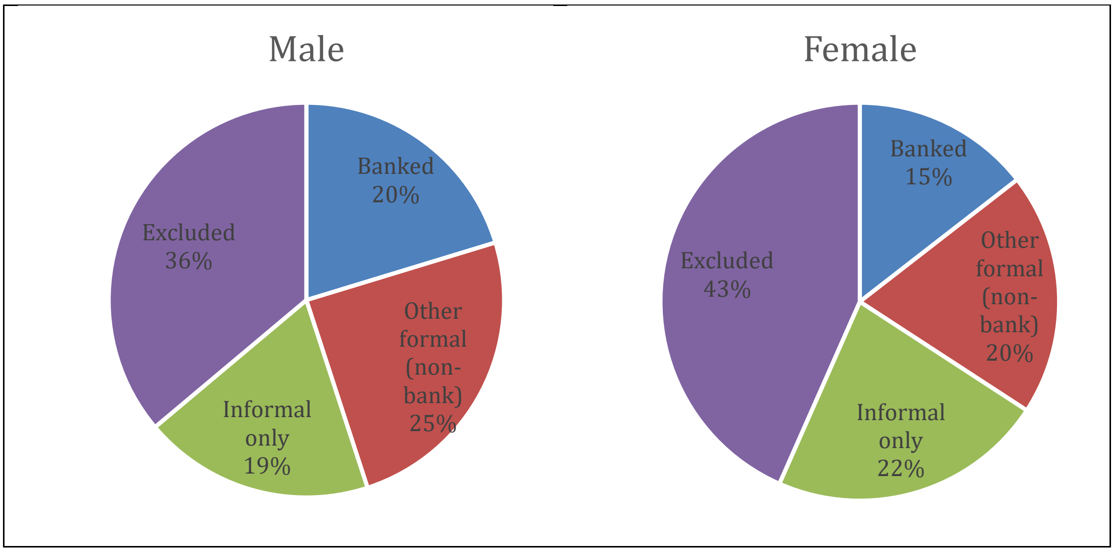
There are considerable differences in the use of financial products by gender. Men save and borrow more, and are more likely to be insured and do more remittances & transactions. Overall, men have a higher rate of financial inclusion, while women are more reliant on informal channels.

Figure 27: Usage of products by gender



Source: FinScope 2016

Figure 28: Access strands by gender



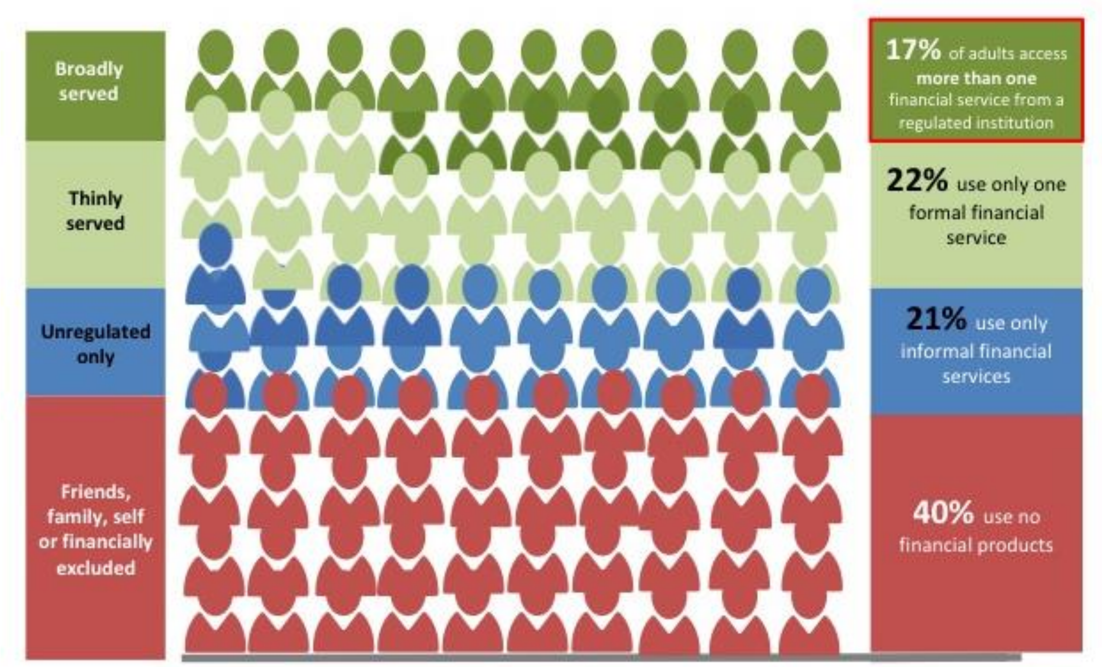
Source: FinScope 2016

Breadth and depth of usage

It is useful to contrast depth and breadth of access. Depth of usage refers to the level of financial inclusion, i.e. measured by the proportion of adults who are financially included as per the access strand. However, the access strand does not show any overlaps in the use of financial products and services; as such an individual with multiple products, either regulated or unregulated, will only be reflected in one group, with preference traditionally given to banking. Breadth of access refers to the use of multiple products, such as savings and credit, from regulated (formal) financial institutions.

Consumers do not generally use a combination of products. Relatively few Burkinabe adults use more than one type of financial product. Only 16% of formal users are broadly served, in that they have a formal financial service across more than one product market. More adults are "thinly served", with 22% using only one formal product, and 21% using only informal products.

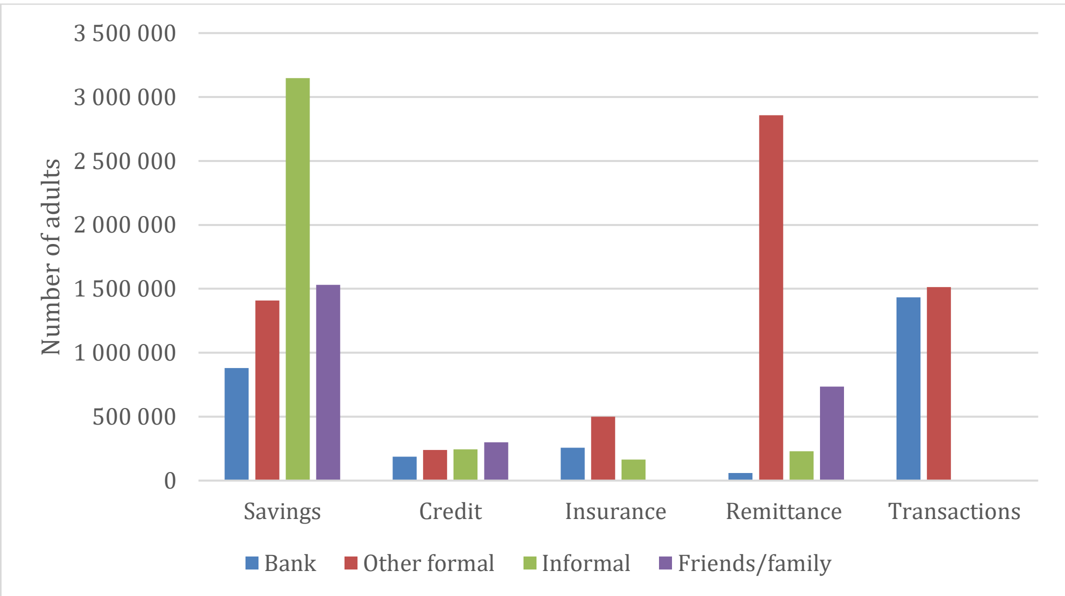
Figure 29: Breadth of access



Source: FinScope 2016

The informal sector plays an important role. In addition to using formal financial services, many consumers also use some informal services and products. 24% of those that are financially included use a combination of formal and informal mechanisms to manage their financial needs. The informal sector plays a particularly important role in the rural areas where 70% of the financially included use informal products/services, whether alone or in combination with formal products. Informal financial channels are the most important means of savings and borrowing.

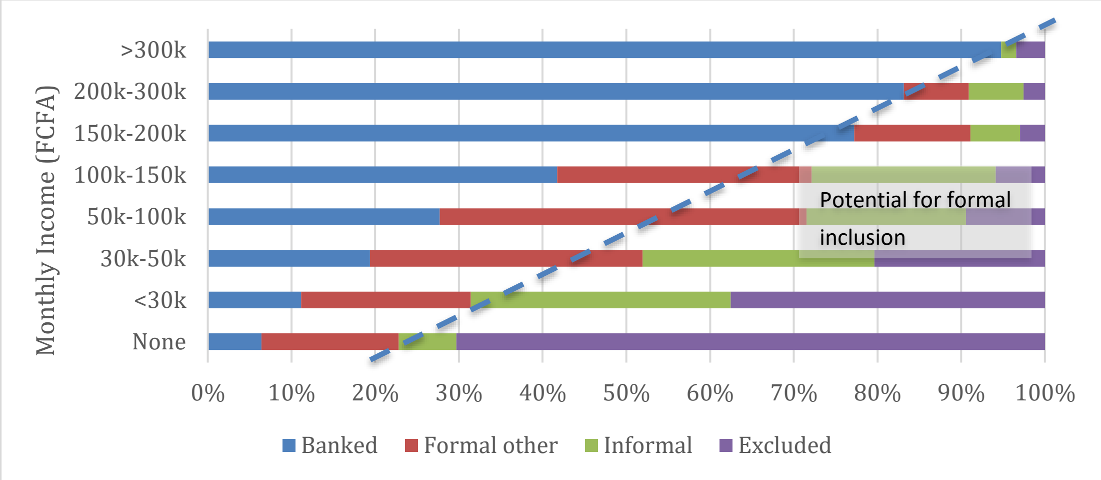
Figure 30: Formal and informal product usage, without excluding overlaps



Source: FinScope 2016

Access to finance improves with income, but even at high income levels there are gaps. Higher income earners, as expected, have better access to finance. Nevertheless, even at high income levels there are opportunities to improve access, as some high income earners are financially excluded or only use informal financial services. Across all income groups except for the highest, a significant proportion of adults are excluded from formal access.

Figure 31: Access strand by income group



Source: FinScope 2016

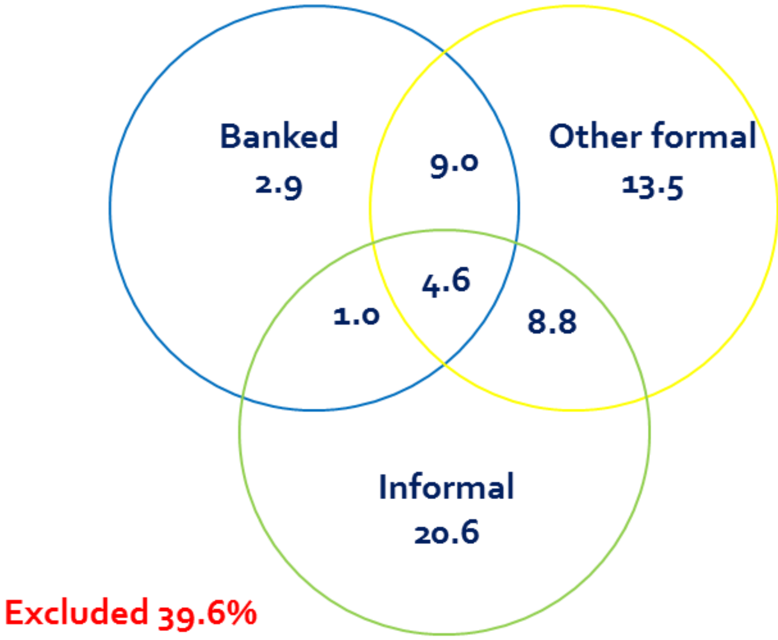
Formal and Informal Financial Services Usage

While 18% of the adult population are banked, only 3% of adults rely exclusively on banks for financial services (credit, saving and remittance). 36% of adults use other formal service providers (including MFIs and mobile money) of which 14% rely exclusively on it for credit, saving, remittance and insurance.

Overall, the "other formal" category of financial services is the most important for Burkinabe adults. 36% of adults make some use of other formal financial services. The majority of these adults also use banks and/or informal service providers.

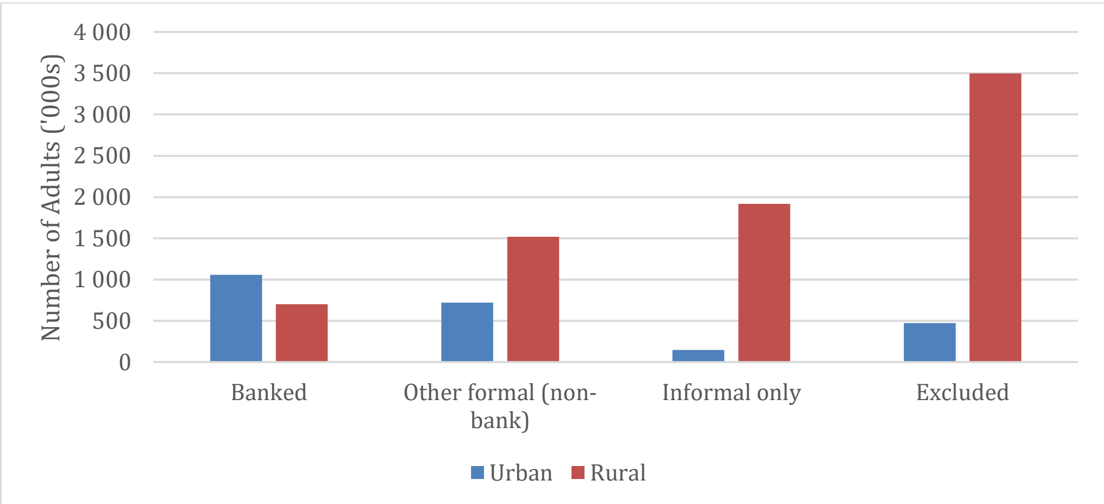
The informal sector plays an important role in complementing the provision of formal financial services. 35% of adults use informal financial services alongside banks or other formal services, whereas about 20% of adults use informal financial services alone.

Figure 32: Overlaps in use of financial services



Source: FinScope 2016

Figure 33: Use of banks, other formal and informal financial services by urban and rural adults



Source: FinScope 2016

5.3 Target Groups[32]

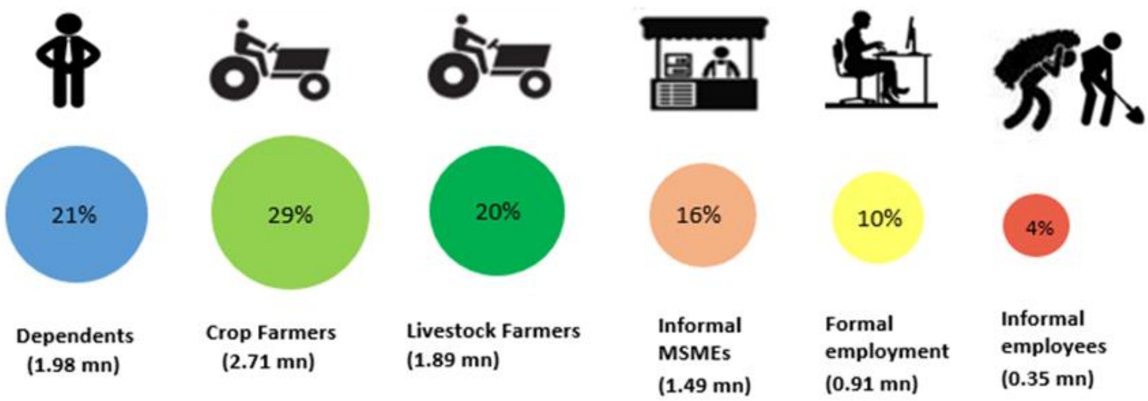
Target markets are used to divide the adult population into discrete groups and focus more on specific financial service usage and needs. They are central to the MAP process, whereby the entire adult population is divided into a number of groups, with *shared characteristics* within groups (e.g. demographic, economic, financial access), and *major differences* between groups. Financial service needs are likely to vary between target groups.

[32] *Input Note 1 (Chapter 7) includes a "Deep Dive" with more detail on the derivation of target groups, their characteristics and financial services needs.*

The main income source of adults is used as a proxy for the level and regularity of income (derived from the FinScope survey). The target groups used in Burkina Faso are as follows: Livestock Farmers; Crop Farmers; Formal Employment; Informal Employment; Informal SMEs; and Dependents.

Access to finance varies considerably across target groups. Formal employees have the highest level of access to finance, driven by access to banking & insurance. There is medium financial access for informal employees and SMEs, but they are much more dependent on other formal service providers (MFIs) than on banks. Informal finance is important for livestock farmers and informal SMEs. Crop farmers and dependents have very low access to finance.

Figure 34: Size and typology of target groups



Source: MAP research, based on FinScope 2016

Figure 35: Access to finance by target group (%, cumulative)

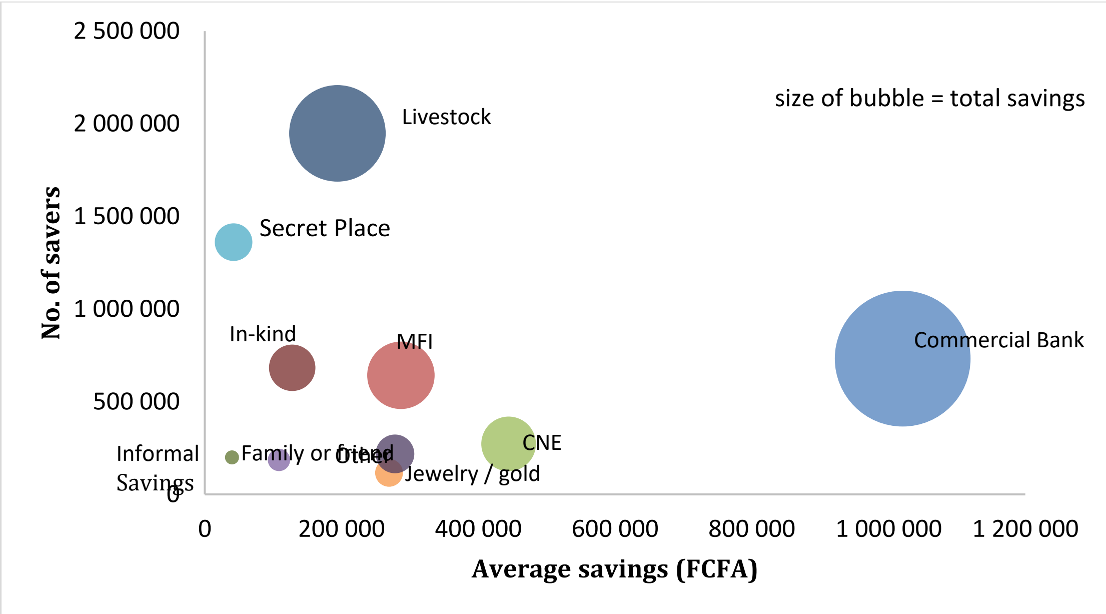
Source: FinScope 2016

5.4 Usage of financial products

5.4.1 Savings

Savers use a variety of channels, including both formal financial institutions, informal means, savings at home, and savings in kind. Better-off savers use banks, this is usually those who are formally employed and it is mostly urban based. Livestock is the most commonly used of savings (46%), but for lower value savings many people use family & friends, or a secret place, or tontines. MFIs are the 3rd most used saving mechanism. One reason why savings are held at MFIs is because savings deposits are one of the required criteria to access credit.

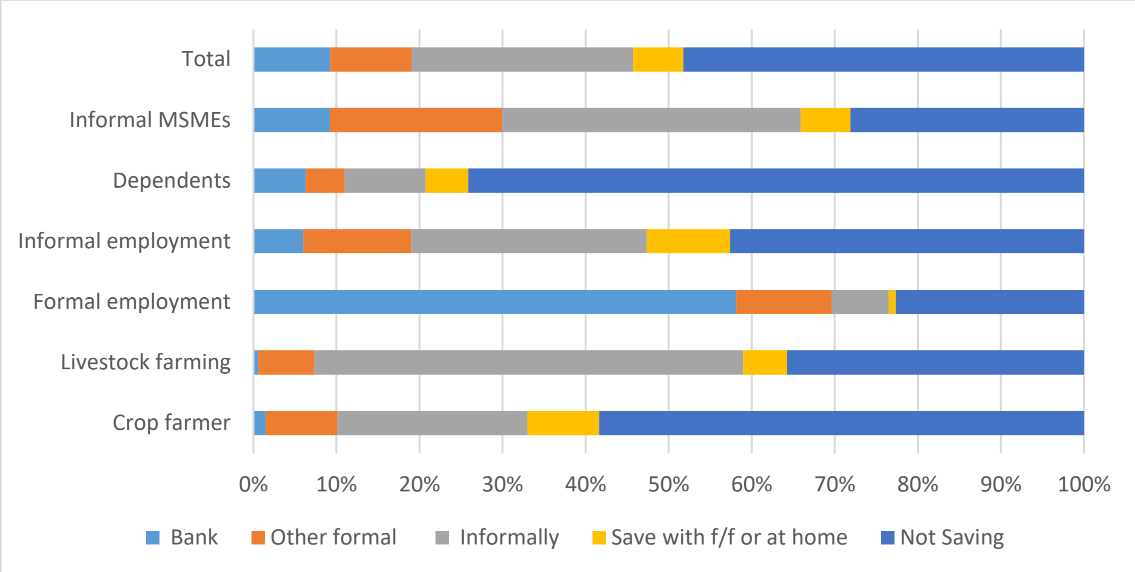
Figure 36: Forms of savings by number of users and value of savings



Source: MAP research, based on FinScope 2016

Savings varies a across target groups, but is generally high except for dependents, who have little cash income. Formal employees and informal SMEs save the most, and mostly in formal institutions. Although almost half of all farmers save they do so mainly through informal channels, including using livestock as savings.

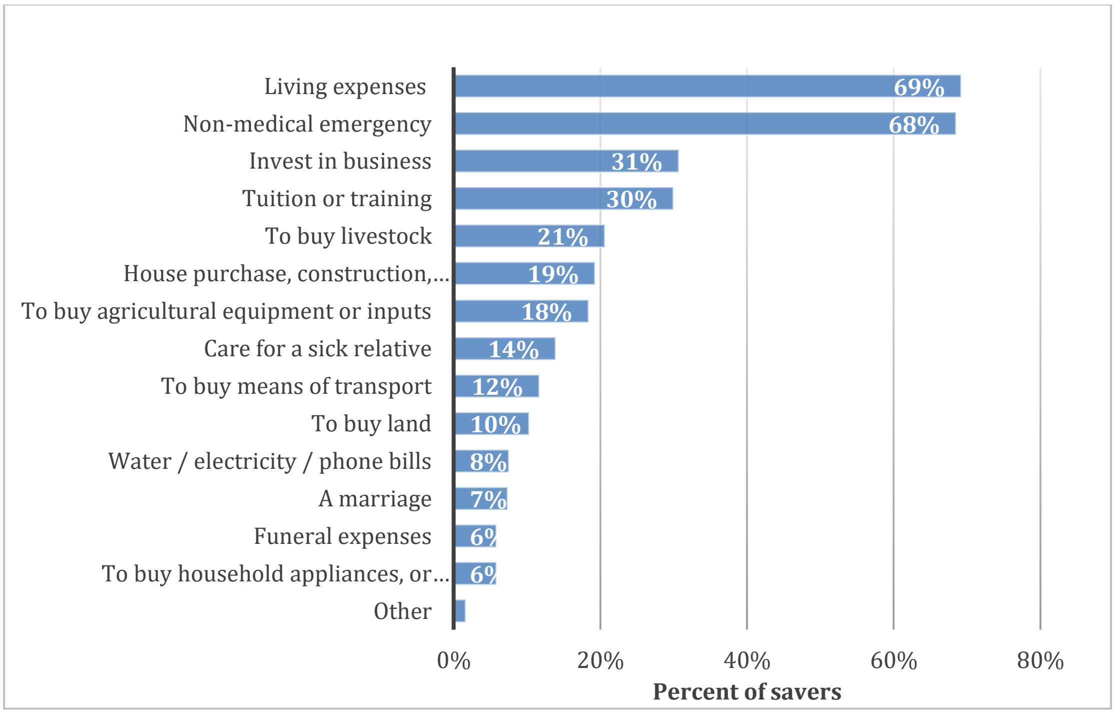
Figure 37: Savings strand by Target Group



Source: FinScope 2016

Savings are mainly used for risk-management and coping with shocks. Amongst people who save, the three most important reasons are coping with income shortfalls, non-medical emergencies, and medical expenses. However, there is also significant saving for developmental purposes – business, farming, education or housing. For those who do not save, the main reasons are lack of income, or having no money left after meeting living expenses.

Figure 38: Main drivers of saving (for those who save)

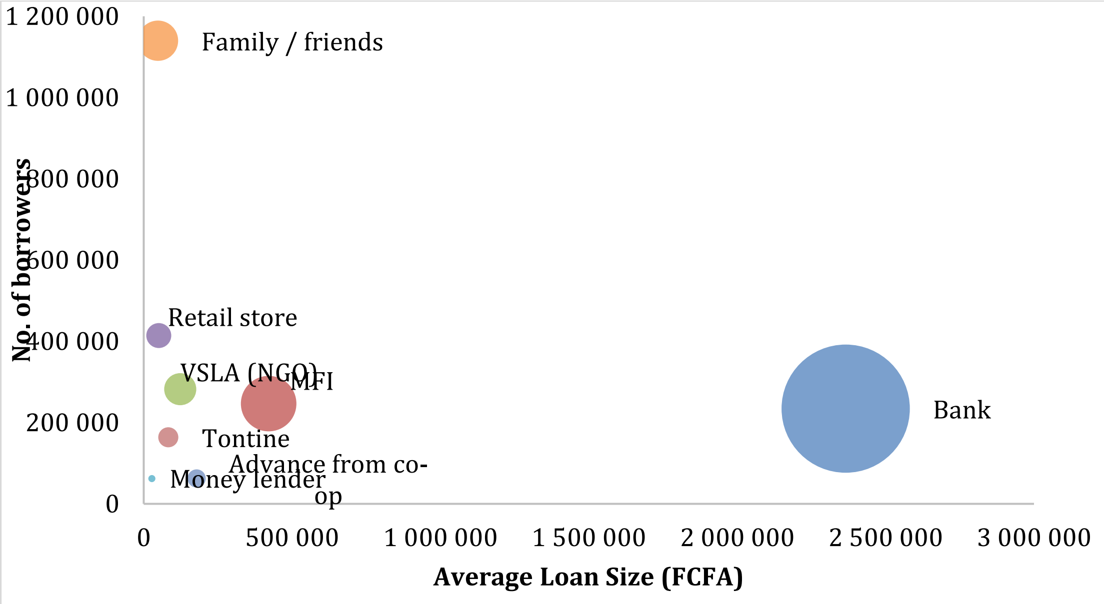


Source: FinScope 2016

5.4.2 Credit

Borrowing is mostly through formal credit sources. High-income borrowers use banks, but are relatively few. MFIs are used more for borrowing, mostly for small loans. The most common sources of credit are informal (retailers, family & friends).

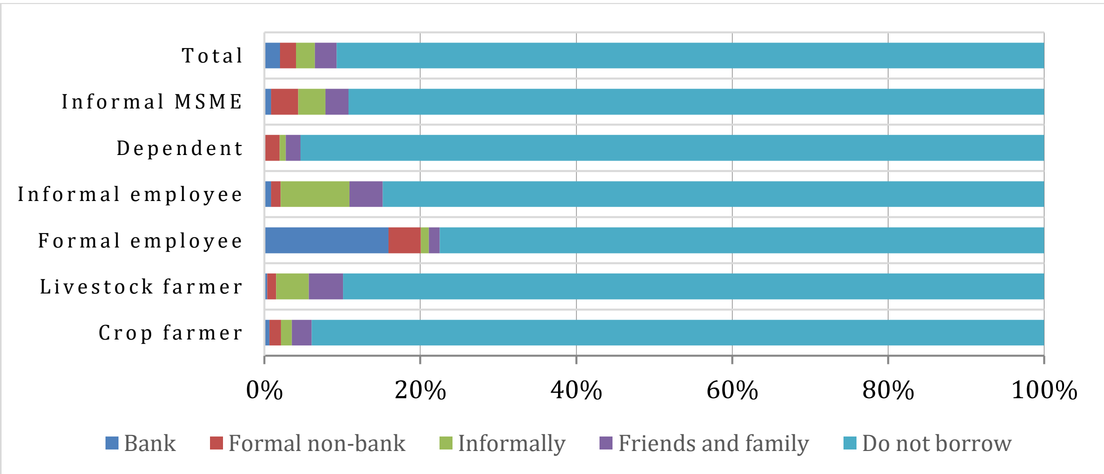
Figure 39: Types of credit used, by number of borrowers and amounts borrowed



Source: FinScope 2016

Credit is not very widely used in Burkina Faso, with more than 90% of adults not borrowing at all. The formal employment group borrow more than any other target group (22%). Only formal employees borrow to any significant extent from banks. The informal employment group is the second largest group to borrow, but mostly make use of informal means of credit. Interestingly, crop and livestock farmers are among the groups that borrow the least, this could be due to their operations being largely labour intensive and lack of capital inputs giving them no incentive to borrow.

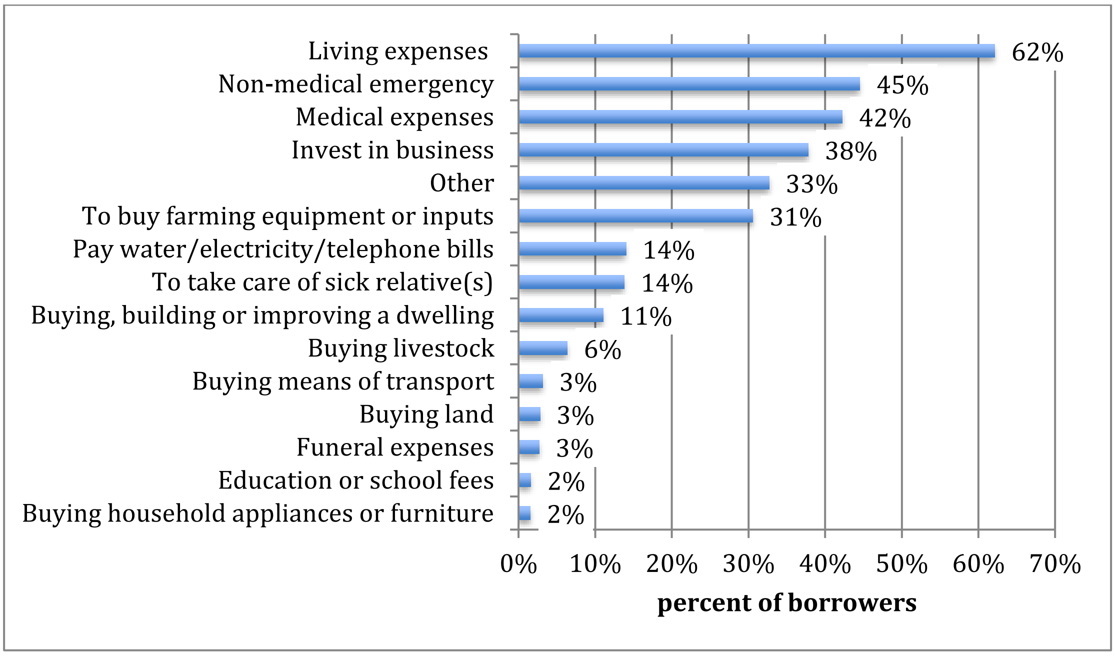
Figure 40: Use of credit by target group



Source: FinScope 2016

The most common reason for borrowing is to meet day to day living expenses and to start or expand a business, followed by meeting medical and emergency needs. Credit for trading agricultural products is also important, along with other agricultural needs.

Figure 41: Main uses of credit (for those who borrow)

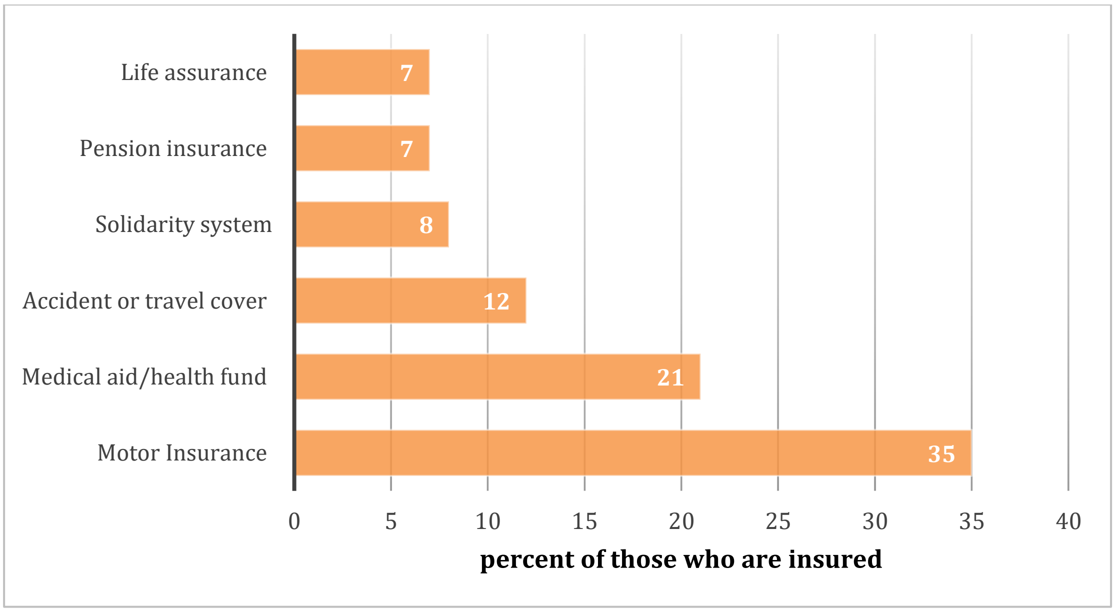


Source: FinScope 2016

5.4.3 Insurance

Insurance is the least used of all of the financial product categories in Burkina Faso. This appears to be due to a mixture of reasons: inadequate understanding of insurance products, and lack of availability of appropriate products.

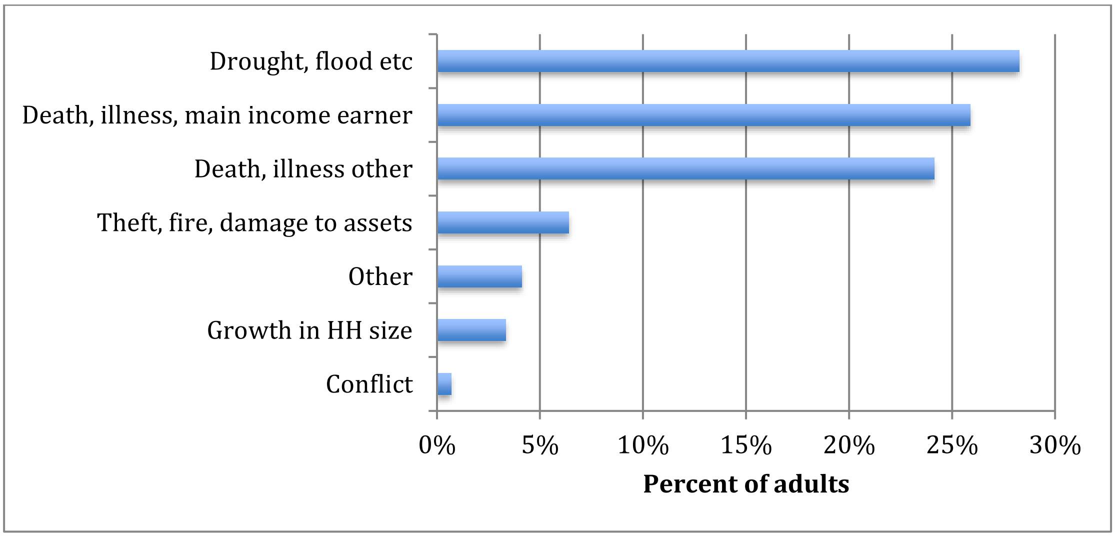
Figure 42: Main uses of Insurance



Source: FinScope 2016

The main use of insurance is motor insurance followed by medical aid and travel cover. However, this does not reflect the main risks faced by households, which are related to climate (drought, flood etc.) and death or illness.

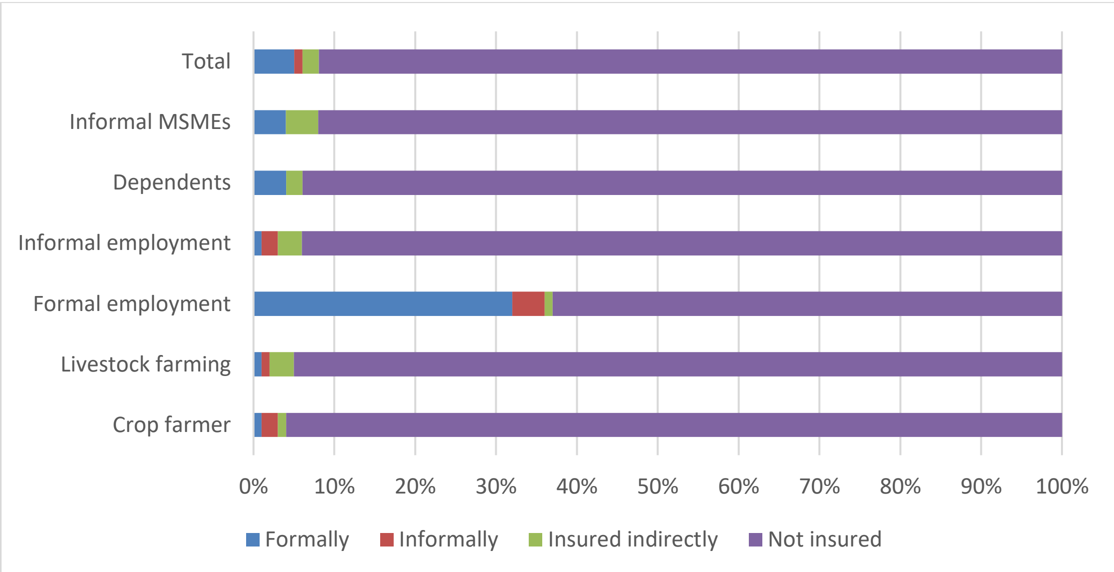
Figure 43: Main risks faced by households (last 12 months)



Source: FinScope 2016

There is a striking contrast in the use of insurance by different target groups. Formal employees use insurance extensively, mainly for medical/health insurance and/or motor vehicle insurance. For all other groups, use of insurance – especially formal insurance – is very low. For those who are uninsured, major barriers include lack of regular income, lack of understanding of insurance, and lack of knowledge of insurance products.

Figure 44: Insurance access strand by target group



Source: FinScope 2016

5.4.4 Payments (Remittances and Transactions)[33]

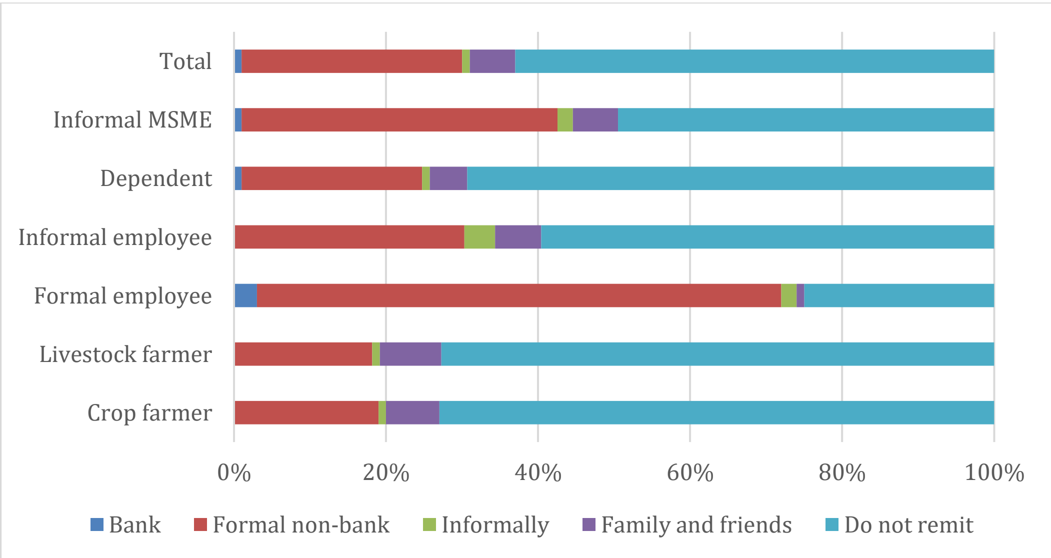
Payments – the transfer of value from one person or entity to another – are made for a variety of reasons. These can include remittances (from one person to another), and transactions relating to the purchase of goods and services. In general, use of non-cash means of payment for transactions is quite limited in Burkina Faso. The formally employed target group is the only one that makes significant use of non-cash payment methods, largely because this is the main group with access to bank accounts, to which payments cards are linked.

There are a number of reasons for the relatively low usage of non-cash means of transactions in Burkina Faso.

- Means of payment are largely limited to bank cards, which are in turn available only to those with bank accounts. MFIs, which are widely used, do not issue payments cards;
- The infrastructure for using payments cards – such as POS machines – is limited;
- The use of mobile money for transactions (as opposed to remittances) is limited;
- There is very little capacity amongst merchants to accept payments via mobile money, and it is mainly limited to bill payments such as for TV and electricity;
- Merchants are reluctant to accept electronic payments, and have a strong preference for cash;
- The use of mobile money for the payment of other financial services, such as insurance, has not yet been developed.

Remittances are more widely used than transactions; 18% of adults claim to have remitted (as sender or receiver) over the past 12 months. Formal channels are mostly used.

Figure 45: Remittance usage by target group



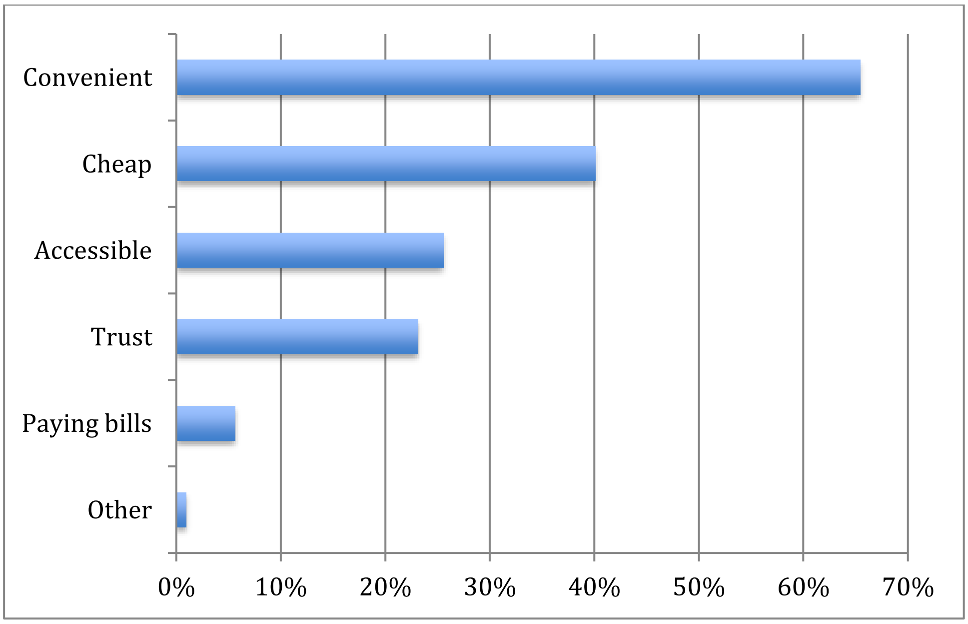
Source: FinScope 2016

Mobile money is a relatively new phenomenon in Burkina Faso although it is growing rapidly. 31% of adults use mobile money. Of those using mobile money, 15.7% are using it to send money and 20.1% are using it to receive. Usage of mobile money is greater in urban (66% of adults) than in rural (18%) areas, and is greater amongst males (34%) than females (26%).

[33] *Payments are analysed in more detail in Input Note 2 (Chapter 8)*

Users appreciate its convenience and price, and the service providers are generally trusted. Similarly with convenience, this applies much more in urban areas than in rural areas, where there are fewer agents and they are more likely to face liquidity constraints (for cash-out purposes).

Figure 46: Reasons for mobile money usage



Source: FinScope 2016

Product development is limited, with mobile money mainly used for sending and receiving money, together with some bill payments (e.g. television, electricity). Mobile money cannot generally be used for retail payments. There has been some use for the distribution of agricultural subsidy payments to farmers.

5.5 Target Market Needs

The financial services needs of target markets differ considerably, depending on their economic needs and attributes, and their access to different types of financial services. Target market needs can be summarised as follows:

Formal employment: this group is well served, has a high level of inclusion, uses multiple products, and has a high average income. Therefore it is not a priority group for financial inclusion. Nevertheless, they have financial services needs to be met. As the highest paid group, formal employees support extended families and therefore have a need for low-cost remittances and transfers. Although they use insurance and credit services more than other groups, the level of formal usage is nevertheless low in absolute terms, and hence there is a need for improved access. Like all groups, they have a need for financial education.

Informal SMEs: this is the 4th largest group, mostly male and relatively high income. As entrepreneurs/small-scale business owners and operators, they need alternative, non-cash means of receiving and making payments, and a short-term store of value. Besides access to payments and short-term savings channels, they need access to credit suitable for SMEs.

Informal Employees: this is the smallest group, with low incomes, and are mostly paid in cash. They would benefit from alternative means of receiving payment, as well as facilities for short-term savings (consumption smoothing in the face of irregular incomes).

Crop Farmers: they are the largest target group, and (on average) have the third highest incomes after informal MSMEs. They include those involved in harvesting crops. They have considerable financial needs, including savings and credit to purchase agricultural inputs and assets, to finance cash shortfalls between planting and harvesting.

Livestock Farmers: this is the third largest group after Dependents and are among the lowest earning groups. They rely mainly on income from agriculture-related activities, in this case, from the sale of livestock. They have relatively good access to finance, as they can use livestock as an asset to accumulate savings and provide a buffer in the case of shocks. Credit may be helpful to assist with improvements in production. They could perhaps benefit from agricultural insurance against unexpected shocks. Both credit and insurance products need to be calibrated to the particular needs of farmers.

Dependents: this is the second largest group after Crop farmers, and are among the lowest income groups. They are generally dependent on transfers and support from other members of the household and extended family support. Much of this support is in kind, and there are many without cash income. Their main needs are for easy access transactions and savings services. Improving access to finance for this group is a medium priority, given that this is a long-term objective while many dependents are outside of the cash economy.

All segments: FinScope results and stakeholder consultations show that a lack of financial knowledge is a pervasive problem; this is not surprising given the low level of education and literacy generally. The lack of financial understanding particularly applies to insurance (which is not at all well understood), and mobile money, which suffers from the unfamiliarity of being a new product. There is also a lack of credit discipline in some cases, especially when it comes to borrowing from government funds (which some borrowers believe do not have to be repaid) and MFIs. Hence improved financial literacy through appropriate education is a cross-cutting need.

6. Gaps and Opportunities

6.1 Introduction

Key findings from the diagnostic analysis with regard to supply and demand gaps are as follows:

- Financial service provision is concentrated on urban areas, and those with formal employment. Key segments are under-served, notably:
    - Crop Farmers and Informal SMEs – both large groups;
    - Informal employees and dependents – both have small numbers receiving cash income;
- There is a lack of branch or agency networks for formal financial institutions in rural areas;
- There is a lack of financial products suited to those without assets or regular income;
- There is a very low level of credit provision and usage, even by the standards of other low income countries;
- There is a lack of products to deal with the main risks faced by households (health and agriculture) as well as credit guarantees;
- There are limitations in consumer understanding of financial products and services.

Some initiatives are in place to fill these gaps, notably:

- There is a proliferation of government funds aimed at filling gaps in financial service provision, but these are fragmented, not well monitored, hardly linked to the financial sector, and have not been subject to thorough evaluation of their impact and effectiveness;
- Informal financial service providers play an important role, but have weak links to formal service providers;
- There are some valuable small-scale donor-supported initiatives, which could be scaled up; and
- The potential of mobile money, and mobile financial services more generally, not yet realized;

Key findings from the diagnostic analysis with regard to institutional and regulatory structures and gaps are as follows:

- MFIs are more widely used than banks, but there are a number of institutional weaknesses in MFIs, including:
    - High levels of bad debts;
    - Lack of management information and IT systems, and limited digital processes
    - Lack of capital (required for both stability and growth);
    - Lack of regulatory and supervisory capacity; and
    - Risks (to customers).
- Infrastructure gaps
    - Mobile network coverage
    - Mobile money agent networks
    - Credit infrastructure (information)

- Regulatory gaps
  - Overly restrictive MFI capital requirements
  - Weak enforcement of capital adequacy rules for MFIs and lack of supervisory capacity
  - Lack of framework for use of 3rd party agents by MFIs and banks
  - Lack of rules regarding access to MNO USSD codes by 3rd parties
  - Lagging regulations (e.g. micro-insurance)
  - Lack of deposit insurance
  - Lack of legal framework for electronic signatures/contracting

The Diagnostic Analysis concludes that there are five priority areas for reform to improve access to finance in Burkina Faso. These are:

- Enhancing credit availability and provision.
- Broaden the use of digital financial services (DFS) (especially mobile money);
- Improving the availability and accessibility of agricultural finance;
- Improving risk management for viable customers;
- Cross-cutting issues: infrastructure, regulation and supervision, consumer protection and financial literacy, and informal groups.

In some cases, new products or services are proposed. These may need to be trialled through the provision of pilot schemes, perhaps with government or donor support.

6.2 Enhance credit provision and availability

Credit is not widely used or available in Burkina, and there is a high reliance on informal sources. Some banks and MFIs have a weak capital base, which inhibits their ability to lend and take risks. Furthermore, PAR/NPLs are high in MFIs, reflecting the fact that lending is high risk. Government programmes (FNs) have attempted to improve credit availability to deserving groups, but the system is fragmented and there is little or no information regarding their effectiveness and value for money. The imposition of interest rate caps means that small-scale / low-value / high-risk borrowers are not commercially attractive to formal lenders, as they cannot charge an interest rate that covers the costs and risks involved.

There are a variety of ways of managing credit risk. Banks and MFIs rely heavily on collateral (mainly guarantees). A formal credit guarantee fund (SOFIGIB) helps to provide access to credit for SMMEs. Credit information could help further, but the regional credit information bureau is not yet effectively operational. At the less formal level, group guarantees are often used (whereby a group takes responsibility for individual credit repayments), or social collateral (personal knowledge and community reputation) for informal lenders. Mobile money/mobile phone usage offers data that can be used for credit scoring. Finally, agricultural insurance can support credit to farmers/co-ops.

Improving credit choices and options is crucial. While borrowing from informal sources (e.g. merchant/supplier credit, or family & friends) can be useful and flexible, it would be preferable for consumers to have a choice of formal or informal sources, so that they can choose the most appropriate option (rather than having a restricted range of choices). One way of doing this would be to use cellphone-based credit provision, building on mobile money/mobile phone usage data that can be used for credit scoring (see Input Note 3, especially Box 3). It will be essential that such products are exempt from existing interest rate caps, or else they will not be viable. For instance, the MoKash micro-credit product provided via mobile money in Uganda has a cost (“facility fee”) of 9% for a one-month loan.

The proposed Action Items to improve credit provision are shown below, each with a brief rationale.

Table 9: Action Items – Credit provision

Proposal	**Rationale**
Support the development of cellphone-based credit	Utilise "big data", credit-scoring algorithms and mobile phone / mobile money delivery channels to provide accessible, unsecured credit for low-income households and farmers for small-scale investments and risk management (e.g. healthcare costs). This usually results from a partnership between a mobile money operator (data), a credit institution (bank or MFI), and a fintech company (for the credit scoring algorithm). Works best if combined with an effective credit information bureau. Can also be linked to a savings product.
Enforce use of credit information bureau (CIB) [E]	The CIB exists but is little used. Credit providers must be required to file credit data, and to do credit checks before making loans. This will help to improve credit quality, reduce risks and the need to rely on collateral for credit. Compliance should form of part of the on-site inspection process for banks and MFIs. Connectivity for real-time CIB communications needs to be improved. In order to promote usage and resolve concerns about limited usefulness and poor value for money, fees could be waived or reduced for an initial period.
Develop appropriate data protection rules [R]	To ensure that use of consumer data for credit purposes (credit information bureau, credit scoring) is appropriately protected
Reform capital requirements for MFIs [R]	MFIs are required to hold capital equivalent to 15% of assets. For banks, capital is only required to be held against loans (i.e. risky assets). Changing the MFI capital requirement to relate it to loans (rather than all assets) would relieve the capital constraint on MFIs, which is one of the main barriers to increased lending.
Strengthen MFIs through consolidation	The MFI sector is highly fragmented, and characterised by weak management, small institutions and lack of economies of scale. Larger MFIs would find it easier to overcome some of these problems and should be more resilient. Most MFIs are mutual organisations and tend to resist the idea of merger or consolidation. DSC should encourage MFI consolidation.
Promote the use of SA format by MFIs	MFIs can be co-operatives (mutuelles) or Societe Anonyms (SAs). The latter can more readily raise capital, and this format should be encouraged amongst new MFIs.
Improve MFI loan quality and use MM as channel for loan repayments	MFIs need to pay more attention to credit quality, with stricter rules on making loans and more intense efforts to collect repayments. Using MM as a repayment channel would reduce collections costs and also provide a mechanism for reminders
Evaluate impact and effectiveness of	Evaluate government funds with a view to reducing fragmentation, promoting cost-effectiveness and sustainability, and strengthening links with financial institutions

Proposal	Rationale
government funds (FNs)	
Review limits on bank/MFI lending interest rates	Lending rate ceilings may appear to benefit consumers, but can result in a restricted supply of credit, as well as weaker banks and MFIs as they cannot charge for the risks and costs involved in credit provision.
Extend credit guarantees for MSMEs	SOFIGB appears to provide an effective model that could be extended, with additional resources.
Develop electronic (online) asset & collateral registries	Electronic/online registries for land, property and moveable assets would facilitate collateral registration (for credit).
Exempt digital micro-credit products from caps on interest rates (R)	Small-scale unsecured lending products will not be viable if the existing caps on lending rates are applied.

NB: Regulation (R) / Enforcement (E)

6.3 Improve the convenience and broaden usage of digital financial services (DFS);

Payments are a key gateway to other financial products (e.g. payment of insurance premiums, remittances, repayment of loans). In the form of transactions (for the purchase of goods and services), they are widely used. In Burkina Faso , there is a heavy reliance on cash for transactions and remittances, rather than using bank, MFI or Mobile Money channels.

Mobile money offers the potential for cheaper and more convenient transactions, but has been slow to take off. Besides offering benefits for individual transactions, it also offers the potential for new channels for the distribution of government payments (G2P), e.g. pensions, subsidies. Usage data (e.g. MM, airtime) also helps to build up financial record to unlock other products (e.g. credit).

DFS are more than just mobile money, however. DFS have been developed extensively in East Africa, and are used to provide micro-insurance, micro-savings and micro-credit products as well as the basic remittance/payments products. These are typically joint ventures between a financial institution (bank/MFI/insurance company) and a mobile money provider. Of particular relevance to are the successful savings and credit linked products in East Africa, notably M-Shwari (Kenya, launched 2012), M-Pawa (Tanzania, 2014) and Mo-Kash (2016). The latter enables micro-savings with amounts as small as UGX 50 (FCFA 8, USD0.01) and borrowing within a range of UGX 3,000 to UGX 1 million (FCFA 460 – 150 000, USD 0.81 – 270)[34].

A move to digital services can also help to improve the efficiency of financial institutions, including banks (which are already engaged in this) and MFIs (which need encouragement and incentives to move in this direction).

The proposed Action Items to improve DFS are shown below, each with a brief rationale.

[34] *UNCDF (2017) Case Study. Disrupting the savings and lending market in Uganda: The story of MoKash.*

Table 10: Action items: Digital Financial Services

Action	Rationale
Extend MNO network coverage (voice/SMS/data) to underserved areas, using subsidies from the fund established for this purpose	There are gaps in mobile voice and data coverage that limit the potential for widespread deployment of digital financial services. However, there is a fund at the international level (ITU Universal Service Access Fund) to which the Burkinabé State contributes annually and which can be used to reduce these shortcomings. It subsidizes the provision of mobile services in underserved areas and should be actively used for this purpose
Fully utilise the potential of mobile money, and digital financial services more generally, for reducing the costs of financial service delivery and improving access	Access to financial services is limited by prices (which can be high for low income adults); transactions costs (which undermine the viability of low-value products); and limited physical distribution networks. Mobile money can help to reduce prices (hence improve affordability), improve the viability of products aimed at low income consumers, and overcome the limitations of physical distribution networks.
Move government payments (G2P, e.g. pensions, subsidies) to mobile channel	Utilisation of mobile money for government payments helps to reduce distribution costs and also provides a core of business activity that can help to make it attractive to develop agent networks. It also brings new customers onto digital platforms.
Encourage tax payments via mobile money.	Mobile money can make it easier and cheaper to make small tax payments, hence encouraging tax compliance and broadening the tax net.
Encourage the use of mobile money as an accessible savings product	This would enlarge the range of savings products available to the population, especially those who do not have ready access to bank and MFI branches, and provide a formal product for those who have to rely on informal channels.
Allow mobile money to pay interest on savings [R]	This would improve the attractiveness of mobile money as a savings product.
Develop MM payments services for purchase of goods and services (e.g. in retail stores)	MM is mainly used for money transfers & remittances, which still requires cash to be used for transactions (cash in/cash out) or payments (for purchase of goods and services). Encouraging the use of mobile money for final payments will reduce the demand for cash (and the risks of using cash).
Extend MM agent networks and improve MM agent liquidity	MM usage remains dependent upon cash-in and cash-out services that are provided by agents. However, agent networks are limited, especially in rural areas. Also, agents need to frequently rebalance cash and e-money so that they do not run out of liquidity (which prevents them from making transactions). Dealers (in cash and e-money) are needed to support agent liquidity.
Encourage linkages between financial service providers and other institutions	Banks, MFIs, MNOs, insurance, fintechs, informal groups should work together for the development of products, payments channels, and information sharing.

Action	Rationale
Utilise East African experience of DFS	A variety of DFS products have been developed in East Africa, including digital microinsurance and weather insurance. Also the key examples of combined savings & credit products.
Develop MM products in partnership with credit providers and insurance companies	MM provides a low cost payments mechanism that can make products viable that would otherwise be constrained by high transactions costs (e.g. high frequency collections of low value insurance premiums or loan repayments). This can make it viable to provide such products to low-income customers.
Develop digital apps for semi-formal village groups, and encourage links between village groups and banks/MFIs etc.	Simple apps can be developed that will enable village savings and loans groups (e.g. NGO-supported VSLs and SILCs) to use DFS for managing their finances. Informal groups (tontines, or village savings and loans associations (VSLAs)) play an important role in the mobilisation of savings from low-income rural households, as well as in the provision of credit. By linking tontines to formal financial institutions (such as MFIs or banks), or by using mobile money to make payments, deposits and withdrawals, funds held by tontines will be safer and will also provide the opportunity for tontine members to build up a tack record with financial institutions that could eventually unlock better financial access
Ensure that non-MNO operators have ready access to USSD codes [R]	Access to USSD codes is essential for delivery of financial services via mobile telephony. MNOs must be required to provide ready access to USSD codes for third parties, even if that results in competition for MNO's own products and services.
Encourage interoperability	Encourage inter-operability between financial service providers (banks, MFIs, mobile money) to allow financial transactions across platforms
Improve understanding of mobile money amongst adults and retailers.	Resistance to use of mobile money / preference for cash due to a lack of understanding of benefits. This reduces the scope for using mobile money to replace cash.
Develop MoU between ARCEP and BCEAO on division of supervisory responsibilities [R]	ARCEP regulates mobile network operators while BCEAO regulates the provision of mobile money services by MNOs. It would be helpful if the division of regulatory responsibilities was clarified by an MoU between the two regulators (in line with international best practice).
Consider ways to make use of MNO/MM data to unlock other financial products (e.g. data for credit scoring)	MM and MNO service usage generates large amounts of data on airtime purchases and usage, mobile money usage etc., which helps to build up a record of financial transactions for individuals and SMEs.
Allow non-bank private companies to provide payments services.	At present there is only provision for banks, MFIs and MMOs to provide payments services (along with the BCEAO). Other payments service providers (e.g. money transfer operators) have to partner with banks. There should be provision for the

Action	Rationale
	private sector to payments and switching services under licence from the BCEAO.
Develop legal framework for electronic signatures/ contracting	A law to provide the legal basis for electronic contracting would help to clarify uncertainties and provide the basis for the acquisition of digital financial products.
Consider establishing a Fund to encourage digital innovation	In some countries Innovation Funds have been used to finance the development of innovative projects (often on a Challenge Fund basis, where different ideas compete for funding). Donors could be approached to fund such a mechanism.

6.4 Improving the availability of agricultural finance

Agriculture has specialised financial needs, e.g. seasonal crop finance, across the value chain. It is also subject to particular types of shocks, such as drought. Furthermore, farmers are a large group in Burkina, and agriculture the largest sector of GDP, but farmers are underserved financially, especially with regard to access to formal finance. However, their very specific and specialized financial needs require particular types of financial services, rather than generalized banking. Given their rural, dispersed location, delivering financial services to farmers may be difficult and expensive, although making use of digital financial services and mobile money may help to reduce costs and improve accessibility. The risks of providing credit to farmers are high, given their relatively low and volatile incomes, and specific methods are needed to manage those risks. There are also concerns that interest rates on for agricultural credit are too high.

The proposed Action Items to improve agricultural finance are shown below, each with a brief rationale.

Table 11: Action items: Agricultural finance

Action Item	*Rationale*
Utilise farmers co-ops as credit delivery channels	Banks are more likely to lend to co-ops (both crop and livestock) rather than individual farmers, as both costs and risks are lower. Co-ops can take part of the risk through on-lending to individual farmers.
Develop specialised crop finance, e.g. based on warehouse receipts, and linked to insurance.	The characteristics of agricultural credit are different to most other forms of credit and require specialised design. One option commonly used elsewhere is to extend credit based on warehouse receipts (crops stored in secure warehouses can provide security to the lender). The availability of agricultural insurance can also reduce risks to lenders.
Build on successful agricultural finance cases and share / disseminate them	There have been some successes in the provision of agricultural finance, (e.g. cotton VC, livestock farmer co-ops, PlaNet Guarantee agricultural insurance pilot products, etc.) should be capitalized, adapted and replicated. in other value chains

Action Item	*Rationale*
Develop weather (drought) insurance in an appropriate format (large scale to small-scale)	Drought is the main risk faced by farmers and the availability of an insurance product to manage this risk would help to boost financial security.
Develop appropriate insurance products for livestock farmers	Livestock farmers have specific risks and needs that are quite different to those of crop farmers
Improve coverage of mobile networks/mobile money in rural areas to enable delivery of mobile financial services	Mobile (digital) financial services should be an important channel for delivering low-cost financial services to farmers and others in rural areas (savings, loans, insurance, payments, subsidies etc.). However this requires more extensive coverage of mobile networks (especially data), and of mobile money agent networks.
Develop appropriate agricultural value chain infrastructure, including warehouses and transport facilities	Will help to reduce losses and increase returns to farmers.
Undertake financial education for farmers to improve understanding of financial services and issues	Farmers have a low level of education and financial understanding, and make little use of formal products.
Utilise mobile money for government payments to farmers	Will help to reduce transactions costs and integrate farmers into the formal financial system
More generally, digitising payments through the value chain to reduce transactions costs	To reduce transactions costs and build up a financial transactions record that may be helpful in unlocking credit.
Ensure that subsidies are targeted and focused on sustainability	Ensure that subsidies for financial service provision (e.g. agricultural insurance premiums, interest rates) are time-limited and focused on building scale, and sustainability not dependence
Interest rate subsidies	Evaluate the costs of potential interest rate subsidies for agricultural credit, and consider how this might operate on a targeted basis, and potential funding options.

6.5 Improving risk management for viable customers

Many people are exposed to unexpected health expenses or agricultural shocks (drought), which have been identified as the most common risks that adults face. Such shocks can lead to poverty (because of additional expenses or reduced income) if risk management capability is weak, or if households start off in a financially weak position.

There are various ways to manage risks, through insurance products, prior savings (which provide a financial buffer that can be drawn upon in an emergency), or access to credit (especially credit that can be accessed at short notice).

There is little use of formal insurance outside of the formally employed target group. This is in part due to a lack of understanding and awareness of insurance. There is also a lack of enforcement (e.g. vehicles are often not insured, despite vehicle insurance being compulsory). There is an important role for informal provision, especially village solidarity groups. However, there has not been much innovation in insurance, e.g. micro-insurance and links with other financial service providers.

The proposed Action Items to improve risk management capacity are shown below, each with a brief rationale.

Table 12: Action items - Risk management

Action item	***Rationale***
Develop products to address key risks – health and drought	The main risks faced by Burkinabe adults are healthcare risks/costs, death and drought, but few specialised products are available to insure against these risks. Insurance companies need to consider developing appropriate products relevant to low-income households.
Put emphasis on micro-insurance products, distributed via mobile networks	There is a regulatory provision for micro-insurance (with a separate license) but no such licenses have yet been issued. Micro-insurance products (low values insured and low premiums) are particularly suited to low-income households, and these need to be developed by insurance companies need to develop micro-insurance products. Use of mobile money as payment platforms helps to overcome the problem of high collection costs for small, frequent, low value premiums
Improve access to emergency credit	Access to credit is an important risk management tool. Using mobile money platforms for quick access to micro-credit will make this easier.
Develop low-cost funeral/life insurance products	There is extensive use of informal "insurance" for funeral expenses through membership of village solidarity groups. This suggests that formal products offering similar or more benefits with low premium contributions, payable through mobile money, could be attractive.
Enforce insurance regulations [E]	Compulsory vehicle insurance is an important product for insurance companies in Burkina Faso, but the law is not enforced effectively. Enforcing this law would provide more effective management of accident-related risks, strengthen the financial base for insurance companies, and thereby support the development of new products.
Collaborate with MNOs/mobile money providers	Mobile money is likely to be the most effective channel for collecting premium payments for mobile insurance products (due to low transactions costs), and may also be an important channel for selling/marketing products, accepting claims, and making payouts. Insurance companies need to collaborate

	with mobile money providers in order to develop suitable products.
Develop bundled products (e.g. health insurance combined with airtime)	Given the lack of understanding of insurance, people are often reluctant to buy insurance directly. If bundled with other products this resistance can be overcome.
Promote financial education in insurance and risk management	The lack of understanding of insurance and risk management can leave households exposed to excessive risks. Financial literacy/education can help to provide people with the information and understanding to undertake more effective risk management.
Allow electronic sign-up for insurance policies [R]	Distribution of insurance via cell-phones and payment via mobile money requires electronic sign-up to policies to be legally valid. This is especially important for micro-insurance. Draft regulations regarding electronic policies need to be finalised.
Encourage savings to manage risks	Accumulation of savings can be an important tool to manage risks and respond to unexpected shocks. Hence policies to encourage savings will help with risk management, including, e.g. the payment of interest on mobile money accounts.

6.6 Cross-cutting items

There are a number of issues that are cross-cutting, in that they relate to all or most of the priority areas above, and help to support financial inclusion generally. The four cross-cutting issues are:

- Financial literacy and consumer protection
- Informal savings and credit groups
- Regulation and supervision
- Disadvantaged groups: women, youth, SMEs and rural areas.

Financial literacy and consumer protection

Many of the above action items will only be effective if complementary actions are taken to improve financial literacy and also to establish improved mechanisms for the protection of consumers:

- Extend financial education widely, especially for insurance and mobile money, also for management of credit, through schools and community organisations. The NGO-supported village savings and lending groups include financial education and provide important guidance as to what works;
- Use innovative approaches for financial education (based on images and digital approaches), reflecting the fact that some adults are not literate;
- Improve provision for disclosure of costs of services etc. by financial institutions (transparency);
- Require financial service providers to have complaints procedures for customers.

Informal Savings and Credit Groups

The informal savings and credit groups supported by NGOs such as PLAN and CRS have made an important contribution to extending financial services to low-income consumers in rural areas. The core is typically a group savings scheme, extended to include short-term loans made from the accumulated group savings, and in some cases a "social fund" that provides a simple insurance scheme. They represent a semi-formal extension of the "tontines" that have traditionally existed in many villages. While they are reported to be successful, there is some uncertainty regarding the long-term sustainability of these schemes once NGO-support is wound down (typically after 2 years).

Action items to build on these successes include the following:

- Evaluate experiences of semi-formal village savings & loans (VSL) groups supported by NGOs to identify any long-term sustainability challenges (after NGO support) and constraints to expansion;
- Build on the successes identified;
- Expand VSL coverage to excluded districts, through the existing or new NGOs;
- Build links to formal financial institutions (mobile money, MFIs);
- Use mobile money for deposits and to keep savings;
- Allow VSL groups to open accounts at MFIs
- Developing smartphone apps specifically for VSLs.

This will be further supported by the extension of mobile network coverage (especially 3G data coverage) and mobile money agent networks.

Regulation and Supervision

A number of action items have been identified above that involve changes to regulation or supervision of financial services. Some of these are national, while other are at the regional level (where BCEAO or CIMA are the relevant regulatory authorities). Changes that would support financial inclusion are as follows:

Finalise or change laws and regulations to allow the following:

- Electronic sign up for insurance policies
- The payment of interest on mobile money savings accounts
- Banks & MFIs to use 3rd-party agents (important in areas where there is insufficient business to support branches)
- Micro-loans to be provided without being subject to interest rate caps
- Informal groups to open accounts at regulated institutions

The prohibition of interest payments on mobile money deposits reduces the range of savings products available, particularly for low-income clients. Mobile money accounts can in principle provide a convenient, accessible low-cost savings facility, which is particularly suited to adults who do not have ready access to banks or MFIs – notably those in rural areas, where access to finance is restricted. Permitting mobile money providers to pay interest on savings deposits would enhance the attractiveness of such accounts to low income households, and increase the range of savings options available to them. It would also provide a formal product for those who have to rely on informal channels.

Establish a deposit insurance scheme for banks and MFIs

Revise rules for the provision of credit via mobile money to permit mobile money operators to offer credit products in collaboration with banks or MFIs

Enforce insurance rules (notably for compulsory vehicle insurance), as well as capital adequacy rules for banks/MFIs (although the latter should be revised)

Improve domestic supervisory capacity for MFIs (DSC) and Insurance (DA, to allow more frequent supervisory visits and to support more frequent submission of financial data by regulated institutions

Revise Capital adequacy rules for MFIs

Ensure that non-MNO operators have ready access to USSD codes.

Manage the impact of anti-money laundering (AML/CFT) regulations so that they do not provide a barrier to financial inclusion for low-income households. For instance, there are various innovative approaches to providing information on physical location for households that do not have formal addresses[35]. There also needs to be flexibility in terms of how adults can identify themselves, combined with efforts to improve the take up of national ID cards.

There is also a need to manage the impact of Basel 2/3 regulations for banks, so as to ensure that they do no unduly make access to finance more difficult for MSMEs in particular.

Finally, the BCEAO should investigate whether interest rate caps are restricting access to credit by higher-risk borrowers. The imposition of interest rates and ceilings makes it difficult for banks and MFIs to properly price credit, taking into account the costs of credit provision and the associated credit risks. MFIs in particular should be able to charge higher interest rates. Interest rate ceilings should not apply to micro-credit, where costs are particularly high.

Disadvantaged groups: women, youth, MSMEs and rural areas.

The above discussion of gaps and opportunities focuses on improving the provision of financial services and products, through innovation, infrastructure enhancement, and regulatory reform, in order to fill some of the identified gaps between supply and the needs of different target groups. In this section we elaborate how some of the proposed interventions will have an impact on identified priority groups from a national perspective. These include MSMEs (medium, small and micro enterprises), the youth and women, and rural areas.

Many of the action items specified above are designed to reduce the costs of financial services and improve access (particularly for formal products), which will by definition be of benefit to those who are marginalised and/or excluded from access. The MAP approach is to identify and advocate for reforms that will improve access and the provision of financial products and services to meet the needs of those who are excluded, rather than the provision of particular products to particular groups only. For instance, improving access to mobile money by extending the outreach of the agent network will provide improved access to those in rural areas (who are predominantly female and poor); improving the availability of agricultural finance products will benefit farmers (and hence rural areas); while opening up access to micro-credit via mobile money will assist both formal and informal SMEs. Below we illustrate how the recommended action items will impact on some of the priority groups.

Female empowerment: women are disproportionately represented in particular target groups (dependents, informal employees, informal SMEs) so measures to meet the needs of these groups will benefit women. Similarly, women are more dependent on the use of informal financial services than are men, so measures to improve formal access will particularly benefit women.

[35] *For instance, what3words.com has "divided the world into a grid of 3m x 3m squares and assigned each one a unique 3 word address. It means anyone can accurately find any location and share it more quickly, easily and with less ambiguity than any other system".*

- Access to micro-insurance products (especially for health);
- Access to emergency credit, including via cellphones/mobile money;
- Extending mobile phone and data network coverage;
- Extending the spread of mobile money agents beyond major urban areas;
- Allowing interest on mobile money balances and encouraging the use of mobile money as an accessible savings product
- Financial literacy programmes

MSMEs: measures to enhance access to credit will assist MSMEs, as will measures to improve the efficiency of the payments system. Of particular importance are:

- Improving the operation of the Credit Information Bureau and establishing a functional Deposit Insurance Scheme;
- Strengthening MFIs (as credit providers to MSMEs), also enabling MFIs to obtain more access to bank refinancing and relieving credit constraints;
- Evaluating the operations of different government funds (FNs) (to enable more effective delivery of targeted credit schemes);

Youth: the young have particularly high access to cell phones so the development of digital financial services through the cellphone channel will be of particular benefit to them.

- Bundled products (e.g. insurance bundled with airtime);
- Extending mobile phone and data network coverage;
- Allowing interest on mobile money balances and encouraging the use of mobile money as an accessible savings product
- Access to micro-credit through mobile money platforms

Rural Areas: many of the action items proposed here will specifically benefit rural areas, which account for the majority of the population in Burkina Faso. However, rural households are also poor, and it may not be sufficient to rely on market-led developments to provide them with adequate financial services, as it may simply not be profitable. Some associated developments (e.g. improving 3G data coverage) will help to push out the frontier of what is commercially feasible. Nevertheless, support for financial service provision where it is not commercially feasible will also remain important, especially for poor rural / farming households. This may include subsidies for the provision of agricultural insurance and agricultural infrastructure (e.g. warehouses); subsidised interest rates on credit (e.g. from government funds); subsidies for the rollout of 3G networks (from the under-served areas fund); and support for the extension of VSL schemes to areas where they are not present. It will be particularly important to keep such subsidy schemes subject to regular evaluation, so as their impact and cost-effectiveness can be monitored, and to ensure that they are reaching the desired target groups. It is not evident that plans to establish new banks (e.g. an agricultural bank and a Postbank) are the most appropriate ways to bridge financial inclusion gaps, and could be very expensive as well as undermining the stability of the banking system.

7. Input Note 1 - Segmenting the Market: Target Groups

7.1 Introduction: Derivation of Target Groups

Different types of consumers behave differently and have different needs for financial services, leading to different real economy outcomes that require systematically different policy approaches. MAP generates data that enables disaggregation of the adult population into discrete segments and sub-segments with differing profiles, needs, behaviour and usage of financial services. Understanding the shared features and differences between target markets enables a more granular understanding of the financial service needs of different segments. When the target market-level analysis is overlaid with the supply-side picture, a multi-dimensional picture is created that can help policy makers formulate a focused roadmap of financial priorities to achieve key sectorial and national objectives. The MAP analyses show that segmenting by main source of income is strongly aligned with earning potential, lifestyle and financial service needs.

This sub-section therefore focuses on the dynamics related to the uptake and usage of financial services by the different target markets, as divided by economic parameters, in particular, income[36]. Main income source is used as a proxy for the level and regularity of income, both of which are key indicators to whether a person meets the requirements to be a viable financial service client. The market segments are clusters of people who are sufficiently different from other groups and yet have enough shared characteristics, including geographic and demographic characteristics, to form a common target market for financial institutions.

Box 2: Target Market Grouping

The target markets were primarily defined in terms of an adult's main income source. FinScope recorded a wide range of income sources, as shown in the first column of the table below. Each of these detailed groups was then reviewed in terms of key characteristics such as demographics, income level and financial access. The 18 detailed income sources were then aggregated into six broad target groups, which were similar in terms of these key characteristics and the nature of their main source of income.

Detailed income source	Broad target group & number of adults included
Self-employed - registered business Pension or annuities Salary/wage from government Salary/wage from private company	Formal employment (regular income) (909,583 *adults – 9.1%*)
Salary/wage from an individual Part time job Making items to sell Selling items collected from nature	Informal employment (345,878 *adults – 3.4%*)
Salary/wage from a farm (farmworker) Money from farming activities (livestock and crop) or trading agri-products	Farming (4,842,168 *adults – 48.3%*)

[36] *Target market segmentation only focuses on the main income source and does not take into consideration the extra income sources that an adult may have*

Self-employed - informal business	Informal MSMEs *(*1,497,775 *adults – 14.9%*)
Remittances from people outside the household Money from a relative Money from ex-spouse's pension	Dependants (1,983,637 *adults – 19.8%*)
Money from renting land/property Other (not specified) Do not get money	Others (447,139 *adults – 4.5%*)

In considering these target groups, there are a few key points to note:

Formal employees: this includes all groups that have regular, formal earned income, mainly those employed by government or private firms. Formally self-employed (in registered businesses) and those receiving formal pensions are included in this group, because they also had high incomes and similar (relatively high) overall access to financial services.

Farmers (livestock and crop farmers): includes all of those whose primary income from activities relating to agriculture, whether from farming, trading agricultural products, farm employment, or selling items collected from nature (these last two categories were relatively small). This is the largest group.

Do not get money: a large group of adults (around 9%) said that they do not receive money. It was felt that this might be misleading, as most people receive some level of income, whether in cash or in kind. Hence the "no income" group was interrogated further, to determine whether other responses could provide insight into any source of income. Adults who stated that they received money from a parent or other family member, or had their expenses paid, or received remittances, were classified as Dependents.

As a result, the "Do Not Get Money" group was reduced from 9.1% of the adult population to 3.7%..

Dependents: this group was initially based on those who reported an income and explicitly said that they received money from remittances, relatives, or from an ex-spouse's pension. Following the reclassification of some of the initial "do not get money" group, almost 550,000 adults were added to the dependents group based on other information, but reported an income level of zero.

Others: this group includes income sources that are not specified or do not fit neatly with any of the other groups, or have no income. This group is relatively small (4.5% of adults) and is not included in the target group analysis.

This initial classification led to a very large farming group, which dominated the adult population – accounting for nearly half of all adults. This was felt to be unhelpful, as farmers were unlikely to be homogeneous, and classifying them all in one target group could miss important differences. This point was reinforced in the initial discussions with the reference group, where several members requested that the MAP project distinguish between crop farmers (mainly food and cash crops) and livestock farmers. Hence the farmers group was sub-divided using information on what type of farming activity their main income was derived from, notably livestock or crop farming. This resulted in two farming groups, i.e.

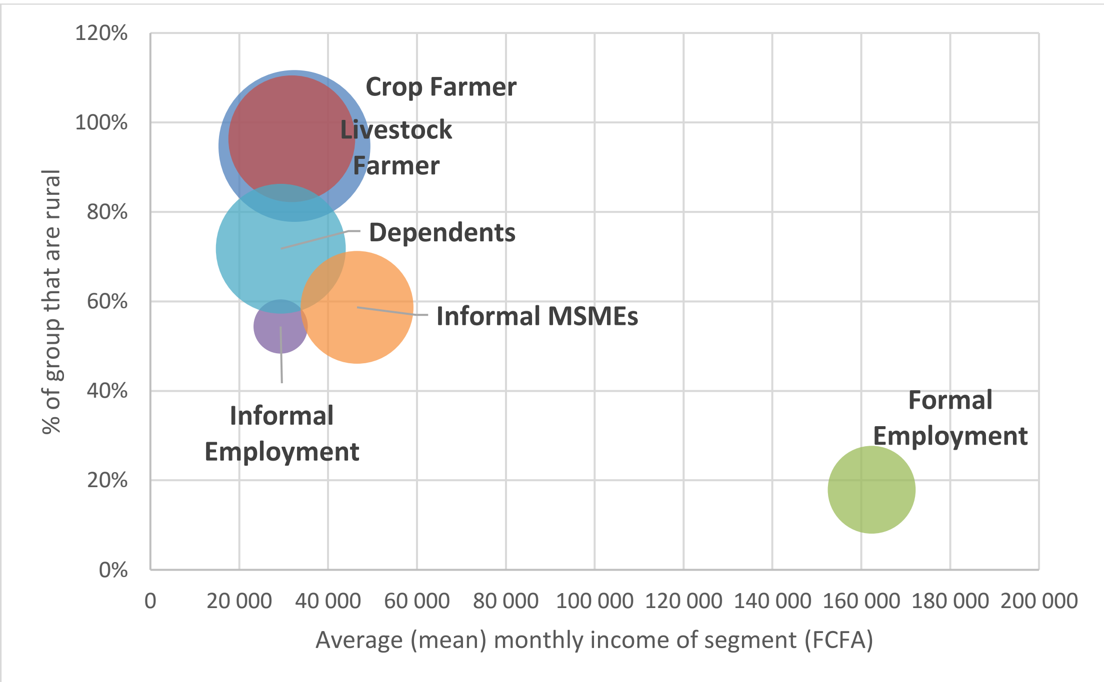
Crop farmers	2,711,092 (27.0% of adults)
Livestock farmers	1,889,906 (18.8% of adults)

Unfortunately some 258,480 farmers (2.6% of adults) could not be classified as either crop or livestock farmers, and hence they were added to the "Other" (i.e. excluded) group.

The diagram below shows the size of each segment and plots the various segments in terms of their geographical as well as income spread:

- The largest group is **crop farmers**, who are mostly in rural areas. This group is among the lowest average (mean) income group.
- **Dependents** are the second largest group, and more than half (71%) of them live in rural areas. Their average income is low, even for those who report incomes (most do not).
- **Livestock farmers** make up 19% of the adult population making it the 3rd largest group. This group, like crop farmers, is mostly rural and male and have a low average (mean) income.
- **Informal SMEs** are the 4th largest group; over 50% of this group lives in urban areas and they have relatively low income.
- The above four groups account for 86% of adults, with the remaining 14% split between **formal employees, informal employees** and **"other".** Formal employees have the highest average income, and are predominantly urban, while informal employees have much lower incomes and are almost evenly split between urban and rural.

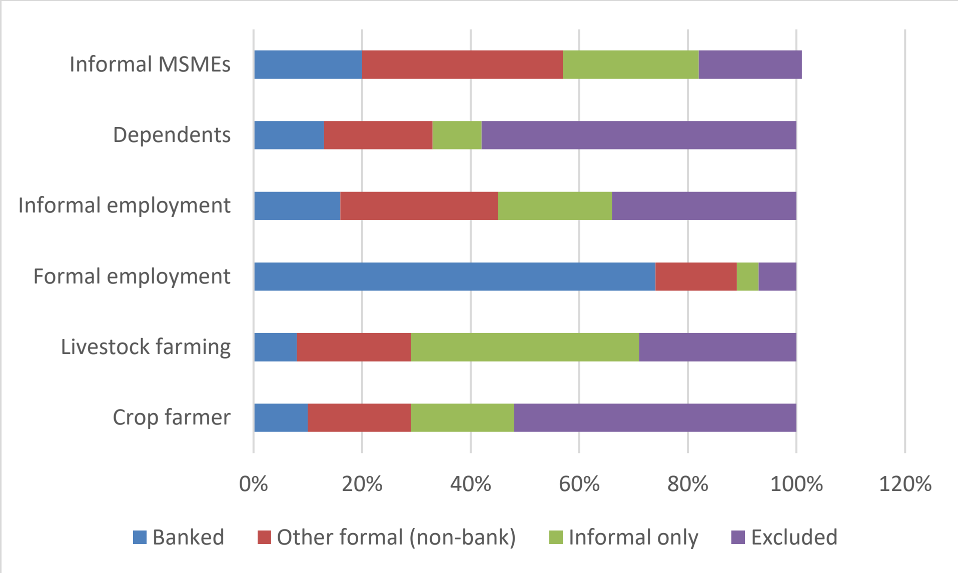
Figure 47: Target markets by size, location and average income



Source: FinScope 2016

7.2 Target group characteristics

Figure 48: Access to finance by target markets



Source: FinScope 2016

The Formally Employed group has by far the highest financial inclusion level (93%). The majority are (74%) banked, due to their steady and relatively high incomes. They are followed by Informal MSMEs (82%), whose level of financial inclusion is slightly above average, driven mainly by access to MFIs, even though their average income level is not very high. They are followed by Livestock Farmers who are mostly financial included (71%). Crop farming have the lowest level of access to banking (10%), 52% are financially excluded and overall financial inclusion is 48%. Informal employment ranks 4th in financial inclusion (66%). Dependents are the most financially excluded group (58%).

Figure 49: Summary of target group characteristics

Source: FinScope 2017

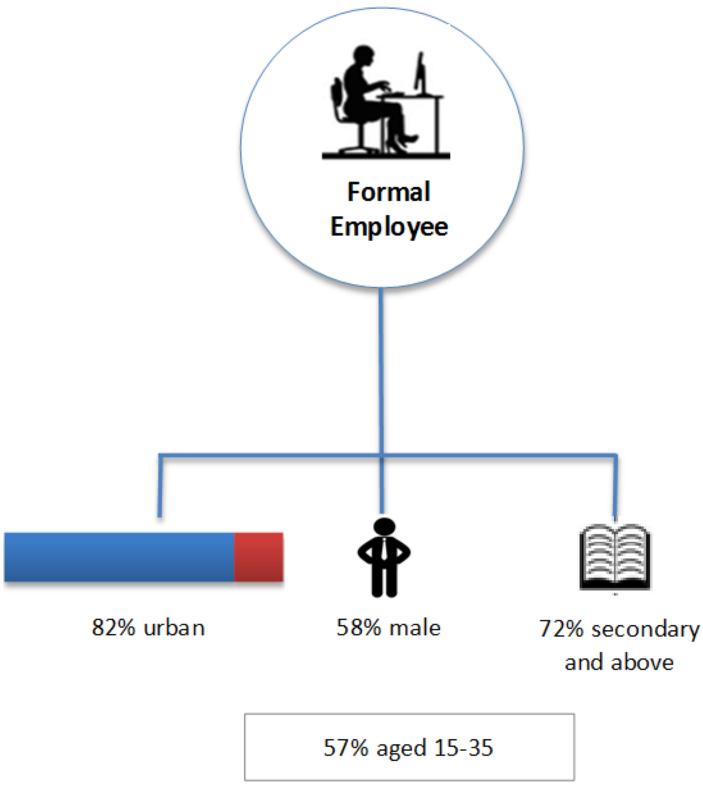
Below, each segment is analysed in more detail in order to conclude on the key financial services needs for that segment.

7.3 Financial service usage and needs

Formal Employment

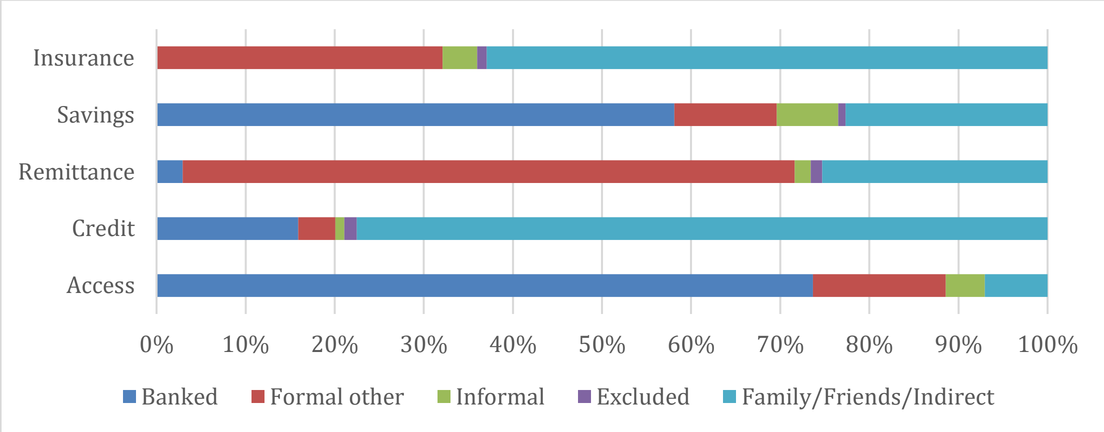
This section analyses the Formal Employee group. This segment consists of adults with a regular monthly salary, including those employed in the private sector and the public sector, the self-employed in the formal sector, and those living off of pensions and annuities. This group is relatively small, and makes up 9.1% of the adult population in Burkina Faso.

Figure 50: Formal Employment group key indicators



Urban, male, fairly well educated and high income. The majority of the Formal Employment group, (82%) reside in urban areas. About 46% are over the age of 35; 33% have done their post-secondary i.e. university or technical/vocational training and 72% have at least secondary education. This segment is dominated by males (58%) and has the highest average (mean) income of 162,348 FCFA per month of all target groups.

Figure 51: Formal Employment strand



This group is mostly financially included, with only 7% of adults being financially excluded. Almost three-quarters (74%) of this segment is banked, with "formal other (only)" (mostly MFIs) at 15% and informal financial services (only) with a low uptake of 4%.

The Formal Employment group has high uptake of formal savings accounts (58%) and moderate insurance uptake (32%). This is likely to be mainly driven by (mandatory) vehicle insurance and credit life insurance. Despite their regular income, they have a low uptake of formal credit (16%) and the majority (78%) are excluded from credit use. There is a high use of remittances, with the majority of adults in this group (69%) using other formal services. Almost all of this group (91%) have access to a cellphone.

Key Financial Service Needs: Formal Employment Group

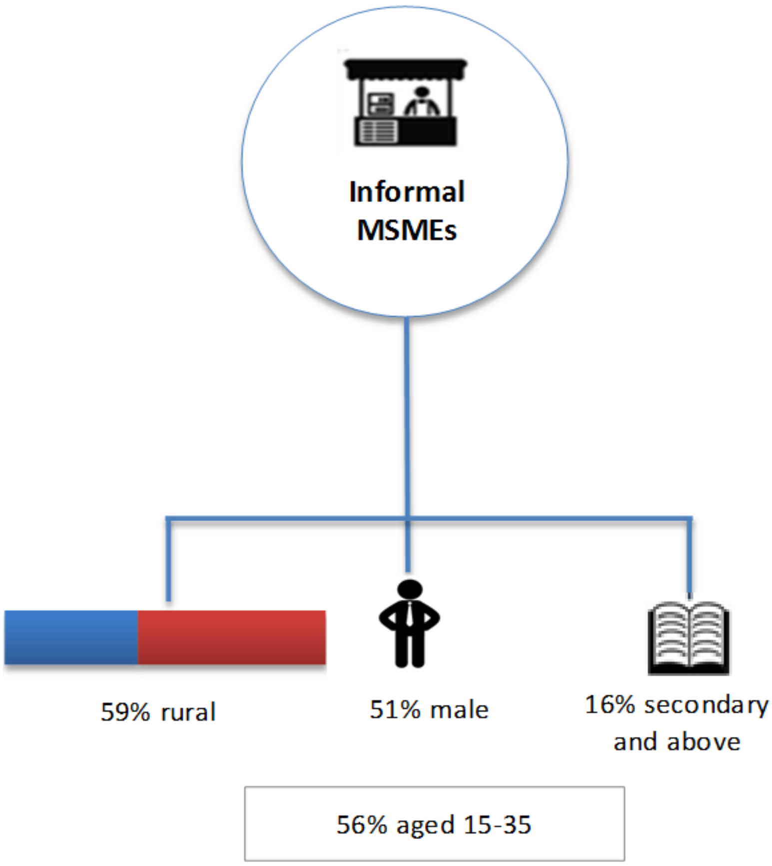
Most of the Formal Employment group is financially included; only 7% are excluded. Therefore, financial inclusion should not be made a main priority. There is however an opportunity to increase formal credit services since a large proportion (78%) is not borrowing. There are several ways technology can improve the loan process for both the lender and the borrower by adopting digital loan solutions to streamline the process. One of the main advantages of dedicated apps for mobile loans is that that security is integrated into the programming. From *Urban, male, fairly well educated and high income.* The majority of the Formal Employment group, (82%) reside in urban areas. About 46% are over the age of 35; 33% have done their post-secondary i.e. university or technical/vocational training and 72% have at least secondary education. This segment is dominated by males (58%) and has the highest average (mean) income of 162,348 FCFA per month of all target groups.

Figure 51 we also note that a large percentage (63%) of formally employed adults are not insured. Mobile and digital technologies can be utilized to enhance access to insurance schemes. Investing in mobile applications is an overall beneficial situation for insurance brokers and insurers. Clients get the services they need, when they need them and where they need them, it is made more convenient and will perhaps prompt more users to take up the service. While services like mobile money and e-money can additionally broaden monetary access for this reason, it is important to build up secured and reliable platforms to protect data privacy and funds.

Informal MSMEs

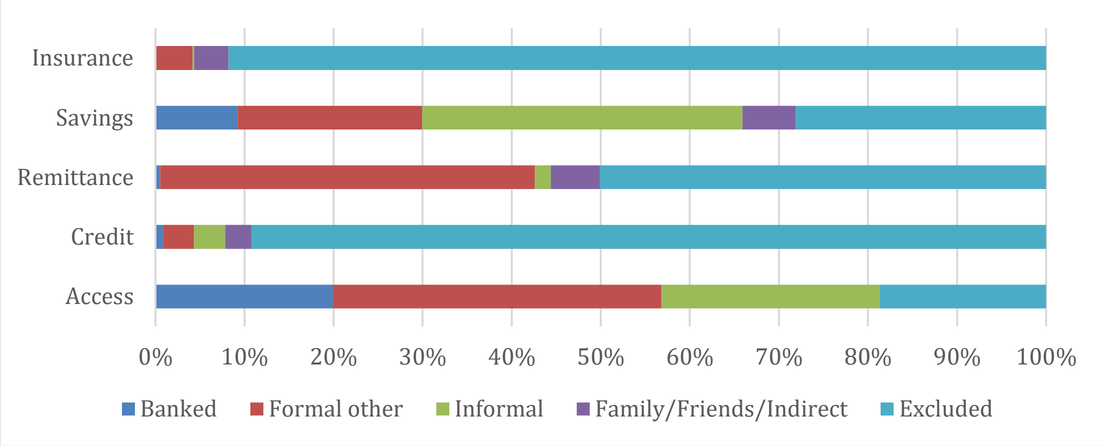
This section analyses the Informal MSME target group. This segment consists of adults that are self-employed (informally) and those that trade goods and services that are not farming related. This is 15.5% of the adult population in Burkina Faso, making it the 4th largest target group. Their average (mean) income is relatively high at 46,511 FCFA per month (the second highest across all groups).

Figure 52: Informal MSME key indicators



Rural-based and male. Around 59% of the population in this target group lives in rural areas – a majority, but less than the average across all adults. This group is almost evenly split with the female population (49%) and male population (51%). A small percentage (1%) have completed their post-secondary education and vocational training and about 16% have secondary education or better, 61% had no formal schooling. Access to cellphones is high at 92%.

Figure 53: Informal MSME strand



Good financial access. This target group has good financial access, with only around 19% being financially excluded. Roughly 20% of the segment is banked, with "other formal" (only) at 37% and a quarter of this segment (25%) uses (only) informal financial services.

Little use of insurance. Informal MSME owners are mostly financially excluded (92%) when it comes to insurance. Due to the nature of this group's income, i.e. irregular and unstable, they have a very low uptake of formal credit (5%). In this group, 3% of adults use informal credit, but most make no use credit (89% are excluded). Half of this group is excluded when it comes to remittance (50%) while the remainder mostly make use of other formal services (42%).

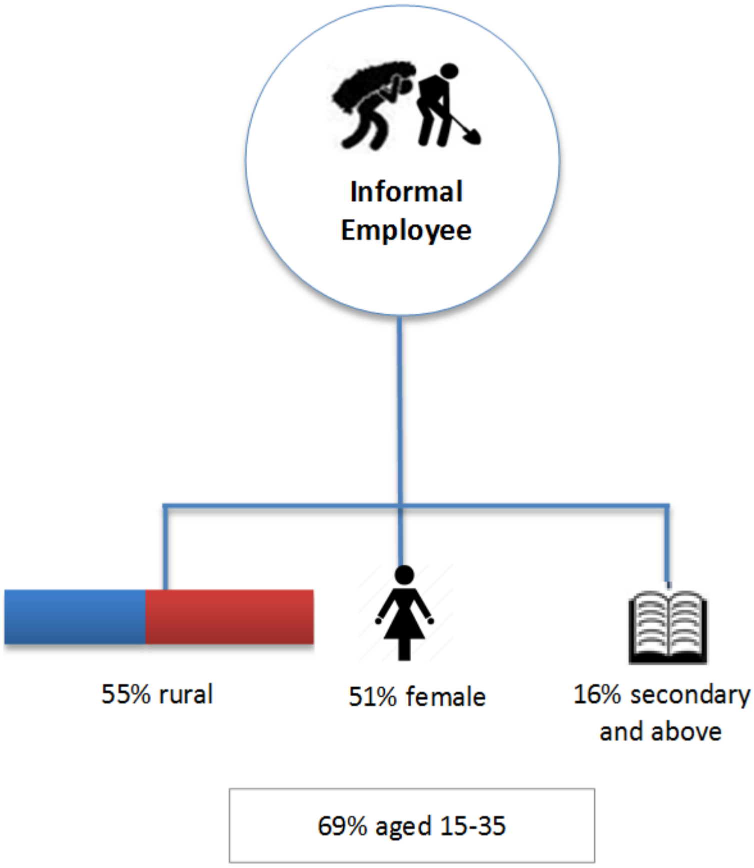
Key Financial Service Needs: Informal MSMEs

This group mainly transacts in cash. They have high risks, and their incomes may be irregular or unreliable, and quite low. They therefore need to make use of effective transaction accounts. Transaction accounts must be useful and serve as a gateway to other financial products such as savings, credit and insurance. For business purposes, cheap and reliable payments and remittance products may help. Better access to small-scale credit may assist them develop their business activities, for which a broader range of terms may be appropriate (i.e. less reliance on fixed collateral and guarantees). Trade credit is also an important source of finance for many MSMEs, which can substitute or supplement short-term bank lending.

Informal Employment

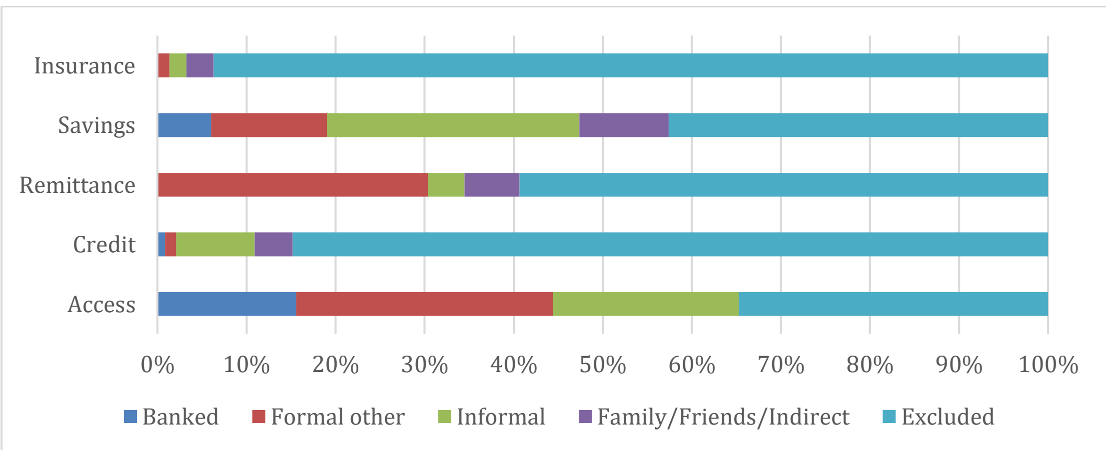
This segment consists of adults that rely on low-wage jobs, that is, piecework or casual labor, and those employed by private individuals.

Figure 54: Informal employment key indicators



Low income, young, and poorly educated. This group the smallest economic group by number (4% of adults). It is the lowest earning group (average monthly income of 29,318 FCFA). Although it is mostly based in rural areas (55%), it is more urban than the population as a whole. This segment is relatively young, with 69% aged under 35, and has almost an even ratio of males (49%) and females (51%). The informal employment group has a low level of post-secondary education training (2%), and 16% have secondary education or better. 85% have access to cellphones.

Figure 55: Informal employment access strand



This target group has a low access to banking (16%), although this is only marginally below the average for all adults (18%). Access to formal services is moderate (29%), while 35% of this segment is excluded. This is expected given the unstable nature of jobs and low, irregular incomes. The informal employment group has the highest use of informal credit (9%) of all target groups, and the third highest use of informal savings services (28%) after informal MSMEs (36%) and Livestock farmers (52%). It has a low uptake of credit and insurance services, with exclusion rates at 85% and 94% respectively. Credit is mainly dependent upon informal providers and friends & family.

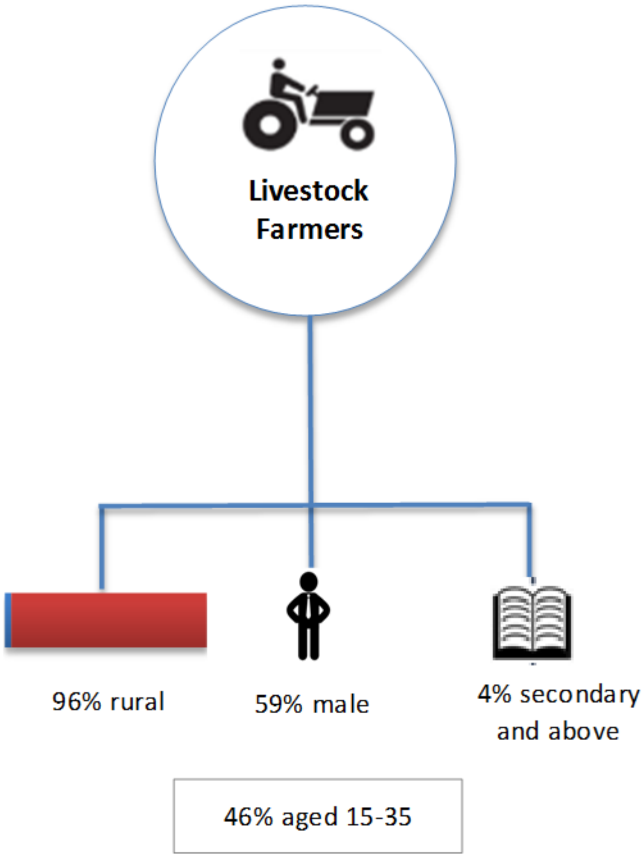
Key Financial Service Needs: Informally Employed

This segment is of high priority in financial inclusion, across all services. It is mainly cash based, and has limited access to credit as 85% are not borrowing, and there is little use of formal credit. Their main credit needs are for short-term credit to help cope with income fluctuations (income smoothing). Flexible loan products are needed, specifically catering to the needs of this sector, as well as the development of new delivery channels for lending to the informal sector directly and indirectly. Banks are unlikely to lend to low income informal employees directly, but could do so indirectly through mobile money operators and MFIs. There is scope for providing access to formal finance using innovative methods, such as phone-based micro credit. There may also be scope for group-based savings and credit, in a similar manner to the village-saving and credit groups supported by NGOs such as CRS and PLAN.

Livestock Farmers

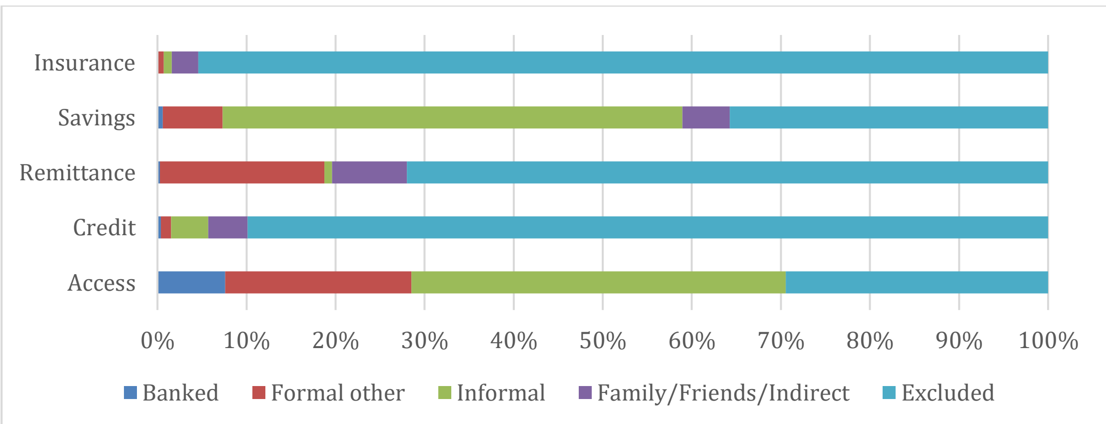
This segment represents adults that rely mainly on income from agriculture-related activities, in this case, from the sale of livestock. There are some farmers who generate significant income from agriculture.

Figure 56: Livestock Farmers key indicators



Rural, not well educated and low incomes. This group constitutes the 3rd largest segment of the total adult population (18.9%) after crop farming and dependents. Only 14% this group have at most attained secondary education, and majority (85%) have never attended school. They are also an older group, with 46% being over 35. In addition, 96% of this segment lives in rural areas and more than half the group is male (59%). This group also has a low average (mean) income (31,824 FCFA). Most (85%) have access to cellphones.

Figure 57: Livestock Farmers access strand



Mostly financially included. Of the adults in the livestock farming segment, 8% are banked, 21% are provided for by other formal services, while financial exclusion is at 29%. This group has a relatively high uptake of informal-only financial services (42%).

Financial access for this group is mainly driven by savings. The majority of savings for this segment is provided by informal services (52%), which is the largest relative to other groups. This is largely because livestock is counted as a form of saving. They do not make much use of insurance – perhaps due to limited specialized insurance products for farmers, such as agricultural insurance relevant for livestock. Most farmers do not have access to formal credit, and indeed most farmers do not use credit at all. It is furthermore noticeable that the farmers' participation in the remittance market is low (28%) relative to other target markets.

Key financial service needs: Livestock Farming

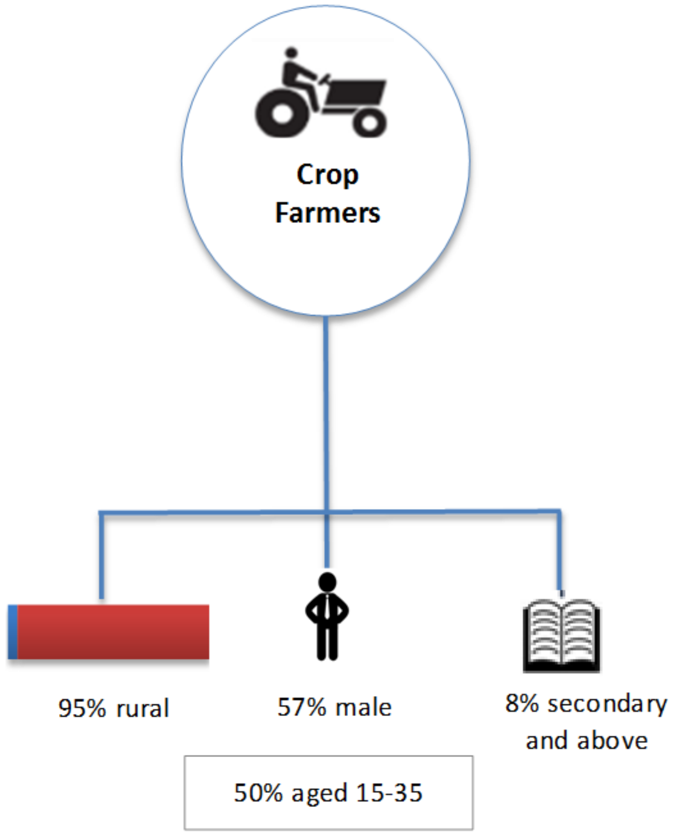
Some members of this group can potentially move from subsistence towards commercial farming with the right support; Banks or other financial institutions can provide loan schemes that serves the purpose to finance acquisition of livestock (cattle, sheep, goats, pigs). Other financial service needs by some farmers include insurance (loss of livestock) and long-term savings products.

There is a need to develop financial literacy programs to ensure people can make sound financial decisions, select financial products that best fit their needs, and know how to use related channels, such as mobile money.

Crop Farmers

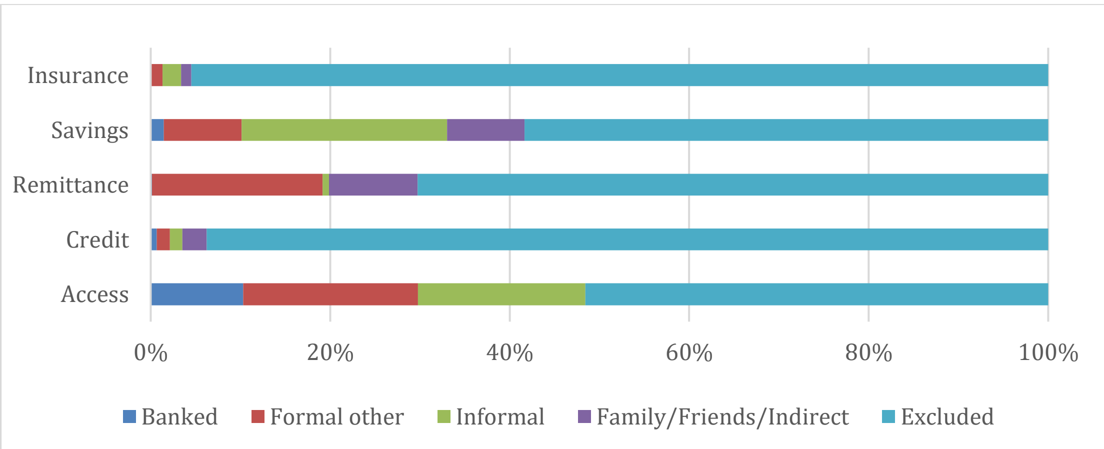
This segment represents adults that rely mainly on income from agriculture-related activities, in this case, harvesting crops. For some farmers the main crop is cotton, which has a relatively organized value chain that provides an entry point for financial institutions. For other crop farmers, the value chains are less well organized.

Figure 58: Crop Farmers key indicators



Rural, not well educated, low income, male. This group constitutes the largest part of the total adult population (27%). About 21% this group have at most attained secondary education, and the majority (79%) have never attended school. Half of this group is aged between 15 and 35, making it older on average than the adult population as a whole. In addition, 95% of this segment lives in rural areas and more than half the group is male (57%). This group's (mean) income (32,419 FCFA) is among the lowest of all the target groups. Most (79%) have access to cellphones.

Figure 59: Crop Farmers access strand



Low access to finance. Only 10% of the adults in the crop farming segment are banked, 19% are provided for by other formal services and more than half of this target market is excluded (52%). Informal only financial services are low (19%).

Savings for this segment is provided mainly by informal services (23%). This is less than that of livestock farmers. They do not make much use of insurance as with the case of livestock farmers. Most farmers do not have access to formal credit (94% excluded). Also to note, like livestock farmers, remittances are low (73% are not remitting).

This group also has relatively low understanding of financial products, and also does not have convenient access to financial service providers.

Key financial service needs: Crop Farming

Like informal employment, the majority of financial services used by farmers are carried out through informal means. They need access to targeted seasonal agriculture finance and value chain finance. Higher income farmers also need longer-term savings products for asset accumulation and retirement. Some farmers could resort to crop insurance or agricultural insurance if the product is suitable (e.g. against climate-related damage such as droughts and flood, or pests).

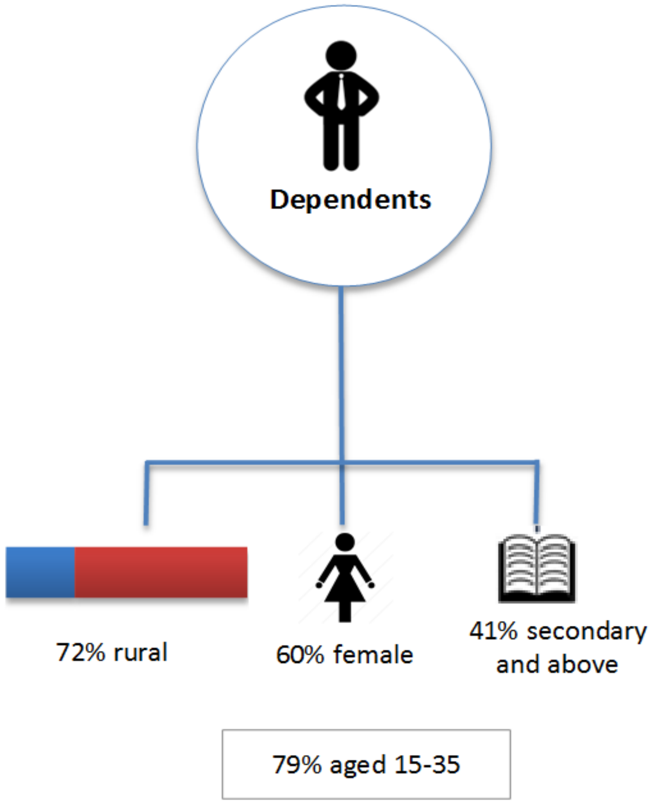
Banks and MFIs could offer loans to serve the purpose of financing the acquisition of agricultural movable assets including tractors and other farming equipment. Also, credit schemes to finance the production costs directly related to the cultivation of the crop and other farming activates can be provided, for instance through warehouse financing. Agricultural insurance can be explored, perhaps linked to weather index data.

Effective use of financing opportunities will also require training in financial literacy. Crop farmers do not have ready access to outlets of financial institutions (banks and MFIs), so other channels will need to be used (co-ops, and/or mobile money).

Dependents

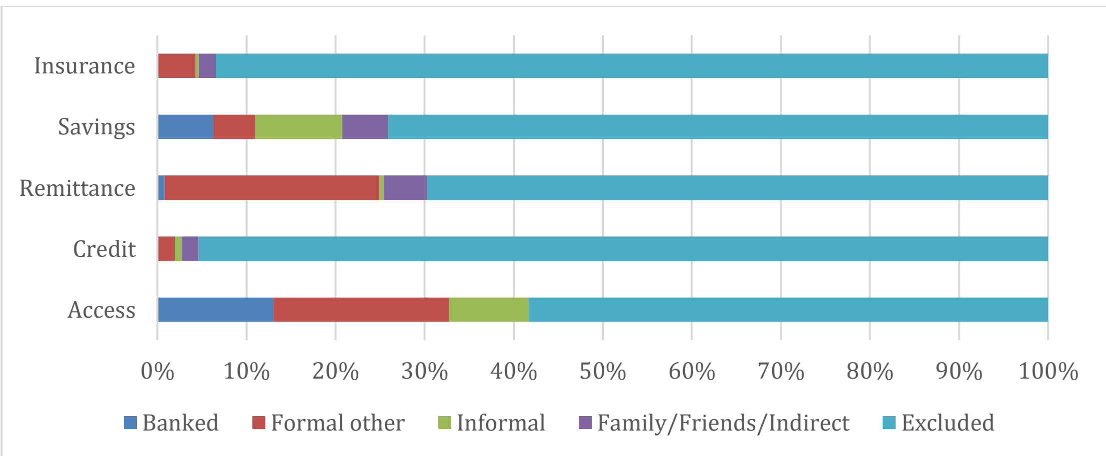
The dependents group consists of adults that are receiving some sort of income from the government, including state pensions or grants, or are supported by families or other individuals. This group is the second largest after crop farming, and makes up 19.8% of the total adult population with 1,983,637 adults.

Figure 60: Dependents key indicators



Young, female and rural. A moderate amount in this group have at least a secondary education (41%). It is also a young group with 79% being 35 or under. In addition, 72% of this segment lives in rural areas and it is primarily female (60%). Not surprisingly, this group is also among the lowest average (mean) income groups (29,351 FCFA) for those who report an income), and many of them report having no income but receive direct support from others, mainly family members. 87% have access to cellphones.

Figure 61: Dependents access strand



This group has a low uptake of banking services and is mainly financially excluded (58%). There is a low uptake of credit (95% not borrowing) and insurance (93% not insured) and the majority are not saving (74%). This could be due to the relatively young age distribution of this segment. As many do not receive a cash income, their demand for financial services is low in comparison to the other groups.

Key Financial Service Needs: Dependents
Due to the young age of this group, and their lack of cash income, the need for inclusion in financial provisions is long-term rather than immediate. Women in these developing countries are less likely than men to have an account and less likely to have borrowed from a formal financial institution. Financial institutions must adapt financial products to suit women's needs. This effort can range from providing women with valid ID cards and enabling them to independently open an account to enhancing their ability to make basic financial decisions
The biggest need would be for enhanced access to low-cost, convenient transactions and savings options and easy access to the account - perhaps through the use of mobile services.

7.4 Target Market Conclusion

Segment	Size	Main realities and needs
All segments	9,337,871	• Financial literacy; consumer protection
Formal employment	909,583	• 5th largest group. Well served, high level of financial inclusion, multiple products, high average income. • Supporting extended families hence need for low-cost remittances/transfers. • Low use of insurance and credit services; need financial education. • Needs: varied range of insurance products; quick and flexible access to credit through appropriate channels; financial education
Informal MSMEs	1,497,775	• 4th Largest group, male, high income. • Limited access to credit. • Need for non-cash means of receiving and making payments, short-term store of value. • Need for MFIs or other SME credit; medium / long term savings and insurance
Informal Employees	345,878	• Smallest group, low income, mostly paid cash. • Need alternative means of receiving payment, facilities for saving (consumption smoothing)
Farmers	4,600,998,	• Largest group, lower income. • Split into crop farmers (largest group) and livestock farmers (3rd largest). • Savings for agricultural inputs, assets; retirement • Targeted agricultural credit (value chain finance, equipment financing) • Agricultural insurance
Dependents	1,983,637	• 2nd largest group, low income. Dependent on household/extended family support/transfers. Many without cash income. • Main needs: long-term; low cost and easy access transactions and savings services.

8. Input Note 2: Payments

8.1 Introduction

In the financial sector payments services are important for a number of reasons. First they are part of the financial sector infrastructure, and the ability to make and receive payments is closely linked to the provision of other financial services, i.e., products such as savings, credit and insurance all involve a financial transaction between the customer and a financial institution. Hence the accessibility and efficiency of the payments system affects the provision of a wide range of financial services. Access to payments services provides a gateway to other financial services. Second, payments services link customers across time and space. Third, a great deal of innovation is taking place in payments services, which is enabling increases in efficiency, reductions in costs, and hence improvements in access. In particular, innovation is enabling payments services to be delivered via electronic points of contact with customers rather than physical locations. This is important in environments where access has been constrained by the high costs of physical points of presence.

Payments services at the level of the consumer can be broadly classified into two types:

- Transactions: payments related to the purchase or acquisition of goods and services. These may be retail
- Remittances: sums of money sent by one person to a recipient in a different location

Payments services can involve a range of economic agents, which can be broadly classified as Individuals (Persons) (P), Businesses (B), and Government (G). The types of payments between these agents vary, and include the following examples:

- P2P: remittances from one person to another
- P2B: bill payment (for goods and services)
- B2P: payment of wages
- B2B: payment for supplies/business inputs
- G2P: payment of pensions, welfare payments, subsidies etc.
- P2G and B2G: payment of taxes

8.2 Payments infrastructure

The (non-cash) payments system (with its associated clearing and settlement) involves extensive infrastructure. At the retail level, this includes ATMs (for cash withdrawals/deposits), and POS machines (retail payments). These are mostly card-based and linked to accounts at banks or other financial institutions. However, there are new types of products emerging, such as proximity readers (near-field communications (NFC)), and mobile phones. Proximity readers are widely used on public transport systems (underground trains, buses) and are increasingly being used for general retail transactions.

Mobile phones are particularly important in the new payments ecosystem, for a variety of reasons. Mobile phones provide:

- an access point to accounts held at other institutions (e.g. mobile banking);
- a vehicle for new types of account (e.g. mobile money);
- an access point for innovative products (e.g. remittances, insurance);
- a source of data (phone usage, mobile money usage);
- a vehicle for innovation.

Mobile phones are also widely held and cheap, and their technological capacity is evolving rapidly.

Background infrastructure

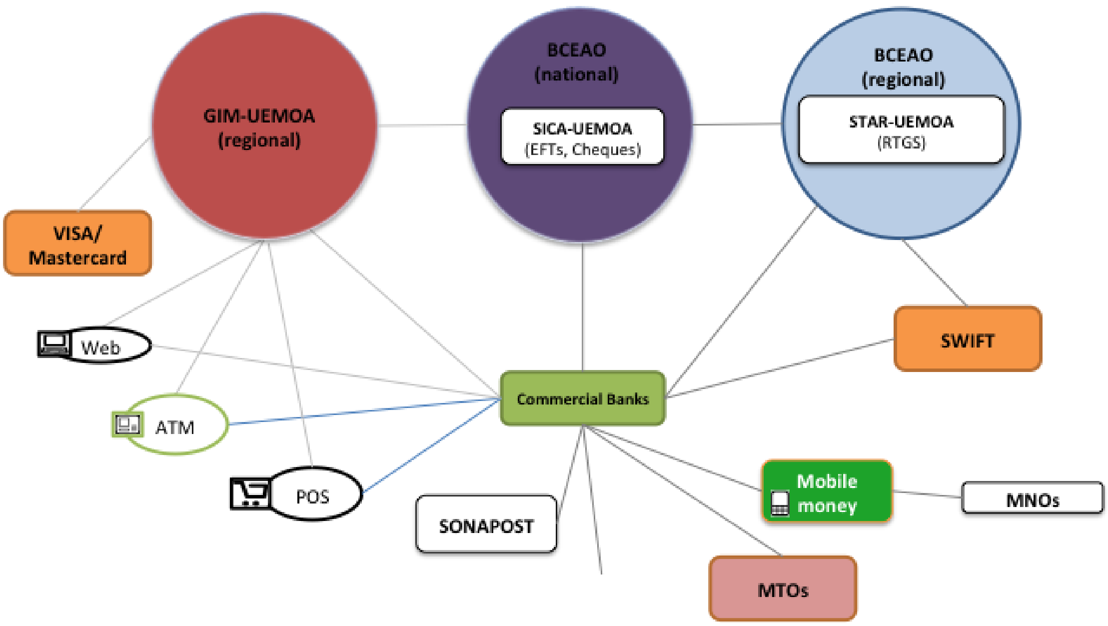
Payments link customers via different types of financial institutions. Payments instructions have to be handled and routed appropriately, e.g. a cash withdrawal using a card at an ATM has to be linked to an account; a mobile money transfer has to move funds between different accounts; a payment for a purchase of goods has to link the customer and the business; and money has to move between banks for settlement. All of these involve payments infrastructure, which can be broadly divided into three types, including:

- Retail infrastructure – for acquiring and directing payments instructions from customers
- Clearing and settlement systems – clearing these instructions (making sure that the payer has sufficient funds to complete the transactions) and settling the resulting obligations
- High value systems – linking banks and central banks for the processing of high value payments and settlement instructions.

Payments institutions

Institutions involved in the payments system in Burkina are described in some detail in Section 3 of this report. Under WAEMU rules, the payments system is bank-dominated; non-banks are restricted in the manner in which they can participate in payments activities. MFIs can undertake some limited payments activities, while other participants (such as money transfer operators) can only do so indirectly. Mobile money is provided by banks and MNOs. Clearing and settlement services are provided by BCEAO systems.

Figure 62: Burkina Faso Payments System



Source: authors

8.3 Regulation

Payments, clearing and settlement systems are usually regulated by central banks. Regulations determine which type of institutions can offer what types of payments services, and hence the nature of entry and competition in the payments system. They also make provision for safety, security and reliability in the payments system, and determine what happens in the event of failure of payments instructions or of system participants. They also determine the technical and performance standards that must be met.

The regulatory environment for payments is described in detail in Section 4. Amongst the key characteristics are:

- Most payments services are restricted to banks;
- Only banks have accounts at the BCEAO and can participate in national and regional clearing and settlement systems;
- Only the BCEAO can operate clearing and settlement systems;
- There is no provision for the private sector to set up an operate payment services, other than through banks.

This final point is restrictive and not in line with international practice. It is increasingly the case that innovation in payments is coming from a variety of non-bank financial technology firms (fintechs) that build upon the opportunities offered by the mobile money ecosystem and technology.

With innovation taking place, Burkina Faso (and WAEMU more generally) should be open to allowing non-bank payment service providers (PSPs) to operate, with the necessary processes for licensing and oversight. This would require the development of new legislation.

8.4 Usage

The FinScope survey gathers a great deal of information on the usage of payments (transactions and remittance) products by Burkina Faso adults, as well as on the barriers to usage.

Transactions

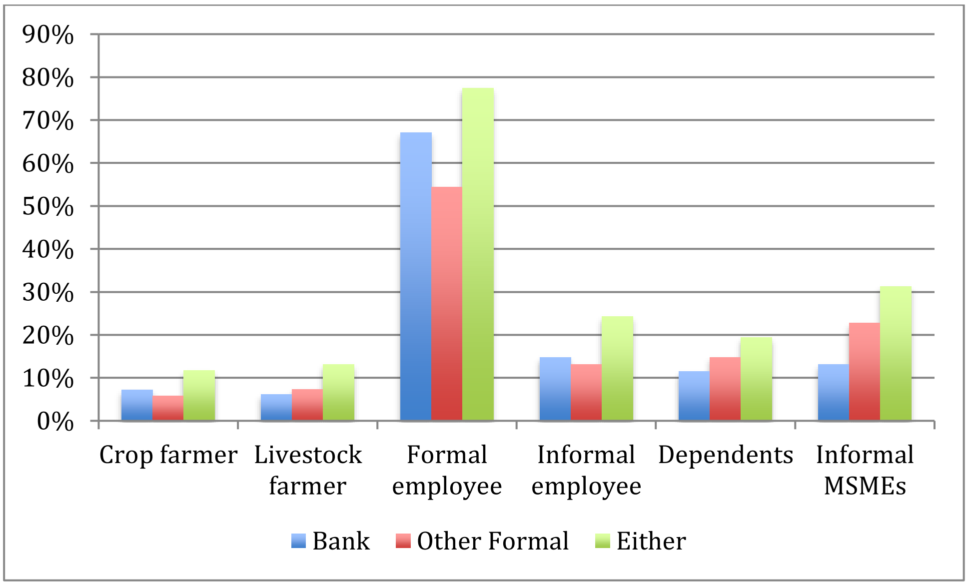
For transactions (payments for the purchase of goods and services), Burkinabe adults rely predominantly on cash. Only 23% of adults make use of non-cash means of payment. Usage is predominantly urban, and tends to be more by males than females. Across the different target groups, usage of non-cash payments products (mainly bank debit cards or mobile money) is particularly high amongst the formally employed, and very low amongst the farming groups. It is encouraging that over 30% of informal MSMEs use non-cash payments methods for at least some transactions.

Table 13: Use of non-cash transactions products (% of adults)

All adults	Urban	Rural	Male	Female
23%	56%	12%	26%	19%

Source: FinScope 2016

Figure 63: Transactions usage across target groups



Source: FinScope 2016

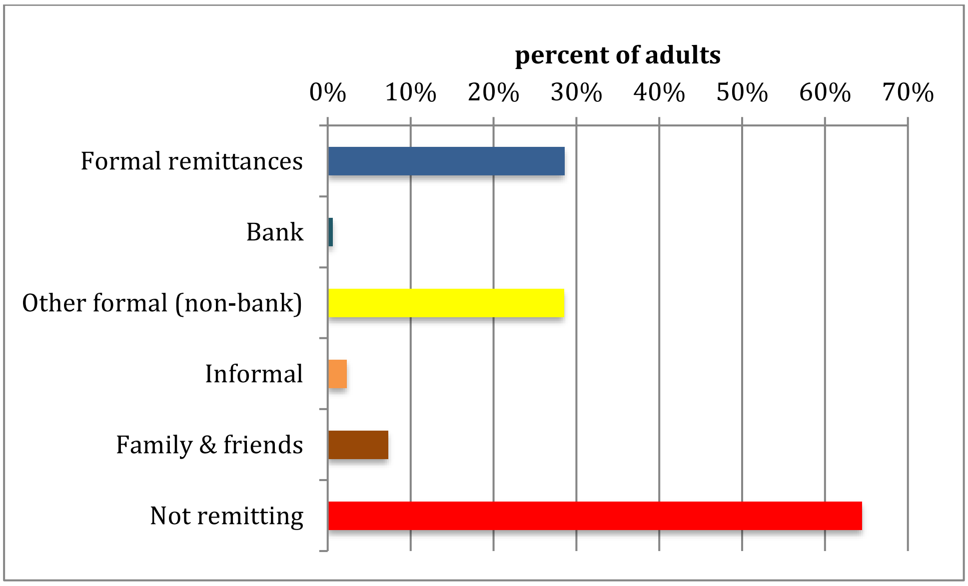
There are a number of barriers to the use of non-cash means of transactions in Burkina Faso.

- Bank cards are available only to those with bank accounts. MFIs, which are widely used, do not issue payments cards;
- The infrastructure for using payments cards – such as POS machines – is limited;
- The use of mobile money for transactions (as opposed to remittances) is limited;
- There is very little capacity amongst merchants to accept payments via mobile money, and it is mainly limited to bill payments such as for TV, water and electricity;
- Merchants are reluctant to accept electronic payments, and have a strong preference for cash.
- The use of mobile money for the payment of other financial services, such as insurance, repayments of loans, has not yet been developed.

Remittances

Remittances are more widely used than transactions; 36% of adults claim to have remitted (as sender or receiver) over the past 12 months. The most commonly-used channels are a variety of non-bank formal channels, including MFIs, mobile money operators, the Post Office, money transfer operators etc. In contrast to some other countries, there is greater use of formal remittance channels than informal or friends and family channels.

Figure 64: Remittance usage (past 12 months)



Source: FinScope 2016

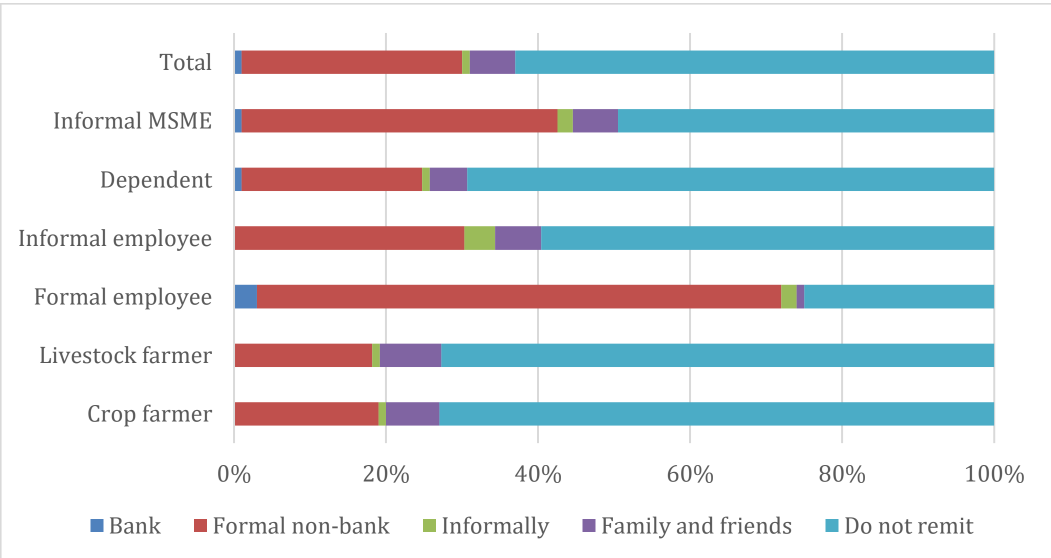
Table 14: Use of remittances (% of adults)

All adults	Urban	Rural	Male	Female
36%	64%	26%	39%	32%

Source: FinScope 2016

Use of remittance is highest amongst the formal employment group, as would be expected as they have the highest incomes. This is followed by those in the informal sector, both SMEs and employees. Farmers and dependents make relatively little use of remittances.

Figure 65: Remittance usage by target group



Source: FinScope 2016

8.4 Mobile money

Mobile money is growing rapidly in Burkina Faso. At the time of the FinScope survey in 2016, around 3 million adults (30% of the total) said that they were mobile money users. Around

10% of adults use mobile money to send remittances, and 10% to receive. Usage of mobile money is much greater in urban than in rural areas, and is greater amongst males than females.

Table 15: Use of mobile money (% of adults)

All adults	Urban	Rural	Male	Female
30%	66%	19%	34%	26%

Source: FinScope 2016

There are two mobile money service providers: Orange Money (provided by Orange) and Mobicash (provided by Onatel). Orange Money has been longer-established, having been set up originally by Airtel (as Airtel Money), and has more customers than Mobicash.

Amongst mobile money users, the main perceived advantages are convenience and price. It is also important that the product is trusted. For non-users, the main barriers are lack of money and lack of understanding. Lack of access to a cellphone is less important, with 86% of Burkinabe adults reporting in 2016 that they live in a household with access to a cellphone.

Infrastructure

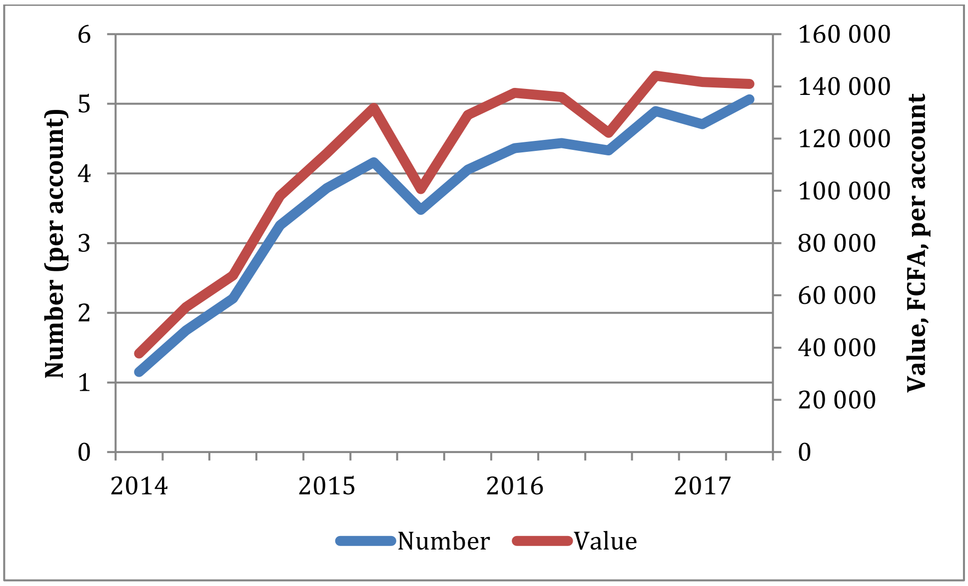
Mobile money has important infrastructure requirements if it is to be rolled out effectively. It makes use of the mobile phone network, so network coverage is crucial. While basic mobile money products can use old-style (2G) phones, based on USSD codes, newer and more advanced products require 3G coverage and web-enabled smartphones. In Burkina Faso network coverage has been growing steadily, and is good in urban areas although less good in rural areas. While most of the population are covered by at least 2G signals, only around one-quarter of the population, mostly in urban areas, are covered by a 3G signal.

Usage

The number of mobile money users has been rising rapidly. By mid-2017 there were 5.7 million registered mobile money accounts, compared to just 1.2 million in 2014. According to the BCEAO, 52% of these accounts were active as at June 2017.

Mobile money accounts are used frequently. In the second quarter of 2017 (April-June) there were 82.4 million mobile money transactions, or an average of 15 per account over three months. The most common transactions are airtime purchases and remittances (transfers). However, the value of these transactions was quite different. In Q2 2017, the average airtime purchase was FCFA 450, while the average remittance was FCFA 27 800. The frequency of use has been rising steadily, with on average five mobile money transfers per account, with a total value of FCFA 140,100, in Q2 2017 (see Figure 66).

Figure 66: Number and value of mobile money transfers, per account, per quarter

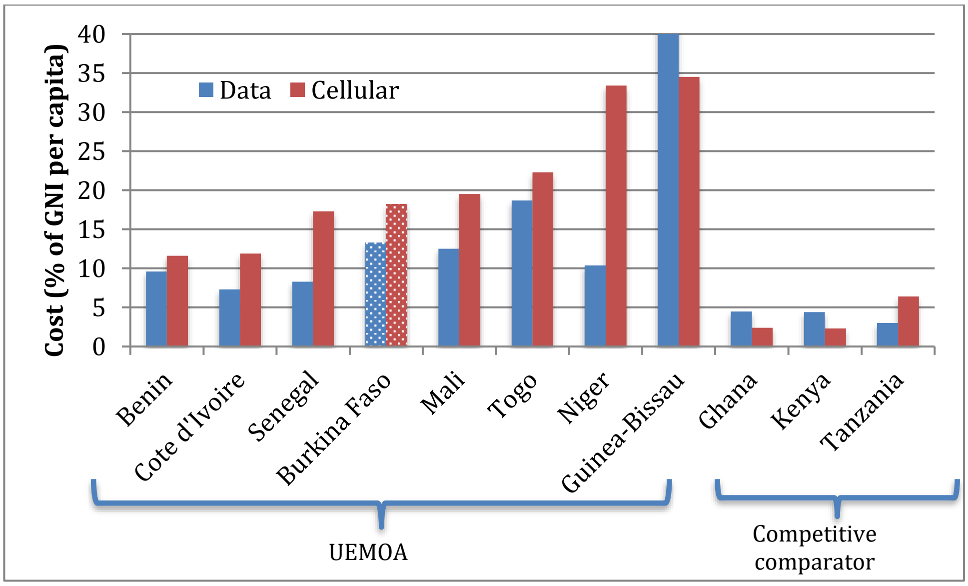


Source: MAP research

Pricing

Pricing of mobile telephony in Burkina Faso is reasonable by WAEMU standards. The mobile telephony pricing observatory for WAEMU countries maintained by the Togolese regulator, ARTP, shows that pricing of mobile phone and data services in Burkina Faso is around the average for WAEMU. However, it is clear that WAEMU countries in general are relatively expensive compared to neighbouring Ghana and other comparable Anglophone countries. On the basis of data reported by the ITU (2017), pricing in Burkina Faso is around the average for WAEMU, but much higher than in Ghana, Kenya and Tanzania, relative to average incomes (GNI per capita) (see Figure 67). The relatively high cost of mobile telephone and data access in Burkina Faso may mean that affordability is a barrier to access.

Figure 67: Comparison of mobile telephony costs, 2016



Source: ITU (2017, Country Profile Pages)

Table 16: Comparison of mobile telephony pricing, 2016 (FCFA)

	Mobile call, on net	Mobile call, off net	SMS, on net	SMS, off net
Burkina Faso	90	80	14	25
UEMOA avg. (excl. Burkina)	91	102	22	31
Ghana (FCFA equivalent)	17	19	6	7

Source: ARTP, own research

This suggests that there is scope for price reductions, through additional competition, for mobile telephony in Burkina.

A similar situation prevails with regard to mobile money, although the comparison between Burkina and Ghana is less extreme[37]. Within Burkina Faso, there is some difference between the costs of Orange Money and Mobicash. In general, the range of costs in Ghana is below the cost range of Burkina operators.

Table 17: Mobile money comparative pricing: cost to send and withdraw (FCFA)

	CFA1,500	CFA15,000	CFA150,000
Orange (subscriber to Orange Money)	250	500	1,800
Orange (non-subscriber)	400	750	3,000
Mobicash (subscriber)	250	500	2,000
Mobicash (non-subscriber)	650	1,250	5,000
Ghana (min)	125	300	750
Ghana (max)	188	563	4,500

Source: mobile money operators in Burkina and Ghana

Agents (Distributors)

A second crucial component of the infrastructure needed to support mobile money is the network of mobile money agents (sub-distributors). Agents provide, at a minimum, cash-in and cash-out services and are usually the primary point of contact to customers. Hence an extensive agent network is crucial to supporting the demand for mobile money services – if agents are not readily accessible, the service will not be convenient to users.

Even with an agent network in place, they must operate effectively, which means that agent liquidity must be sufficient to meet customer needs. Agent liquidity refers to the availability of cash (for cash out) and e-value (for cash in) necessary to support customer needs; if agents do not have sufficient cash or e-value to complete transactions, then customers will become frustrated.

Agent liquidity depends on a number of factors, including agent financial resources and rebalancing facilities. The more financial resources an agent has, the greater the level of float (stock of cash and e-value) that they can hold. The float mix is also important: if an agent has predominantly cash or e-value, then rebalancing will be necessary. Agents that predominantly handle cash-in transactions (e.g. for sending remittances) will accumulate cash and deplete e-value; and vice versa for agents that do mainly cash-out. The risk of running out of cash and being unable to meet demand for cash-out transactions is one of the main problems that agents face, especially those that are in rural areas who are more likely to do cash-out (for remittance receivers), more likely to be poor (and have less float) and be located in more remote areas (and hence find it more difficult to do rebalancing).

[37] *The ARTP observatory does not include mobile money tariffs, so there are no comparative data for WAEMU.*

Rebalancing is mainly carried out by super-agents (or distributors). Agents can deposit cash in exchange for e-value at super agents, or can receive cash that they pay for in e-value. The deposit or acquisition of cash requires a physical cash distribution network, such that agents have to visit branches of super agents, or the super agents need to have mobile distributors to visit agents.

Burkina Faso has a reasonable number of agents across the two mobile money networks. In a highly developed mobile money ecosystem, such as those in Ghana and East Africa, there would typically be at least 600 mobile money agents per 100,000 adults. To achieve this level of agent penetration, Burkina Faso would require 60,000 mobile money agents nationwide. By mid-2017, Burkina Faso had 16,400 mobile money agents (distributors and sub-distributors). The BCEAO reports that 91% of them were active. The mobile money operators report that it is reasonably easy to recruit agents, and that it is an attractive business proposition. Regulations do not permit mobile money operators to insist on agent exclusivity, although most agents tend to give priority to the marketing materials of one or other of the operators.

Although Burkina Faso could benefit from a denser network of mobile money agents, they are even now in closer proximity to users than banks or MFI branches.

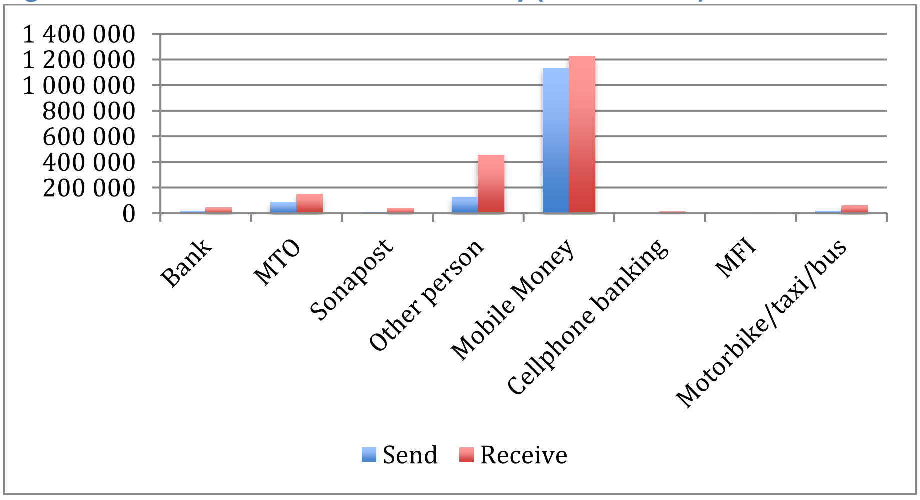
Table 18: Proximity of financial service providers to users

Type	Average time to reach (minutes)	Proportion of users within 20 minutes
Banks	48	40%
MFIs	38	41%
Mobile money	23	64%

8.5 Gaps and Opportunities

Mobile money has a high level of trust among the adult population for sending and receiving money. This provides and opportunity for the provision of a broader range of financial services using this platform.

Figure 68: Trust to send and receive money (no. of adults)



Source: FinScope 2016

The low level of literacy means that innovative and simple products are required to extend access. Mobile money products are generally quite simple. They are typically menu-driven using USSD services on cellphones (suitable for both smartphones and other phones). However, smartphones offer the potential for a broader range of provision, which can be driven by graphics and which may be more suitable for users with low levels of literacy. This requires access to 3G data networks and more sophisticated phones, and so may not yet be well suited to poor adults in rural areas. Over time, 3G coverage should increase and the price of smartphones should fall.

The proximity of mobile money agents to most adults is also an advantage. However, this needs to be extended further, especially in rural areas.

There is considerable potential to improve the availability of mobile money and associated products in Burkina Faso. Besides extending the coverage of basic P2P products – remittances (cash transfers) – there is scope for greater use of innovative electronic payments products, including:

- Payment of pensions (to retired public and private sector employees);
- Payment of subsidies to farmers (this is already being done to some extent);
- Retail payments (purchase of goods and services from merchants);
- Payment of wages (especially for the unbanked, in locations where movement of cash is expensive and/or insecure);
- Payment of (micro-)insurance premiums (the collection of small, frequent, regular premium payments is not cost-effective other than by electronic means);
- Repayment of loans, especially to MFIs (where collection costs are high);
- Cellphone/mobile money-based micro-credit products;

8.6 Action items

Improving mobile network coverage, particularly 3G networks; where this is not yet commercially viable, this can be subsidised from a fund that is available to subsidise provision in under-served areas (financed from a levy on mobile phone usage charges);

Encouraging innovation in payments services, by providing for the licensing of non-bank payments service providers, if necessary with new legislation to support the licensing and oversight process;

Fully utilise the potential of mobile money, and digital financial services more generally, for reducing the costs of financial service delivery and improving access

Further extending mobile money agent networks and improving agent liquidity.

Encouraging innovation in mobile money services, for instance:

- For purchase of goods and services (e.g. in retail stores);
- Developing mobile products in partnership with credit providers and insurance companies;
- Consider ways to make use of MNO/MM data to unlock other financial products (e.g. data for credit scoring).

Financial education: improving the understanding of mobile money amongst adults and retailers.

Developing an MoU between ARCEP and BCEAO on division of supervisory responsibilities, so that regulatory and supervisory responsibilities are clearly divided between telecommunications services and financial services;

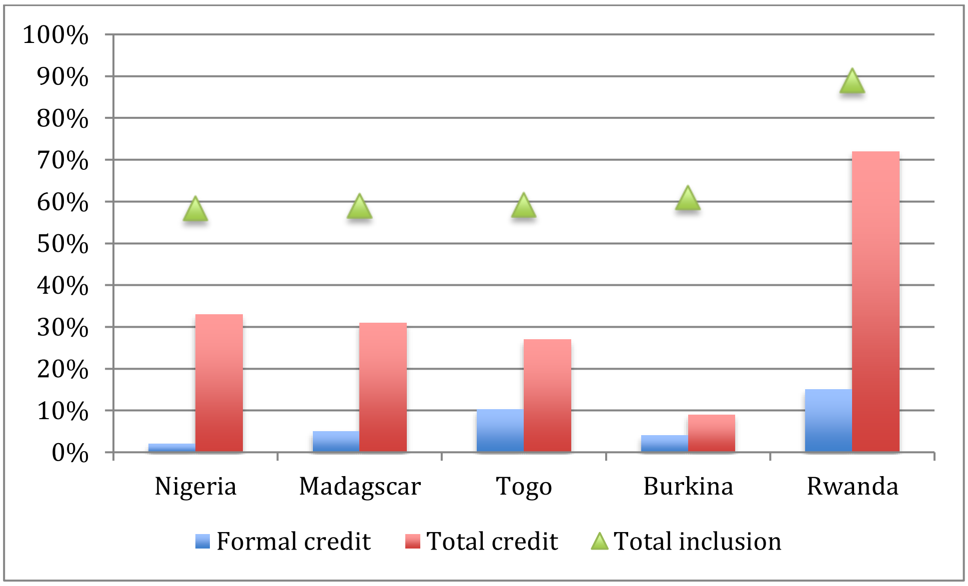
Ensuring that non-MNO operators have ready access to USSD codes, to allow innovative product delivery.

9. Input Note 3: Credit

9.1 Introduction

The use of credit in Burkina Faso is low, even by the standards of low-income countries with limited financial inclusion. As Figure 69 shows, the use of credit in Burkina Faso was less than 10% in the 2016 FinScope, compared to 33% in Nigeria, 27% in Togo, 31% in Madagascar and 72% in Rwanda. All of the countries except Rwanda had overall financial inclusion around 60%.

Figure 69: Use of credit and financial inclusion – selected countries (2016)



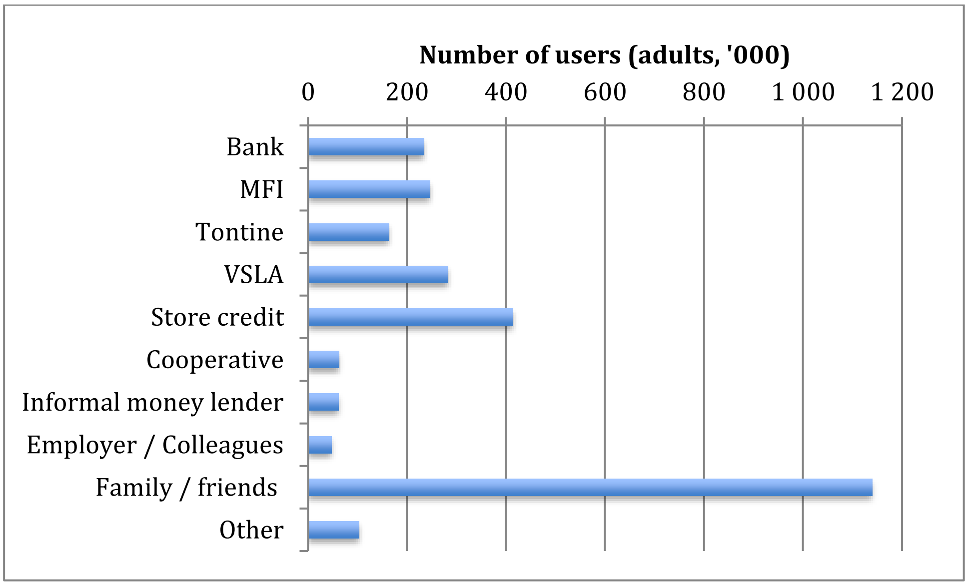
Source: FinScope surveys, various

However, it should be noted that the FinScope credit strands measure current use of credit. In Burkina Faso, the FinScope survey also asks whether people have used credit in the last six months, and the number of respondents who have done so is much higher – an additional 14% of adults. The analysis in the remainder of this chapter will focus on the 23% of Burkinabe adults who are either borrowing now or who have done so in the past six months.

9.2 Main sources of credit

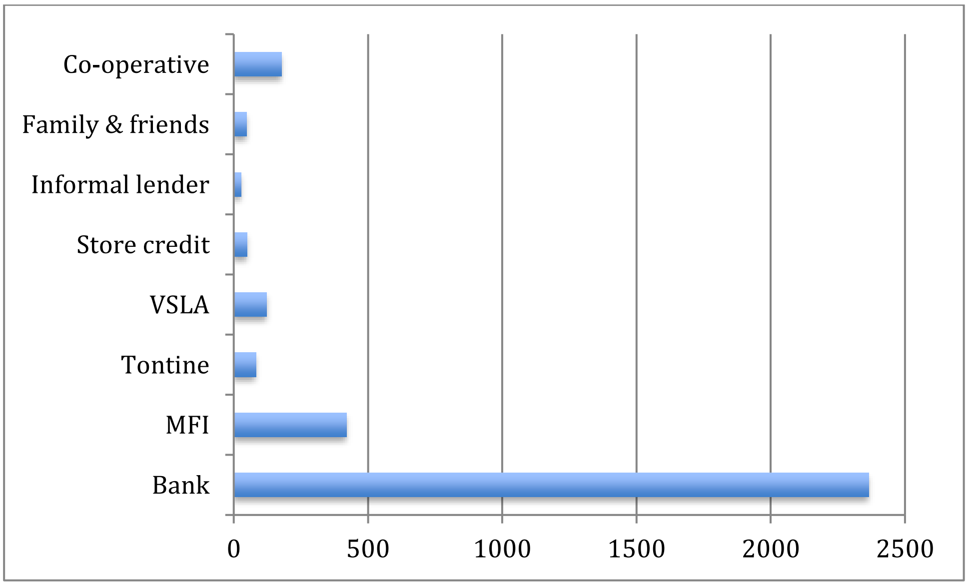
As noted above, only around 9% of adults in Burkina Faso are currently borrowing or have borrowed in the past six months, with only 4% borrowing from formal sources (banks or MFIs). Most credit is informal. Nearly half of borrowers (42%) use friends or family, which is by far the most common source of credit.

Figure 70: Sources of credit (now or in the last 6 months)



Source: FinScope, 2016

Figure 71: Average amounts borrowed (FCFA, '000)



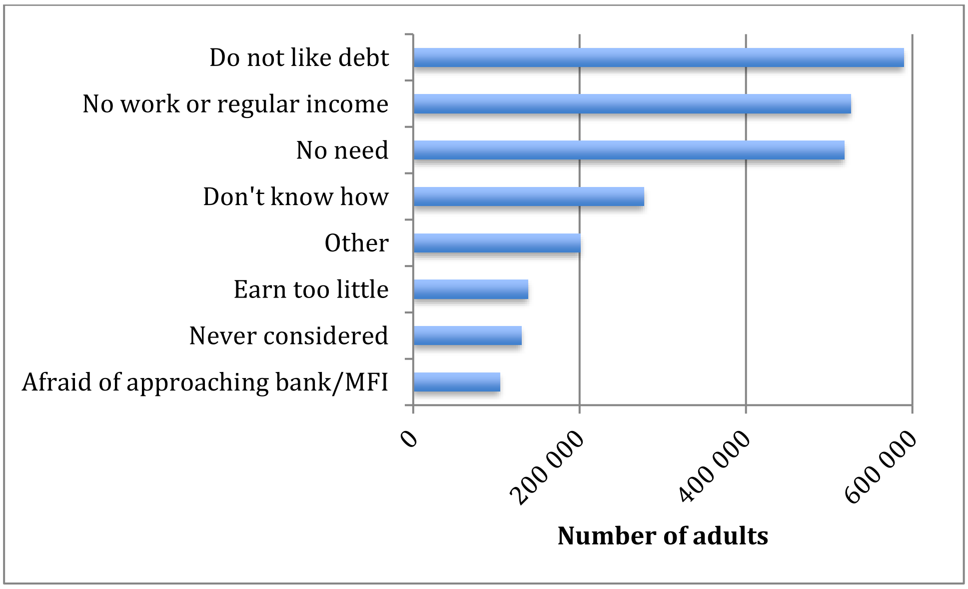
Source: FinScope, 2016

The amounts borrowed vary a great deal by type of lender. Unsurprisingly, loans from banks are the largest, on average, while loans from informal sources (family & friends, retail stores) are the smallest. In between are the informal/semi-formal sources that are specifically focused on providing financial services, including credit, i.e. tontines, VSLAs, and co-operatives.

9.3 Reasons for the low use of credit

When asked what the barriers are to borrowing, adults cite a number of reasons. Many people do not want to borrow either because they do not like debt, or because they do not need to borrow. Others consider that the problem is mainly income-related, in that they do not have a regular income, or do not earn enough. A third group of reasons relate to people who do not know how to go about borrowing, or are afraid to approach lending institutions.

Figure 72: Barriers to obtaining credit

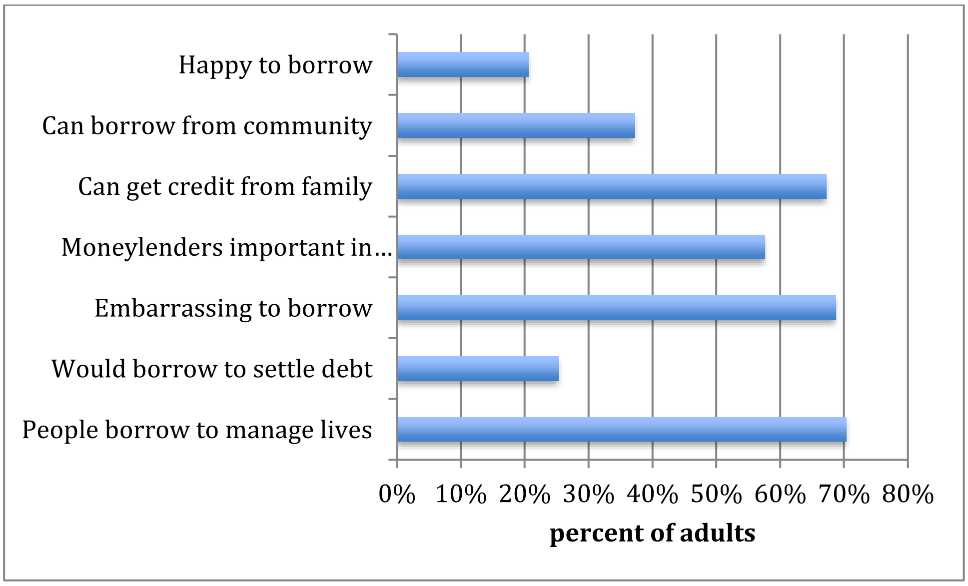


Source: FinScope, 2016

It is evident that there are some social pressures against borrowing in Burkina Faso, and that perhaps it is something that other people do, but not something that one would do oneself. For instance, the majority of adults agree that people borrow to manage their lives, and that moneylenders play an important role in the community. However, the majority also agree that it is embarrassing to borrow, and disagree that they would be happy to borrow. But if they need to, the majority of adults consider that they can get credit from within their family, but not necessarily within the community.

To summarise, most people seem to think that they can borrow if necessary (from their family), but would rather not if they can help it, and many consider that they do not need to borrow.

Figure 73: Perceptions of credit

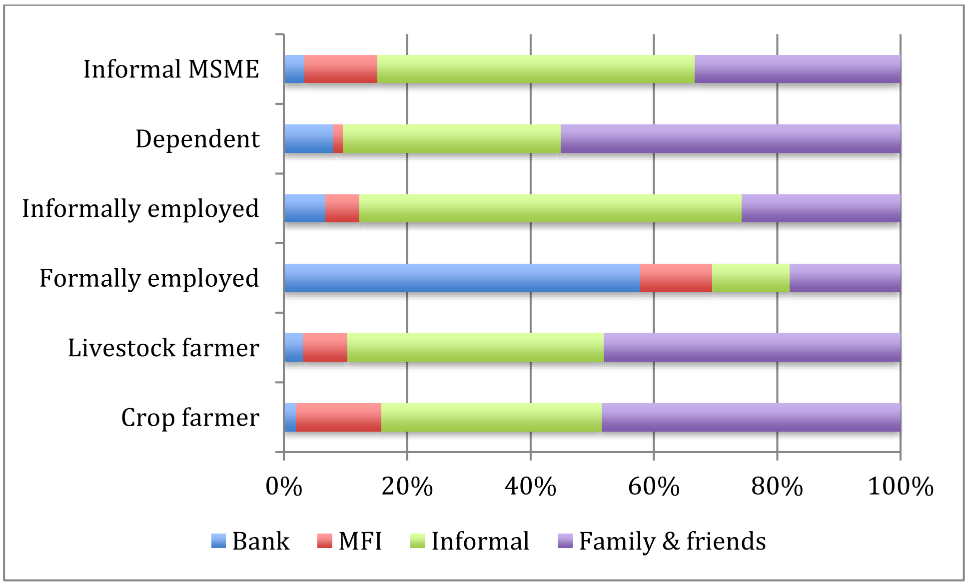


Source: FinScope, 2016

9.4 Supply of credit

Formal institutions providing credit comprise mainly banks and MFIs. These serve different customer segments, although there is some similarity in their products. Banks focus on customers in formal employment or with a regular income, and around 70% of bank credit (to individuals) goes to the formally employed target group – even though this group only makes up 9% of the adult population. Only 10% of bank credit goes to farmers, who make up 49% of the adult population. Banks focus on those with higher incomes, and who can offer some kind of formal security – such as an asset (land, buildings, a moveable asset) or a guarantee. MFIs have a similar approach, but with more flexibility, and as a result have a more diversified customer base. Around 50% of MFI credit goes to those whose main income source is farming, and another 20% to informal MSMEs. Nevertheless, for all target groups apart from the formally employed, 80%-90% of loans come from informal lenders or family & friends. These lenders are more flexible when it comes to the terms of loans, with less reliance on formal collateral, guarantees, or evidence of regular income. Instead they rely on peer pressure (e.g. through group lending), other social pressure, and personal knowledge of the borrower.

Figure 74: Source of credit by target group (for those who use credit)



Source: FinScope, 2016

There are a few formal non-bank lenders licensed by BCEAO. These include Alios Finance, Fidelis Finance, and SOBCA, which operate as leasing and factoring companies. In addition, SOFIGIB provides credit guarantees to MSME borrowers, enabling them to obtain credit from banks by removing one of the main obstacles to credit. SOFIGIB has guaranteed around 500 MSME loans, and provides an effective means of leveraging its finance, as well as enabling firms that might otherwise be unable to borrow to do so. According to SOFIGIB, started in 2009, it has provided FCFA 9 billion in guarantees which has unlocked FCFA 19 billion in credit from banks. Guarantees are provided via several separate facilities with different target groups, e.g. youth, women, micro-enterprises, farmers.

Village Savings and Loans Associations (VSLAs) have been developed extensively in Burkina Faso. These use a group savings and lending approach and are promoted by many NGOs[38] as

[38] *Other NGOs active in the promotion of Savings and Credit Groups: Freedhom From Hunger (now Grameen Foundation); Foundation STROMME; SIDI (with its MUSO); etc*

CRS and PLAN. In these self-selected groups, which typically comprise up to 20 adults (usually women) living in an area and known to each other, access to credit is based around regular (normally weekly) savings contributions. Credit is short-term, up to one year, based around the group cycle. There is social pressure to repay loans; defaults are low, and are usually caused by illness.

Credit is also available from several government funds, although these were not identified separately in the FinScope survey. The largest of these are FAARF and FBDES.

FBDES focuses on MSMEs and can take a (minority) shareholding in businesses, as well as provide credit. It has a number of schemes providing credit to specific groups, including business start-ups established by graduates, women entrepreneurs, informal sector enterprises, and youth entrepreneurs. Total lending is estimated at FCFA 15 billion, and beneficiaries (either directly or via groups) round 25,000. The repayment record is reported to be good, especially in rural areas (due to social pressure); however, there are problems in urban areas, as some borrowers view the loans as government money that does not have to be repaid. Interest rates are low (3-4%) and subsidised by government, along with FBDES running costs.

FAARF provides direct credit to women entrepreneurs, mostly through groups. Individuals can only borrow after successfully completing three group lending cycles. The total value of loans in 2106 was FCFA 7 billion, with 145,000 (indirect) clients. Repayments are said to be high, due to peer pressure. Interest is 10% per annum, and loans are capped at FCFA 500,000 per person. Under the new Financial Inclusion Strategy, the amount of funding for FAARF to on-lend is to be increased to FCFA 25 million over four years.

The provision of credit via mobile money/mobile phone services is not yet available in Burkina Faso. However, cellphone-based micro-credit is growing fast in several other countries. It is typically based on a partnership between a mobile money service, a credit provider (bank or MFI) and a financial technology company (fintech) that provides the technology required to analyse and process the information that underpins credit-scoring.

Box 3: Digital Micro-Credit

Improved access to credit is one of the main drivers of financial inclusion, whether for consumer or business purposes. In many cases the demand is for small loans (micro-credit). However, traditional credit from micro-finance institutions has several drawbacks, in that it is relatively labour intensive to collect repayments, and can come with high credit risk (of non-repayment), which in some cases is offset by group (collective) responsibility for repayment of individual loans.

The growth of digital financial services (DFS) and the associated use of mobile phones have opened up a new channel for digit microcredit. DFS and mobile phones generate vast amounts of data ("big data") about usage, which can be used to analyse customer behaviour. In particular, such data can be used as the basis for "credit scoring", i.e. developing a risk profile of consumers and the likelihood that they will be able (or willing) to repay loans. Such credit-scoring algorithms can be used to underpin short-term loans to consumers.

Mobile phone users – almost all of who are prepaid users – generate data on airtime purchases (amounts, frequency, regularity, average balances). Mobile money users also generate data on transfers, including amounts, whether a sender or receiver, frequency etc.; sources of mobile money (cash purchases, receipts from other users, salaries etc.); and use at merchants and for bill payment.

Credit-scoring algorithms are in increasingly widespread use in e-money systems. The vast amount of data available means that such credit scoring can become quite sophisticated, and can also evolve over time as actual credit repayment experience can be correlated with data inputs. These can show important insights, for instance, someone who purchases airtime in regular amounts and frequencies is likely to be a better credit risk than someone who purchases airtime more irregularly.

The eligibility for credit can be tailored to the attributes of individual customers, and this also evolves over time; for instance, timely repayment of one loan typically leads to eligibility for a higher amount on the next loan.

This credit scoring is automated and involves little or no human intervention. The typical process is that a customer accesses a loan menu through their mobile money account, finds how much credit they are eligible for, and arranges the loan which is then immediately credited to the mobile money account. They are also informed of the amount that will need to be repaid, and the due date. When repayment is due, the amount will be deducted from the mobile money account, assuming the balance is sufficient.

The automation of the system means that costs are low, and that very small loans can be provided. One such system is M-Shwari offered by Safaricom (M-Pesa) and the Commercial Bank of Africa (CBA) in Kenya, which offers one month loans ranging from USD1 to USD 1,000. These small loans would simply not be viable with more manual processes.

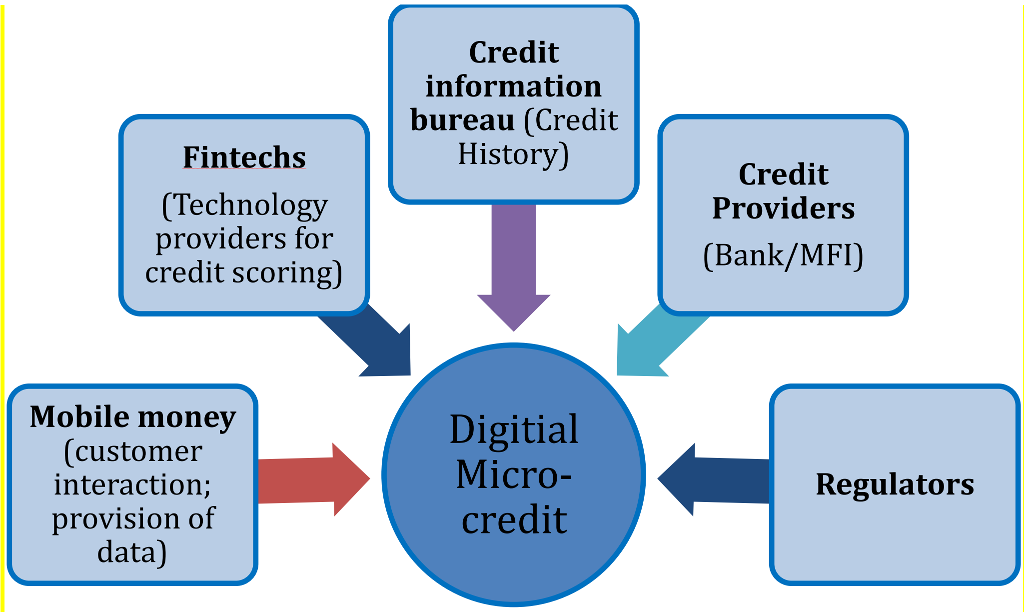
The institutions involved in this type of microcredit typically include a mobile money service (usually a mobile network operator), a credit provider (such as a bank or MFI) and a financial technology (fintech) provider. The MM service provides the platform and interface with the customer, and often the marketing; the credit provider is the source of funds for lending, and the fintech provides the credit-scoring algorithm.

Once the borrower has received the funds, they can be used for direct payment by mobile money (e.g. for school fees), or alternatively withdrawn as cash.

As with most micro-credit, these digital microloans are unsecured. When the repayment is due, the system will automatically withdraw the money from the borrower's mobile money account (or linked bank account) on the due date. If this fails, there may be automatic rollover of the loan, or further attempts to collect repayment. Non-repayment of loans as they are due usually incurs further fees, and also affects the customer's credit score and hence ability to access further loans. If collection fails completely, the customer would typically be reported to a credit bureau, which would impinge on their ability to source loans from other credit providers.

Because of the penalties for non-repayment (financial costs, and restricted access to future credit), repayment rates so far on digital micro-credit have been quite good; M-Shwari, for instance, reports an NPL rate of 2.2% at 60 days. The increased sophistication of credit algorithms as they "learn" also enables NPL rates to be kept low.

Figure 75: Institutional roles in digital micro-credit



Source: authors

9.5 Cost of credit, and credit risk management

Interest rates on loans are regulated by the BCEAO for banks and MFIs. The maximum lending rate charged by banks cannot exceed 18%, and in most cases the maximum rate charged is 15%. For MFIs, the maximum permitted rate is 24%. Credit is often perceived by borrowers (and the public generally) as expensive, and during interviews and consultations for the MAP project there were frequent calls for the cost of credit to be reduced. Nevertheless, for semi-formal lending through VSLAs, the cost of credit is much higher, typically 10% per month, although this is not resented as VSLAs are mutual organisations with the income from interest being distributed to members at the end of the cycle.

The impact of caps on lending rates is not well understood. Although perceived as high, lending rates in Burkina Faso are not high relative to what is necessary to make small, unsecured loans to risky borrowers viable. Small loans have higher costs (in relative terms), for distribution, administration and collection than large loans, and this needs to be recovered in the interest rates charged. Interest rates also have to cover the costs of risk management, and of losses when loans are not repaid. Banks manage this problem by being quite restrictive in their lending criteria, requiring collateral assets or guarantees and prior saving, as well as focusing on higher income clients. The larger size of bank loans also helps them to spread their fixed costs.

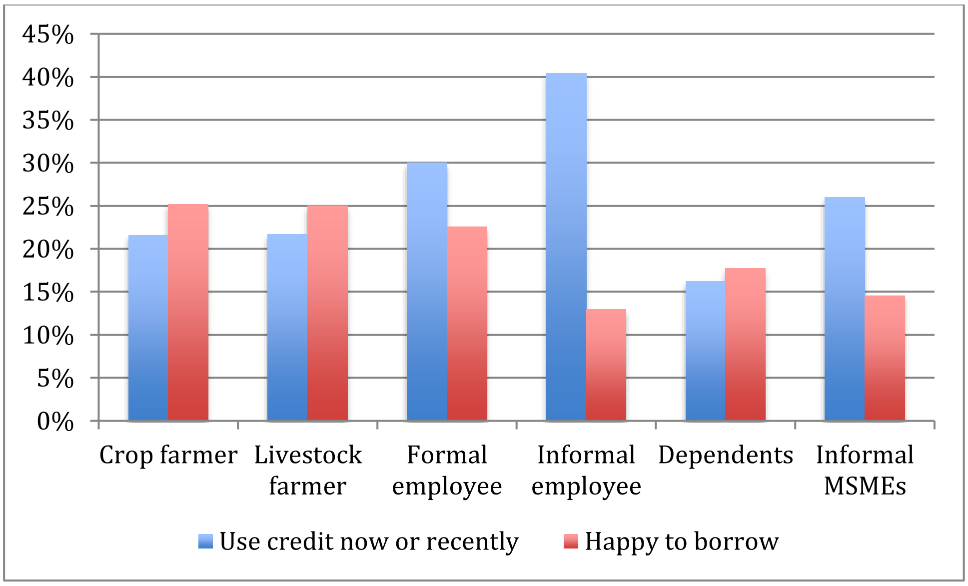
MFIs share some of the same approaches, but have higher costs and face higher risks than the banks, as well as making smaller loans. The higher risks of lending to MFI clients, combined with weaknesses in credit management in some MFIs, and the inability to charge higher interest rates, is one of the reasons for losses and depletion of capital at some MFIs. MFIs in other countries would often charge much higher interest rates on loans in order to make lending to smaller/riskier clients commercially viable.

Information plays a crucial role in credit risk management, and good quality information can substitute, to some extent, for collateral. Credit provision is a classic example of asymmetric information, whereby the lender knows less that the borrower about the riskiness of the borrower and the likelihood that they will repay the loan. Improving the availability of information about the borrower reduces this asymmetry and enables the lender to better distinguish between low risk borrowers (likely to repay) and high-risk borrowers (more likely to default). By doing so, the cost of credit (for low risk borrowers) should fall. Hence the importance of an effective credit reference/information bureau, whereby the credit history (positive or negative) of borrowers is recorded. With access to such information, credit providers can make a better decision on the riskiness of a request for a loan, and be less reliant on assets or guarantees to provide collateral.

9.6 Demand for credit

Quantifying the unmet demand for credit is difficult. During the MAP consultations, many people expressed a concern that credit was not readily available in Burkina Faso, and that improvements in the availability of credit were a high priority. Most of the government funds (FNs) have been established to address this issue. However, it is important to note that the demand for credit depends in part upon whether people wish to borrow.

Figure 76: Use of credit vs desire to borrow



Source: FinScope, 2016

According to the results of the FinScope survey, in half of the target groups the proportion of people using credit is higher than the proportion that are “happy to borrow, even if you have to pay back more than you borrowed in interest”. Amongst these groups (formal employees, informal employees and informal MSMEs) there may not be much unmet demand for credit. Amongst crop farmers, livestock farmers and dependents, the proportion of adults in the group that are using credit is lower than those who would be happy to borrow. In these circumstances, extending access to credit also involves consumer education regarding the benefits of well-managed credit as, for instance, it seems likely that informal MSMEs could benefit from increased access to credit.

Taking a broader perspective, based on consultations carried out for MAP, as well as the target group analysis in this report, based on the FinScope results, the main demand for credit that is not currently being fulfilled comes from:

- Crop farmers, who need credit for agricultural investment and inputs (seeds, fertiliser);

- Livestock farmers, who need credit for herd expansion and improvement;
- Informal MSMEs, which need credit for investment in equipment, stock and coping with fluctuations in income.

More generally, the large number of adults who can only obtain credit from informal sources would benefit from also having access to credit from formal sources. Similarly, those who obtain credit from friends and family would also benefit from having access to credit from other sources, whether formal or informal (outside of the family).

9.7 Actions to improve access to credit.

Develop the availability of credit information. The newly established credit information bureau (CIB) in Abidjan is available for use by both banks and MFIs, via an internet connection. At present usage is low, because financial institutions are not convinced that it is useful and offers value for money. This is in turn because it has limited information, and the fees are perceived as high. There is also little or no enforcement of regulations requiring financial institutions to file credit information.

The establishment of a new, effective credit information bureau involves a "chicken-and-egg" situation: financial institutions will not want to use it if it doesn't have useful information, but it will not have useful information until financial institutions use it. This problem can be addressed by the BCEAO, which could (i) waive fees for using the CIB for an introductory period (say 12-24 months) while information is being built up; (ii) undertake a concerted effort to persuade financial institutions in the WAEMU region of the benefits of the CIB; and (iii) after an initial period, impose regulatory penalties for not using the CIB.

Promote cellphone-based micro-credit (mobile money). One of the most promising avenues for rapid expansion of access to formal credit is through the establishment of cellphone/mobile-money based credit. As explained above, this would involve one or both of the existing mobile money operators, a credit provider (bank or MFI), and a fintech. Cellphone-based credit has the advantage that it is unsecured (does not require asset security or a guarantee), and can be provided very quickly via mobile money. At least one of the mobile money service providers in Burkina Faso is interested in providing this facility. As it is based on information-based credit scoring, it would be facilitated by an effectively functioning CIB. It is also essential that the current interest rate caps applied by the BCEAO are not applied to micro-credit made available via mobile money, or else it will not be cost effective for the credit provider and will not be available.

Review the impact of caps on interest rates and reconsider how they are determined and applied. These caps are likely to be counter-productive with regard to the provision of credit, as they simply lead to unfulfilled demand. Those excluded from the market by these caps will tend to smaller-scale and higher-risk borrowers (such as farmers and MSMEs) – exactly the type of customer that financial inclusion policy tries to assist. The type of credit that formal providers make available – with very strict collateral/guarantee requirements – is exactly what would be expected when lenders cannot charge high enough interest rates to cover the costs of lending to more risky borrowers. Similarly, the high level of reliance on credit from informal providers and family and friends – who are not subject to interest rate caps and/or have other ways of managing risks – is a predictable outcome. It also discourages innovation. The BCEAO should reconsider this policy, or at least the way in which it is implemented, so as to encourage innovation and the provision of credit to small-scale and high-risk borrowers.

Find innovative ways of managing the risks of lending to farmers, so as to increase the supply of agricultural credit. Farmers are in need of more credit, especially crop farmers, to finance investment and inputs. However, such lending is risky, and does not fit easily into the conventional model of bank lending, based on asset collateral and guarantees. Input credit follows a particular cycle, based around the planting and harvesting season, and the ability to repay is subject to risks from weather (e.g. floods, droughts), yields, and prices realised. Some of the demand for loans is too small to be of interest to banks, with their relatively high fixed costs, and of course farmers may be located far from where banks have branches. It is difficult to make agricultural lending viable, especially if interest rates on loans are capped. Nevertheless, there are ways of managing the risks and reducing costs. (i) Channel loans through farmers co-operatives, which receive loans from banks and then on-lend to farmers, and take the risk of non-payment. Hence encouraging and supporting farmers to come together in co-operatives would help to increase the supply of credit. (ii) Roll out agricultural insurance, which will help to reduce the risks to farmers and to lenders. (iii) Finally using innovative forms of security, such as warehouse receipts, whereby receipts for crops deposited in secure warehouses are used as collateral for loans, can also help to adapt lending to the specific needs of the agricultural sector.

VSLAs appear to have been successful and should be rolled out to districts where they are not present, following and evaluation of the sustainability of the models. PLAN and CRS cover most of the country with their VSLA models, but there are some gaps. Donors can be approached to help finance the expansion of these models to fill these gaps. This might be strengthened by evaluations of the record of PLAN and CRS VSLAs, for instance, to determine the sustainability of these models once the NGO support is removed (typically after 2-3 years).

Provide more financial resources to SOFIGIB, so that it can extend its guarantee operations to more MSMEs. Banks and development partners may wish to consider contributing more capital to SOFIGIB in order to achieve this and leverage more credit, if necessary after a formal evaluation of SOFIGIB's record to date.

Evaluate the effectiveness of the various Government funds providing credit. There are 19 funds (FNs) in total, with different mandates. An evaluation of the effectiveness of each of these funds, in terms of their achievements with regard to their broader socio-economic mandates as well as the sustainability of their lending operations, would be helpful. In particular, it would enable the government to determine where limited resources are most effectively applied, by ensuring that subsidised credit provided by the state has the most effectiveness as promoting economic activity amongst target groups.

Government should be cautious about establishing new financial institutions. There are plans to establish new financial banks to provide credit, notably an agricultural bank and a Postbank (under SONAPOST). Both would effectively be government-owned banks, although the planned agricultural bank would also involve different farming stakeholder groups. If these initiatives are pursued, it should be done with extreme caution. Lending to agriculture is extremely risky, and the natural risks of lending to agriculture could be compounded if stakeholder groups focus on obtaining access to cheap credit, or if there is political intervention in the allocation of credit. For an agricultural bank to be sustainable, it would need to have very strict governance and lending procedures, be independent from government, have processes to diversify and manage risks, and be able to charge rates of interest that cover funding, operational and credit risk costs. Similarly, government should be cautious in establishing a Postbank, which an earlier feasibility study concluded would not be financially viable.

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