FINANCIAL INCLUSION IN NIGER: CHALLENGES AND OPPORTUNITIES[1]

Financial inclusion can increase economic growth and productivity and reduce poverty and inequality by helping people and firms—particularly SMEs—to save and invest, smooth consumption, and better manage financial risks. This paper highlights Niger's lag compared to other WAEMU countries in terms of access to and use of formal financial services, including for women and youth, and underscores key demand and supply side challenges to financial inclusion as well as structural impediments. It lays out key priorities for Niger to harness the potential of greater financial inclusion to support the country's development agenda, including efforts to tackle low financial literacy, promote digitization, and address informality.

A. Benchmarking Niger Against Regional Peers

1. **Niger is lagging far behind the rest of the WAEMU in terms of financial inclusion (Figure 1).** According to BCEAO data, as of December 2021, the use of financial services (in the form of banking, microfinance, or e-money) stood at only 14 percent of the population in Niger, lagging far behind Mali, which is the closest WAEMU member state regarding this metric, with a rate of 55 percent. In the leading countries of the union, Benin and Togo, about 86 percent of the population use financial services. At the WAEMU level (including all member states), the overall use of financial services amounted to 67 percent of the population at the end of 2021.

Box 1. Niger: Concepts[1]

Financial inclusion. It is a multidimensional concept and can broadly be defined as the extent to which individuals and firms have access to, and effectively use, formal financial services at high quality and low costs. Banking sector, Micro Finance Institutions (MFIs) and e-money are three important aspects of inclusive finance.

The MFI sector. It consists of financial institutions that provide financial services mainly to low-income households and small- or micro-sized enterprises, which are typically excluded from traditional banking services.

Mobile money and e-money. Mobile money can be defined as financial services offered by mobile network operators or other financial institutions which partner with network operators, generally without the requirement of having a bank account. Hence, the pre-requisite is often to have a mobile phone subscription. E-money is a broader concept that also covers other digital financial services (DFS) such as services provided by banks or other traditional financial institutions that can be done using mobile phone, internet, or other electronic devices (e.g., deposits, bill payments, or online transfers).

1/ Box 1 is adopted from the IMF WAEMU Staff Report published on March 2022 (IMF Country Report No. 22/67).

[1] Prepared By Yoro Diallo, Arsène Kaho, and Can Sever. Canghao Chen (AFR) assisted with the formatting of the charts.

2. Niger also lags the rest of the WAEMU regarding the pace of change of financial inclusion (Figure 1). The country showed some improvements during the period of 2010-2015 with a rise in the overall use of financial services to 17 percent of the population by end-2015, from 7 percent at the end of 2010. However, this progress came to a halt and was even reversed to 14 percent by the end of 2021. In contrast, suring the same period (2015-2021), the share of the population using financial services in the WAEMU region increased significantly, from 42 percent of the population by end-2015 to 67 percent at the end of 2021.

3. In particular, the MFI sector has experienced a significant contraction in recent years (Figure 1). The use of banking services increased only from 2 percent to 7 percent of the population in Niger from end-2010 to end-2021, while the other WAEMU countries showed steady progress from 9 percent of the population to 19 percent during the period. Regarding the use of MFI loans, it rose from 6 percent of the population in 2010 to 11 percent in 2015 but lowered to 5 percent at the end of 2021. This reversal, which was not offset by other pillars of financial inclusion, mostly explains the decline in the overall use of financial services in Niger during the 2015-2021 period.

4. However, the largest divergence between Niger and the WAEMU appears in the use of e-money (Figure 1). The number of e-money accounts was lower than 1 percent of the population in both Niger and in the WAEMU, as of end-2010. However, the region, excluding Niger, displayed a remarkable improvement since then. By the end of 2021, about 80 percent of other WAEMU countries' population was able to get access to e-money services compared to only 11 percent in Niger. While the relatively high level of the use of e-money and fast progress in that respect provide a window of opportunity for the WAEMU countries to leapfrog in financial inclusion and catch up with more developed countries, this potential remains untapped in Niger so far.

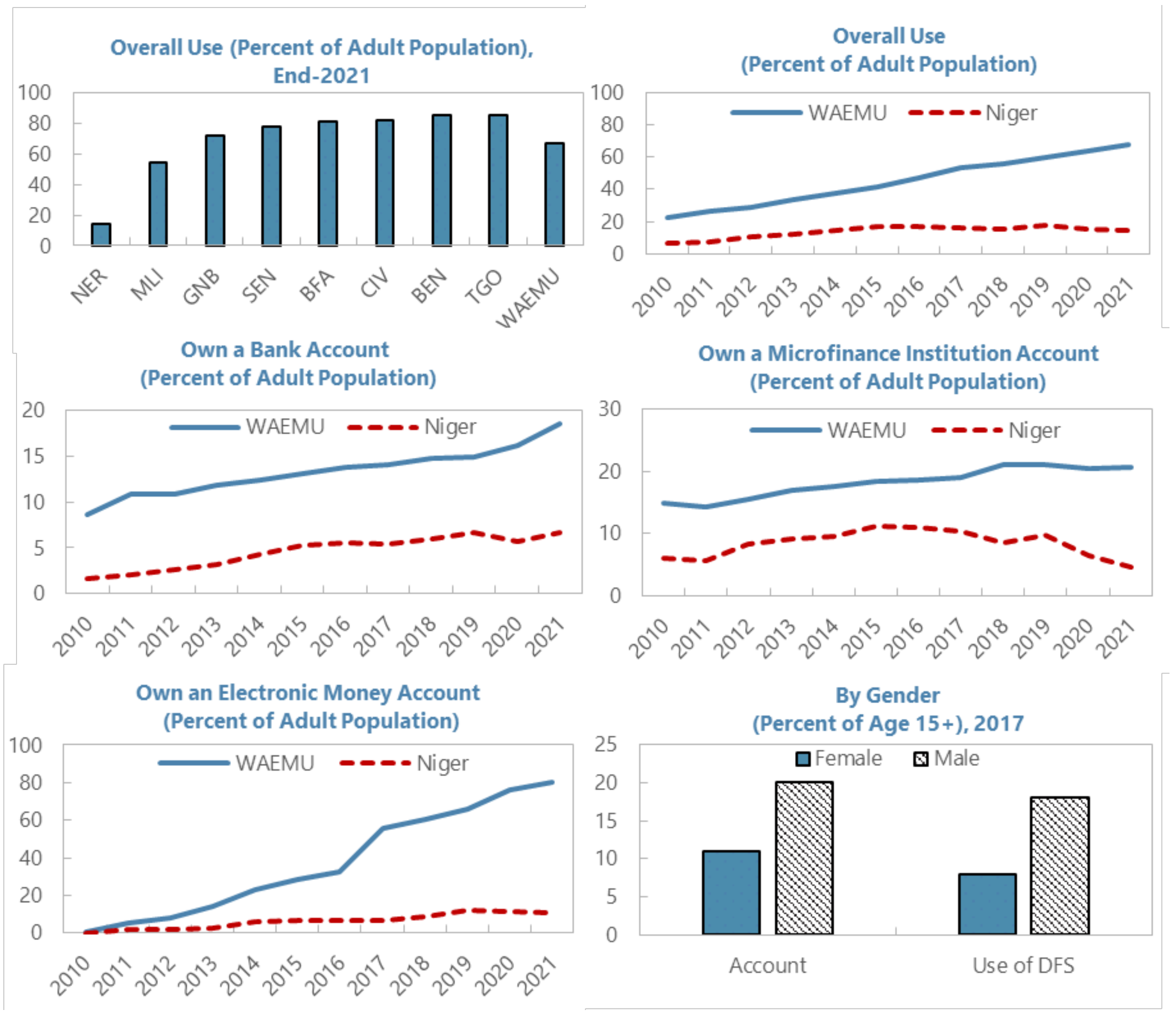
5. Gender gaps in the use of financial services are also prevalent in Niger. According to World Bank data, the share of women with some sort of account was only 11 percent of the women's population, while this ratio was 20 percent for males (Figure 1). A similar gap is likewise apparent for the people who made or received a digital payment—8 percent for females compared to 18 percent for males. Nevertheless, it is worth noting that such large gaps are not specific to Niger, other WAEMU member states exhibiting similar gender gaps in financial inclusion.[2] On the positive side, these suggest that bridging the gender gap in financial inclusion provides a window of opportunity for Niger to make the much-needed progress in overall financial inclusion and catch up with the rest of the WAEMU.

6. Geographical indicators of financial inclusion also point to a large divide between Niger and the rest of the WAEMU (Figure 2). Service points—defined as any type of physical place where clients can receive financial services—in the WAEMU increased tremendously from around 3 (per 1,000 km^2) at end-2010, to 307 at end-2021, thanks to the spike in e-money service

[2] Based on the World Bank data, in 2017, account ownership rates for females and males were 38 versus 47 percent for Senegal, 38 versus 53 percent for Togo, respectively. Regarding the use of financial services for females and males, the ratios stood at 36 versus 44 percent for Senegal, 23 versus 40 percent for Togo, respectively.

points. However, this development is not observed in the case of Niger, which still presented only 18 service points at the end of 2021.

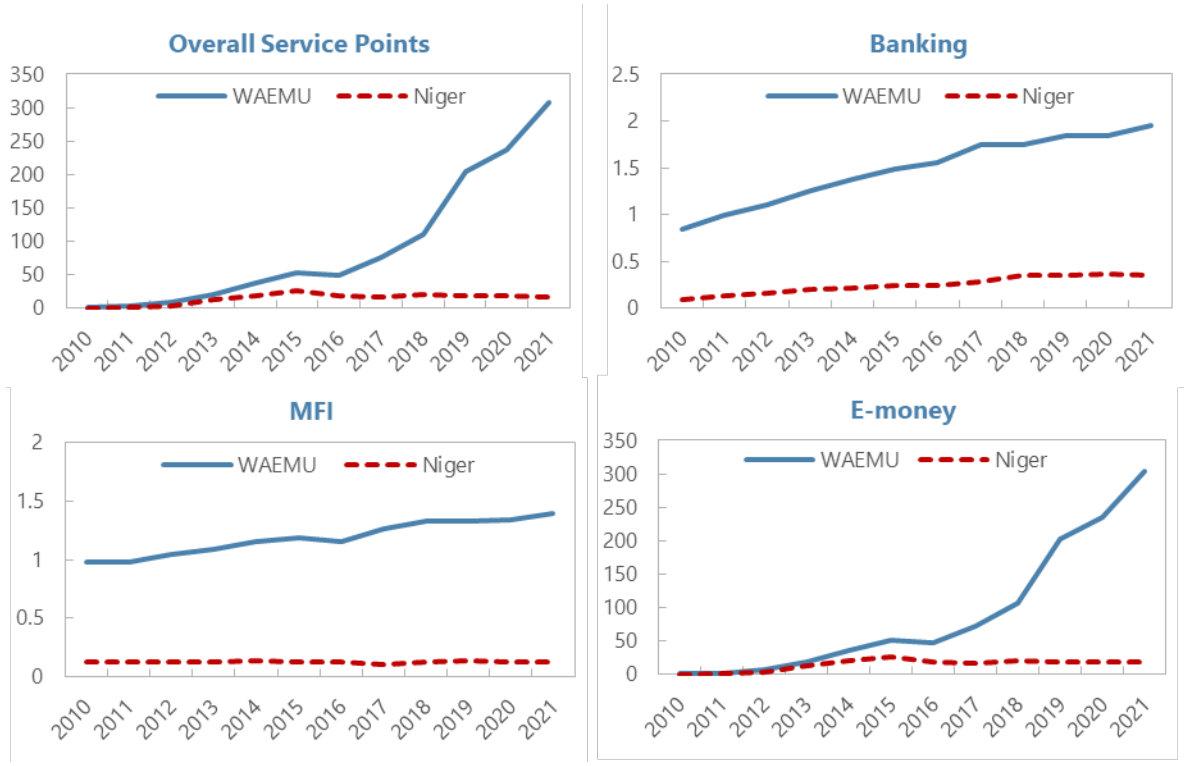
Figure 1. Niger: The Use of Financial Services



Sources: BCEAO financial inclusion reports, World Bank Global Findex, IMF staff calculations. In the last chart, "Use of DFS" means people who made or received a digital payment in the past year, based on the World Bank's definition.

7. **Bank loans to the private sector remain low in Niger, and there are larger vulnerabilities in the banking sector compared to the rest of the WAEMU (Figure 3).** Bank credit to the private sector amounted to 13 percent of GDP in Niger as of end-2021, almost half of the regional average (24 percent). This also reflects the sluggish progress in financial deepening since 2010. In addition, banks' portfolio continued to be riskier in Niger than in other countries in the region since 2010 and further deteriorated at the end of 2021, as gross NPLs ratios in the Niger banking sector were twice that of the region (21 percent versus 10 percent). The weak portfolio quality of the Nigerien banking sector threatens financial inclusion going forward, heightening particularly the risk of availability of credit for SMEs.

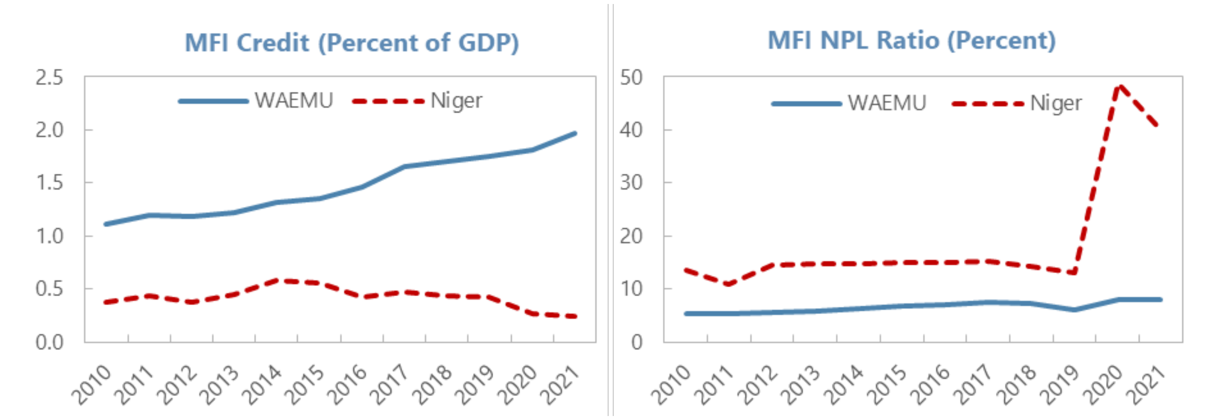
Figure 2. Niger: The Service Points



Source: BCEAO financial inclusion reports, IMF staff calculations. Service points are the number of physical places (at 1000km^2) to receive the corresponding financial service.

8. **The MFI sector, an important pillar of financial inclusion in the WAEMU, also presents a smaller volume of loans in Niger but with elevated risks relative to the regional average (Figure 3).** In other WAEMU countries, loans by MFIs almost doubled since 2010 from 1.1 percent of GDP to 2 percent. In contrast, the sector shrank in Niger by almost 50 percent, from 0.5 percent of GDP in 2015 to about 0.2 percent at end-2021. Moreover, the portfolio of the MFI sector remains much riskier in Niger, as NPLs were about twice the regional average before Covid-19, with this gap widening since the pandemic. During the health crisis in 2020, the BCEAO's measures to protect financial inclusion helped the MFIs in the region maintain a stable NPL ratio (Box 2), but the effectiveness of these measures in Niger was limited and NPLs continued to increase at a rapid pace. At end-2021, the NPLs ratio in Niger stood at 40 percent, as opposed to 8 percent at the WAEMU level. This vulnerability in the MFI sector poses a bottleneck and a threat to financial inclusion in Niger going forward.

Figure 3. Niger: Banking Sector and MFIs



Source: BCEAO MFI reports, BCEAO monthly bulletins, BCEAO financial soundness indicators, IMF staff calculations. Charts show end-year values. MFI sector NPL ratio is interpolated during 2013-2016, since the data is missing. Bank loans to the private sector and MFI loans (outstanding amounts) are reported.

Box 2. Niger: BCEAO's Actions to Protect Financial Inclusion During the Pandemic[1]

The BCEAO has taken actions to protect financial inclusion, as the pandemic hit the region. In order to incentivize the use of e-money, the BCEAO reduced fees and commissions in various types of e-money transactions and relaxed the conditions for opening e-money accounts.

In addition, the BCEAO launched a framework in 2020 encouraging banks and MFIs to postpone the debt repayments of customers that were affected by the pandemic (but evaluated as solvent), without reclassifying those claims as non-performing. This regulatory forbearance framework provided breathing space to firms and households hit by the economic downturn and supported the goal of an inclusive financial system. Furthermore, in order to facilitate MFI access to bank financing, bank loans granted to eligible MFIs became eligible, as collateral, for a special refinancing window of the BCEAO (thereby creating additional incentives for banks to lend to MFIs).

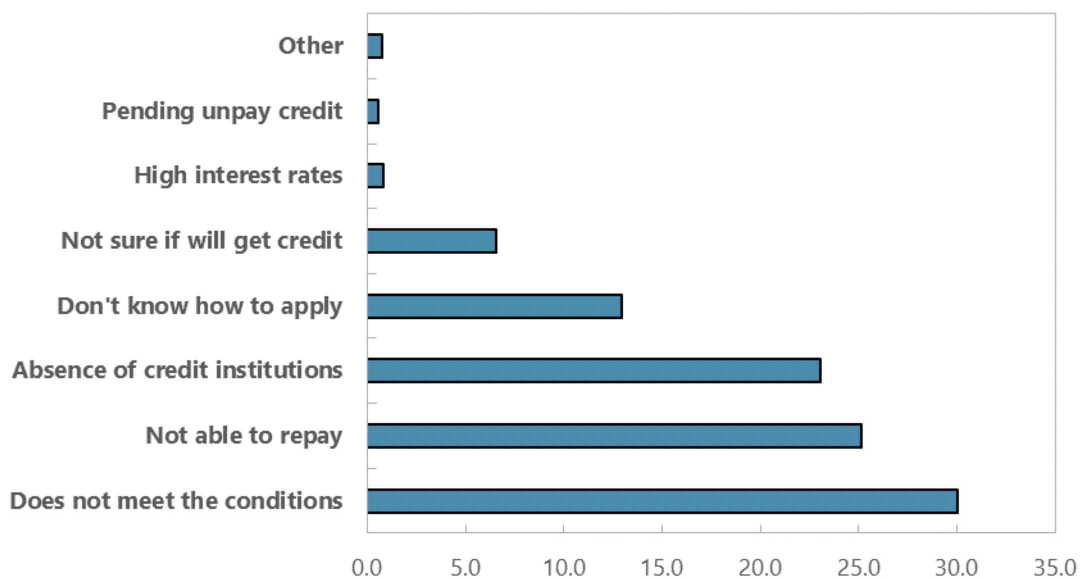
[1/] Box 2 is adopted from the IMF WAEMU Staff Report published on March 2022 (IMF Country Report No. 22/67).

B. Challenges of Financial Inclusion in Niger

9. Niger faces multiple challenges to improve the inclusiveness of its financial system, including low financial literacy, mismatch of financial services and products to the population needs, high cost of access and usage, informal sector dominance, and infrastructure gaps. Households enumerated the following main reasons preventing them to demand credit from formal financial institutions: *(i) do not meet the requirements, (ii) not able to repay, (ii) absence of banks, (iii) do not know how to apply for credit, (iv) do not have the capacity to repay* (Figure 4). These factors include both supply and demand side constraints requiring the involvement of a wide range of stakeholders—households, firms, banks, and the government—to lift them.

Figure 4. Niger: Reasons of Non-Access to Credit in 2018-19

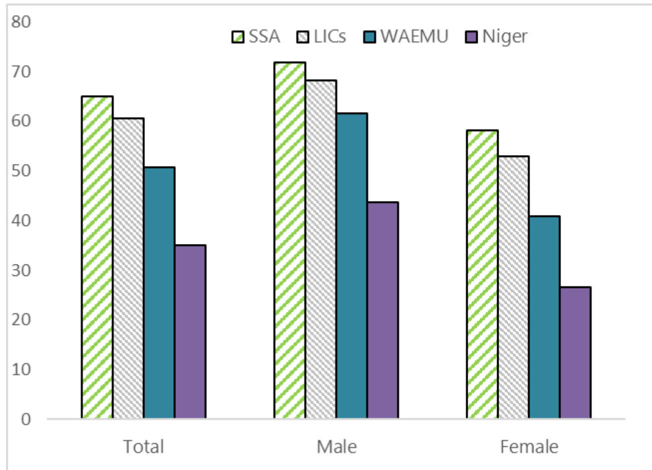
(Percentage)



Source: EHCVM Niger 2018/19

10. Low financial literacy hampers the use of services offered by the banking system. Access and use of formal financial services require some financial knowledge and basic general literacy for which Niger lags well behind peer countries (Figure 5). Only 35 percent of adult Nigeriens are literate with an even lower rate for female literacy of 27 percent. Rapid population growth adds to the challenges to addressing the weaknesses of the education system.

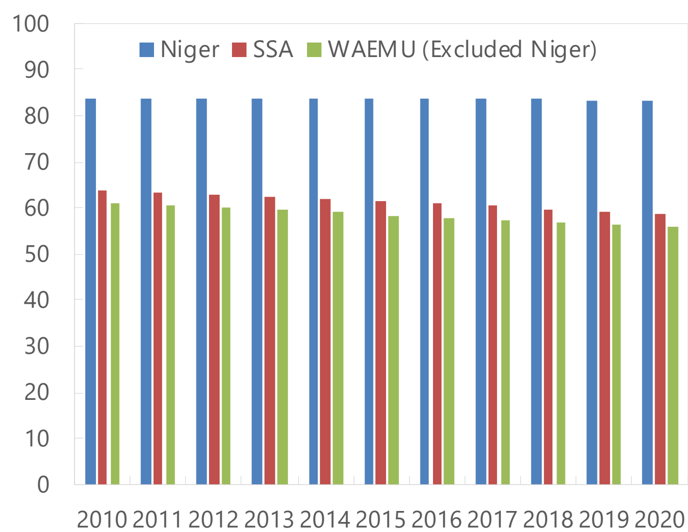
Figure 5. Niger: Literacy Rate of Adults
(15 and above)/Last Year Available



Source: WDI and IMF staff calculation

11. Financial services and products are not well adapted to the needs of the population. Financial services and products offered appears to not respond to the specificities of the large rural population (Figure 6) whose main activity remains agriculture, carried out mostly in an informal setting. This sector receives only 0.97 percent of bank credit, much less than allocations to the sector in other WAEMU countries amounting to 3 percent (Figure 7). Service providers are also reluctant to adapt to the cultural and social habits, as the potential that could be drawn the development of Islamic finance, seems under-exploited.

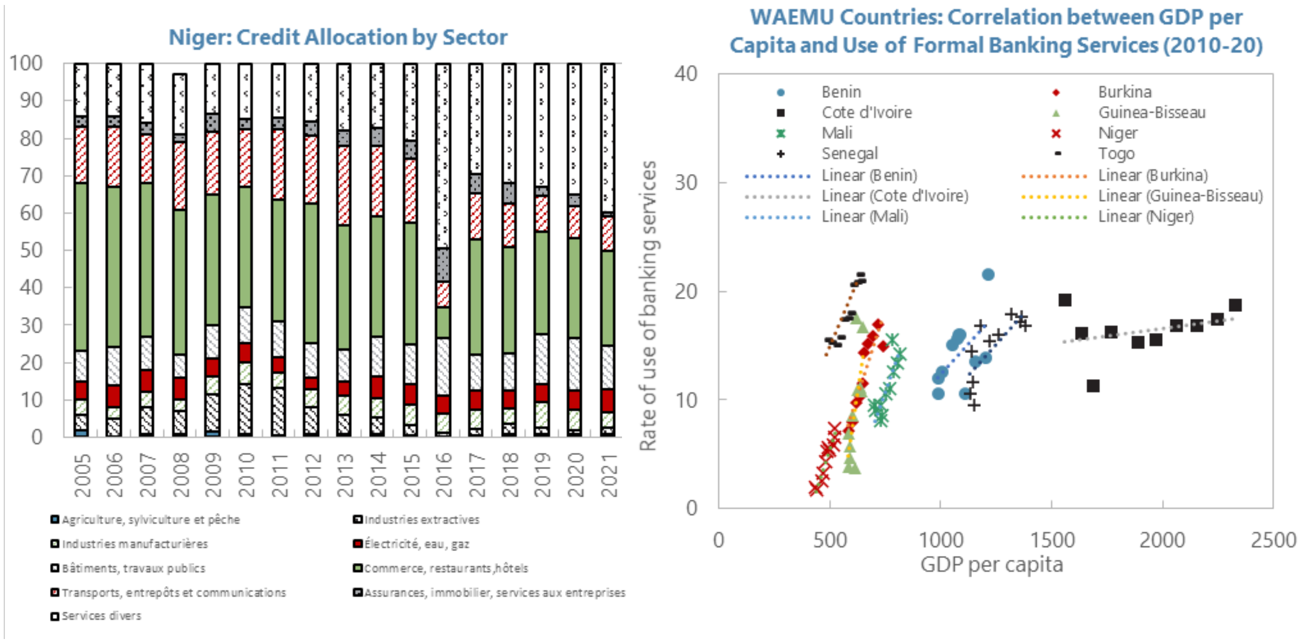
Figure 6. Niger: Rural Population
(Percent of total population)



Source: WDI and IMF staff calculation.

12. Access to financial services is not affordable for a large segment of the population. The high poverty rate in Niger (estimated in 2021 at 41.4 percent of the population by the World Bank) as well as the relatively low per capita income constitute an obstacle to the broadening of financial inclusion.

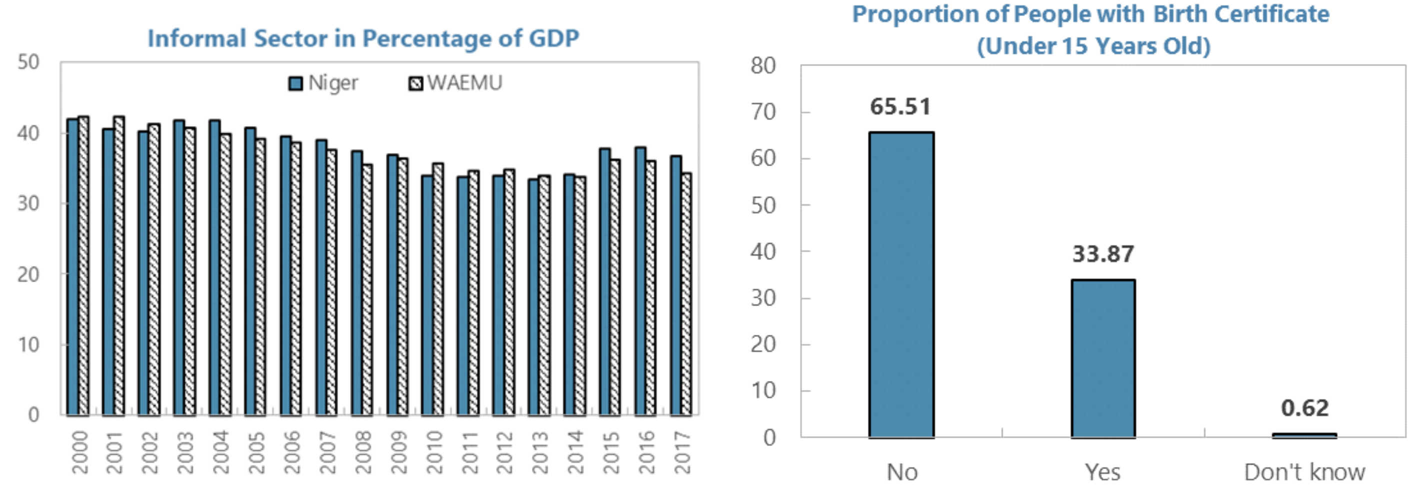
Figure 7. Financial Exclusion Factor



Source: BCEAO, WDI, and IMF staff calculation.

13. **Large levels of informality limit access to formal financial services, in particular, due to the lack of adequate documentation (such as financial statements.).** The informal sector accounts for around 40 percent of Niger GDP. A large portion of Small and Medium Enterprises (SMEs) operate in the informal sector and do not have financial statements, up-to-date tax payment statements, or information on beneficial owners, which are required for credit applications. Moreover, non-recognized assets—with no legal documents—of firms operating in the informal sector cannot be used as collateral for bank credit. For example, during the outbreak in 2020, the Government of Niger took initiatives in collaboration with the banking sector to facilitate and maintain financing for the productive sector affected by the effects of the pandemic. A CFAF 150 billion financing mechanism was set up for this purpose, though only CFAF 17 billion of these funds (11 percent of the total fund) were used, because the dominance of informal nature of SMEs activities. Moreover, the absence of official documents such as land ownership titles or even birth certificates can limit access to credit on the household's side. Indeed, household survey data shows that approximately 65 percent of people under the age of 15 do not have a birth certificate.

Figure 8. Niger: Informality



Source: Leandro Medina and Friedrich Schneider (2018), EHCVM 2018/19, and IMF staff calculation.

14. Infrastructure gaps, in particular inadequate mobile phone networks and broadband connections, limit access to new financial products, such as mobile banking and electronic payments. Mobile banking reduces major barriers preventing excluded population to access and use formal financial services—by not requiring physical presence of banks, covering remote areas, offering lower entry barriers, and reducing costs of financial services. However, the lack of supporting infrastructure (electricity, mobile network, internet connection) and access to mobile devices in the country compared to its peers (Figure 9) pose a challenge to the uptake of digital financial services.

Figure 9. Niger: Mobile Banking Development and Supporting Infrastructure

Source: WDI, FAS, and IMF staff calculation.

C. Policies to Foster Financial Inclusion in Niger

15. Addressing the main challenges faced by the educational system is an imperative to improve financial literacy. Since the low level of financial literacy is closely linked to the general level of education of the population in Niger, which remains one of the lowest in the region and in the world, addressing the main issues undermining the education system should incidentally contribute to improving, in the medium and long term, the demand for and use of financial services. More specifically and in the short term, given the country's significant delay, it is important to expedite the finalization and implementation of the national financial education strategy currently being prepared by the authorities. This strategy should aim to identify and reduce the main structural obstacles and social or behavioral constraints that hinder financial education and access to financial services. The effectiveness of the collaboration between the actors of the financial ecosystem—notably through the mechanism for steering and monitoring the implementation of the strategy—and the quality of the communication and awareness-raising tools that will be deployed will be critical for the success of the strategy.

16. Promoting the digitalization of financial services would also contribute to foster financial inclusion. One low-hanging fruit to ensure the expansion of digital financial services would be to accelerate ongoing efforts to implement the roadmap (adopted in 2020) for the complete digitalization of government payments. One of the main objectives of this plan is to facilitate and increase payments made and received by the State from individuals through existing digital mobile money platforms. The forthcoming implementation of the regional interoperability project led by the regional central bank (BCEAO) should create a further enabling environment by allowing payments between the government and individuals from any type of account and electronic payment platforms offered by banks, microfinance institutions and non-bank issuers of electronic money, in particular mobile money.

17. Closing the gender gap in terms of access and use of financial services is imperative for women's economic empowerment in Niger. As women's savings rate tends to be higher than men's, improving their financial inclusion could also promote the development of the financial sector. However, the inadequacy or absence of collection of data on gender from financial service providers—and its analysis—constitutes a major impediment for the formulation of relevant, evidence-based policies in favor of the financial inclusion of women. The regional authorities, specifically the BCEAO, could take the initiative to organize and harmonize at the regional level the collection of such data—both on the supply side and on the demand side of financial services—needed to measure gender gaps, identify its main drivers, and formulate national strategies to close it. This initiative could take stock of the approach developed by the Women's Financial Inclusion Data Partnership (https://data2x.org/resource-center/womens-financial-inclusion-data-partnership-partnership-principles/) and benefit from technical assistance and funding from donors involved in this sector.

18. Strengthening supervision is necessary to preserve the stability of the financial system and build costumer's trust. Strengthening the quality of supervision is essential to ensure that efforts to improve financial inclusion would not undermine financial stability through a deterioration

in the quality of the portfolio and prudential indicators of financial institutions. In this regard, the sharp increase since 2021 of banks and, to a further extent, MFIs non-performing loans requires taking urgent steps for closer supervision, specifically by strengthening the regional framework for assessing banks' credit risk (credit underwriting and portfolio monitoring). Emphasis should also be placed on enhancing the national supervision mechanism of MFIs by strengthening the operational capacities of the regulatory authority, in accordance with the recommendations of the sector's current restructuring and consolidation plan.

19. Restructuring is necessary to re-establish a healthy and solid microfinance sector, which has the potential to be an avenue for promoting access to financial services for the most disadvantaged and vulnerable people, both in rural and urban areas. In this respect, the longstanding completion of the implementation of the restructuring and consolidation plan of the MFI sector remains a key priority. The last steps to be taken are related to the adoption and implementation of a recapitalization plan for Niger's two largest MFIs in, ASUS and TANADI—accounting for more than 50 percent of the sector's deposits and outstanding credit—, currently under receivership. Also, the ongoing revision at the regional level of the Law regulating MFIs activities should help put in place additional safeguards to ensure the viability of the sector, notably by strengthening the governance framework applicable to MFIs.

20. Advance in the operationalizing the Financial Inclusion Fund (FDIF), including by mobilizing donor support. The FDIF created in 2020 as the central pillar of the National Financial Inclusion Strategy, is yet to be fully operationalized. While the text creating its governance bodies have been adopted and implemented, those related to its operational procedures are yet to adopted by the authorities. In addition, the financial resources necessary for the operation of the FDIF are not yet fully available. While during the round table of donors organized in 2021 sufficient pledges were made to cover the provisional budget for the implementation of the SNIF and FDIF, to date, no significant resources seem to have been effectively mobilized from donors, so that only two of the four windows of the FDIF are currently functional.

21. A revision of the tax regime applicable to the banking sector is required to increase efficiency. A specific examination of the Tax on financial activities (TAFI) is necessary because of its economically inefficient nature—with a tax base consisting of the value of transactions and burdening the inputs engaged in the production of services without any possible deduction for taxes paid upstream. The relatively high rate of the TAFI, which is close to that of the VAT (but without the deductibility mechanism), amplifies its inefficiency and distortions and is therefore likely to harm the demand for financial services and the development of the financial sector. Hence, replacing the TAFI with the VAT should be a credible option to consider, notably to exempt inputs, at least partially, from indirect taxation—notwithstanding the practical difficulties related to the calculation the value added for financial intermediation services (remunerated by interest or margins) which explains why most countries with modern VAT systems exempt these services from VAT. However, other financial services remunerated by fees, commissions, or other charges may be subject to VAT with the usual mechanisms for deducting the VAT paid on purchases from the VAT collected on the services. A cost-benefit study of such a reform is however necessary to assess the

expected gains, particularly in terms of improving financial inclusion and development in Niger and the likely resulting loss of tax revenue.

22. Improving the bankability of projects is important to increase access to finance by SMEs. For this purpose, it is necessary to reactivate the system set up in 2015 at the regional level. One of the key stakeholders of this mechanism, the support and supervision structures—responsible for supporting upstream SMEs in meeting the eligibility conditions and for carrying out ex post follow-up after the obtention of financing — is indeed not yet functional. Swift action to identify the root causes of this deficiency and implement appropriate measures to address them is therefore urgently needed. The National Support Fund for Small and Medium-Sized Enterprises and Small and Medium-Sized Industries (FONAP), created in 2020, is expected to partially fill the shortcomings of the regional support scheme, but it is not yet fully operational either. The implementing texts of the decree creating the fund have been adopted and implemented—with the establishment of its management bodies—but its funding remains to be secured and the manual of procedure to be finalized

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