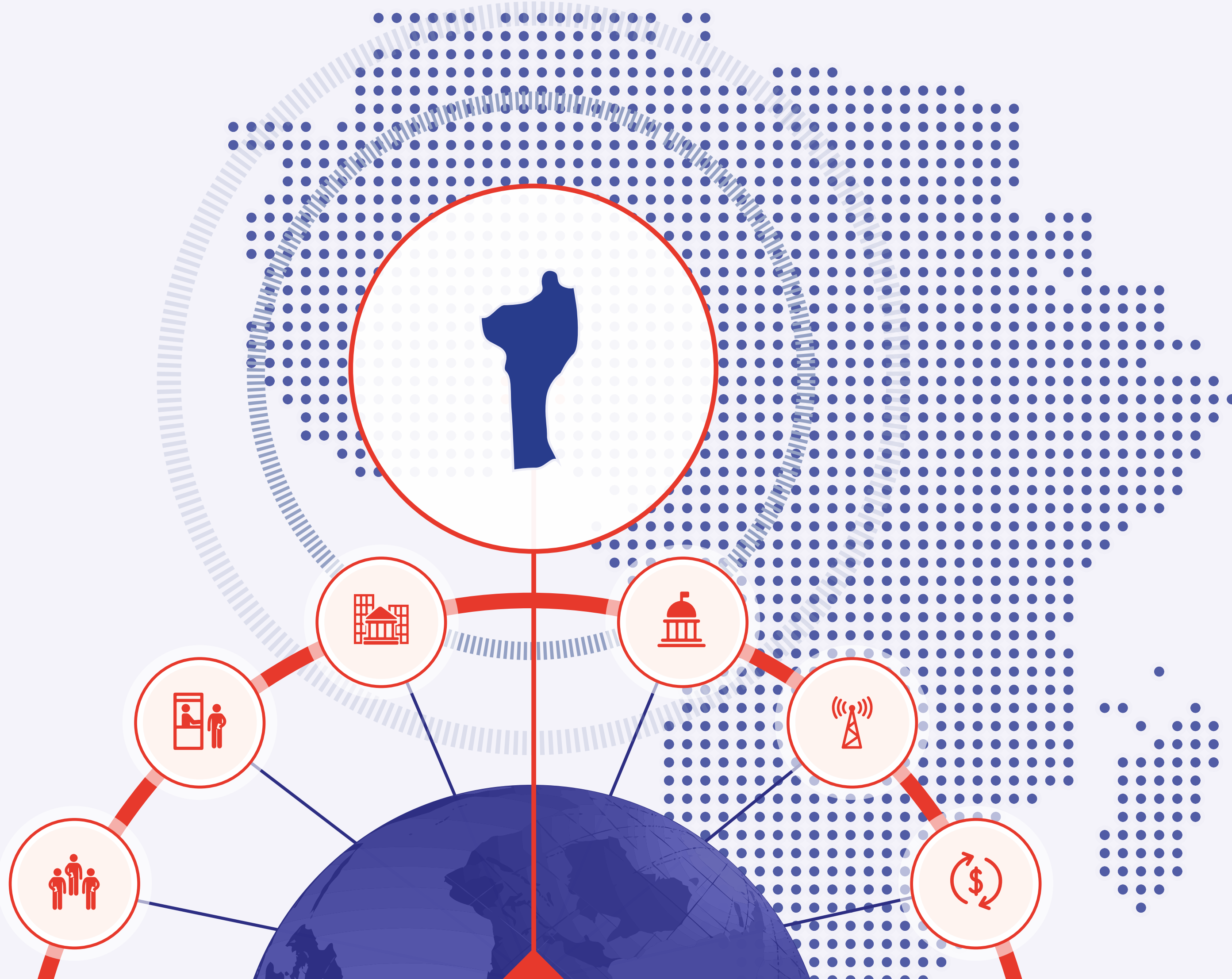

State of the Digital Financial Services Market of Benin in 2017

Results from the UNCDF-MM4P Annual Provider Survey

Results from the UNCDF-MM4P Digital Financial Services Annual Provider Survey, in partnership with the Mastercard Foundation

UNCDF - MM4P

The United Nations Capital Development Fund

The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. The UNCDF finance models work through two channels: financial inclusion that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and localized investments—fiscal decentralization, innovative municipal finance and structured project finance—that drive the public and private funding that underpins local economic expansion and sustainable development.

By strengthening how finance works for poor people at the household, small enterprise and local infrastructure levels, UNCDF contributes to Sustainable Development Goal (SDG) 1 on the eradication of poverty and SDG 17 on the means of implementation. By identifying those market segments in which innovative finance models can have transformational impact in reaching the last mile while addressing exclusion and access inequalities, UNCDF contributes to a number of different SDGs.

The MM4P programme

UNCDF developed the MM4P programme to ensure that the opportunities and benefits of digital finance would reach low-income people in difficult markets. UNCDF provides a mix of technical, financial and policy support to policymakers, regulators, providers, distributors and users of digital finance in order to expand access to and usage of services that contribute to achieving the SDGs. MM4P is currently underway in 10 countries, each with unique opportunities and challenges: Benin, China, Lao People's Democratic Republic, Malaysia, Malawi, Nepal, Senegal, Sierra Leone, Uganda and Zambia.

The MM4P programme was launched in Benin in October 2015, in partnership with the Mastercard Foundation, to increase the active use (in the past 90 days) of digital financial services by 50 percent within the adult population by 2019. By applying a theory of change, as part of the 'Making Markets Work for the Poor' approach, the programme aims to work with all digital finance providers, regulators and the Government to achieve this mandate.

The MM4P project team

To develop this annual provider survey, the project team collected data, evaluated incentives for providers in the context of Beninese DFS and studied the perspectives of local stakeholders. The content of this report is based on information collected during April 2018 and presents data for the period of December 2016 to December 2017. The following project team worked on the study:

- **Sabine Mensah** – Regional Technical Specialist – MM4P
- **Jamelino Akogbeto** – Digital Financial Services Consultant – MM4P
- **Bery Kandji** – Knowledge Management and Communication Consultant – MM4P
- **Anne Duijnhouwer** – Research and Results Measurement Analyst – MM4P
- **Georges Kakpo** – Digital Finance Assistant UNV – MM4P
- **Moïra Favrichon** – Results Measurement Consultant – UNCDF
- **Irene Salvi** – Results Measurement and Resource Mobilization – UNCDF

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Acronyms and abbreviations	
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
DFS	digital financial services
e-	electronic
MNO	mobile network operator
OTC	over-the-counter
P2P	person-to-person
UNCDF	United Nations Capital Development Fund
US$	United States dollar*
WAEMU	West African Economic and Monetary Union
XOF	African Financial Community franc (currency code)*

**Conversion rate:* US$1 = XOF 553.504. *Note:* This rate is used throughout this report whenever United States dollar equivalents are provided for African Financial Community francs. *Source:* https://treasury.un.org/operationalrates/OperationalRates.php, December 2017.

Glossary[a] (continued)	
Active customer account	An active customer account is an account with which at least one transaction was conducted in the last 90 days. A transaction includes cash-in, person-to-person transfer, cash-out, bill payment and/or airtime top-up. Conducting a balance inquiry, resetting a personal identification number or completing another transaction that does not involve the movement of value DOES NOT qualify for a customer account to be considered active.
Agent, Agent outlet, Active agent outlet	An agent may be a proprietary agent (an agent who is managed by and operates under the exclusive branding of a particular provider) or a third-party agent, either of whom handles more than 30 transactions per month, including cash-in and cash-out. In many instances, an agent registers new customers too. The country's central bank, Central Bank of West African States (Banque Centrale des États de l'Afrique de l'Ouest, or BCEAO), defines an agent as a person or entity appointed by an e-money institution to provide certain e-money related services on its behalf. "In the case of mobile money, an agent outlet is a location where one or several provider-issued tills are used to conduct transactions for clients… Agent tills are provider-issued 'lines,' which can be SIM cards or POS [point-of-sale] machines, authorized and used to facilitate mobile money transactions… An agent outlet may operate tills issued by several providers; these are generally referred to as shared or nonexclusive outlets." "An active agent outlet is an agent outlet where any of the tills were used to facilitate at least one transaction within the last 30 days… The most important of these [transactions] are cash-in and cash-out (i.e., loading value into the mobile money system and then converting it back out again)."
Airtime top-ups	Airtime top-ups are funded from a customer account.
Automated (or Automatic) teller machine (ATM)	An ATM is "an electronic telecommunications device that enables the clients of a financial institution to perform financial transactions without the need for a cashier, human clerk or bank teller."[b] ATMs may be operated either offline or online with real-time access to an authorization database.
Bank account to mobile money account transfers	These transactions involve "a direct transfer of funds made from a customer bank account to a mobile money account. This transaction typically requires a commercial agreement and technical integration between the bank and the mobile money provider to allow direct transfers."
Bill payments	These transactions involve the payment of bills using digital financial services, "regardless of whether they originate from an account or are made over the counter."[c]
Bulk payments	These transactions are conducted from one account to many accounts, or from many accounts into one account. The former, such as salary payments or government transfers, may terminate in an account or over the counter. They are referred to as 'one to many'. The latter, such as several customers paying for utilities, comprise collections by an organization from multiple payers. They are referred to as 'many to one'.
Cash-in transactions	These transactions include deposits of any value from a customer into a wallet through an agent. They also represent "the process by which a customer credits [his/her] mobile money with cash. This [process] is usually via an agent who takes the cash and credits the customer's mobile money account with the same amount of e-money."
Cash-out transactions	These transactions include deposits of any value from a customer into a wallet through an agent. They also represent "the process by which a customer credits [his/her] mobile money account with cash. This [process] is usually via an agent who takes the cash and credits the customer's mobile money account with the same amount of e-money."
(Agent) Commissions	Commissions are the revenues paid by the digital financial service provider to its agents. Generally, agents earn commissions by conducting transactions and onboarding new customers.

[a] As much as possible, standard industry definitions are applied. In particular, GSMA, a trade body representing the interests of mobile network operators globally, is the source of a number of definitions provided here. Unless otherwise noted, the source of all quoted text in the definitions is the latest report from GSMA: GSMA, *2017 State of the Industry Report on Mobile Money*, Appendix 3: Glossary (London, 2018).

[b] Nair Vinu Uthaman and others, 'MAASC (Multiple Account Access using Single ATM Card),' *International Journal of Science, Engineering and Technology Research (IJSETR)*, vol. 3, No. 6 (June 2014), p. 1790.

[c] Nika Naghavi and others, 'Success factors for mobile money services: A quantitative assessment of success factors' (London, GSMA, November 2016), p. 21.

Glossary (continued)	
Customer activity rate	Customer activity rate is the share of actively used registered accounts (i.e., at least one transaction conducted in the past 90 days).
Debit card	A debit card is an electronic card issued by a bank that provides the bank client with access to his/her account to withdraw cash or pay for goods and services. It eliminates the need for the client to go to the bank to remove cash from his/her account as he/she can just go to an ATM or pay electronically at merchant locations. This type of card, as a form of payment, also eliminates the need for cheques, as the debit card immediately transfers money from the client account to the business account.
Digital financial services (DFS)	The term DFS refers to a range of formal financial services accessible via digital channels, such as mobile money, agency banking, ATMs and debit cards, as opposed to traditional financial services accessed through physical visits to a provider's outlet.
Financial inclusion	Financial inclusion is the end state of the goal of all eligible citizens having access to and using a range of affordable, convenient and appropriate financial services. These services could be formal financial products/services that are provided by formal financial institutions (banks and/or non-bank financial institutions bound by legally recognized rules) or informal financial products/services that are unregulated and operate without recognized legal governance (e.g., village banks or village development funds).
Fintech	This entity is a financial technology company
First-generation products	These products comprise basic DFS, such as person-to-person transfers, airtime purchases, bill (utility) payments, and cash-in and cash-out transactions.
Float	Float is "the balance of e-money, physical cash, or money in a bank account that an agent can immediately access to meet customer demands to purchase (cash-in) or sell (cash-out) electronic money."
Informal over-the-counter (OTC) transactions	These transactions occur when a customer provides cash to an agent who performs a transaction via an agent account to send funds to the wallet of a registered customer.
International remittances	International remittances can refer to the total number of cross-border fund transfers for inbound or outbound remittances. International remittances may also refer to the "cross-border fund transfer from one person to another person. This transaction can be a direct mobile money remittance or can be completed through use of an intermediary organization such as Western Union."
Know-you-customer (KYC)	"Financial institutions and regulated financial services providers are obligated by regulation to perform due diligence to identify their customers." The KYC term refers to these requirements and/or to "the regulation which governs these activities. The FATF (Financial Action Task Force) recommends a risk-based approach to due diligence for AML/CFT (anti-money-laundering and counter-financing of terrorism) controls. Due to the lack of formal identity documents in some markets, solutions such as [establishing] tiered KYC [requirements] and adjusting acceptable KYC documentation can help mobile money providers facilitate customer adoption and increase financial inclusion, especially in rural areas."
Liquidity management	Liquidity management is "the balance of cash and e-money held by a mobile money agent to meet customers' demands to purchase (cash-in) or sell (cash-out) e-money. The key metric used to measure the liquidity of an agent is the sum of [his/her] e-money and cash balances (also known as [his/her] float balance)."
Merchant payments	These transactions are movements of value from a customer to a merchant to pay for goods or services at the point of sale.

Glossary (continued)	
Mobile microcredit (also microloans)	Mobile microcredit is a solution that enables mobile money customers to access small amounts of credit instantly via their mobile phone.
Mobile microinsurance	Mobile microinsurance is an option by which insurance premiums are paid from a mobile wallet through a mobile money platform.
Mobile money operator	A mobile money operator is "a company that has a government-issued licence to provide telecommunication services through mobile devices."
Over-the-counter transactions (OTC)	These transactions include money transfers or bill payments that are conducted without a registered account. "Some mobile money services [e.g., bill payments] are being offered primarily OTC. In such cases, a mobile money agent performs the transaction on behalf of the customer, who does not need to have a mobile money account to use the service."
Pay-as-you-go	Pay-as-you-go is an option by which an end customer makes a deposit for a product with the end goal of owning the device through a series of usage payments paid through a DFS channel.
Person-to-person transfers	These transactions originate from a customer DFS account and terminate in another customer DFS account.
Registered customers	Registered customers are the cumulative number of customers who have registered for a service, regardless of whether they are active.
(Agent) Revenue	Revenue comprises the total commissions earned by agents for all the transactions they conduct through their agent accounts.
Second-generation products	These products are more advanced DFS, such as microcredit and microinsurance products, loan repayments, merchant payments, push (to bank)/pull (from bank) transfers and international remittances.
Third-party operators	Third-party operators are DFS providers that leverage existing infrastructure of mobile network operators (MNOs). They are usually MNO agnostic and, in some cases, could be master agents or others acting on behalf of a DFS provider or an MNO, whether pursuant to a service agreement, a joint venture agreement or another contractual arrangement.
Transaction	A transaction could involve cash-in, person-to-person transfer, cash-out, bill payment and/or airtime top-up. A transaction does not include any other type of activity that does not involve the movement of value (e.g., balance inquiry).

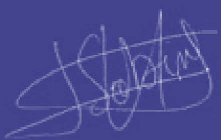
Foreword

Digital finance is a great catalyst for financial inclusion, as it provides disadvantaged people with means of payment and sources of financing to boost their activities. Thanks to digital finance, customers only have to reach into their pocket to access banking services, putting an end to previous access issues. It has led to a new way of thinking about finance within banks that are developing new partnership models to bring them closer to their customers. This global dynamic is also present in West Africa, where most financial markets are in the consolidation phase. The area is developing rapidly following the launch of an interoperability project by the Banque Centrale des Etats de l'Afrique de l'Ouest [Central Bank of West African States] (BCEAO), which will open doors to innovation.

In Benin, the commitment shown by regulators, digital financial service (DFS) providers, fintech companies and the Government has facilitated an increase over four years in the active use of DFS among the adult population, rising from 2 percent in 2014 to 32 percent at the end of 2017. The Government has become more involved to encourage digital technology to become part of people's habits and, in particular, to justify the mobilization of domestic resources. With the support of the United Nations Capital Development Fund (UNCDF), an assessment of government payment flows has recently been carried out to identify opportunities for digitizing mass payments. Given that the UNCDF objective for usage has been largely achieved, a new target of 50 percent active adult DFS usage by 2019 has been set. Today, the Beninese market is mature enough to move to the next level and offer services that are more adapted to the needs of the population.

With these advances in mind, UNCDF has a new vision to accelerate the development of innovative digital services that will enable vulnerable populations to earn more and improve their well-being. Women, youth, rural populations and entrepreneurs play a key role in this strategy. The annual survey of DFS providers is reflective of the ecosystem.

Through this survey, we evaluate the performance of the sector and the effectiveness of our strategy, using this evaluation to reframe our interventions and provide support adapted to the needs of market actors. We thank all the partners of the UNCDF programme MM4P and the actors who kindly made their data available for this report.



Sabine Mensah

UNCDF-MM4P Regional Technical Specialist

1 INTRODUCTION

State of the global market for digital financial services

Globally, DFS have become the leading payment channel for digital economies in emerging markets. There are DFS deployments in more than 90 countries. Of all low- and lower-middle income countries in the world, three quarters of them have DFS deployments.

Results from the 2017 Global Findex survey by the World Bank reveal an increase in overall financial inclusion.[1] Worldwide, 69 percent of the adult population had access to an account at a financial institution or a mobile money provider in 2017, compared to 62 percent in 2014.[2] Results also suggest that mobile money is a key driver of the increase in account ownership. Globally, 52 percent of adults made or received payments digitally at least once in the past 12 months in 2017, compared to 41 percent in 2014. In sub-Saharan Africa, 34 percent of the adult population made or received payments digitally in 2017, compared to 27 percent in 2014. Yet, 1.7 billion adults remain unbanked worldwide. Two thirds of these adults own a mobile phone, which offers new opportunities to bring the unbanked into the financial system.

The findings of the 2017 State of the Industry report by GSMA show similar trends.[3] In terms of usage, the total value of transactions conducted through mobile money providers grew by 23 percent from US$26 billion in December 2016 to US$32 billion in December 2017. Of mobile money providers, 22 percent now offer DFS-enabled savings, which suggests DFS can serve as a tool for saving money and earning interest.

While feature phones and Unstructured Supplementary Service Data (USSD) transactions continue to be the most widely used interface for DFS users, 73 percent of providers delivered DFS through smartphones in 2017, compared to 56 percent in 2015. Agents remain the backbone of the DFS industry. Between 2015 and 2017, the number of registered agents increased by 17 percent. In 2017, there were 5.3 million registered agents, of whom 55 percent were active.

More providers, particularly mobile network operators (MNOs), are starting to recognize DFS as a source of direct revenue for their businesses, as they see a contribution by DFS of more than US$2.4 billion in direct revenue and revenue growth of 34 percent year on year. Important trends include the increased adoption of smartphones and the participation of fintech companies, with a focus on the digitalization of new sectors of the economy. Renewed efforts by companies and governments to reach the most vulnerable have led them to continue exploring the option of using mobile money providers as a payment platform.

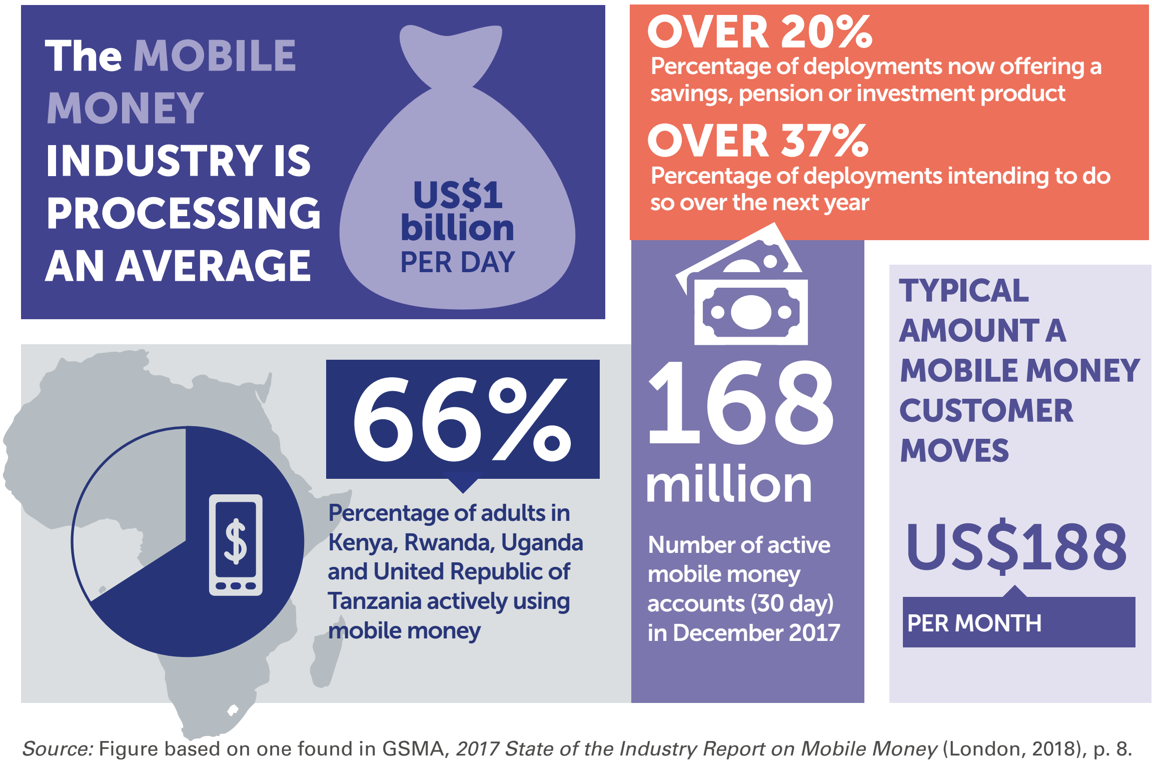
[1] Asli Demirgüç-Kunt and others, *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution* (Washington, DC, World Bank, 2018). doi:10.1596/978-1-4648-1259-0. Licence: Creative Commons Attribution CC BY 3.0 IGO. *Note:* All statistics cited in this paragraph are from this source.

[2] *Note:* This figure includes anyone with an account that was used at least once in the past 12 months.

[3] GSMA, *2017 State of the Industry Report on Mobile Money* (London, 2018). *Note:* All statistics cited in this and the following two paragraphs are from this source.

Figure I highlights additional key facts and figures that capture the state of the global DFS industry.

Figure 1
State of the global digital financial service industry (2017)



Source: Figure based on one found in GSMA, *2017 State of the Industry Report on Mobile Money* (London, 2018), p. 8.

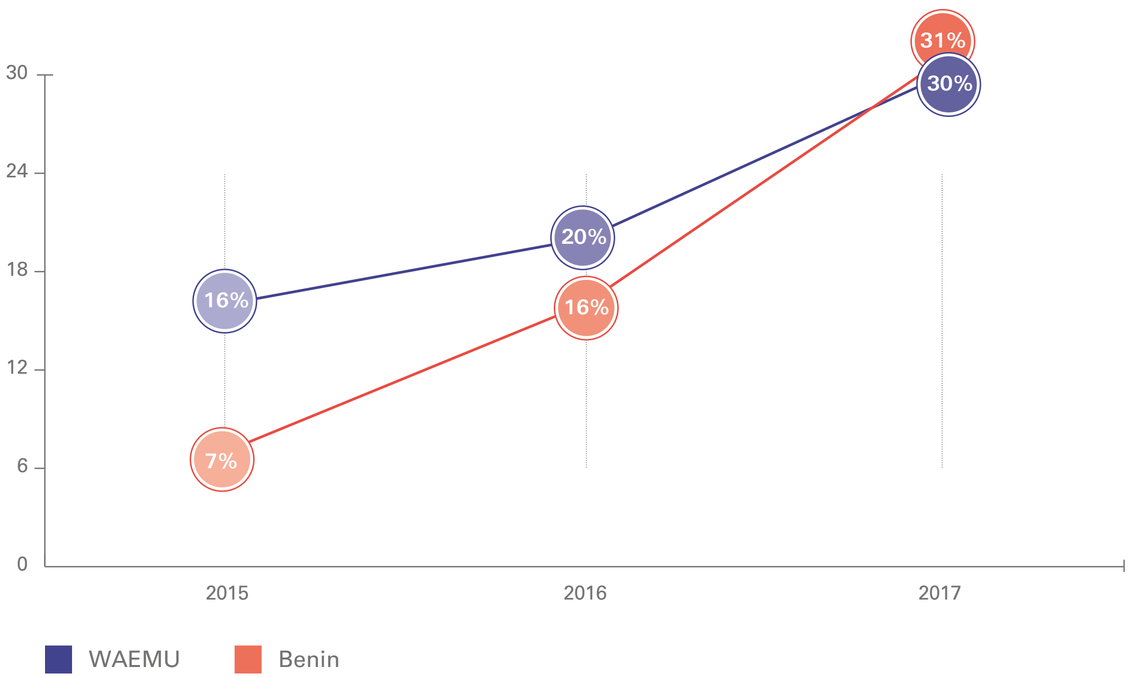
National context: The digital financial services market in Benin

Benin is considered to be an emerging market for DFS, but this status could change. First-generation services, such as money transfers and electronic (e-) top-ups, dominate the market. However, there is a strong commitment from MNOs that are investing in the sector and developing independent branches to manage mobile money activities. The predominance of MNOs was confirmed by the latest access map produced by the Finclusion Lab: in 2017, 90 percent of access points were attributable to MNOs, following annual growth of 118 percent in 2016 and 19 percent in 2017.[4] This growth has generated renewed interest from the banking sector, which is starting to develop its own DFS solutions. There is therefore a new dynamic to the Beninese DFS market, which has also seen a significant increase in customer usage and agent activity. According to the Global Findex Database 2017, the percentage of people in Benin aged 15 years and over with an e-money account has risen from 2 percent to 18 percent over the last three years.[5]

[4] MIX Market, 'Bénin - Principales conclusions.' Available from https://www.themix.org/finclusionlab/benin?language=fr (accessed April 2019).
[5] Demirgüç-Kunt and others, *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution.*

According to BCEAO data (see figure 2), the country's digital financial inclusion rate has continued to grow, increasing from 7 percent of the adult population in 2015 to over 31 percent in 2017.[6] The Beninese digital financial inclusion rate slightly exceeded that of the West African Economic and Monetary Union (WAEMU), which stood at 30 percent at the end of 2017.

Figure 2
Percentage of the adult population with an active digital account in Benin and in the West African Economic and Monetary Union (2015–2017)



Despite this improvement in the Beninese DFS market, the Finclusion Lab has identified remarkable disparities regarding the products offered in different communes: in 29 of the country's 77 communes, the overall supply of financial products and services has shrunk; and, in 19 of these communes, there has been a decrease of more than 20 percent across all access points.[7] These changes are attributable to mobile money networks, which tend to be largely concentrated in urban areas. The three departments of Atlantique, Littoral and Ouémé are home to two thirds of the country's access points for financial services.[8]

[6] The digital financial inclusion rate refers to the proportion of the adult population (aged 15 and over) with a mobile money account.
[7] MIX Market, 'Bénin - Principales conclusions.'
[8] Ibid.

Survey: Background and methodology

Each year, the UNCDF-MM4P programme conducts a survey of DFS providers to measure market developments. The survey makes it possible to evaluate institutions' performance, identify the sector's support needs and measure the effectiveness of the programme's interventions.

Conducted among DFS providers, namely MNOs, banks and microfinance institutions in Benin, the survey comprises quantitative and qualitative questions. Quantitative data were collected based on the following indicators:

- Total number of registered and active customer accounts (in the last 90 days)
- Number of unique active customers by type of service
- Value and volume of transactions made by customers via an account and by type of service
- Value and volume of transactions made by customers with agents and by type of service
- Number of registered and active agents (in the last 30 days)
- Total value and volume of over-the-counter (OTC) transfers with agents
- Commissions paid to agents
- Number of registered and active merchants (in the last 30 days)

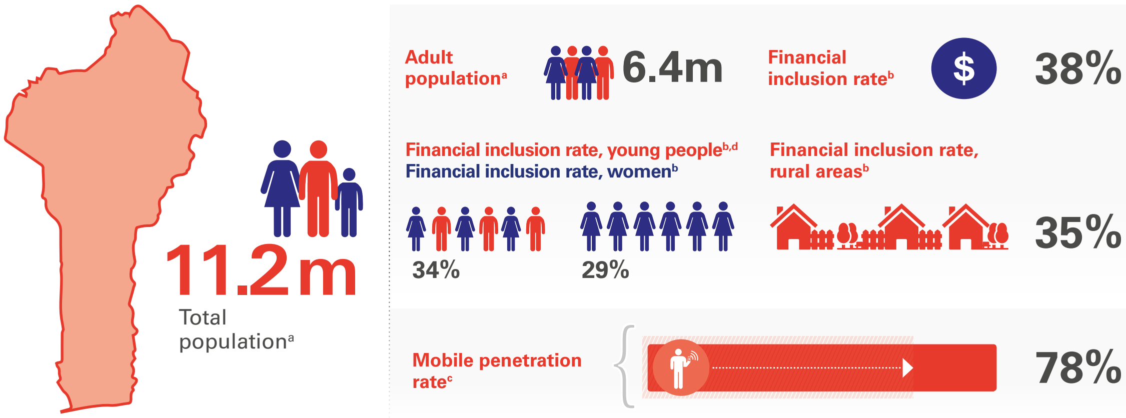
Qualitative information was collected on the performance of the institutions interviewed, the main challenges encountered and the level of supplier engagement with the UNCDF-MM4P programme.

In accordance with the privacy policy of the United Nations Development Programme, all participants signed non-disclosure agreements. As such, all of the data presented in this report have been aggregated and remain anonymous.

BENIN OVERVIEW

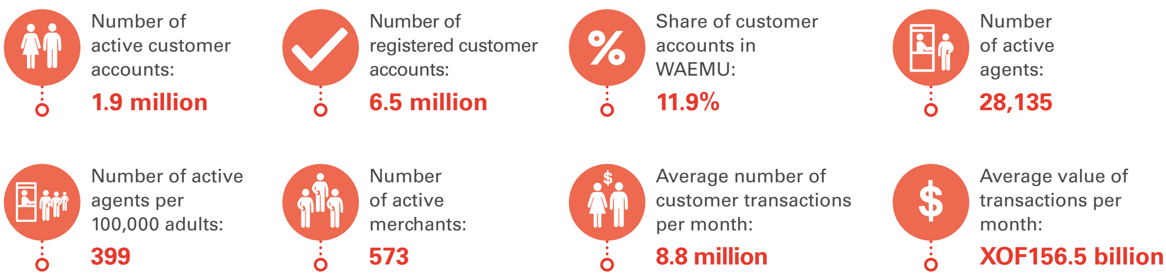
2

Figure 3
General statistics about Benin (2017)



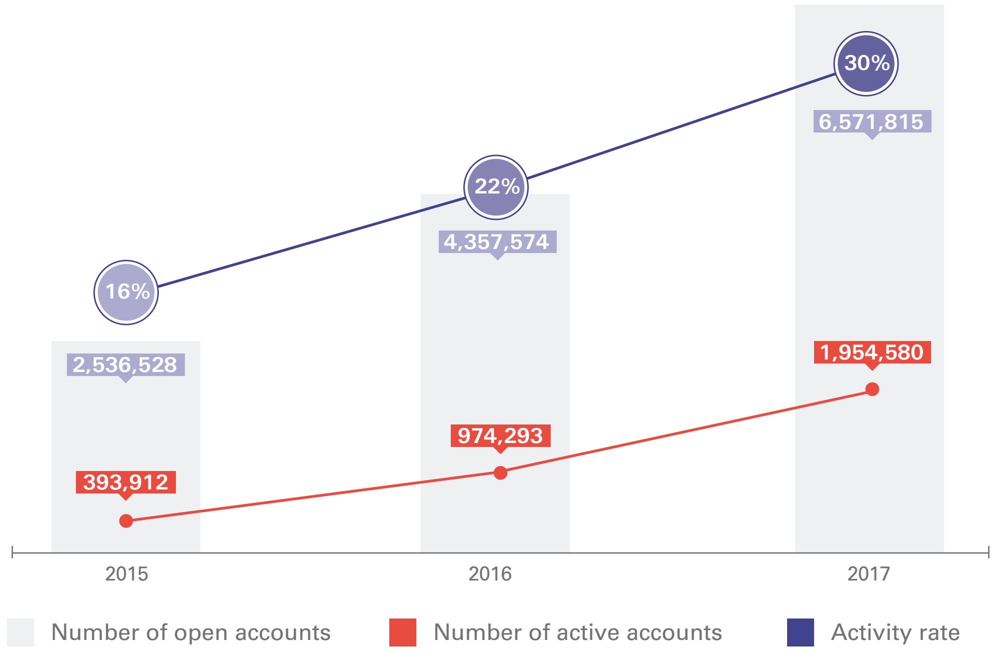
[a] UN World Population Prospects, 2017; [b] Global Findex, 2017; [c] GSMA, 2017; [d] Findex definition of youth is any person between 15 and 24 years of age.

Figure 4
State of the digital financial services market in Benin (2017)



Source: BCEAO, 2018.

Figure 5
Development of digital financial services in Benin (2015–2017)



Source: BCEAO, 2018.

These figures confirm that Benin is currently experiencing a rapid increase in available banking services, which is reflected in the significant rise in registered customer accounts (159 percent) and even greater rise in active client accounts (396 percent) between 2015 and 2017.

3 FINDINGS

Providers

The survey data were collected from six DFS providers operating in Benin (see figure 6).

Figure 6
Digital financial service providers in Benin that responded to the survey

Mobile and fixed network operators
- Moov Benin
- MTN Mobile Money SA
- La Poste du Bénin

Microfinance institutions
- ALIDé

Commercial banks
- Diamond Bank
- Ecobank Benin

At the time of the survey, the financial services shown in figure 7 were available in the market.

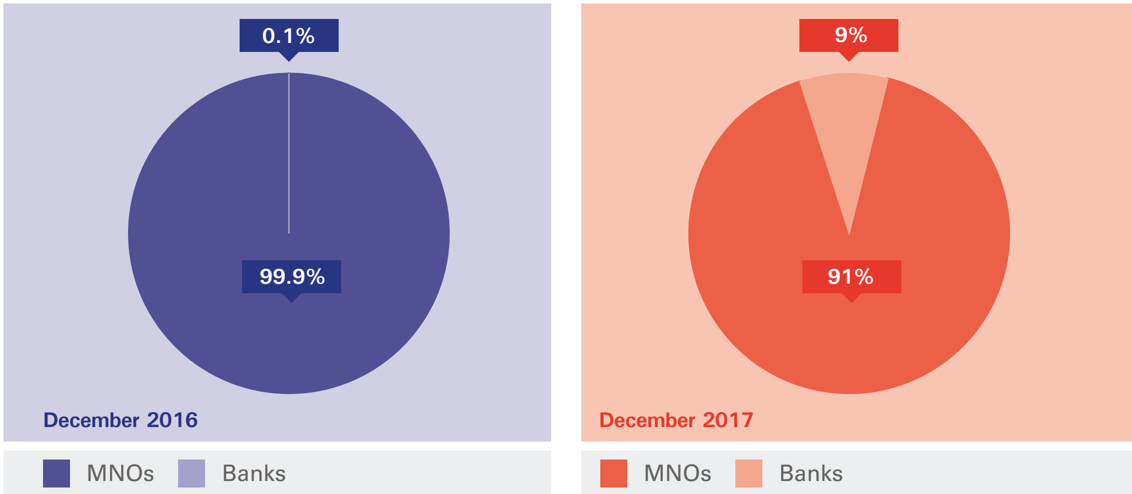
As of 2017, the Beninese market was still strongly dominated by first-generation products: domestic person-to-person (P2P) transfers, deposits (cash-in), withdrawals (cash-out), airtime top-ups and bill payments. There were no second-generation products. However, in 2017, several partnerships were established between financial institutions and operators in order to provide new services, such as transfers from bank accounts to e-money accounts (bank-to-wallet) and transfers from e-money accounts to bank accounts (wallet-to-bank).

Figure 7
Types of digital financial services offered by provider type in Benin

Mobile and fixed network operators	Microfinance institutions	Commercial banks
• Domestic P2P transfers • Money transfers with code (OTC) • Cash-in transactions • Cash-out transactions • Airtime top-ups • International remittances • Merchant payments • Bill payments • Transfers between bank account and e-wallet (bank-to-wallet or 'push and pull' services) • Bulk payments	• Cash-in transactions • Cash-out transactions • Savings (other than mobile money) • Airtime top-ups • Loan repayment services • Merchant payments	• Domestic P2P transfers • Money transfers with code (OTC) • Cash-in transactions • Cash-out transactions • Airtime top-ups • International remittances • Merchant payments • Transfers between bank account and e-wallet (bank-to-wallet)

Figure 8 shows that, in terms of active customers, the DFS market share held by banks increased during 2017: in December 2016, less than 1 percent of active customer accounts belonged to banks, but by December 2017, this market share had risen to 9 percent.

Figure 8
Market share of active customer accounts by provider type (December 2016 and 2017)



Customer accounts

Registered and active customer accounts: Figure 9 illustrates that, between December 2016 and December 2017, the number of registered customer accounts increased by 56 percent and the number of customer accounts active in a 90-day period doubled (116 percent). Figure 10 shows that, over the four quarters of 2017, active accounts had higher growth rates than registered accounts, with the strongest growth recorded in the first quarter.

Figure 9
Number of registered and active accounts (December 2015, 2016 and 2017)

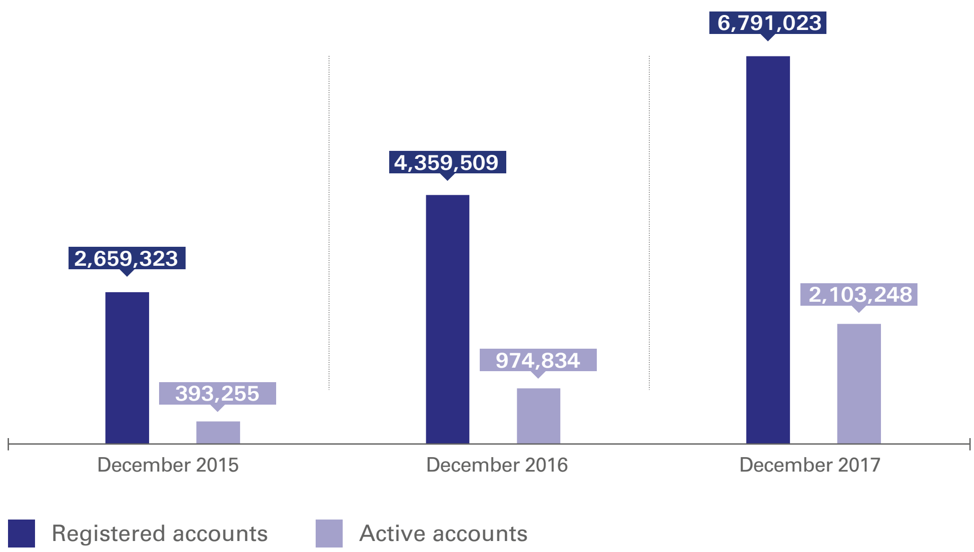
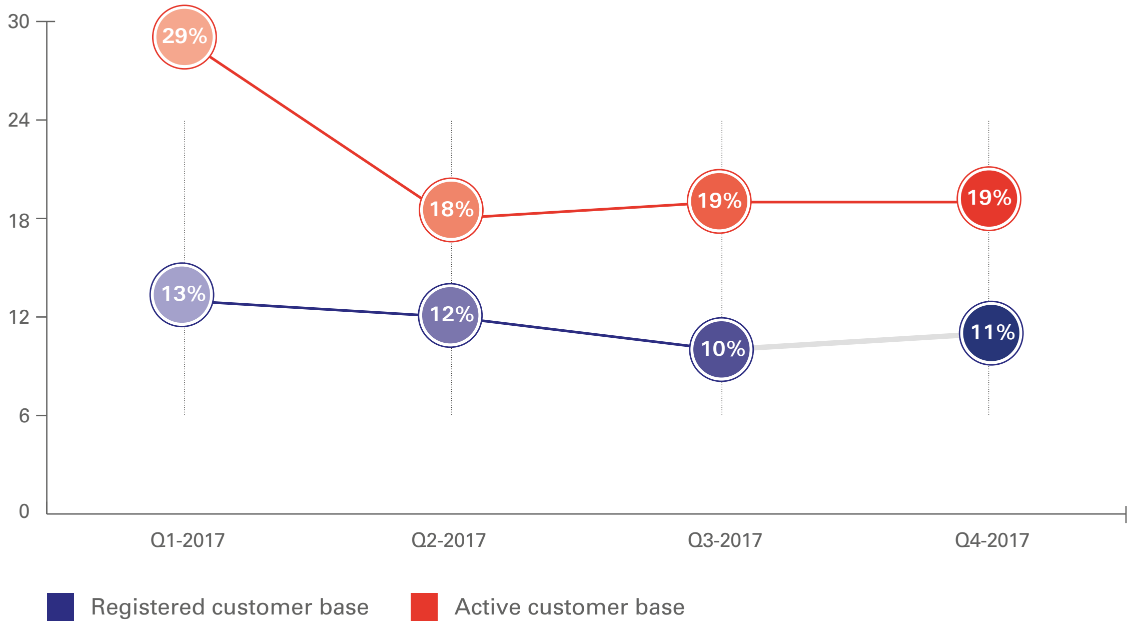


Figure 10
Quarterly growth rate of customer base (2017)



Customer activity rates: The customer activity rate represents the proportion of registered accounts that are active, which means that at least one transaction has been completed in the last 90 days. The customer activity rate has gradually increased over the past three years. According to figure 11, the activity rate of customer accounts increased from 15 percent in December 2015 to 22 percent in December 2016 and to 31 percent in December 2017. While this increase represents a decent improvement in customer use, it is notable that 69 percent of registered accounts had not experienced any activity at the end of 2017. These results not only demonstrate the increasingly important role of digital technology in people's financial transactions but also the significant effort that must still be made by DFS providers to build customer loyalty around usage.

Figure 11
Customer activity rate (December 2015, 2016 and 2017)

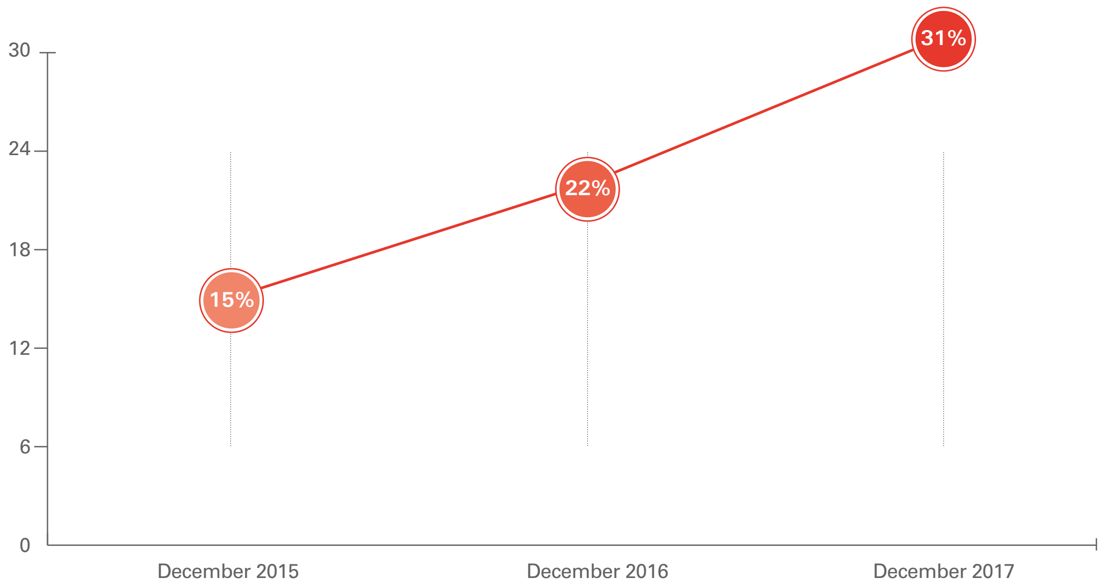
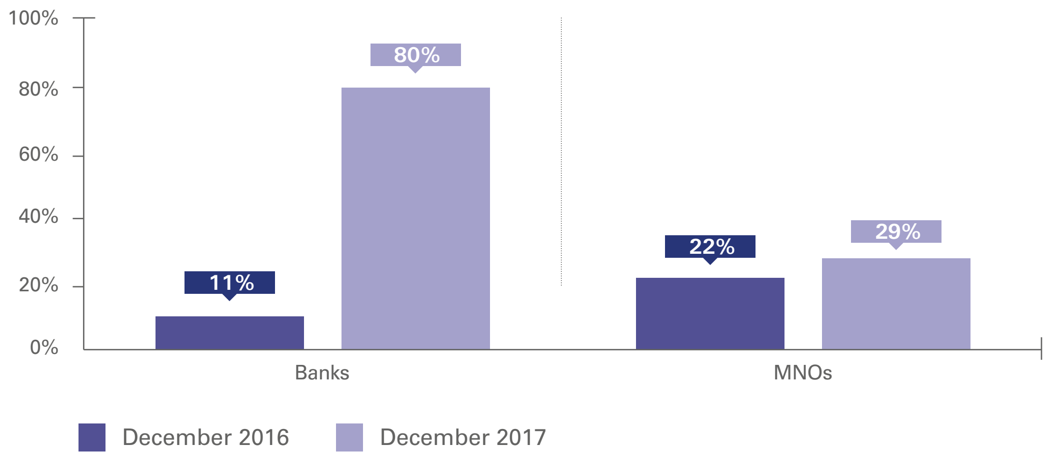


Figure 12 shows that the customer activity rate increased for both banks and MNOs. However, in December 2017, banks had a much higher customer activity rate (80 percent) than that observed among MNOs (29 percent).

Figure 12
Customer activity rate by provider type (December 2016 and 2017)



Types of transactions: In December 2017, customers completed 12.9 million transactions with a total value of XOF 226 billion (US$408 million).

Figure 13 compares the number of unique customers by service type in December 2016 and December 2017, while figure 14 breaks them down by volume and value and the paragraphs that follow provide more detail. The service types that experienced more growth in terms of customer use were cash withdrawals (cash-out) and domestic P2P transfers: by the end of 2017, these transactions increased by 957 percent and 768 percent, respectively.

Figure 13
Number of active customer accounts by service type (x 1000; December 2016 and 2017)

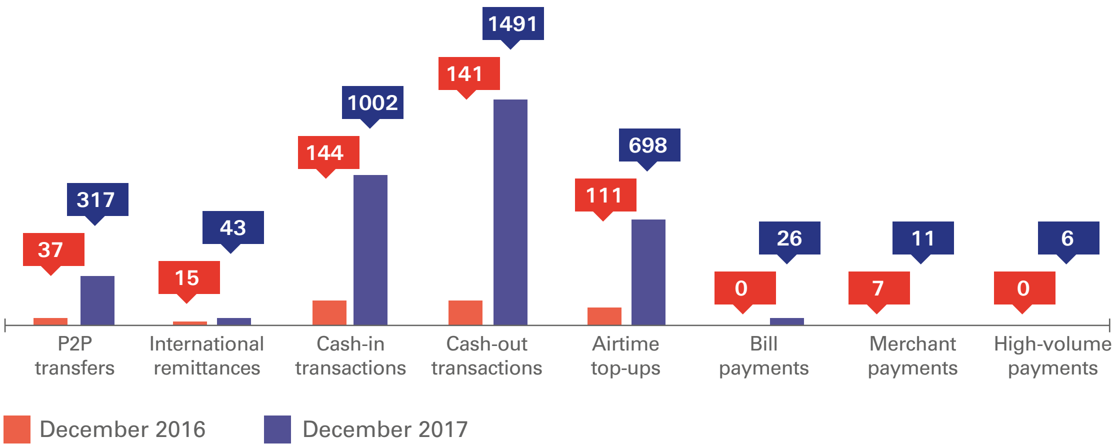
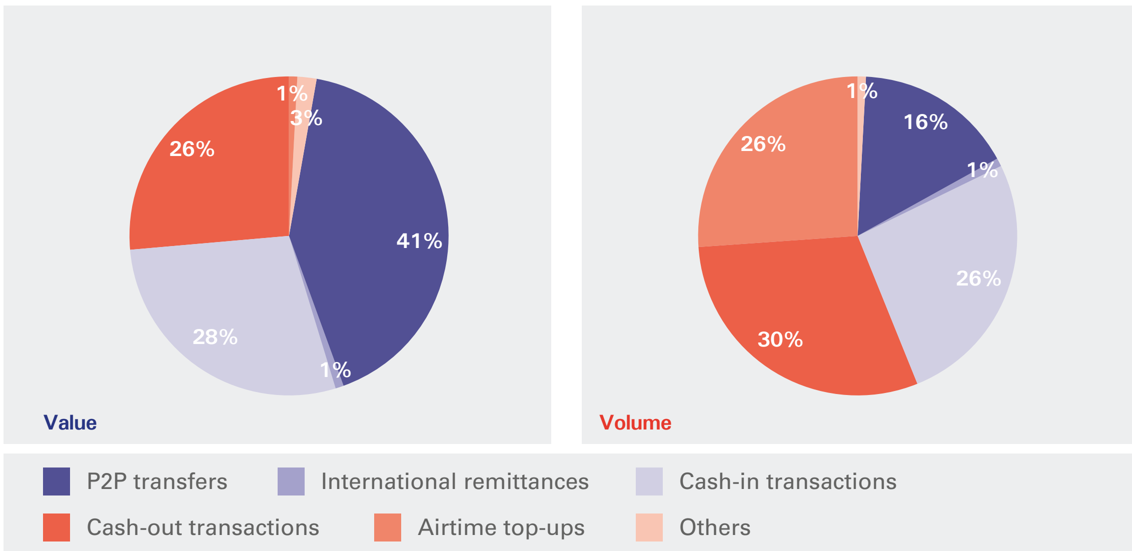


Figure 14
Share of transaction volume and value by service type (December 2017)



Note: 'Others' includes bill payments, merchant payments, high-volume payments, transfers between bank accounts and mobile money accounts, and OTC transactions.

- **P2P transfers:** In terms of total transaction value, P2P transfers generated the highest value, as they represented 41 percent of transactions made during December 2017. However, in terms of total transaction volume (the number of transactions carried out), P2P transfers only accounted for 16 percent of transactions carried out in December 2017. The individual values of P2P transactions were therefore higher than those of other types of transactions. In December 2017, the average value of a P2P transaction was XOF 42,895 (US$77).

- **Airtime top-ups:** Although these transactions only represented 1 percent of the total value of transactions carried out during December 2017, they accounted for 26 percent of the total volume in the same month. This finding means that individual airtime top-ups involved small amounts. In December 2017, the average value of an airtime top-up transaction was XOF 531(US$1).

- **Cash-in transactions:** In December 2017, the average value of a cash-in transaction was XOF 18,420 (US$33). That value was down from an average of XOF 33,533 (US$61) in December 2016.

- **Cash-out transactions:** In December 2017, the average value of a cash-out transaction was XOF 14,562 (US$26), down from an average of XOF 32,156 (US$58) in December 2016. As cash withdrawals are frequently carried out (30 percent of transactions), it is important to take into account perceptions about e-money in developing the ecosystem. The more opportunities people have to use e-money for payments, the less they will need to convert value into cash.

- **International remittances:** These transactions represented 1 percent of both the total value and the total volume of transactions made during December 2017. In the same month, the average value of an international remittance was XOF 28,984 (US$52).

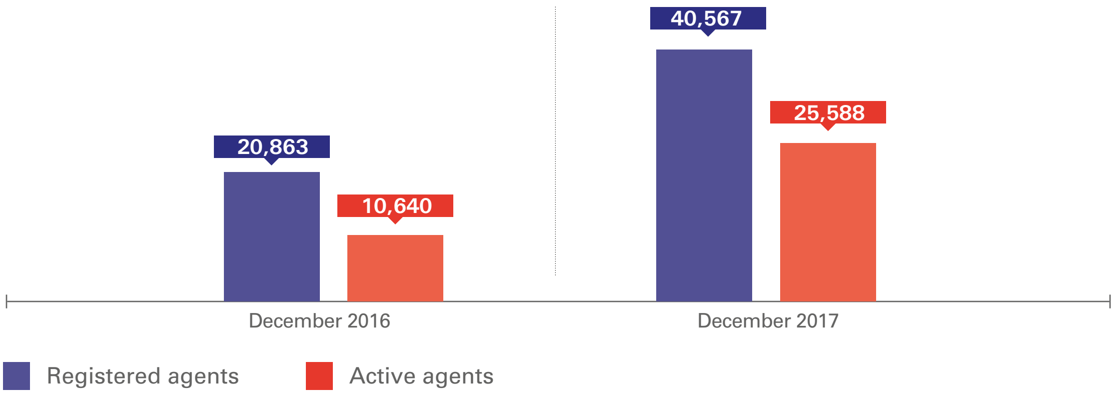
New transfer services between bank accounts and mobile money accounts (push and pull or bank-to-wallet and wallet-to-bank transfers) only accounted for 0.04 percent of the total transaction volume in December 2017. That month customers conducted 659,000 OTC transactions, totalling more than XOF 8 billion (US$14 million).

Agents

Working directly with customers, agents are the first and sometimes only point of contact for customers to interact with DFS providers. In Benin, MNOs are those that work most closely with agents and have therefore developed fairly solid networks. Banks that offer DFS currently use existing agent networks but are preparing to develop their own networks using the agency banking model.[9]

Registered and active agents: As shown in figure 15, in December 2016, the DFS market in Benin had 20,863 registered agents, of which 10,640 were active. During 2017, the number of registered agents increased by 94 percent and the number of active agents increased by 140 percent. By December 2017, there were 40,567 registered agents, of which 25,588 were active. Given the low level of agent exclusivity (each agent generally works on behalf of several DFS providers), this finding represents 234 active agents per 100,000 inhabitants.

Figure 15
Number of registered and active agents (December 2016 and 2017)



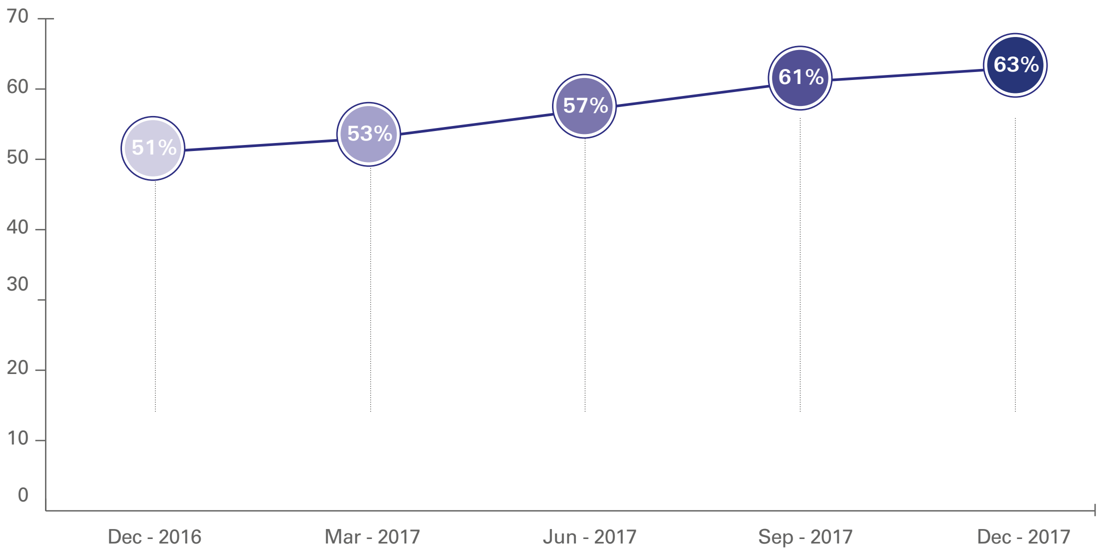
Profile of agents: As figure 16 shows, 31% of agents are located in rural areas, while 69% of agents are in urban areas. MNOs do not report disaggregated data on the gender of agents.

Figure 16
Urban/Rural distribution of agents (December 2017)

[9] Agency banking is a model whereby a traditional bank extends its banking network through the use of authorized agents, in an efficient and cost-effective manner. This model allows the bank to provide low-risk services to customers in rural and remote areas, clients who are typically difficult to reach with traditional bank branches. The bank benefits from a larger client base, which increases financial inclusion, product availability and risk management.

Agent activity rates: The agent activity rate is the percentage of registered agents that have completed at least one transaction in the last 30 days. As figure 17 demonstrates, this rate increased steadily from 51 percent in December 2016 to 63 percent in December 2017.

Figure 17
Agent activity rate (December 2016–December 2017)



The number of transactions made by agents per month more than doubled, from 3,049,442 transactions in December 2016 to 7,563,118 transactions in December 2017. Figure 18 shows that the transaction values did not show the same growth trend: the value in December 2017 was just 24 percent higher than the value a year earlier. In December 2016, agents carried out transactions amounting to XOF 100 billion (US$181 million). After a 23-percent decrease between December 2016 and March 2017, the monthly value of these transactions gradually increased in the following months. However, the average value of transactions carried out by all agents decreased during 2017, from XOF 32,838 (US$59) in December 2016 to XOF 16,333 (US$30) in December 2017.

Figure 18
Volume and value of agent transactions per month (December 2016–December 2017)

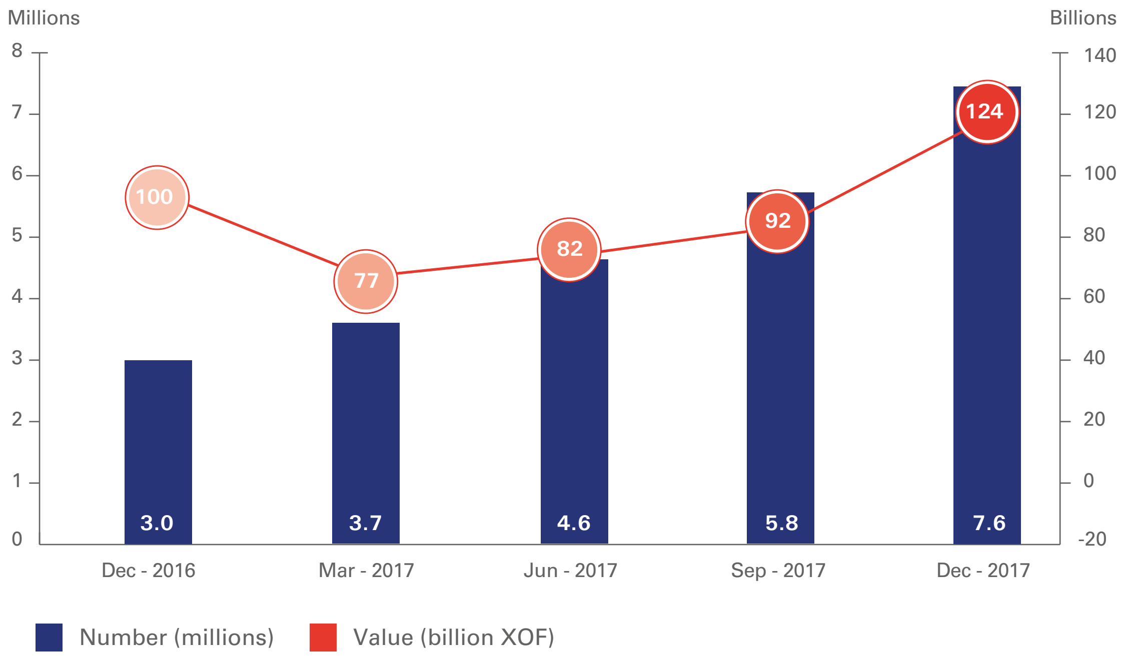


Figure 19 illustrates that the number and value of transactions made per agent per month decreased between December 2016 and September 2017; however, by December 2017, the average number and value of transactions per agent increased to 296 transactions with an average monthly value of XOF 4.8 million (US$8,672).

Figure 19
Volume and value of transactions per agent per month (December 2016–December 2017)

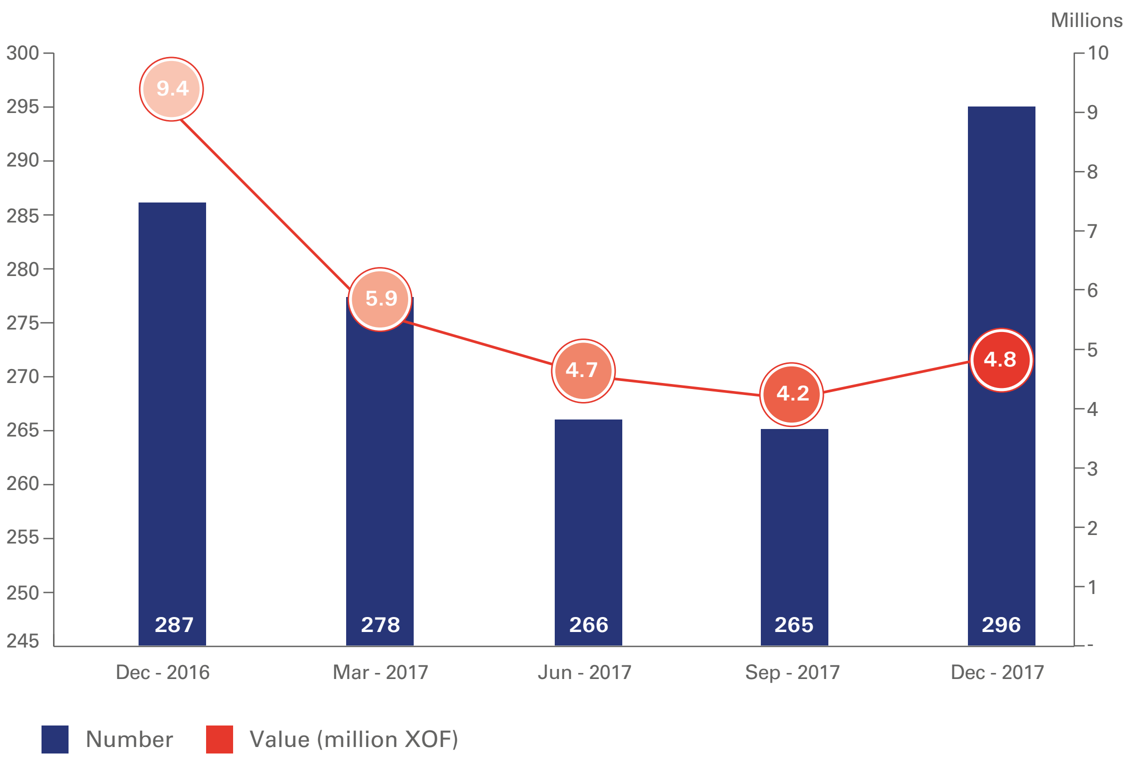
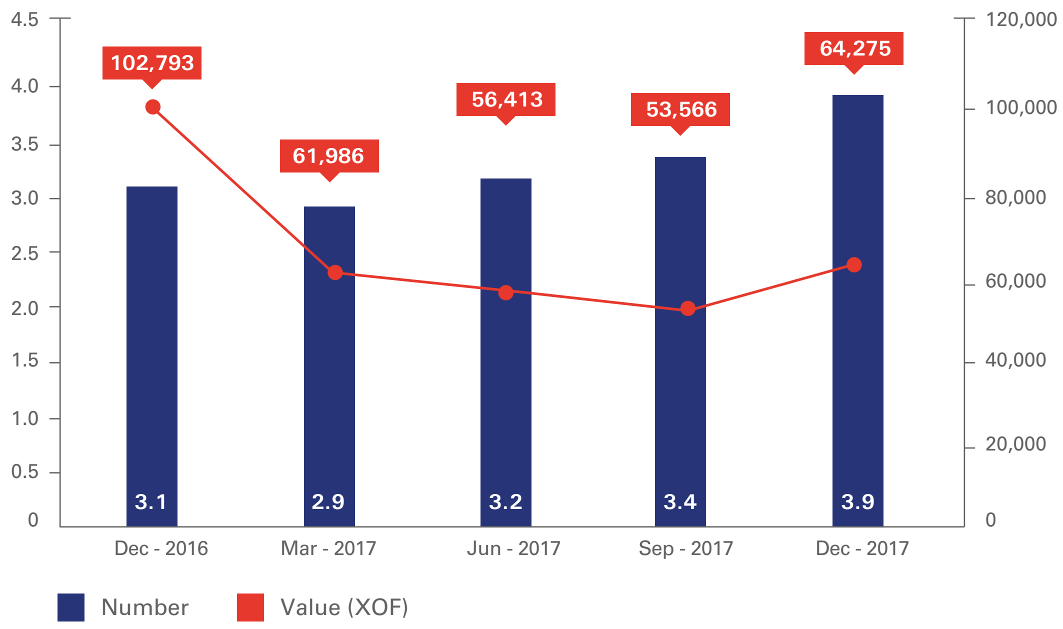


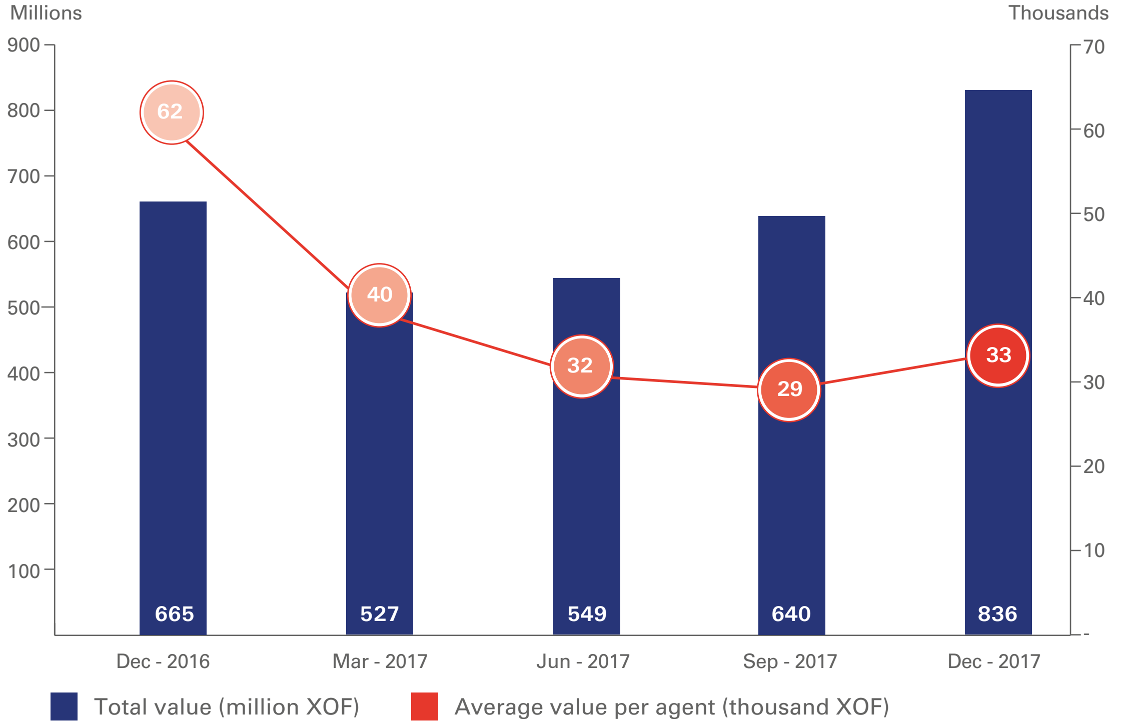
Figure 20 shows that the number of transactions per customer made with an agent increased during 2017, rising from 3.1 transactions in December 2016 to 3.9 transactions in December 2017. Yet, the average monthly value of transactions made by a customer with an agent decreased from XOF 102,793 (US$186) in December 2016 to XOF 64,275 (US$116) in December 2017.

Figure 20
Volume and value of transactions conducted with an agent per customer per month (December 2016–December 2017)



Agent commissions: The increase in the number and value of transactions made by agents each month led to an increase in the total value of commissions earned by all agents. These commissions increased from XOF 665 million (US$1.2 million) in December 2016 to XOF 836 million (US$1.5 million) in December 2017 (see figure 21). However, the average value of commissions received per agent each month fell by almost half, from XOF 62,478 (US$113) in December 2016 to XOF 32,668 (US$59) in December 2017. This decrease could be related to the fact that some clients were known to conduct multiple transactions in order to reduce withdrawal fees (e.g., completing two withdrawals of XOF 5,000 [US$9] rather than one withdrawal of XOF 10,000 [US$18]). Moreover, commission rates were scaled down by certain providers in the market.

Figure 21
Value of agent commissions per month (December 2016–December 2017)

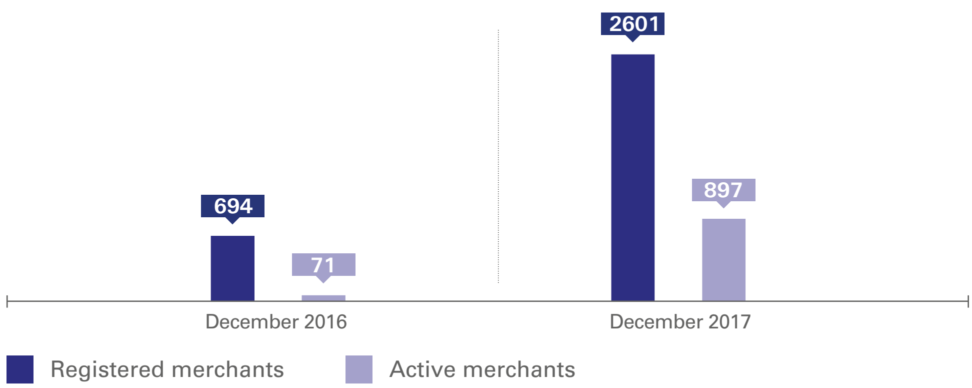


Merchants

Registered and active merchants: Merchants are the payment acceptors. Payments can be accepted remotely or on site. During 2017, the number of registered and active merchants increased considerably. As figure 22 shows, in December 2016, there were 694 merchants, of which 71 were active, while in December 2017, there were 2,601 registered merchants, of which 897 were active.

The improvement of the merchant network could have been due to the combined efforts of new and existing providers to develop the payment ecosystem and facilitate its usage. In 2017, these efforts were reflected in the recruitment campaigns carried out in supermarkets, pharmacies and restaurants, as well as the introduction of incentives for payment acceptors and the improvement of monitoring to increase the number of active merchants.

Figure 22
Number of registered and active merchants (December 2016 and 2017)



Digital financial services management: Performance, strategy and challenges

When consulted, the majority of DFS providers reported that they increased their level of investment in 2017 compared with 2016, a positive trend that continued for investments throughout 2018. The investment analysis also took into consideration the number of people employed specifically in DFS departments. In fact, the number of people working in DFS departments increased by 126 percent from 2016 to 2017.

Figure 23, and the paragraphs that follow, detail key challenges to DFS in Benin and their causes, while figure 24 contains strategic priorities to improve DFS performance by institutions. The information includes the responses from providers that participated in the survey and is presented in order of importance.

One of the main challenges concerns the profitability of services. Despite the growth in users, many investments have still not been amortized. DFS providers also shared that certain types of data are unavailable (e.g., data on women) and would be required to better target certain users' needs.

Another obstacle regards how to target low-income populations, which are typically not a target group for DFS providers given their reduced purchasing power and contribution to revenue. Moreover, low-income people do not always meet the requirements to open an e-money account, such as owning a mobile phone, possessing an identity card or having a sufficient literacy level.

The quality of services provided to customers is yet another issue. Improving service quality would include strengthening agents' capacities and solving their liquidity management problems.

Providers also face regulatory barriers, particularly concerning identification of customers and agents as well as agency banking and digital credit, given the current lack of a specific framework.

In terms of strategy, acquiring highly competent agents, improving customer activity rates and developing innovative or second-generation products are the main priorities for providers.

Figure 23
Challenges to digital financial services in Benin and their causes

Challenges	Causes
Challenges in developing or improving services for underserved populations	• Low literacy rate among the target population • Limited financial resources • Little awareness of DFS • Lack of a reliable business model to extend to rural areas • Lack of a national identity card • No visibility on the specific behaviours of certain groups, such as women and young people
Challenges in developing or improving services	• Poor MNO coverage, especially in rural areas • Liquidity management difficulties • Lack of a national identity card • Lack of interoperability with other financial service providers • Limited technical and organizational capacity within institutions • Regulatory constraints
Barriers in regulation	• Restrictions on international money transfers • Customer identification requirements (know your customer – KYC) in a context where ownership of identity cards is very uncommon, especially among vulnerable populations • Limitations in outsourcing operational functions to third parties • Regulations that are not favourable to developing services such as digital credit • Silent regulation on subjects such as agency banking

Figure 24
Strategic priorities

Strategic priorities of institutions	• Develop and introduce second-generation services • Increase customer activity rates • Acquire high-quality agents

4 CONCLUSION: THE MM4P PROGRAMME IN BENIN

Having dedicated 2016 to building the capacity of DFS operators, attracting the interest of potential providers and encouraging partnership initiatives within the ecosystem, the UNCDF-MM4P programme focused on project implementation in 2017 by providing technical assistance and financial subsidies to selected DFS providers in Benin.

Its range of initiatives has addressed several issues, such as strengthening distribution networks, experimenting with a customer-centric approach for motorcycle taxis, and improving customers' experience of using DFS.

In addition, a new dynamic has been created within the DFS Working Group, which meets quarterly to discuss various themes. The establishment of technical subcommittees has made it possible to propose concrete solutions to issues, such as the management of incorrect mobile money transactions as well as an operational framework validated by members of the Working Group.

Feedback from DFS stakeholders, some of which is included below from various UNCDF-MM4P meetings, highlights the scope of the programme's actions:

- *"The UNCDF-MM4P workshops really help us to deepen our knowledge of DFS and facilitate relationships between the different actors. We have succeeded in developing a trusted relationship with our partner MTN, which has led to the implementation of new services, such as push and pull services."*

- *"The various training sessions organized by UNCDF-MM4P for DFS providers have helped to inform DFS managers about the realities and requirements of the service. These training sessions have broken down barriers of ignorance in the field and allowed DFS managers to engage in digital finance. Our first steps in digital finance have been facilitated by MM4P."*

- *"MM4P made a significant contribution to the launch of push and pull services with Diamond Bank and ALIDé Microfinance."*

- *"The training on risk and fraud management in digital finance has enabled us to deepen our knowledge in terms of identifying and managing the risks related to our activity. This has made it possible to strengthen our internal mechanisms for anticipating risks. MM4P has helped us achieve this."*

- *"The annual statistics are an asset of UNCDF and allow us to better understand the market penetration of DFS and include it in our strategic orientations."*

UNCDF-MM4P aims to better understand market aspirations in Benin, while promoting the integration of innovative products that meet customer needs and expectations. To do so, the programme team will explore the ecosystem, including second-generation products such as digital credit, savings and microinsurance products on mobile phones. It will also focus on transformational applications that facilitate access to basic services in key sectors, such as agriculture, health, energy and education, as these sectors are levers for accelerating financial inclusion.

Regulatory authorities are party to the same dynamic, in creating a regulatory environment conducive to the development of innovative DFS that are adapted to the needs of the people of Benin.

The UNCDF-MM4P programme reiterates its commitment to all stakeholders in this ecosystem, public and private, to develop activity and to increase financial inclusion in the country.

Acknowledgements

The UNCDF-MM4P team thanks the following companies for their response to its annual survey of DFS providers.

Disclaimer

This report is based on data for the period of December 2016 to December 2017 that were collected in April 2018 and internal analysis conducted by the UNCDF-MM4P team.

Survey data

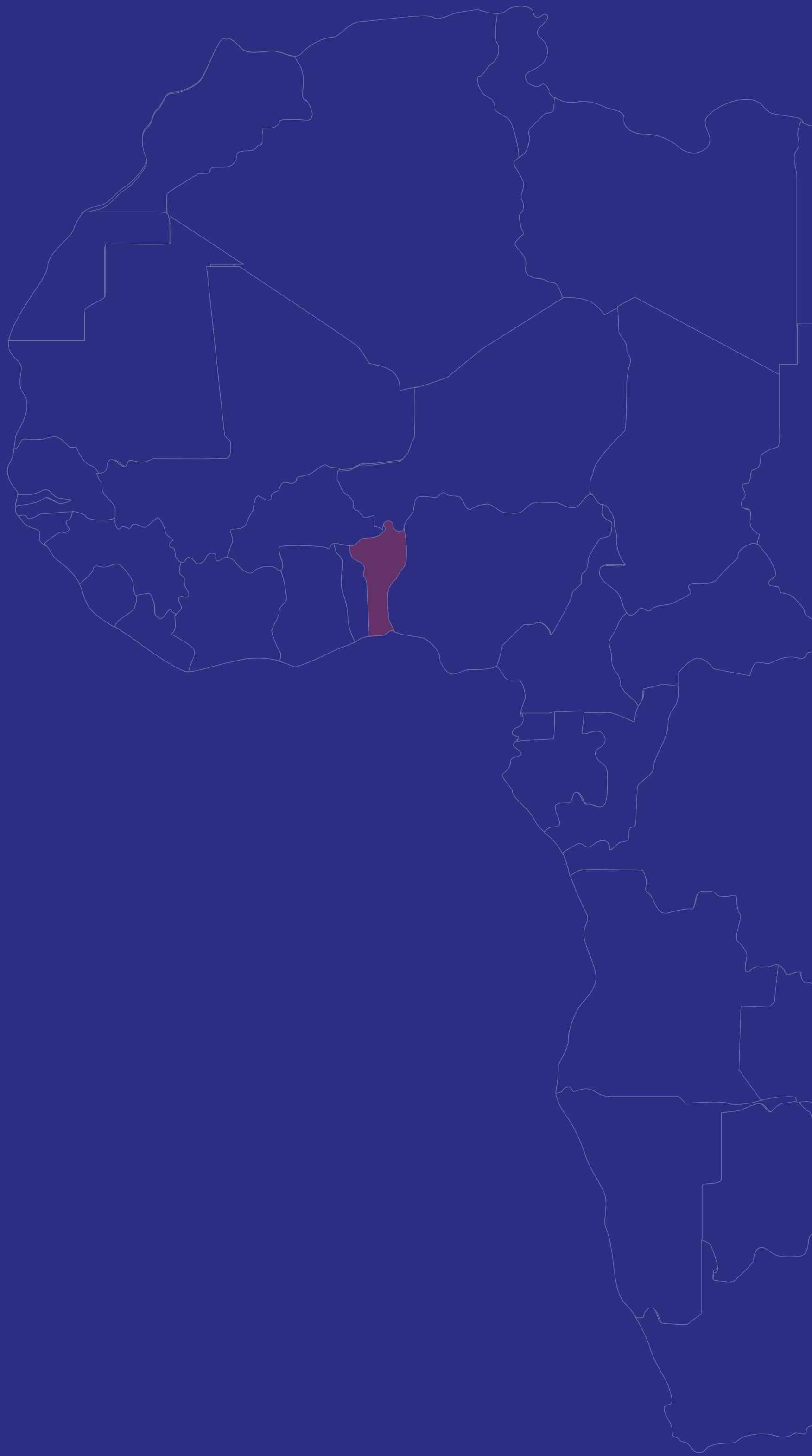
Survey data are self-reported and have not been verified independently by the UNCDF-MM4P team; however, data are thoroughly checked and crosschecked against other benchmarks and data sources.

Confidentiality

Data published in this report have been presented in a way to protect the confidentiality of each provider. Any specific references or highlights in this report have only been presented with the approval of the provider to disclose key performance information.

Limitations

All data in this report are self-reported. In some cases, providers have submitted partial data. None of the providers that participated in the survey had data disaggregated by gender or by rural/urban areas, which limited the level of analysis that could be completed with the data. Although this report is based solely on data submitted by six DFS providers, UNDCF expects a larger number of providers to be represented in the 2018 report.



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