Mali: BNDA, Credit Line VIII

Ex post evaluation report

OECD sector	24030 - Financial intermediaries in the formal sector	
BMZ project ID	2001 65 548 (2009 random sample), 2001 70 563	
Project executing agency	Banque Nationale de Développement Agricole (BNDA)	
Consultant	Horus Development Finance	
Year of ex post evaluation	**2009**	
	Project appraisal (planned)	**Ex post evaluation (actual)**
Start of implementation	Q4 2003	Q2 2005
Period of implementation	36 months	36 months
Investment costs	EUR 3.89 million	EUR 3.89 million
Counterpart contribution	--	--
Financing, of which FC funds	EUR 3.89 million	EUR 3.89 million
Other institutions/donors involved	--	--
Performance rating	2	
• Relevance	2	
• Effectiveness	3	
• Efficiency	2	
• Overarching developmental impact	2	
• Sustainability	3	

Brief description, overall objective and project objectives with indicators

This project comprised the supply of a refinancing credit line of EUR 3.89 million to Banque Nationale de Développement Agricole (BNDA), a state-owned Malian bank, together with a supplementary amount of EUR 0.66 million to develop their SME business. As part of this latter initiative, loans were advanced to rural SMEs, with maximum values (converted into local currency) of EUR 30k for short-term and EUR 75k for medium-term financing. Large-scale enterprises were explicitly excluded from access to these loans. The financing contract was signed on 11 June 2002,but refinancing of the first loans was delayed and did not begin until 2005.

Traditionally, the BNDA specialised in agricultural finance, especially in the cotton sector. In recent years it has taken a new strategic direction and added rural microfinance as another field of business. The FC funds were intended to support the BNDA in broadening its customer base from the rural SME sector and in offering them a wider range of financial services. The overall objective was to contribute to rural development and to the strengthening of the financial sector. The project objective was to provide rural SMEs with efficient, needs-based access to credit.

The following performance indices were adopted as indicators for both the project objective and the overall objective:

1. Non-performing loans should not exceed 12 % of total bank liabilities (indicator 1a) and should be below the average for the banking sector (indicator 1b);
2. Repayment rate for BNDA loans should be at least 95 %;
3. Loan approvals to SMEs should total FCFA 3 billion (EUR 4.6 million) by 2005 at the latest.

Project design/major deviations from original planning and their main causes

The project was (predominantly) concerned with access to finance for rural SMEs. The project was originally placed in the agricultural category, which is emphasised by the fact that the project prioritised rural areas. In addition, the project had a secondary objective: to free the bank, at least in part, from its role purely as a provider of operating finance to agricultural businesses, and thereby promoting the bank's financial stability through diversification. This would also benefit manufacturing companies in rural areas and hence, indirectly, the agricultural sector.

The project's focus on rural SMEs remained unchanged throughout its duration, although the target group was eventually broadened and urban SMEs were also admitted. The orientation toward rural areas ought to have been covered by an additional indicator or defined more closely. Nonetheless, we believe it is reasonable to assume that the project's actual contribution primarily benefited its rural target group, since the BNDA is the bank with the greatest number of rural branches in Mali (even if these tend to be located in regional centres) and around 80 % of programme loans were issued outside the capital Bamako. Bearing these aspects in mind, we believe the indicators were appropriate markers for project objective attainment. However, they are too brief for an effective statement on the achievement of overall objectives. From today's perspective, the project's contribution to improving access to credit for SMEs should have been monitored with regard to the sustainable establishment (in both organisational and financial terms) of the SME business within the BNDA, and with reference to the BNDA's contribution to growth in private sector credit relative to GDP. We have borne this in mind in our evaluation of the project.

The Malian Government forwarded the EUR 3.89 million FC grant to the BNDA as a loan, at a rate of 3 % annually. The total term was 12 years, including a grace period of five years. The funds remain at the BNDA's disposal over that period on a revolving basis. Capital and interest repayments on that forwarding loan are managed by the BNDA and have not yet been used. The BNDA can use some of these funds – with KfW's approval – as guarantees (up to a maximum of 60 %) for refinancing rural microfinance institutions. Approximately EUR 61k of credit from the supplementary provision was not taken up. In view of the fixed Euro exchange rate, no particular currency risks have been identified.

After some delays, lending to SMEs began in 2005, with six loans to the value of FCFA 33 million (EUR 503 k), and climbed rapidly in the following years to a total of FCFA 7.4 billion (EUR 11.3 million) in the first ten months of 2009. Due to the delay in starting the project, the level of FCFA 3 billion of loans granted, which was originally envisaged under the project objectives for 2005, was not attained until 2007. Averaged over the full period since 2005, annual loan turnover stands at 2.5, i.e. the average loan duration has only been 4.8 months. 98 % of all loans were granted on terms of less than 12 months. However, it is not immediately clear in what respect a revolving fund, with multiple loan rollovers, can be considered genuinely long-term. The consultant also made this criticism. The BNDA subsequently changed their business policy in this area; at present they may well offer investment loans if the intended use of the funds is the procurement of an investment asset. The number of loans granted to date stands at 2,506, corresponding to an average value of FCFA 7.15 million (EUR 10,900). Lending can therefore be assumed to be taking place within the SME target group. The upper

limit for individual loans of FCFA 30 million was not exceeded; the majority of loans (approx. 80 %) fall below the EUR 10,900 average. At an average of 14 % p.a., interest rates are in line with market norms.
The supplementary programme comprised setting up a unit within the organisation for the allocation of SME loans, together with all related activities such as the recruitment, training of suitable staff, 'on the job' training for selected employees, and the establishment of the SME business within the BNDA institution. In May 2006 the leader of the local consultancy team handed over management of the SME unit to his BNDA counterpart, who continues to fulfil this function today. Within the organisational structure, the SME unit is classed as a subdivision of the 'Département Commercial et du Marketing'.

Key results of the impact analysis and performance rating

With regard to the overall objective, it is reasonable to assume that a contribution has been made to rural development and to the strengthening of the financial sector. In view of the deficiencies which existed regarding access to finance for SMEs, and considering the enormous significance of SMEs for employment and the economy in Mali, the objective of improving this access for (predominantly) rural SMEs is well aligned with the Malian Government's overall developmental objectives in the field of poverty reduction. We also judge that supporting SMEs through access to lending sits appropriately with the general objectives of German DC (Development Cooperation) for poverty reduction and rural development. No data on gender was collected when loans were advanced. Around a fifth of the BNDA's customers are women. Nevertheless, we believe that in the Malian context, the project has the potential to improve gender equality. The project did not seek to achieve effects in the area of governance, nor was there any evidence that the BNDA had given any consideration to environmental concerns. However, the projects that were financed were very small-scale, and the enterprises involved were predominantly either trading concerns or small businesses that created scarcely any environmental risks.
Having assessed all the foregoing risks and effects, we have arrived at the following evaluation of the project's developmental efficacy:
Relevance: Support for the SME sector is not one of the priorities of German developmental cooperation in Mali. The project was originally placed in the agricultural category, due to the BNDA's original orientation towards agricultural financing. However, the project under evaluation was clearly aimed at freeing the bank, at least in part, from the agricultural sector – in accordance with its own business strategy – in order to diversify into more profitable areas of financing and thereby improve its overall stability. Hence it focused predominantly on small and medium-sized enterprises, which employ the vast majority of Mali's working population, rendering it also relevant for the goal of reducing poverty. This is in accordance with the Malian Government's developmental strategy, should not be overlooked. The next sector in terms of size (mid-sized enterprises) is currently covered by AFD support; in the area of microloans, independent financial institutions (microbanks) in particular are refinanced through the BNDA. Donor coordination has been good. The project design conforms to guidelines for projects in the financial sector. We have assessed the project's relevance as good (rating 2).
Effectiveness: Based on the indicators defined, achievement of objectives stands as follows:
POI 1: The target for non-performing loans not to exceed 12 % as a proportion of total bank obligations (indicator (1a)) was not attained; however, the proportion was well below the average for the banking sector in Mali (indicator (1b)). The overall rise in non-performing loans must also be seen in light of the enormous problems in the cotton sector, in which the BNDA, as the primary agricultural bank, is heavily involved.

POI 2: The repayment rate for refinanced loans currently stands at 95 % just above the target rate,, which had been comfortably achieved in 2007 and 2008. There are grounds to fear that portfolio quality will deteriorate in the medium term.
POI 3: Loan approvals to SMEs amounted to FCFA 3.2 billion in 2007, and have since increased substantially. Approvals stood at FCFA 5.3 billion for 2008, and have already reached FCFA 7.4 billion in the first ten months of 2009; however, the outstanding credit portfolio did not at any time exceed the FC funds that had been provided. This indicator was thus clearly surpassed, albeit with some delay.
Since the BNDA is the bank with the greatest number of rural branches in Mali (even if these tend to be located in regional centres) and around 80 % of programme loans were issued outside the capital Bamako, we believe it is reasonable to assume that the project's actual contribution primarily benefited its rural target group. The SME business has been established in a sustainable fashion; it is considerably more profitable than the BNDA's traditional areas of activity, and it contributes to the wider development of the credit business. However, the business is still not being operated with BNDA's own funds. We have assessed effectiveness as satisfactory (rating 3).
Efficiency: At a rate of 14 % p.a., interest was charged on market terms. Since the BNDA achieved an (actual) profit and the repayment ratio was in line with project objectives, allocative efficiency is seen as good. With a return on equity over recent low-inflation years averaging 5.3 % after tax (10.3 % before tax), the average real interest rate has been positive in the last three years. This remains true even after taking some debatable pension provisions into account, which would lead to a small loss. Furthermore, in terms of net interest margins and cost-income ratio (operating expense / income), the BNDA's performance over the last three years has been acceptable, especially considering the difficult environment and the high level of risk. Lending is seen as efficient, although no separate efficiency indicator was provided for this area. Production efficiency is viewed similarly. We consider the BNDA's non-performing loan figures to be satisfactory. We assess the project's overall efficiency as good (rating 2).
Overarching developmental impact: No overall objective indicator was set at project appraisal. From today's perspective, an appropriate rise in lending to the Malian SME sector, with a corresponding increase in the proportion of BNDA loans within this growth, would have been a suitable indicator. However, there is insufficient information available for this at present.
It is reasonable to assume that this project made a useful developmental contribution. Some 2,500 SME loans were issued under the programme, with an average loan value of EUR 10,890; 80 % of loans granted were for amounts below this average, and around 45 % were for less than EUR 5,000. We consider it likely that this 'output' has also had a positive influence on the economic situation of the people concerned (around 16,000 so far) and consequently on rural development (outcome-impact); however, this cannot be quantified without more detailed research.
At the same time, another output in the form of sustainable structures for the provision of finance to the target group (predominantly rural SMEs) was put in place at the BNDA and its branches. The BNDA adapted its structures to meet the needs of the SMEs. Moreover, the project has acted as a beacon to four other banks to date. Although one cannot say with certainty that this wouldn't have occurred without the intervention, it is probable that the activities of the BNDA and of the project have at least served to intensify competitor activity in the area of SME financing.
Even though SME finance is not counted as one of the focal areas of the Malian government's development policy, this approach can be viewed as thoroughly forward-looking, because of the breadth of its impact and its potential for poverty reduction. We have assessed the overarching developmental impact as good (rating 2).
Sustainability: With the help of the consultant, the BNDA has built up the SME loan business with great care. These structures, which are in line with the bank management's own strategy, have been established in a sustainable fashion and are

being expanded upwards with the support of the AFD. Hence these structures can serve as templates, and have already been imitated by competitor banks.
One limitation that should be noted is that only donor funds have been used in SME financing to date. For future phases, one should push for a financial exit plan based on more active participation by the BNDA in the financing of SMEs. The possibility of deteriorating portfolio quality due to an expansion of the SME business, particularly in long-term lending, remains an ongoing risk.
It seems probable that sustainable structural changes have also taken place at the level of the SMEs (approximately 2,500 in total) which received loans under the project. Visits to borrowers have confirmed this impression. Borrowers all state that, apart from the credit facilities offered by the BNDA, the finance alternatives available were either considerably worse and more difficult to obtain, or non-existent. It should be noted that several borrowers remarked that they only became aware of the possibility of credit through BNDA advertising. Furthermore, since 2009 investment loans have been issued on terms of up to five years. In our opinion this development is heading in the right direction. We have assessed the project's sustainability as satisfactory (rating 3).
In summary, we have arrived at an overall evaluation of the project as good (rating 2).

<u>General conclusions and recommendations</u>

A degree of habituation to foreign donor support is apparent in the institutions and project executing agencies of this region. We can certainly see the potential of the BNDA to underpin SME financing with its own funds. The impression remains, however, that in the absence of foreign support the project would no longer be managed with the required vigour, especially since small-scale lending is initially more costly and labour-intensive than dealing in large loans. It should be borne in mind that foreign donor support can also have the effect of distorting competition. Before any further funds are granted, a suitable exit strategy should be developed with other donors, the Government of Mali and, where appropriate, other banks.

Abbreviations used

AFD	Agence Française de Développement
BNDA	Banque Nationale de Développement Agricole
FCFA	CFA Francs
FC	Financial Cooperation
SME	Small and Medium-sized Enterprises (see also PME)
PAR	Portfolio At Risk
POI	Project Objective Indicator

Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being relevance, effectiveness (outcome), "overarching developmental impact" and efficiency. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good rating that clearly exceeds expectations
2	Good rating fully in line with expectations and without any significant shortcomings
3	Satisfactory rating – project falls short of expectations but the positive results dominate
4	Unsatisfactory rating – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate rating – despite some positive partial results the negative results clearly dominate
6	The project has no positive results or the situation has actually deteriorated

A rating of 1 to 3 is a positive assessment and indicates a successful project while a rating of 4 to 6 is a negative assessment and indicates a project which has no sufficiently positive results.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability)

The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability)

The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected.)

Sustainability level 3 (satisfactory sustainability)

The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability)

The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and an improvement is very unlikely. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. A rating of 1 to 3 indicates a "successful" project while a rating of 4 to 6 indicates an "unsuccessful" project. In using (with a project-specific weighting) the five key factors to form an overall rating, it should be noted that a project can generally only be considered developmentally "successful" if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are considered at least "satisfactory" (rating 3).