Mauritania: Development Bank UNCACEM IV

Ex-post evaluation report

OECD sector	31193 Agricultural lending	
BMZ project ID	2000 65 177	
Project executing agency	Union Nationale des Coopératives Agricoles de Crédit et d'Epargne de Mauretanie (UNCACEM)	
Consultant		
Year of ex-post evaluation	**2007**	
	Project appraisal (planned)	**Ex-post evaluation report (actual)**
Start of implementation	4/2001	8/2001
Period of implementation	2001-2004	7/2001-12/2004
Investment costs	EUR 1.28 million	EUR 0.77 million
Counterpart contribution		
Financing, of which FC funds	EUR 1.28 million	EUR 0.77 million
Other institutions/donors involved	GTZ	GTZ
Performance rating	4	
• Relevance	3	
• Effectiveness	4	
• Efficiency	5	
• Overarching developmental impact	4	
• Sustainability	4	

Brief description, overall objective and project objectives with indicators

The financial contribution was to enable the Union des Coopératives Agricoles de Crédit et d'Epargne de Maurétanie (UNCACEM) to refinance short-term and medium-term loans for investments in agricultural inputs and equipment at rural farms in the Senegal valley. This was an FC/TC cooperative project in which the GTZ implemented capacity development measures at the project executing agency, UNCACEM, and its regional cooperatives. The TC component was completed in November 2005.

The decisive condition stipulated in the KfW financing agreement as a measure of the success of the project was that evidence be provided of the successful implementation of new loan collateralisation mechanisms. As this condition had not been met at this time and total payment arrears on the loans granted had risen considerably in the same period, the FC project was discontinued in December 2004.

The following objectives were set out in KfW's financing proposal:

Overall objective:	Contribution to stabilising and raising family incomes, to securing employment opportunities and to developing rural finance systems. No indicator was set.
Project objective:	Granting of loans on a sustainably efficient basis to target-group agricultural units.
Indicators:	Decreasing proportion of impaired loans (net amount minus provisions) in the overall loan portfolio; max. 10% at the end of 2002. The credit volume (net loan portfolio) stands at a minimum of UM 1.8 billion at the end of 2001 and at least UM 2.0 billion at the end of 2002. The average loan amount does not exceed UM 3.0 million. By the end of 2003 at the latest, UNCACEM achieves financial equilibrium.
Result:	Investments in agricultural inputs and equipment are implemented as planned; instruments for improving loan repayments have been developed and are applied.
Target group:	Smaller and medium-sized agricultural units in the Senegal valley that are primarily involved in rice cultivation. UNCACEM staff act as intermediaries and are trained through TC activities.

At the end of 2005, the extent to which the project had achieved its objectives was as follows:

- A decreasing proportion of impaired loans in the overall loan portfolio (max. 10% at the end of 2002) was not achieved: The proportion stood at 46%, or 31% after value adjustments.

- The credit volume (net loan portfolio), which was to have risen to a minimum of UM 1.8 million by the end of 2001 and at least UM 2.0 million by the end of 2002, in fact climbed to between UM 2.5 million and UM 3.1 million respectively. The indicator value was thus achieved.

- The average loan amount, which was not to exceed UM 3.0 million, in fact stood at UM 2.7 million. This indicator value was also achieved.

- No indicator was set for “financial equilibrium”. We therefore assumed that UNCACEM as a financial institution should be in a position to cover its costs at the end of 2003. This indicator was satisfied. The result, however, is based on the fact that insufficient adjustments were made to the value of the impaired loans. As such, the cost-cover ratio stated in the profit and loss account for the last three financial years cannot be considered reliable.

Although the bank succeeded in increasing the volume of loans granted and limiting their average size, the indicator values relating to portfolio quality and the financial situation were not achieved. The “portfolio at risk” figure was 46%, and many of the loans in the remaining 54% of the portfolio were not declared as in arrears for the sole reason that they had been rescheduled. This amounts to such a serious threat to economic stability that the project objective as a whole has not been achieved.

The overall objective was to be considered achieved on attainment of the project objective. For this reason, and in line with the quality standard at that time, no indicators were specified for the overall objective. Regardless of the non-achievement of the project objective and thus the overall objective, we can assume that family incomes increased only in isolated cases, if at all. In view of the low per-hectare yields in rice cultivation, as evidenced by the FC projects to promote irrigated agriculture in the region, combined with low crop intensity and insufficient market incentives for increasing production, it is unlikely that there was any general improvement in terms of income or employment.

Moreover, no significant contribution was made to the development of rural finance systems, as the credit technology needed to underpin sustainable structural improvements was not introduced, for example in terms of loan collateralisation systems or the establishment of a risk fund etc.

The project target group, smaller and medium-sized agricultural units in the Senegal valley, was reached.

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

The agricultural sector accounts for around one quarter of Mauritania’s economic output, and almost 50% of the population earn their livelihoods in agriculture, chiefly from animal husbandry. In the south of the country bordering on the Senegal River, a concentrated region of agricultural production has grown on an area measuring around 1% of the country’s land surface. The main agricultural products are dates, millet, sorghum, rice, cattle, sheep and fish.

In this sector, the World Bank promoted infrastructure development, diversification, marketing and environmental-policy themes through the Programme de Développement Intégré de l'Agriculture Irriguée en Maurétanie (PDIAM). Within the framework of the PDIAM (financing volume: USD 38.1 million), financial support of USD 15.5 million was also provided to UNCACEM out of IDA funding. The programme was completed in 2005.

UNCACEM is the only bank dedicated to financing agricultural projects. It grants short-term loans primarily for the purpose of procuring seed and, more recently, to promote marketing. Medium-term and long-term loans on the other hand are mainly used for purchasing equipment and implementing modernisation plans. Within the framework of the above-mentioned World Bank programme, loans were also granted to finance diversification; these were generally in demand from individuals rather than cooperatives.

A TC component was also included in earlier phases of the German FC project, the last of which was completed in 2005. The prime aim here was to bolster the business-related organisational capabilities of the project executing agency. The Agence Française de Développement (AfD) and later the World Bank also assigned advisors to UNCACEM to undertake similar tasks.

UNCACEM comprises two credit cooperatives:

- The Coopérative Agricole de Crédit et d’Epargne du Tarza (CACET), that covers the Tarza district and is headquartered in Rosso, and

- The Coopérative Agricole de Crédit et d'Epargne du Haut Fleuve (CACEHF), which covers the Brakna, Gorgol und Guidimakha districts and is headquartered in Kaédi.

The members of the two regional cooperatives are farmers, agricultural production cooperatives and other companies and individuals involved in agricultural production. According to the TC advisor, due to the traditional and not particularly pro-development structures, the 'cooperative' concept has not developed to the extent observed in other (neighbouring) countries.

A total of 57 individual loans were provided out of the reduced FC grant. The average loan amount was UM 2.781 million, equivalent to EUR 13,508 at the average exchange rate during project implementation.

The study conducted on UNCACEM's credit technology and risk management at the commencement of project implementation identified numerous concrete possibilities for improving loan provision through more targeted award procedures, more effective monitoring and the provision of collateral. This also included gearing loan provision more towards individual needs rather than to rigid rules, greater decentralisation combined with loan monitoring through local branches, and the introduction of an incentive scheme for loan officers based on credit volume and repayment rates. The introduction of joint and several liability measures at the individual cooperative level was also considered expedient, as the "self-enrichment mentality" of the members of the cooperative is one of the main reasons for the payment arrears. However, the recommendations were not adequately implemented. Although an internal controlling department was set up with TC support and borrowers were required to provide evidence of a life insurance policy, the bank did not implement effective risk management instruments to secure its long-term earning power. As such, the condition stipulated the FC financing agreement was not met, namely that evidence be provided of the successful implementation of loan collateralisation mechanisms. In contrast, all other conditions were met (conclusion of an onlending agreement, evidence of readiness for disbursement of the PDIAM funds earmarked for UNCACEM and the presentation of a supervisory board resolution on the introduction of new credit mechanisms).

Key results of the impact analysis and performance rating

UNCACEM's annual financial statements are certified by an independent Tunisian auditor. In the years 2003 to 2005, these showed that UNCACEM had significantly increased total assets (annex 3) and that earnings were stable. With a 16% increase in total assets (previous year: 12%) and a 19% rise in its net portfolio (previous year: 13%), it reported a profit of EUR 147,000 (previous year: EUR 144,000). However, with interest income tending to decline at 9.7% (previous year: 11%) and inflation running at 12% per annum (and a GDP deflator of 18.9%, previous year 11.5%), real interest income was slightly negative. The interest margin stood at 6% (previous year: 7.5%). However, if UNCACEM had to carry out its refinancing through customer deposits and not chiefly through donor loans at favourable rates, it would need to charge considerably higher rates of interest on its loans in order to achieve a positive interest margin, whether in nominal or even real terms.

If cumulated loss carryforwards were taken into consideration, the equity ratio of 4.6% would decrease to a mere 1.8%. This ratio, however, has improved in comparison to earlier years. In the previous year, the equity ratio stood at 4.7% with a loss carried forward of 4.1%, and in 2003 UNCACEM had a negative equity ratio of – 0.9% after adjustments. In view of the high level of donor grants of a quasi-equity nature on the balance sheet, this ratio is not worrying in terms of risk, but it does indicate that UNCACEM has been operating at a loss over an extended period. Return on equity fell from 20% in 2003 to 16%, although this development was the result of the increase in nominal equity capital, with profits remaining nearly constant in this period. Although lower than in previous years (around 57%), administrative expenses (cost-income ratio) remain high at 51%. However, as the deposit-taking business ought to incur negligible administrative expenses, this shows, bearing in mind the low equity ratio, that the institution is not operating efficiently.

Even though profits were reported in three consecutive years since 2002, the positive earnings scenario must be seen against the background of the debt reschedulings that have been undertaken. Cumulated reschedulings in the past three financial years are now equal to almost one third of the net portfolio. UNCACEM continues not to make value adjustments for rescheduled loans prior to their new maturity dates. As the maturities of the seriously impaired loans that make up a considerable part of the portfolio are simply extended, it is necessary to put the already inadequate repayment rate of just under 90% for the financial year 2005 (previous year: 94%) into fresh perspective. Moreover, the “portfolio at risk”, i.e. all loans that are more than 90 days in arrears, accounted for 46% of the total loan portfolio at the end of 2005 (previous year: 45%). In view of the problematic realisation of collateral, the level of corresponding provisions is also considered insufficient.

As the loan portfolio shows, priorities have clearly changed in recent years. Whereas loans for rice cultivation accounted for 72% of the portfolio in 1999, this figure fell to 42% in 2004; the proportion of short-term loans fell in the same period from 80% to 54%, and the proportion of long-term loans rose from 0 to no less than 7.4%. From this point of view, the bank is moving in a positive direction.

At first sight, it is surprising that neither the bank nor any of the donor organisations made any serious attempt in all these years to establish a legal basis that would enable it to harness the refinancing potential of savings and deposits over the long term and thus steadily reduce dependence on donors. With deposits accounting for only 2% of the balance sheet total, the bank has virtually no refinancing resources and is thus reliant on donor funds. At the same time, an effective financial market is only now being established. Within the framework of the PRGF programme, the IMF also recommends as a matter of priority that rudimentary security-enhancing measures be taken in order to establish minimum standards for the protection of the financial sector, and especially the microfinance area (annex 6).

The project has a general development approach. In terms of objectives, the project did not target environmental protection or resource conservation. There were no negative environmental impacts and there was no potential contribution to gender equality.

The project did not address participatory development or good governance.

Assessment of the development policy effectiveness of the project:

- Relevance: As the only agricultural bank operating in Mauritania, UNCACEM was essentially the appropriate partner for granting agricultural loans, the lack of which is one of the main impediments to increasing production in irrigated agriculture. Incorporating the assignment of a TC expert and linking up with the World Bank was also expedient and necessary. The creation of a functioning agricultural loan system was, however, of secondary importance for the Mauritanian side. The provision of agricultural loans to promote greater efficiency in irrigated agriculture can be justifiably subsumed in the “resource conservation” priority area of German-Mauritanian development cooperation. Sub-rating: Relevance - satisfactory (level 3).

- Effectiveness: The project objective of “granting loans on a sustainably efficient basis to target-group agricultural units” was realistic but not achieved in terms of the indicators on loan monitoring and economic stability. The indicators relating to the loan portfolio growth and average loan amounts were satisfied. A “portfolio at risk” of 46% poses a considerable danger to economic stability. Moreover, a considerable proportion of the loans in the other 54% of the portfolio were not declared to be in arrears for the sole reason that they had been rescheduled. The condition that new credit technologies be introduced was not fulfilled. Overall, the project objective was not achieved. Sub-rating: Effectiveness - unsatisfactory (level 4).

- Efficiency: Portfolio quality is assessed as inadequate in view of the low repayment rate, which is blurred by the reschedulings. Misallocation of the funds provided cannot be ruled out as the interest charged is not significantly higher than the rate of inflation. As such, the allocative efficiency of the project is insufficient. In combination with the low equity ratio of 1.8%, a cost-income ratio of 51% clearly indicates that operating efficiency must also be assessed as inadequate. Sub-rating: Efficiency - clearly inadequate (level 5).
- Overarching developmental impact: The overall objective of the project was not achieved. Based on the experience gained in other projects in the Mauritanian irrigation sector, we can assume that family incomes were neither stabilised nor increased and that employment opportunities were not created. The contribution of the project to strengthening the rural financial system framework is also assessed as low, as UNCACEM, the sole institution supplying agricultural loans in Mauritania, is not to any great extent open to innovation. Sub-rating: Overarching developmental impact - unsatisfactory (level 4).
- Sustainability: The risks to sustainability identified in the appraisal remain unchanged. They include the insecure legal framework, an apparent reticence on the part of the bank's management and the associated cooperative structures to embrace "state-of-the-art banking", and an apparent lack of interest in reducing dependence on external donor funding by aiming for an improved and realistic cost-cover ratio and attracting customer deposits. Sub-rating: Sustainability – unsatisfactory (level 4).

<u>In view of the individual sub-ratings, the overall project result is unsatisfactory. It is significantly below expectations, and despite visible positive impacts, the negative results dominate (level 4).</u>

General conclusions and recommendations

1. Ultimately, a bank can achieve sustainability only by adopting a cost-covering business policy and thus establishing a basis for refinancing that is not dependent on subsidies. Effecting improvements in credit technology and loan collateral are important steps towards this end.

2. Indicators of project effectiveness based solely on the balance sheet and the profit and loss account provide a reliable picture but are subject to a certain delay. In critical cases, in addition to the balance sheet and the profit and loss account, other operative parameters (e.g. changes in the volume of the loan portfolio, loan rescheduling, risk adjustments, liquidity development) should therefore be defined as indicators and monitored.

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 a 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).