AFRICAN DEVELOPMENT FUND

PROJECT : **FINANCIAL INFRASTRUCTURE MODERNIZATION SUPPORT PROJECT (PAMIF)**

COUNTRY: **MAURITANIA**

PROJECT APPRAISAL REPORT

RDGN/PIFD

December 2017

Translated Document

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Currency Equivalents

(October 2017)

Currency Unit	=	Mauritanian Ouguiya
UA 1	=	MRO 492.98
EURO 1	=	MRO 393.01
USD 1	=	MRO 359.58

Fiscal Year

1 January - 31 December

Acronym and Abbreviations

ACH	Automated Clearing House
AfDB	African Development Bank
AGSPS	Accelerated Growth and Shared Prosperity Strategy (2016-2030)
APBM	Professional Association of Mauritanian Banks
ATM	Automated Teller Machine
ATS	Automated Transfer System
BCM	Mauritanian Central Bank
BCM	Mauritanian Central Bank
CBS	Core Banking System
CNP	National Payments Council
CSD	Central Securities Depository
CSD	Central Securities Depository
CSP	Country Strategy Paper
DPGG	General Government Policy Statement (2015-2019)
ECF	Extended Credit Facility
FSAP	Financial Sector Assessment Programme
GDP	Gross Domestic Product
GIMTEL	Mauritanian Interbank Electronic Transactions Group
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IRM	Islamic Republic of Mauritania
MEF	Ministry of the Economy and Finance
NPS	National Payment System
PAMIF	Financial Infrastructure Modernization Support Project
RTGS	Real-time Gross Settlement
SDG	Sustainable Development Goal
SNIM	National Industrial and Mining Company
TB	Treasury bond
TFP	Technical and Financial Partners
UNDP	United Nations Development Programme
WB	World Bank

Project Information

Client Information Sheet

BORROWER	:	Islamic Republic of Mauritania
EXECUTING AGENCY	:	The PAMIF will be executed by the Central Bank of Mauritania (BCM). A project management team has been appointed for this purpose.

Financing Plan

Source	Amount (UA million)	Instrument
ADF	**3.6**	Loan
Government	**0.4**	Counterpart
TOTAL COST	**4.00**	

ADF Key Financial Information

Loan Currency	UA
Interest rate	1%
Interest Rate Margin	N/A
Service Charge	0.75% per annum on the disbursed loan amount outstanding
Commitment fee	0.5% on the undisbursed loan amount 120 days after signature of the loan agreement
Tenor	25 years
Grace Period	5 years

Timeframe – Main Milestones (expected)

Appraisal Mission	September 2017
Project Approval	December 2017
Effectiveness	February 2018
Completion	December 2020
Last Disbursement	December 2020

Project Summary

Project overview	*Project Name:* Financial Infrastructure Modernization Support Project (PAMIF) *Geographical Coverage:* Nationwide *Project Duration:* 36 months (2018-2020) *Project Cost:* UA 4 million (UA 3.6 million from the ADF and UA 0.4 million from the Government)
Project Objectives	The overall project objective is to help build the BCM capacity for the development of the Mauritanian financial sector. The project's specific objectives are to: (i) establish the national payments system; (ii) modernise the BCM's information system; (iii) support exchange rate policy implementation by setting up an interbank trading room for foreign exchange transactions; and (iv) strengthening the stability of the banking and microfinance sector. This project, designed on the basis of the recommendations of the Financial System Stability Assessment (FSSA 2015), is considered as a starting point for the establishment of basic financial sector infrastructure, such as the national payments system and the sector's supervision tools. In the medium term, the Bank will support the authorities' efforts to develop the financial sector, including through the diversification of financial services and the enhancement of financial inclusion.
Needs Assessment	The financial sector's contribution to the Mauritanian economy is still marginal. The poor competitiveness of the country's economy is largely attributable to insufficient access to finance, since the banking sector focusses mainly on short-term loans, and almost all the loans allocated are intended to finance mining operations and the import-export trade sector. Business links with the financial sector are weak and only 9% of companies have a bank loan. Credit to the private sector is limited to about 23% of GDP (compared to an average 59.6% in sub-Saharan Africa). This situation makes it difficult to finance private projects, in particular viable agricultural projects with high job creation potential. The banking sector is highly concentrated and not adapted to new technologies that promote financial inclusion. Banks tend to prefer short-term loans at high interest rates. The Bank is helping Mauritanian authorities to improve the business environment and boost private sector-led economic recovery. Hence, it will be necessary to intervene to improve financing of the economy through financial sector modernization. However, shortage of current financial sector infrastructure (automated payment system) and the lack of governance tools in this sector do not allow for financial inclusion or stability in the sector. Similarly, because of the open nature of the economy (import/export and foreign investment), the lack of a trading room for foreign exchange operations at Central Bank level does not allow the country to manage its foreign currency resources in an efficient manner.
Target Beneficiaries	The project's direct beneficiaries are: (i) the BCM's central structures in charge of planning and maintaining financial sector stability, and also public authorities that are better able to manage foreign exchange reserves through the interbank market room; (ii) economic operators, who will benefit from an automated payment system that will reduce the costs and deadlines of financial transactions, and provide better access to financing for the development of their activities, including the procurement of production equipment; (iii) the different segments of the population, especially women and young people undertaking projects, through the development of the microfinance sector, which offers new opportunities for financial inclusion throughout the country.
Outcomes and Impact	Under the expected economic and financial benefits, the project will contribute to creating conditions for sustained economic recovery, including through improved financing of economic activities to further support the development of the private sector, the main driver of growth. The other project activities, which are related to financial inclusion, will also have significant outcomes in terms of social development (financing of income-generating activities) and improvement of the quality of life of the populations.
Bank's Value-added	The Bank's value-added in this project stems from its expertise in establishing modern payment systems in African countries. Indeed, the Bank has supported the implementation of these systems in about 20 countries. The Bank, through this project, in coordination with other TFPs, will support the implementation of the recommendations of the 2015 FSSA: developing the financial sector to meet the financing needs of the Mauritanian economy. This project will also complement the Bank's intervention through its private sector window, by the establishment of lines of credit with financial institutions. In addition, the Bank's comparative advantages in this operation result from the experience it has gained over the years in the design and implementation of institutional capacity building projects in low-capacity countries, especially in Mauritania.
Knowledge Development	PAMIF implementation will lead to the development of several types of knowledge, due to the substantial technical assistance that will ensure transfer of knowledge and know-how to national executives and technical training that will benefit these executives. PAMIF will also provide the BCM with modern working tools (information system, file processing procedures manual). Dissemination activities will also be organised for stakeholders.

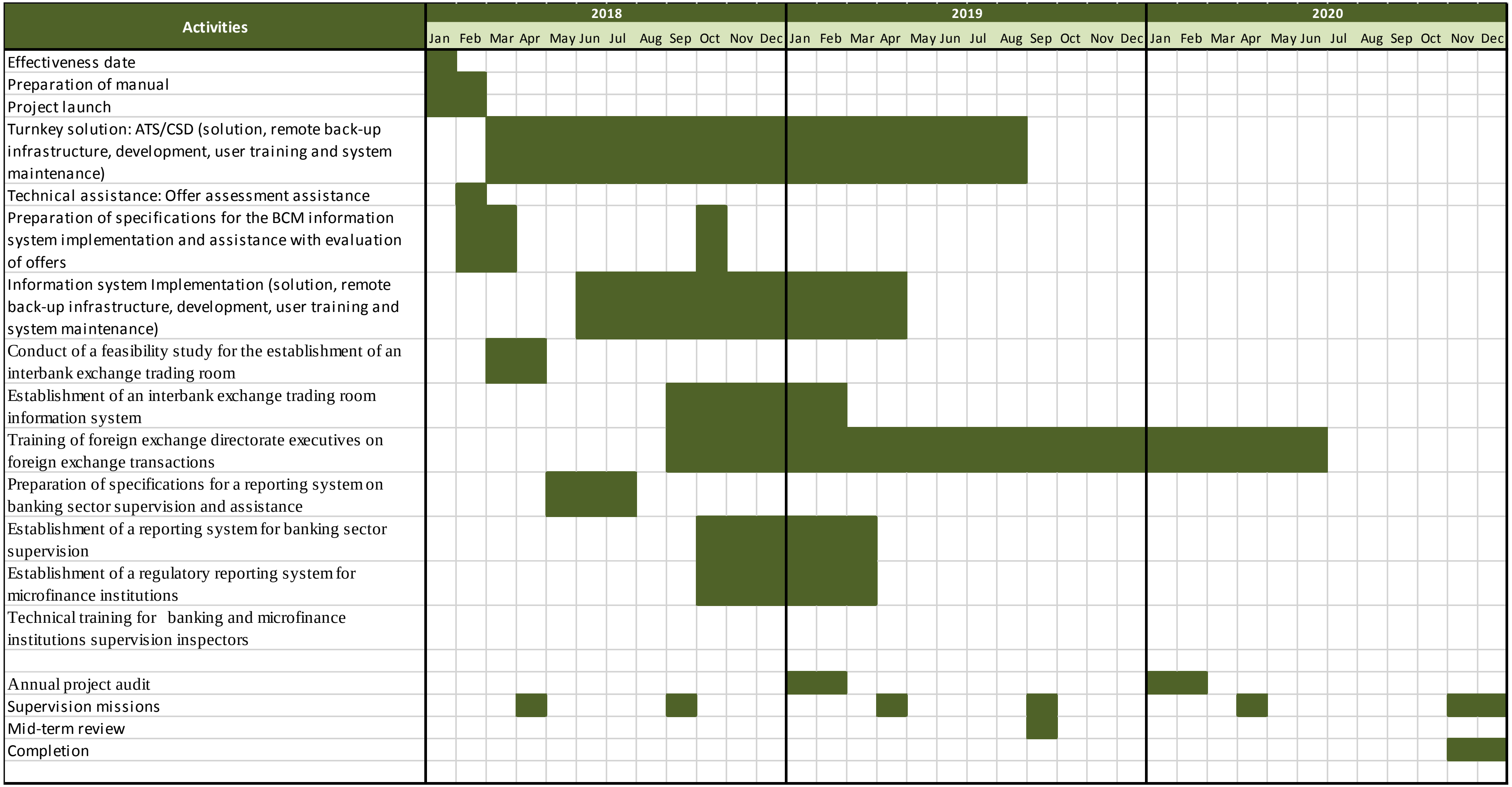
Results-based Logical Framework

Country and Project Name: Mauritania -- Financial Infrastructure Modernization Support Project (PAMIF)
Project goal: The overall project objective is to help build the BCM capacity to develop the Mauritanian financial sector.

		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (including CSIs)	**Baseline**	**Target**		
IMPACT	Financing of the economy is improved	Credit to the private sector relative to the GDP	16% in 2016	More than 19% in 2022	BCM data	
OUTCOMES	Outcome I: A modern national payment system is established that enhances the financial system development	Reduced timelines for clearing of cheques and transfers	D+2 in 2016	Compensation within the day in 2020	BCM data	Risk: BCM's reluctance to put systems in place Mitigation: Strong ownership by the BCM and financial circles given the urgent need to modernise the sector
	Outcome II: Money market management is improved	Reduced timelines for auctions of treasury securities	D+3 in 2016	2 hours in 2020	BCM data	
	Outcome III: Banking sector supervision is strengthened	Reduction of the rate of outstanding debts (bank credit)	23% in 2016	Less than 18% in 2020	BCM data	
	Outcome IV: Long-term financing of the economy is facilitated	Share of long-term credits (more than 5 years) in relation to outstanding credit	5% in 2015	More than 10% in 2020	BCM data	
	Outcome V: Financial inclusion is improved	Bank penetration rate Women benefiting from microcredit	10% in 2016 292 000 in 2016	More than 14% in 2020 More than 500 000 in 2020	BCM data	
OUTPUTS	**COMPONENT I: Modernization of the national payments system and establishment of the Central Bank's information system**					Risks: Weak coordination in the implementation of project activities Procurement risk Mitigation measures: Steering committee including all project stakeholders with overall BCM coordination A procurement expert will strengthen the
	***I.1.* Establishment of a national payment system (ATS and CSD)**					
	Establishment of a national payment system ATS/CSD: RTGS, remote compensation, central depository	Development of the turnkey solution and its execution	Several semi-annual interfaces of the payment system	National payment system launched (go live) after validation and tests by the end of 2019	BCM reports	
	Training of actors in the use of the national payment system	Number of actors trained (including % women)	-	100 actors trained, including 35% women by the end of 2019	BCM reports	
	***I. 2.* Modernization of the BCM Information System: Core Banking system**					
	Establishment of an information system - core banking - of the BCM	Development of the information system and its implementation	Absence of a core banking system (unsatisfactory internal solution)	The BCM Information System is operational by the end of 2019	BCM reports	
	Strengthening BCM's IT infrastructure for proper functioning of the Information System	Installation of the IT infrastructure necessary for effective operation of the information system	Insufficient IT infrastructure	The BCM's IT infrastructure is in place by the end of 2019	BCM reports	
	Training of actors to use the information system	Number of actors trained (including % women)	-	50 actors trained, including 25% women by the end of 2019	BCM reports	

OUTPUTS	**Component II: Modernization of foreign exchange operations and strengthening of financial sector stability**					project management team
	II.1. Establishment of an interbank trading room for foreign exchange transactions					
	Conduct of a feasibility study for the establishment of an interbank exchange trading room	Validation of the feasibility study for the establishment of an interbank exchange trading room	-	Feasibility study validated by the BCM by the end of 2018	BCM meeting report	
	Support for the establishment of an interbank exchange trading room	Operationalisation of the interbank exchange trading room	No interbank exchange trading room	Interbank foreign exchange trading room operational by June 2019	BCM report	
	Training of actors in foreign exchange operations	Number of actors trained (including % women)	-	100 actors trained, including 35% women by the end of 2019	BCM report	
	***II.2.* Support for the establishment of a supervisory system for the banking and microcredit sector**					
	Establishment of a reporting system for banking sector supervision	Operationalisation of the reporting system for banking sector supervision	No automated reporting system	Automated banking reporting system operational by June 2019	BCM report	
	Support for the establishment of a generic reporting system for microfinance institutions	Operationalisation of the generic reporting information system for microfinance institutions	No automated reporting system	Information system operational by June 2019	BCM report	
	Training of actors in the supervision of the banking and microfinance sector	Number of actors trained (including % women)	-	100 actors trained, including 35% women by the end of 2019	BCM report	
KEY ACTIVITIES	**COMPONENTS**				**RESOURCES**	
	- Technical assistance activities: provision of national and international experts and consulting firms - Human capacity building activities: training - Hardware capacity building activities: computer equipment and software - Organisation of consultation and dissemination workshops				**Resources:** **UA 3.6 million (ADF)** **UA 0.4 million (Counterparty)**	

Project Implementation Schedule



BANK GROUP MANAGEMENT REPORT AND RECOMMENDATION TO THE BOARD OF DIRECTORS ON A LOAN TO MAURITANIA FOR THE FINANCIAL INFRASTRUCTURE MODERNIZATION SUPPORT PROJECT

This proposal submitted to the Board for approval is for a loan of UA 3.6 million from African Development Fund (ADF) resources to the Islamic Republic of Mauritania to finance the Financial Infrastructure Modernization Support Project (PAMIF). It is an institutional support project to be implemented over the 2018-2020 period, and it aims to build the capacity of the Central Bank of Mauritania to support financial sector development, in order to better meet the growing economic activity financing needs in the country. This project, designed based on the recommendations of the Financial System Stability Assessment (FSSA 2015), is considered as a starting point for the development of basic financial sector infrastructure, such as the national payments system and the sector's supervision tools. In the medium term, the Bank will support the authorities' efforts to develop the financial sector, including through the diversification of financial services and the enhancement of financial inclusion.

I. Strategic Thrust and Rationale

1.1 Project Linkages with Country Strategies and Objectives

1.1.1 Government's medium-term strategic thrusts are defined in the General Policy Statement for 2015-2019, which is based on three strategic thrusts, namely (i) consolidation of the foundations of the State and the improvement of public governance; (ii) the emergence of an economy that is competitive and generates shared growth; and (iii) human resource development and expanding access to basic services. Its main objective is to embark on a harmonious development dynamic aimed at building a strong state to ensure prosperity for its people. In addition, the 2016-2030 Strategic Development Plan, entitled "Accelerated Growth and Shared Prosperity Strategy (SCAPP) 2016-2030", aims to (i) strengthen resilience, and (ii) promote shared prosperity. SCAPP forms part of the structural transformation of the economy. Its main objectives are, among others: (i) to promote inclusive, green, sustainable and diversified economic growth that reduces inequalities, is pro-poor and geared towards job creation and the fight against unemployment with a view to greater resilience and shared prosperity; (ii) to reduce poverty and combat the exclusion of vulnerable groups.

1.1.2 Taking into account the constraints and challenges facing the country, especially low economic diversification, the Bank's intervention under the 2016-2020 CSP will focus on the following pillars: (i) Promoting Agricultural Transformation (Pillar I), and (ii) Increasing Power Supply (Pillar II). Infrastructure and governance issues (pillars of the previous CSP) are addressed in each pillar of the 2016-2020 CSP

1.1.3 The proposed project is aligned with both the SCAPP and the CSP. Indeed, the project supports financial sector modernization, the underlying lever for any economic diversification underpinned by private sector development. By improving access to financing for economic operators, particularly by contributing to agricultural transformation, the project will be an important lever in support of active economic diversification policies. Moreover, by putting the necessary financial infrastructure in place, the project will improve financial inclusion and thus contribute to achieving the goal of creating a shared growth-generating competitive economy.

1.1.4 The proposed project is also aligned with the Bank's five key priorities (High 5s), particularly the one on industrialisation, through improved financing of the economy, particularly SMEs/SMIs. In particular, it responds to the priority programme of access by businesses to the capital needed for their development, as outlined in the Bank's Industrialisation Strategy for Africa. The issue of agro-pastoral transformation in the country, in connection with the Bank's Feed Africa strategy, is also addressed. Indeed, this strategy puts emphasis, in one of its key programmes, on access to financing for agricultural activities. The project will also help to improve the quality of life of the population, through the improvement of financial services accessible to the population, particularly through the development of the microfinance sector. The priority of Africa's integration is also addressed through the connection of financial exchange systems. The national payment system to be established will be connected to different payment systems at regional level (North Africa and West Africa). It also addresses two pillars of the Bank's 2014-2018 financial sector development policy and strategy, namely financial inclusion and improved financial sector governance. PAMIF is also consistent with the objectives of the Bank's private sector development strategy, as well as the gender strategy, which includes the economic empowerment of women. Improving the governance and development of the microfinance sector, which accounts for more than 60% of women beneficiaries, will contribute to this gender strategy goal. PAMIF is aligned with the Bank's 2013-2022 Ten-Year Strategy, including the operational priority for private sector development, through financial sector modernization for strengthened governance, better financing of private sector development and structuring projects.

1.2 Rationale for Bank Involvement

1.2.1 **At the political level**, following a difficult period between 2005 and 2009, Mauritania has regained relative political and institutional stability. The country has made progress in strengthening justice, consolidating democracy, promoting human rights, consolidating the participatory approach, and so on.

1.2.2 **On the economic front**, economic growth has risen from 2.0% in 2015 to 3.1% in 2016, despite a drastic drop in iron ore prices. The structure of Mauritania's economy remains dominated by extractive industries, the exports of which account on average for four-fifths of total exports and 30% of budget revenue. Mauritania is Africa's second largest iron ore exporter with an annual output of more than 10 million tonnes. The primary sector, however, remains a considerable pillar of the economy (21% of nominal GDP in 2016). It is driven by livestock, fisheries, and to a lesser extent, agriculture. Despite the decline in manufacturing output, the secondary sector also remains dominant (34.5% of GDP in 2014) owing in particular to extractive industries. The year 2016 was marked by a continuing consolidation of the Mauritanian economy. In fact, over the last four years, the tertiary sector has become the main driver of growth, with an average share of 35% in real GDP. The year 2017, will be marked by a strong economic recovery with a projected growth rate at end 2017 of 3.6%. This recovery will be strengthen in 2018 and 2019. This favourable economic development is mainly due to the acceleration of the public investment program, the implantation of structural reforms, the increase of iron prices, and the prospect of the implementation of offshore gas, recently discovered.

1.2.3 In 2017, there is a rebound in economic growth with a projected rate at end-2017 of 3.6%. This rebound is expected to strengthen in 2018 and 2019 with projected rates of 3.0% and 4.6% respectively.

1.2.4 **The economic outlook is more promising in the short and medium terms**, thanks in particular to the prospects for increased mining and industrial production, the good performance of agriculture and fisheries and the pursuit of structural reforms. However, the improvement of the business climate remains a challenge to be faced before the emergence of a real class of national entrepreneurs, capable of intensifying industrialisation and generating decent jobs, and thus contribute to reducing poverty and social inequalities.

1.2.5 **The business environment is marked by recent progress in the institutional and regulatory framework.** But much remains to be done. Recent progress includes the establishment of a single window and single form for setting up businesses, the establishment of an International Centre for Mediation and Arbitration, the commercial code review, etc. These efforts paid off. Indeed, Mauritania improved in the Doing Business 2016 ranking in the category of the ten best countries having made the most progress in their business environment. Mauritania thus gained 8 spots in 2016 to be ranked 168th, a position that improved in 2017, when it ranked was 150th out of 190 countries. The World Economic Forum's (WEF) 2016-17 Global Competitiveness Report ranks Mauritania 137th out of 138 countries, confirming, with a score of 2.94 on a scale of 1 to 7, the country's very low competitiveness. Competitive climate and private investment deterioration are also attributable to several major obstacles, including difficulties in accessing financing and corruption. In this regard, the country intends to continue efforts to strengthen access to financing and fight corruption.

1.2.6 **Moreover, financing the country's development strategy is a major challenge and requires the Government to seek increased private sector participation.** To this end, financial sector modernization, for it to play its role in financing the economy and promoting the financial sector, is a major challenge for Mauritanian authorities. Improving access to financing for Mauritanian households and businesses is also likely to provide more economic opportunities to all segments of the population.

1.2.7 **Socially, despite the progress made, social performance remains mixed overall.** The unemployment rate, which was estimated at 10.1% in 2012, according to the ENRE-SI, compared to 31.2% in 2008 (EPCVM 2008), rose to 12.8% in 2014. Despite the relatively low level of unemployment, the labour market remains characterized by a high level of insecurity and informality. ***With regard to gender,*** despite progress made by Mauritania in promoting gender, inequalities persist in all development sectors, especially in agriculture. Agriculture is the main activity of rural women, but productivity remains low.

1.2.8 **Mauritania faces several challenges that undermine the country's significant economic growth potential.** These include: (i) a poorly diversified economy and a low level of private sector development; (ii) a narrow and undeveloped financial sector that limits financing of economic activities and the emergence of a dynamic private sector; (iv) structural deficits in access to basic infrastructure, particularly energy.

1.2.9 **Regarding the financial sector, its contribution to the economy remains weak.** The poor competitiveness of the country's economy is largely attributable to insufficient access to finance, since the banking sector is mainly focussed on short-term loans, and almost all the loans allocated are intended to finance mining operations and the import-export trade sector. Business links with the financial sector are weak. Credit to the private sector is limited to about 10% of GDP (compared to an average 59.6% in sub-Saharan Africa). This situation makes it difficult to finance viable projects with a high potential for job creation.

1.2.10 **The financial system structure is dominated by banking activity, with eighteen banks in operation.** However, the lack of refinancing markets obliges banks to offer only short-term loans backed by demand deposits. As for the non-bank financial system, it includes about twenty microfinance institutions, a deposit and development fund, postal financial services, 17 insurance companies, two social security schemes and about thirty licensed exchange offices. The increase in the number of active banks and the intensification of competition between them have resulted in an improvement in financial inclusion indicators. Similarly, the development of the network of microfinance institutions and its extension to rural areas are factors that also contribute to improving the country's financial inclusion, which is still considered to be low despite progress made in recent years. Indeed, only 20% of the adult population had an account in a financial institution in 2014, which is below the averages observed in countries with comparable income. Meanwhile, the banking rate made good progress with the advent of new banks and rose to 10% in end 2015.

1.2.11 The BCM has launched several reform projects as part of the financial sector development strategy initiated since 2013. Based on analyses and assessments like FSSA 2015, the financial sector modernization vision benefits from a strong commitment of, and ownership by, the Mauritanian authorities. As part of this reform, a revision of the legal arsenal has been launched, notably through the ongoing revisions of the BCM statute and the banking law. Moreover, to modernise financial sector infrastructure, the BCM has started redesigning tools governing operations in the sector, in particular the National Payment System (NPS). To this end, a study on the legal framework governing the NPS was carried out with the support of FIRST initiative. Setting up an NPS in order to streamline financial exchanges and reduce their costs remains a major challenge. In 2015 and 2016, the BCM continued its efforts to strengthen financial supervision and consolidate the financial system's stability. For this, more than 18 reform projects have been identified, in particular for the development of money and foreign exchange markets, the establishment of a credit bureau, the examination of the relevance of launching a stock exchange, and the development of mobile banking with GIMTEL support.

1.2.12 **Mauritania's current financial infrastructure is inadequate to meet the needs of a growing economy that does not exclude anyone**

- The current largely manual payment system involves systemic risks and limits the emergence of new instruments likely to improve financial inclusion. All large and/or urgent payments are currently processed manually through the exchange of paper instruments and are settled by manual entries into the settlement accounts (current accounts) of commercial banks registered with the BCM. The system also blocks significant potential that will be generated by automated processing of financial exchanges, while reducing the time and cost of financial transactions. Moreover, it does not allow connectivity to the payment networks of other countries.

- At clearing level, the BCM has set up an internally developed interbank settlement system that provides semi-manual settlement for clearing interbank transactions. The physical exchange of cheques is still done every day with the participation of all commercial banks in the BCM’s clearing house. Thus, the current system of clearing cheques does not allow the banking sector to process fast and high value payments.

- At the money market level, the BCM acts as the central depository for treasury securities. Tenders and auctions remain manual, which presents management risks, but also does not allow the development of the money market, despite the sector's importance in financing the Government's development plan. Possession of an integrated Central Securities Depository (CSD) system will allow the irrevocable settlement of securities transactions on a delivery-versus-payment basis and provide collateral for intra-day liquidity transactions.

- The BCM information system (IS) is essentially built around applications developed in-house including accounting, revenue management and so on. The accounting application manages everything related to general accounting at the BCM. Account entry interfaces are generated for each service. The BCM’s IS also interacts with exogenous systems. These systems include the IS of commercial banks through the data exchange portal and the BCM-Banks interface for all transfer orders, that of the public treasury for transfer orders and treasury cheques as well as the Swift system. With the current system, the BCM lags behind other banks in the country with developed banking systems.

- In terms of foreign exchange management, the BCM manages daily exchange sessions manually. To be able to manage the exchange rate policy in a dynamic and optimal way, it is necessary to set up an interbank trading room for foreign exchange operations. This will make it possible, among other things, to calculate the BCM fixing at D-date and monitor the exchange positions of primary banks; and the management of BCM foreign exchange reserves. Moreover, primary banks will now be able to automatically enter their transactions with their customers on the common platform opened for this purpose. The BCM will have information in real time about each bank's foreign exchange transactions. However, no bank will have information about its sister banks, in order to make the market more transparent.

- The banking and microfinance sectors are regulated by BCM management, with very limited supervision capacity. Current reporting and supervision practices are far less advanced than those in the sub-region or internationally. This makes it difficult to collect information and reliable data within the regulatory deadlines. It follows from the foregoing that the absence of adequate governance and oversight tools in these sectors does not ensure stability and control of systemic risk in view of protecting the economy and depositors from financial instability that may have disastrous consequences.

1.2.13 **The Bank has been supporting the Mauritanian authorities since 1998 in promoting micro and small enterprises, and inclusive financial services in Mauritania.** As a result, the Bank has acquired significant experience and a comparative advantage in financing entrepreneurship on the supply and demand side. It has approved several projects including: (i) AMINA Programme (African Microfinance Initiative) from 1998 to 2000; the Poverty Reduction

Project (PRP) from 1998 to 2004; and the Capacity Building Project for Microfinance Practitioners (PRECAMF) from 2008 to 2014, financed by the ADF. These projects contributed significantly to the emergence of microfinance in Mauritania and hence to that of MSEs. Besides, through PRECAMF, the Bank financed the national microfinance strategy as well as the study on niche markets and the redeployment of financial services in rural areas. In 2016, the Bank launched the execution of PAMPEJ, which supports the implementation of national strategies to promote microfinance and micro and small enterprises. It aims to support the Government's efforts focussed on capacity building and professionalization of MSE promoters, and facilitate their access to sustainable sources of financing through the establishment of the Microfinance Refinancing Fund (FOREMI). Moreover, the Bank consolidated its presence in the Mauritanian financial sector through non-sovereign operations to set up lines of credit with the Banque pour le commerce international and the Banque Nationale Populaire.

1.2.14 In general, the Bank's intervention is justified for four main reasons.

First, the Bank is one of Mauritania's main partners and, since 1998, it has been supporting the country, promoting MSEs, women's entrepreneurship, youth employment and inclusive financial services. It is also a major player in the country's financial sector through interventions with financial institutions. In addition, the Bank has expertise in setting up national payment systems, through support in this area for some fifteen African countries.

Secondly, Mauritania has significant economic potential, especially in the agricultural sector; these potentialities cannot be effectively realized in the absence of a modern financial sector capable of mobilizing financial resources for financing long-term investments.

Lastly, the inadequacy of the current financial sector infrastructure and the lack of governance tools in this sector do not allow for financial inclusion or sector stability. In the same way, because of the open nature of the economy (import/export and foreign investments, especially in mining), the absence of a trading room for exchange operations at the Central Bank does not allow the country to efficiently manage its foreign currency resources.

1.3 Aid Coordination

1.3.1 **Through its physical presence in Nouakchott, the Bank actively participates in the above-mentioned aid coordination frameworks.** More specifically, since the beginning of 2014, it has contributed to quarterly state-TFP consultation meetings. The Bank also takes part in the deliberations of 5 Sector Coordination Groups for TFPs and co-chairs, with the WB, the Private Sector Group. The Bank has forged a strategic partnership with the WB through joint initiatives to support national authorities in promoting PPPs. The Bank, alongside the WB, the European Union, the UNDP, the National Statistics Authority, and the MEF, is also part of the Technical Committee set up by national authorities to advise and assist the authorities in strategic issues and in the preparation of State-Donor meetings (Evaluation of the PRSP implementation, preparation of the Post-2015 Development Strategy, Doing Business reforms, etc.).

1.3.2 TFP interventions in the financial sector are limited. The IMF and the World Bank supported the preparation of a financial sector development strategy and action plan in 2013 and the Financial System Stability Assessment (FSSA) in 2015. In 2017, the FIRST initiative developed the specifications of the national payments system. The IMF, through AFRITAC West

Africa, supports the BCM's banking supervision directorate to develop a payments incident repository. France and the Bank support the development of the microfinance sector.

II. Project Description

2.1 Project Objectives and Components

2.1.1 The overall project objective is to help build the BCM capacity to develop the Mauritanian financial sector. The project's specific objectives are to: (i) establish the national payments system; (ii) modernise the BCM's information system; (iii) support exchange rate policy implementation by setting up an interbank trading room for foreign exchange transactions; and (iv) strengthen the stability of the banking and microfinance sector.

2.1.2 This project, designed based on recommendations of the Financial System Stability Assessment (FSSA 2015), is considered as a starting point for the development of basic financial sector infrastructure, such as the national payments system and the sector's supervision tools. In the medium term, the Bank will support the authorities' efforts to develop the financial sector, including through the diversification of financial services and the enhancement of financial inclusion.

2.1.3 **The project builds on two main components.** The first component is the modernization of the national payments system and establishment of the Central Bank's information system. The second component, relating to the modernization of foreign exchange operations and strengthening of financial sector stability, will help to support exchange rate policy implementation through the establishment of an interbank foreign exchange trading room; and the establishment of supervision tools for the banking and microfinance sectors, which have significantly developed in recent years. The two components are complementary in that they support the establishment of the financial sector's basic infrastructure and allow for its development while ensuring its stability on the one hand, and provide the economy with tools to better manage foreign currency positions and improve the long-term financing necessary for the development of private sector projects, on the other hand. Table 2.1 below provides details of project components, sub-components, activities, and costs. Technical Annex B2 of this report provides detailed activity costs as well as an exhaustive list of the goods and services to be procured under PAMIF. In addition, Technical Annex C1 provides a rationale and detailed description of project activities.

Table 2.1 : Project components and activities

Name of components	Estimated cost	Description of components
Component I: Modernization of the national payments system and establishment of the Central Bank's information system	UA 2,832,140	I.1. **Establishment of a national payment system (ATS and CSD)** Turnkey solution: ATS/CSD (solution, remote back-up infrastructure, development, user training and system maintenance) Infrastructure maintenance Organisation and participation in workshops (study trips) and national, regional and international seminars I.2. **BCM Information System: Core Banking system** Development of specifications for the BCM information system implementation and assistance with evaluation of bids Turnkey solution: Information system Implementation (solution, remote back-up infrastructure, development, user training and system maintenance) Organisation of training workshops on the BCM information system Maintenance of BCM computer networks
Component II: Modernization of foreign exchange operations and strengthening of financial sector stability	UA 757,140	II.1. **Establishment of an interbank trading room for foreign exchange transactions** Conduct of a feasibility study for the establishment of an interbank exchange trading room, preparation of the manual of procedures, elaboration of specifications, and help with evaluation of bids Establishment of an interbank exchange trading room information system (software, implementation, training) Support for enhancing statistics and the balance of payments Training on foreign exchange operations Trips to African central banks that have set up trading rooms for foreign exchange transactions Procurement of equipment required for trading room implementation (Servers, IT and computers) II.2. **Support for the establishment of a supervisory system for the banking and microcredit sector** Preparation of specifications for a reporting system on banking sector supervision and assistance with evaluating bids Implementation of a reporting system for banking sector supervision (implementation, training, maintenance) Establishment of a reporting system for microfinance sector supervision Technical training for supervision inspectors of banking and microfinance institutions Organisation and participation in national, regional and international workshops and seminars
Project management	212,810 UA	Audit, procedures manual, procurement expert, trainees, organisation of dissemination workshops.
Baseline costs	3,802,090 UA	
Unforeseen costs	228,130 UA	
Total costs	4,030,220 UA	

2.2 Technical Solutions Retained and Alternatives Explored

2.2.1 Several options were presented during the PAMIF preparation concerning in particular the project implementation arrangements, the number of structures to be supported, the scale of investments to be made and how to address all the constraints within certain structures to be potentially retained. Faced with all these problems, trade-offs were necessary in order to (i) attune the project objectives to targets compatible with the available financial a; and (ii) take into account synergies with the interventions of other TFPs.

Table 2.2
Alternatives explored and reasons for their rejection

Alternative	Brief description	Reason for rejection
Establishment of a project implementation unit	The idea is to establish a project implementation unit, composed of experts recruited for project implementation and completely dedicated to the task	To ensure capacity building for the BCM team, the preference was to design a management team made up of BCM experts. This is justified by the BCM's internal capacities and also by the project's focus area, concentrated at BCM directorates. An external procurement expert at the BCM will still be recruited to help accelerate the implementation of procurement activities according to the Bank's rules and procedures.
Separation of the national large value payments system from the central depository of treasury securities system	This involves two separate activities for the Real Time Gross Settlement System (RTGS) and a separate money market system, for which the BCM acts as central depository	New international standards propose technologies that combine the different RTGS components of clearing and central depository for treasury securities. This solution will reduce the costs of implementing the systems, and also provide a consolidated tool that offers a single interface for users.
Provision of one-off technical assistance instead of an institutional support project	Conducting separate targeted technical assistance for project activities (foreign exchange trading room, payments system, BCM information system and banking supervision tool)	A global approach to the financial sector through the institutional support project will modernise infrastructure comprehensively and supplement with other partner interventions in Mauritania. This allows for consistency with the Bank's financial sector development strategy, which addresses inclusion, access to financing, and improved financial sector governance and infrastructure.

2.3 Project Type

2.3.1 PAMIF is an ADF-financed institutional support project that aims to build the capacity of the Central Bank of the Republic of Mauritania, in view of modernising its management tools and effectively supporting financial sector development.

2.4 Project Cost and Financing Arrangements

2.4.1 PAMIF's total cost is estimated at UA 4 million (UA 3.6 million from ADF and UA 0.4 million from the national counterpart). These costs include a 6% contingency provision for both foreign exchange and local currency expenses. The detailed cost table is provided in Technical Annex B2 of this report. The following is a summary table of the overall project cost by component.

Table 2.3: Estimated project cost by component

Components	Cost in thousands of Dollars			Cost in thousands of UA			In %
	Foreign exchange	Local currency	Total	Foreign exchange	Local currency	Total	
Component 1: Modernization of the national payments system and the BCM's information system	3,630.00	335.00	3,965.00	2,592.86	239.29	2,832.14	70%
Component 2: Modernization of foreign exchange operations and strengthening of financial sector stability	750.00	310.00	1,060.00	535.71	221.43	757.14	19%
Component 3: Project Management	45.00	252.93	297.93	32.14	180.66	212.81	5%
Total base cost	4,425.00	897.93	5,322.93	3,160.71	641.38	3,802.09	-
Provision for contingencies	285.28	34.09	319.38	203.77	24.35	228.13	6%
Total project cost	**4,710.28**	**932.02**	**5,642.31**	**3,364.49**	**665.73**	**4,030.22**	**100%**

2.4.2 The ADF contribution will amount to UA 3.6 million (89.33% of the project cost) and the national counterpart contribution will be UA 0.430 million (10.67% of the project cost).

Table 2.4 : Sources of financing (amounts in UA thousands)

Source of financing	Foreign exchange	Local currency	Total	In %
ADF - loan	3,364.49	235.51	3,600.00	89.33%
Government	0.00	430.22	430.22	10.67%
Total project cost	**3,364.49**	**665.73**	**4,030.22**	**100.00%**

Table 2.5 : Project cost by category of expenditure (amounts in UA thousands)

Expenditure category	Cost in FE	Cost in LC	Total cost	%
A. Goods	0.00	53.57	53.57	1.33%
B. Services	3,160.71	35.71	3,196.43	79%
C. Operations	0.00	462.81	462.81	11%
D. Works	0.00	89.29	89.29	2%
Total base cost	**3,160.71**	**641.38**	**3,802.09**	-
Provision for contingencies	201.93	24.35	228.13	6%
Total project cost	**3,362.64**	**665.73**	**4,030.22**	**100%**

Table 2.6 : Project cost by category of expenditure on ADF loan (in UA thousands)

Expenditure category	Cost in FE	Cost in LC	Total cost	%
A. Goods	0.00	53.57	53.57	1%
B. Services	3,160.71	35.71	3,196.43	89%
C. Operations	0.00	146.23	146.23	4%
D. Works	0.00	0.00	0.00	0%
Total base cost	**3,160.71**	**235.51**	**3,396.23**	-
Provision for contingencies	203.77	0.00	203.77	6%
Total project cost	**3,364.49**	**235.51**	**3,600.00**	100%

Table 2.7 : Project cost by expenditure category on counterpart financing (in UA thousands)

Expenditure category	Cost in FE	Cost in LC	Total cost	%
A. Goods	0.00	0.00	0.00	0%
B. Services	0.00	0.00	0.00	0%
C. Operations	0.00	316.58	316.58	74%
D. Works	0.00	89.29	89.29	21%
Total base cost	**0.00**	**405.86**	**405.86**	-
Provision for contingencies	0.00	24.35	24.35	6%
Total project cost	**0.00**	**430.22**	**430.22**	100%

Table 2.8 : Expenditure schedule by component (in UA thousands)

Components	2018	2019	2020	Total
Component 1: Modernization of the national payments system and the BCM's information system	849.64	1,132.86	849.64	**2,832.14**
Component 2: Modernization of foreign exchange operations and strengthening of financial sector stability	227.14	302.86	227.14	**757.14**
Component 3: Project Management	63.84	85.12	63.84	**212.81**
Total base cost	**1,140.63**	**1,520.84**	**1,140.63**	**3,802.09**
Provision for contingencies	68.44	91.25	68.44	228.13
Total	**1,209.07**	**1,612.09**	**1,209.07**	**4,030.22**
In percentage of total project cost	**30%**	**40%**	**30%**	**100%**

2.5 Project Area and Beneficiaries

2.5.1 The PAMIF area is the national territory of Mauritania. The project's direct beneficiaries are: (i) the BCM central structures in charge of developing and maintaining financial sector stability, and also the public authorities that will better manage foreign exchange reserves through the interbank market room; (ii) financial institutions and their clients who will benefit from faster and cheaper processing of financial transactions, thanks to a modern payment system; (iii) economic operators, who will benefit from better access to financing for the development of their activities; (iv) the different segments of the population, especially women and young project initiators, through the development of the microfinance sector, which offers a new opportunity for financial inclusion throughout the country. Indirect beneficiaries are: (i) the Mauritanian State, thanks to an improvement in the financing of the economy, the primary driver of private sector development and informal sector integration, thus broadening the tax base; and (ii) the Mauritanian population as a whole, which will benefit from the economic fallouts (employment for young people and women and business opportunities), and social benefits (poverty reduction) of better access to financing.

2.6 Participatory Approach for Identification, Design and Implementation

2.6.1 The Bank team adopted a participatory approach as early as the identification stage by closely involving the different BCM structures in its work. Meetings were held to agree on PAMIF activities. The team also consulted with several local financial institutions and professional associations representing them, in particular, the Professional Association of

Banks of Mauritania (PABM). It also elicited the views of various technical and financial partners involved in the financial sector and in private sector development. In addition, the project implementation team includes, for each of the four sub-components, a focal point and technical team of executives from the concerned BCM directorates. Consultations are planned with the population during implementation (civil society, local elected representatives, women's organisations, and the private sector) to strengthen financial education and disseminate project activities.

2.7 Bank Group Experience and Lessons Reflected in Project Design

2.7.1 The Bank's portfolio in Mauritania as at 15 September 2017 comprised 16 operations for a total amount of UA 209.108 million. The Bank's interventions are 68.5% focussed on non-sovereign operations. Public sector operations (representing 31.8% of the Bank's commitments in Mauritania) are broken down as follows: following the approval of the Rosso Bridge Multi-Country Project in December 2016, the transport sector alone represents 38% of sovereign portfolio commitments in Mauritania. It is followed by the water and sanitation sector (21%), agriculture (19%) and governance [1] (14%). Overall, Bank portfolio performance in Mauritania following the 2017 CPPR is deemed satisfactory. The overall portfolio rating, based on the most recent supervision scores, is 3 on a scale of 4. The average progress indicators score is 3 and the average development goals (DG) score is 3. This implies that the portfolio's performance is satisfactory overall. The detailed portfolio situation is provided in Annex 1.

2.7.2 Notwithstanding the overall portfolio quality deemed satisfactory, implementation challenges persist, including: (i) commencement delays due to the lack of project ownership by the Mauritanian party; (ii) delays in the procurement process; (iii) weak capacity in project execution. Measures to address these challenges include: (i) improvement of quality at entry by setting up project management bodies prior to approval; (ii) establishment of more rigorous procurement plans; and (iii) assessment of implementation capacity issues and capacity building. All these recommendations are taken into account in PAMIF: (i) members of the project management team have been appointed; (ii) the procurement plan has been developed; (ii) BCM capacity has been assessed and capacity building is planned to facilitate project implementation. In addition, the proposed project design took into account other lessons learned from the implementation of previous projects, particularly in terms of phasing and structuring of interventions. Indeed, the proposed phasing aims to ensure the consolidation and complementarity of achievements. Institutional support project implementation difficulties, which are linked to the limited capacities of concerned structures and reflected in activity execution delays, were also taken into account in PAMIF formulation.

[1] Following budget support approved on 23 November 2016 for an amount of UA 6.7 million.

Table 2.9 : Lessons learned and actions taken

Lessons learned	Actions taken
1. Need to improve the project management and implementation framework	The project's management framework will rely on the Directors General of all the structures involved in PAMIF implementation.
2. Implementation delays related to implementation deadlines for institutional execution and procurement provisions.	The project management team has already been put in place. Moreover, a procurement specialist will be recruited to support the PMT.
3. Ensure that arrangements are made for significant improvement of the operation’s financial management system.	Take into account project team training on Bank rules and procedures at launch, with frequent supervision.
4. Monitoring and evaluation arrangements: Ensure the establishment of an appropriate and realistic monitoring and evaluation and steering system for each project, including baseline definition, taking into account the real capacities of beneficiary structures.	The monitoring and evaluation system will be supported by the appointment of a monitoring and evaluation officer in the project management team.

2.8 Key Performance Indicators

2.8.1 The major performance indicators identified and the expected outcomes at project completion are those shown in the results-based logical framework and in Box 1 below.

Box 1: Key Performance Indicators

Output indicators

- National payment system launched (go live) after validation and tests by the end of 2019
- 100 actors trained in the use of the national payments system, 35% of them women by the end of 2019
- The BCM Information System is operational by the end of 2019
- The BCM's IT infrastructure is in place by the end of 2019
- 50 actors trained in the BCM information system, 25% of them women by the end of 2019
- Interbank foreign exchange trading room operational by June 2019
- 100 actors trained in automated interbank exchange transactions, 35% of them women by the end of 2019
- Automated banking reporting system operational by June 2019
- Microfinance information system operational by June 2019

Outcome indicators

- Reduced timelines for clearing of cheques and transfers
- Deadline for auctions of treasury securities
- Reduction of the rate of outstanding debts (bank credit)
- Share of long-term credits (more than 5 years) in relation to outstanding credit
- Bank penetration rate
- Access rate to financial services (banks + microfinance + mobile money)

Impact indicator

- Private sector credit relative to GDP

2.8.2 The achievement of results on these indicators will be ascertained through data to be collected by the project management team (PMT). The PMT will prepare quarterly progress reports and project status reports that will be produced during the Bank's supervision missions. PAMIF performance will be measured by comparing baseline data with progress made during implementation and at the end of the project.

III. Project Feasibility

3.1 Economic and Financial Performance

3.1.1 PAMIF is an institutional support project. It does not generate direct revenue that would establish a financial return. However, the assessment of its performance could be based on the direct and indirect outcomes of its economic and social achievements in the medium and long terms. Under the expected economic and financial benefits, the project will contribute to creating conditions for sustained economic recovery, including through improved financing of economic activities to further support the development of the private sector, the main driver of growth. The other project activities, which are related to financial inclusion, (reduction of payment deadlines, microfinance supervision), will also have significant outcomes in terms of social development (financing of income-generating activities) and improvement of the population's quality of life.

3.2 Environmental and Social Impact

3.2.1 Environment

3.2.1.1. PAMIF has no direct negative impact on the environment, since its activities are limited to training, technical assistance, studies and the procurement of small computer equipment. PAMIF has been classified in category 3 in accordance with the Bank's guidelines.

3.2.2 Climate Change

3.2.2.1 PAMIF activities, which aimed at strengthening human and institutional capacities, have no negative impact on the climate change process.

3.2.3 Gender

3.2.3.1. As part of gender promotion, improved microfinance sector governance and development will improve women's access to financing for income-generating activities. Indeed, women account for half of the 293,000 microcredit beneficiaries. Moreover, the automation of payments will help improve access to financial services, especially mobile services, which is likely to integrate today's active women in the informal sector. The project will also help integrate trainees into the project management team, most of whom will be women (4 out of 6 trainees).

3.2.4 Social

3.2.4.1. *The project is expected to have an impact on economic growth through improved financing of economic activities and private sector development.* The project will build the BCM's capacity to modernise the financial sector. The establishment of a modern payments system will reduce the costs of financial operations and foster the development of new financial products to support the financial inclusion of all segments of the population. Indeed, the digital finance potential will be driven by the modernization of financial sector infrastructure. As a result, the most vulnerable segments of the population, including the rural population (70% of the population), youth and women, often with irregular incomes for traditional banking, will benefit from the new financial services to improve the their living conditions. In addition, improving the financing of the economy will help to support the development of the private sector, which is the main source of new job opportunities for the different segments of the population.

3.2.5 Involuntary Resettlement

3.2.5.1. PAMIF will not result in population displacement.

IV. IMPLEMENTATION

4.1 Implementation Arrangements

4.1.1 Institutional Arrangements

4.1.1.1 The institutional project management framework is described in detail in Technical Annex B3. PAMIF will be implemented by a project management team composed of BCM staff designated for this purpose. The designation was made through a service note by the BCM Governor. It was based on the skills and performance of executives working in the different project beneficiary directorates. An analysis was made of the capacities to manage the project. All executives have alternates in case of unavailability. A procurement expert will strengthen the project management team. The main functions relate to the project manager, deputy project manager, accountant, procurement officer and the monitoring and evaluation officer. Besides, a technical committee composed of designated focal points for project monitoring will support this project management team. PAMIF will be implemented under the supervision of a steering committee (SC), which will be an advisory body responsible for project activity supervision and validation. Steering committee members were also appointed during the appraisal mission, based on recommendation by the Bank. The steering committee will hold at least two annual meetings. The institutional project implementation mechanism is, therefore, in place.

4.1.2 Procurement Arrangements

4.1.2.1 The procurement of Bank-financed goods and consultancy services under the project will be carried out in accordance with the October 2015 procurement framework for Bank Group-financed operations and with the provisions of the Financing Agreement. The procurement capacity of the Central Bank of Mauritania has been evaluated with the conclusion that, owing to the institution's special regime, which exempts its contracts from Mauritanian administrative contract regulations and the weaknesses noted, its rules and procedures cannot be used. As a result, the Bank’s Procurement Methods and Procedures (PMP) based on the relevant Standard Bidding Documents (SBDs) will be used for all procurement of goods and consulting services. Risk assessment at country, sector and project levels and the Executing Agency’s (EA) procurement capacity have been conducted for the project and the outcomes were used to inform the choice of procurement system (borrower, Bank, or third party) used for specific activities or all similar activities under the project. Appropriate risk mitigation measures have been included in the PERCA action plan provided in paragraph B.3.9. of Annex B.3.

4.1.3 Financial Management Arrangements

4.1.3.1 Project resources (loan and counterpart funds) will be managed by the project management team housed at the BCM, which has appointed the Coordinator for this purpose. An evaluation of the project's financial management system was conducted in accordance with the Bank's guidelines and covered aspects including budget management, accounting, internal oversight, financial reporting and external auditing. This evaluation took into account the Bank's assessment of Mauritania’s fiduciary risk in January 2016 as part of CSP 2016-2020.

4.1.3.2 The assessment concluded that the project had significant initial fiduciary risk for the Bank due to the BCM/management team’s unfamiliarity with Bank procedures through projects. Moreover, at BCM level, observations were made on obvious training needs (for example the certification of internal auditors), the absence of an internal audit committee for, among other things, the monitoring of recommendations and semi-manual administrative, financial and accounting management control procedures. However, the financial statements for the last three years have been certified unreservedly, an accounting standardization section is in place and is working for migration to IFRS standards and the consequent update of the chart of accounts. Similarly, the BCM has just embarked on a vast reforms project including the preparation of a draft operational procedures manual, with technical assistance from Ernst & Young, and the establishment of a Risk Prevention and Permanent Control structure, responsible for preparing the risk mapping of each BCM directorate, and the process of finalizing and validating the manual. In other words, this new structure, which emanates from the resolve of BCM management and staff, will design, execute and automate the entire internal control system. In this regard, a BCM computerization master plan is envisaged.

4.1.3.3 Pending the completion of reforms, specific project administrative, financial and accounting arrangements are necessary to avoid incompatible tasks and ensure the keeping of reliable and up-to-date project accounting records, the timely submission of audit reports and the satisfactory monitoring of audit recommendations. Hence, three BCM Accounting Directorate executives were identified by the mission on the basis of CV review and will undertake, each in their own sphere, the tasks of administrative and financial officer - AFO - (ex-ante control of all project outputs), accountant and administrative and financial assistant - AFA. The AFO will supervise the accountant and the AFA.

4.1.3.4 The project coordinator will be the project authorizing officer and approve expenditure commitment and payment. As such, prior to the first loan disbursement, the BCM will provide proof of official appointment of the three administrative, financial and accounting management executives with terms of reference satisfactory to the Bank. A manual of the project’s administrative, financial and accounting procedures will be prepared not later than 3 months after the project’s effectiveness date. The accounting system will be based on commitment accounting. The project’s financial information will then be compiled on an EXCEL computer tool with a data back-up mechanism that allows for the tracking of resources by financing source, and expenditure by component and category. Quarterly financial reports will be prepared according to the Bank's template. Annual project financial statements will be prepared in accordance with the Bank's ToRs. The project will submit to the Bank, at the latest 45 days after the end of the quarter, quarterly progress reports including a financial monitoring report based on the project's AWPB. Audited annual financial statements will be submitted to the Bank for review (Technical Annex B5). Due to the initial level of fiduciary risk, the project will be subject to two financial management supervisions per year. Documentary reviews of quarterly financial reports and audit reports will be conducted.

4.1.4 Disbursement Arrangements

4.1.4.1 Loan disbursements will be subject to the Bank's disbursement guidelines as set out in the Bank's disbursement manual. The project will use the direct payment method, up to 97% of the total project cost, for the settlement of eligible expenditure on the loan for suppliers and service providers. The project will open a special account at the BCM to cover expenses (3% of the total project cost) related to training activities, study trips, workshops and seminars, etc. It will communicate the signatories' names and signatures to the Bank before the first disbursement. The disbursement letter will set the terms of use and thresholds for these payment methods, and training on disbursements for the management team will be provided by the Bank at project launch.

4.1.5 Audit Arrangements

4.1.5.1 Project financial statements covering all sources of financing (AfDB and counterpart funds) will be audited by an independent external auditor annually and in accordance with the terms of reference for auditing Bank Group-financed investment operations. Project audit reports, including internal control reports, should reach the Bank within six months of the closing date of the financial years to which they relate. The project management team within the BCM will ensure adequate planning of the audit mission and monitor implementation of the auditor's recommendations. It will recruit the independent external auditor based on pre-approved terms of reference in accordance with Bank rules and procedures. The audit contract shall not exceed 3 years and the acceptance by the Bank of the first audit report will determine the continuation of the auditor's services. Audit fees will be paid directly by the Bank on project resources.

4.2 Monitoring and Evaluation

4.2.1 The project's implementation is scheduled for 3 years (36 months), from January 2018 to December 2020. The PMT will assume primary responsibility for internal monitoring of activity implementation and impact. It will prepare, in the format recommended by the Bank, quarterly and annual progress reports focussing on the monitoring of the project's logical framework indicators. At the end of the project, a completion report will be prepared jointly with the Bank. A monitoring and evaluation officer has been identified among the most competent BCM executives to monitor project outputs and outcomes in line with the Bank's implementation and outcomes reporting formats. Monitoring will be reinforced by periodic supervision missions by Bank experts. The implementation schedule is summarized as follows:

Table 4.1 Monitoring stages and feedback loop

Steps	Responsibility	Date /Period
Financing approval	AfDB	December 2017
Effectiveness date of ADF loan	AfDB/GOV'T	January 2018
Bid preparation/launch	PMT/AfDB	January 2018
Award/signature of contracts	PMT	2018
Start of consultancy services	PMT	2018
Mid-term review	AfDB/PMT	mid-2019
Physical completion of project	PMT	December 2020
Completion mission	AfDB/PMT	December 2020

4.3 Governance

4.3.1 Despite the political will displayed, much remains to be done in the area of governance, as evidenced by the country's decline in the 2014 Transparency International's ranking under the Corruption Perception Index. Despite obtaining an identical score to that of 2013, the country lost five spots and was ranked 124th. Indeed, corruption is a thorny issue in Mauritania, including in the granting of bank loans, granting of fishing permits, acquisition of land, award of contracts, and payment of taxes. In 2015, the country recorded an increase of 0.1 on its average score according to the 2015 Mo Ibrahim Index (43 out of 100) compared to its 2014 level, but it lost 2 spots and dropped to 41st out of 54 countries. In the coming years, the authorities intend to pursue and intensify the promotion of transparency as evidenced by the holding in January 2015 in Nouakchott of the High-Level International Conference on Transparency and Sustainable Development in Africa. Structural reforms initiated by Mauritania have enabled the country's CPIA score to constantly improve from 3.6 in 2011 to 3.9 in 2014. Its CPIA ranking has also improved. The country rose from 21st out of 40 in 2011 to 13th out of 40 countries in 2014. The country complies with the standards of the Extractive Industries Transparency Initiative (EITI).

4.3.2 With respect to the PAMIF financial governance, the Executing Agency will maintain separate accounts, allowing cost accounting and reporting to show expenditure by component, category and financing source. Project accounts will be audited annually by a firm recruited for this purpose. Financial and audit reports will be submitted to the ADF within six months of the end of the accounting period.

4.4 Sustainability

4.4.1 The sustainability of PAMIF implementation achievements builds primarily on the Government's desire to strengthen financial sector governance. The project will mainly provide the basic infrastructure necessary for financial sector development. It will provide a sound financial sector that provides financing to Mauritanian businesses, entrepreneurs and households. Technical assistance will ensure transfer of knowledge and know-how to national executives. These executives will also benefit from specialized technical training.

4.5 Risk Management

4.5.1 The table below provides a summary of the residual risks (other than those related to governance and sustainability, as well as mitigation measures). The analysis shows that PAMIF has moderate risk levels.

Table 4.2 : Potential risks and mitigation measures

Risks	Level	Mitigation measures
BCM's reluctance to put systems in place	Moderate	Strong ownership of the BCM and financial markets given the urgent need to modernise the sector.
Poor coordination in the implementation of project activities	Moderate	The establishment of a steering committee including senior officers of all project beneficiary directorates will encourage stakeholder participation. Coordination of activity implementation will be ensured by the BCM, which has satisfactory human and technical capacity. The project management team was set up during the appraisal mission.
Procurement risk	Moderate	The project team will include a procurement expert to be recruited on a competitive basis. A monitoring and evaluation officer will be part of the project management team to regularly monitor project implementation and produce progress reports including financial reports.

4.6 Knowledge Building

4.6.1 The implementation of this project will lead to the development of several types of knowledge, owing to the substantial technical assistance that will ensure transfer of knowledge and know-how to national executives and technical training that will benefit these executives. The project will also provide the BCM with modern working tools (national payments system that meets the best international standards, information systems for banking supervision and microfinance, a trading room for foreign exchange transactions, etc.).

V. Legal Framework

5.1 Legal Instrument

5.1.1 A loan agreement protocol will be signed between the ADF and the Mauritanian Government for project financing on ADF resources for an amount not exceeding UA 4 million.

5.2 Conditions Associated with Bank Intervention

Conditions Precedent to Effectiveness of Loan Agreement

5.2.1 The effectiveness of the loan agreement is subject to compliance with the conditions set out in Section 12.01 of the general conditions applicable to the Fund's loan, guarantee and grant agreements.

Conditions Precedent to First Disbursement

5.2.2 In addition to the ADF loan effectiveness, the first disbursement will be subject to the fulfilment by the Borrower to the satisfaction of the Fund of the following condition in form and substance: Provide the Fund with evidence of the nomination of the project management team members.

5.3 Compliance with Bank Policies

5.3.1 This project complies with all applicable Bank policies.

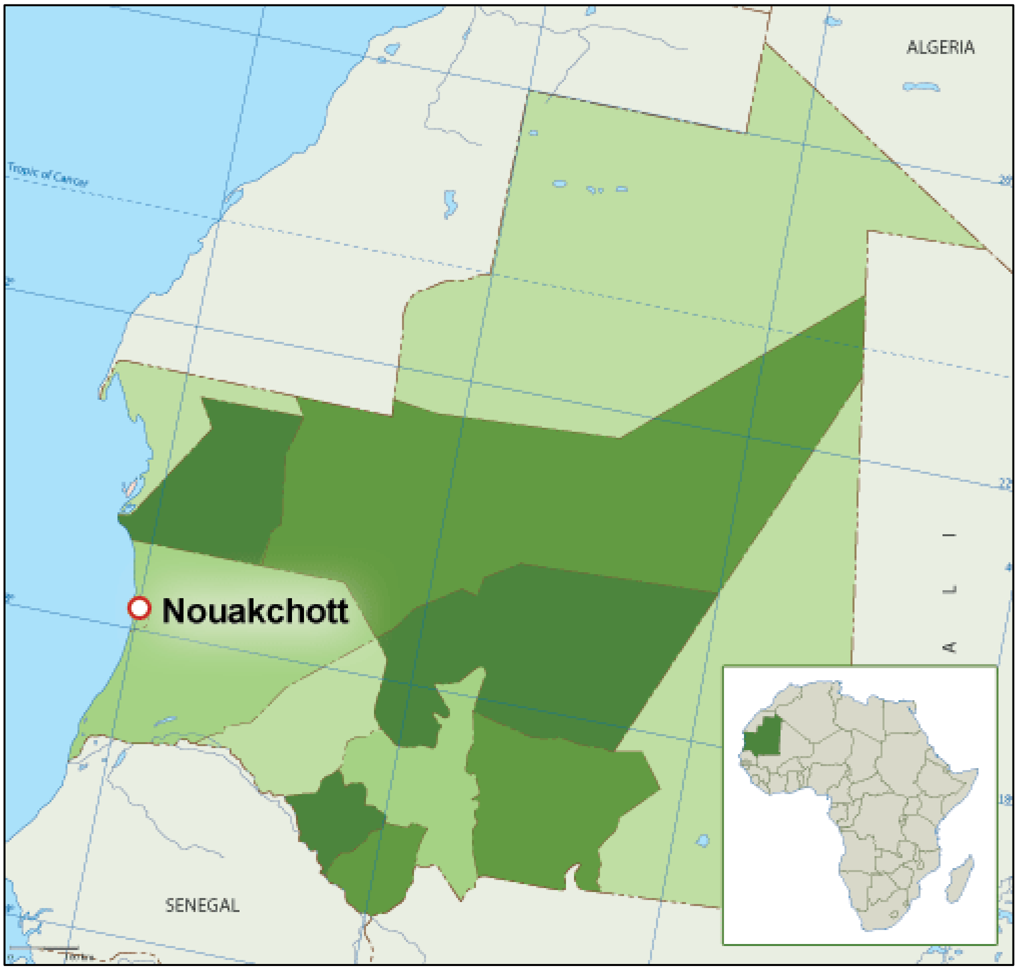
VI. RECOMMENDATION

6.1 Management recommends that the Board of Directors approve the proposed ADF loan of UA 3.6 million to Mauritania, for the purpose and under the conditions set forth in this report.

Annex I .Table Bank Portfolio in the Country (September 2017)

Status of Active Bank Portfolio in Mauritania – 15 September 2017								
Department	Project name	Source of financing	Approval date	Signature	Completion date	Amount approved (UA)	Amount disbursed	Disbursement rate
OPERATIONS WITHOUT SOVEREIGN GUARANTEE								
Finance								
PISD	Line of Credit - Banque populaire de Mauritanie - SME programme	AfDB	20-mai-16	10-nov-16	09-nov-21	5 197 659,57	5 197 659,57	100,00%
PISD	Line of Credit - Bank du Commerce et de l'Industrie	AfDB	15-juin-16	07-déc-16	31-déc-20	7 425 227,95	7 425 227,95	100,00%
Industry and mines								
PISD	SNIM -GUELB II Extension Project	AfDB- Non sovereign	16-sept-09	01-déc-09	31-déc-13	129 941 489,20	129 941 489,20	100,00%
PISD	AT to SNIM	FAPA grant	22-oct-09	01-déc-09	31-déc-17	734 355,04	580 581,09	79,06%
4	**TOTAL private sector and non sovereign**					**143 298 731,76**	**143 144 957,81**	**99,89%**
PUBLIC SECTOR								
Infrastructure								
PICU	ROSSO-SENEGAL BRIDGE CONSTRUCTION PROJECT	ADF/multinational loan	09-déc-16	12-mars-17	31-déc-19	25 000 000,00	0,00	0,00%
Agriculture								
AHFR	PPF-PAHABO II	ADF/Grant	11-mai-15	27-mai-15	31-déc-17	638 640,00	521 002,51	81,58%
AHAI	Programme to Build Resilience to Food and Nutrition Insecurity in the Sahel (P2RS)	ADF/multinational loan	15-oct-14	11-déc-14	30-juin-20	11 500 000,00	1 209 800,00	10,52%
Social								
AHHD	Project To Support the Promotion of Micro-, Small and Medium-	ADF/Loan	21-sept-16	04-nov-16	31-déc-20	2 624 000,00	193 651,20	7,38%
		ADF/Grant	21-sept-16	04-nov-16	31-déc-20	521 360,00	0,00	0,00%
AHHD	Youth Training and Employment Support Project (PAFEJ)	ADF/Grant	28-nov-14	11-déc-14	31-déc-18	2 000 000,00	604 600,00	30,23%
Governance								
ECGF	Economic Reform and Diversification Support	ADF/Loan	23-nov-16	30-nov-16	31-déc-17	3 273 000,00	3 273 000,00	100,00%
		ADF/Grant	23-nov-16	30-nov-16	31-déc-17	3 427 640,00	3 427 640,00	100,00%
ECGF	Governance Support Project for Inclusive Growth Promotion (PAGOCI)	ADF/Grant	17-nov-14	11-déc-14	31-déc-18	2 000 000,00	686 000,00	34,30%
ECGF	Public Investment Management Support Project (PIMSP)	ADF/Grant	07-oct-13	01-déc-13	31-déc-17	740 000,00	647 722,00	87,53%
Water and sanitation								
AHWS	National Integrated Rural Water Sector Project (PNISER)	ADF/Loan	07-déc-12	12-févr-13	31-déc-18	3 052 000,00	1 276 956,80	41,84%
		ADF/Grant	07-déc-12	12-févr-13	31-déc-18	2 448 000,00	893 520,00	36,50%
		RWISSI grant	07-déc-12	12-févr-13	31-déc-18	2 743 333,70	1 666 026,56	60,73%
RDGN	Strategy for the use of solar energy in Mauritania for the supply of drinking water in rural and semi-urban areas	African Climate Technology and Finance Centre and Network (ACTFCN)	11-avr-16	09-mai-16	30-oct-17	206 555,57	71 536,21	35,00%
AHWS	National Integrated Rural Water Sector Project II (PNISER II)	ADF/Supplementary loan	18-déc-13	10-avr-14	31-déc-18	920 000,00	709 688,00	77,14%
AHWS	Project to improve the climate resilience of investments in the water sector	Global Environment Fund (GEF)/Grant	08-juil-16	11-oct-16	31-déc-20	4 715 019,75	58 466,24	1,24%
12	**S/Total**					**65 809 549,02**	**15 239 609,52**	**23,16%**
16	**TOTAL**					**209 108 280,78**	**158 384 567,34**	**75,74%**

Annex II. Map of Project Area



This map has been provided by the staff of the African Development Bank exclusively for use by readers of the report to which it is attached. The names used and the boundaries shown on this map do not imply on the part of the AfDB Group and its members any judgement concerning the legal status of a territory or acceptance of its borders.