

Djibouti

Microfinance and Microenterprise Development Project

Project Completion Report Digest

Djibouti - Microfinance and Microenterprise Development Project

Item	Assessment Remarks	
Country & Project Name	Djibouti - Microfinance and Microenterprise Development Project	Ratings
Loan No.:	603-DJ	
Project Id.	1236	
Board Date	11 December 2002	
Entry into Force	22 November 2004	
Completion Date	31 December 2012	
Final Closing Date	30 June 2013	
Total Project Cost US\$(M)	4.77	
IFAD loan& Grant US\$(M)	3.60	
Cofinanciers (if any)	Government: US\$1.09; Beneficiaries: US\$0.08	
Cooperating Institution	UNOPS/IFAD	
Implementing Agency	Ministry of Agriculture	
Principal Components	The project is structured around three components, as follows: (i) Microfinance and Microenterprise Development; (ii) Institutional Capacity Building; and (iii) Project Management and Organization	
Project Performance		
Relevance	Project objectives were well aligned with the development objectives of the Government and relevant IFAD strategies and approaches. Project design took into account lessons learned from IFAD's experience in Djibouti and in particular the experience of the AfDB-financed Social Development Fund. Overall, project design was found relevant as per its strategy of intervention, approaches (participation and "faire-faire"), objectives, targeting and is focus on capacity strengthening in microfinance and microenterprise development. The SCAs in particular were found to be the right instrument to respond to the financing needs of the poor. The accompanying measures were rightly identified too, making it altogether a sound and well-focused design, well adapted to the needs of the beneficiaries. Problems arose with regard to the implementation modalities. Initially, the project was placed under the supervision of the Ministry of Agriculture and Sea, which objectives and priorities were however not in line with those of the project, preventing the ministry from giving the required support. In 2007, the project was moved under the direct responsibility of the Djibouti Agency for Social Development. This decision was found highly relevant and enabled the project to become fully operational. The project's quantitative targets were revised at MTR (2009).	5
Effectiveness	Despite initial delays, which have affected its effectiveness, the project has achieved notable results, especially during the past 4 years. The project has reached its overall objective, which was to reduce rural poverty by increasing household incomes through enhanced access to financial and business development services. The first component ("capacity strengthening") has contributed to achieving the objective of developing a national microfinance strategy and implementing a regulatory and legal framework. This objective was fully achieved. The second component ("microfinance development") has contributed to achieving the objective of developing a sustainable savings and credit system responding to the needs of the beneficiaries, especially the most vulnerable. This objective was largely achieved, but results are not fully satisfactory. Access to financial services was given to large part of the poor, especially women. Results are impressive. 16 000 individuals (members) were reached, compared to an initial target of 7000 (+138%). Also, 5530 benefited from microcredits, compared to an initial target of 3000 (+84%, of which 70% were women). The average credit size was larger than expected (+93%). The project failed, however, in reaching out to the youth. Also, financial and operational sustainability of the SCAs (CECs) and Credit Unions (CPECs) remains an issue. Many SCAs face problems related to the management of outstanding loans and will need further support and capacity strengthening to enable them to cope with these issues. In the specific case of the CPEC Djibouti, viability was also threatened by the high level of wages. The CPEC was placed under the central bank to ensure coverage of its high overhead costs. Finally, frequent changes in the implementation strategy have prevented the creation of a national association of CPECs (ANCEC), needed, however, to improve governance of the CPECs. Governance questions have also arisen following the decision about their legal status, their status of cooperatives leaving grey areas in the definition of roles and responsibilities. Finally, the merging of the 2 SCAs in Djibouti city (established respectively under the PDMM and the SDF) was done too hastily and has created implementation problems, which could not be resolved until now. Factors which have positively affected project implementation include: (i) strong institutional and financial support by the Government; (ii) direct supervision by IFAD since 2010; (iii) direct involvement of governing bodies and strong beneficiary ownership of the CPEC (mutual savings and credit banks); (iv) strong support by the Central Bank of Djibouti (CBD); and (v) technical assistance and additional training of CPEC staff by the other financial partners (UNDP and AfDB). The M&E system as planned	4

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	was not implemented. A baseline study was conducted in 2007, 3 years after the project became affective.	
Efficiency	The project experienced important delays during its first three years of implementation. These delays emanated from the late hiring of the main operating partner and major weaknesses in the proposed implementation arrangements. These weaknesses were addressed by adjusting the implementation modalities of the project (see section on Government) but have affected overall efficiency of the project. A major change concerned the focus on microfinance activities to the expense of microenterprise development, after MTR. This was found necessary given the delays in (i) setting up the credit and saving institutions network, and (ii) making it fully operational, in particular in remote rural areas. Micro-enterprise activities were limited to vocational trainings for young micro entrepreneurs and project components were redefined accordingly. The changes were also reflected in an amendment of the loan agreement. Efficiency estimates based on the unit costs diverge. The unit costs for training and technical assistance are globally in line or lower than those applied by others comparable projects, with discrepancies between services providers (ADDS was deemed efficient while DID was found rather expensive and thus inefficient). Overall, expenditures for training and TA were overdrawn by 5.7% only. By contrast, the costs for construction works were found high, mainly because of the steep increase in material costs since the project was appraised in 2002. The average unit costs were found 73% higher than at appraisal. Nevertheless, this is still lower than the unit costs reached by similar projects. The project benefited from 2 reallocations of funds, the first one after the MTR (2009) and the second one in 2011. As a result, the disbursement rate by category at completion did not show any major imbalance, except for salaries, which showed a slight over disbursement. The calculated IRR (2013) is 10.3%. The benefit cost ration is acceptable (1.07).	4
Project Performance		4
Partner Performance		
IFAD	The IFAD loan reached a disbursement rate of 97% at completion. IFAD markedly contributed to the improvement of project performance during the MTR and when the project was shifted under IFAD's direct supervision. .	5
Cooperating Institution	Between 2004 and 2009, the project was supervised by UNOPS. Its performance is rated partly satisfactory. UNOPS highlighted important inadequacies in project management and coordination, and made appropriate recommendations for improvement. Technical supervision was therefore satisfactory. By contrast, it did not give sufficient attention to some fiduciary aspects, such as procurement and auditing. Also, it failed to deal with the institutional memory of the project	4
Government	Government performance was satisfactory. Loan covenants were globally respected and Government increased its contribution based on the recommendations and agreements reached at MTR. Performance of the various state agencies and technical departments concerned varied. MAEM (2004-2008) was highly instrumental during the initial stages of project implementation by establishing the PCU, the steering committee and the microfinance concertation framework, and by hiring the operating partner (Development International Déjardins). However, it did not help the project to get effectively started. The steering committee was created late (in 2008) and dealt with the approval of the AWP&B only. It did not provide any strategic guidance to the project. Implementation modalities were revised in 2008. The project was placed under to overall supervision of SESN (State Secretariat for national solidarity - Secretariat d'Etat à la solidarité nationale). SESN was fully committed and responsible for the validation of the microfinance strategy and for the microfinance law to be enacted. Government contribution was increased. The PCU was established within the Djibouti Agency for Social Development (ADDS) which established a microfinance unit within its structures. This has greatly helped speed up project implementation and make up for initial delays. The ADDS was highly instrumental for the sensitization and training of SCA staff and for day-to-day support of the SCAs. The Djibouti Central Bank was responsible for the drafting of the microfinance strategy and for the implementation of the related law. It was also responsible for national supervision and oversight of the project. Its support was deemed appropriate.	5
NGO/Other	The project's main partner was DID (Développement International Déjardins). DID provided support to establishing the CPEC Djibouti with 2 service points. Despite various training and support activities, the networking did not become operational and DID contract was stopped in 2010. According to the PCR, DID support did not meet expectations.	3
Cofinancier(s)	UNDP provided technical assistance to ADDS for establishing the CPEC Djibouti. Though it provided less than the original amount foreseen, it has substantially contributed to strengthening the capacities of the CPEC in establishing their business plans, and for the preparation of consolidated business plans at regional level. UNDP support was instrumental for the organization of the microfinance workshop in 2011 and the organizational and operational audit of the Djibouti CPEC. UNDP has also provided support to the central bank on legal matters and training, which has helped preparation of the National Microfinance Strategy. UNDP support was found highly satisfactory. The	5

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	PDMM mobilized new sources of co-financing: (i) AfDB for capacity strengthening (US\$0.367 million); and (ii) IsDB for the implementation of the "Islamic microcredit" (credit line of US\$1 million), mobilized by ADDS as a parallel financing to further test and develop the Islamic microfinance. The respective performance of AfDB and IsDB is not further assessed in the PCR.	
Combined Partner Performance	<i>Collaboration between partners appears positive, though not further assessed.</i>	
Rural Poverty Impact		
Household Income and Net Assets	Access to microcredit has contributed to increasing the incomes of the beneficiaries. 80% of the beneficiaries interviewed have stated that access to microcredit has enabled them to either maintain or further develop their IGA. 97% of the credits have contributed to creating new or maintaining existing employment opportunities. The highest net margin after credit was found for groceries shops (140 US/month), followed by handicraft, clothes and doughnuts (beignets). Other activities include services such as petty trade and money changing. Fisheries are the activity with the highest net margin, but financial needs are high. It appears that only 20% of the interviewed have used their credit to improve food security and living conditions of their families. Of the 1075 credit beneficiaries whose profile was analysed, 58% mentioned having used their credit to purchase food, clothes, domestic goods and to pay for school fees. Only 12% mentioned having used their credits to improve the housing conditions. Altogether, housing conditions have only weakly improved. The RIMS impact assessment concluded that only 5.8% of the households which have benefited from a microcredit have replaced the dirt floor with a concrete floor, 3% have increased the number of rooms and 8% have gained access to drinking water. Electrification could be increased from 76% to 84%, which has induced an increase in the ownership of TV (from 64% to 74%) and of refrigerators (from 43% to 51%).	4
Food Security	The PCR states that the project did not have any significant impact on food security since less than 1.6% of the beneficiaries have a family member involved in either agricultural or livestock production. However, it can be assumed that access to microcredits has contributed to improving household food security, since these funds were partly used to purchase food.	n.a
Ag. Productivity	Not assessed in the PCR since only 1.6% of the beneficiaries are involved in crop production and 6.2% in livestock production. One loan was granted for the purchase of fishing nets and another one for the purchase of agricultural production input.	n.a
Agricultural Productivity and Food Security		n.a
Natural Resources and Environment	Not assessed in the PCR. The project did not intend to impact on natural resources and the environment.	n.a
Human, Social Capital and Empowerment	Capacity strengthening of policy makers, CPEC staff and beneficiaries was a central element of project interventions. The project has strongly contributed to strengthening the capacities, broadening the knowledge and thus improving the livelihoods of the populations. Training of CPEC and CEC staff has contributed to establishing a well-functioning microfinance system adapted to the needs of the rural populations. It has pointed out, however, that further capacity strengthening will be needed to ensure viability of the CPECs. In turn, sensitization and training of beneficiaries in microfinance and microenterprise development has helped them identify, develop and implement micro-businesses and other income generating activities within their reach and their capacities. It was however pointed out that stronger capacity strengthening would have reduced the risks of non-repayment of the loans. Women have particularly benefited from capacity strengthening and empowerment. In terms of functional literacy training, of the 416 beneficiaries reached between 2010 and 2012, 320 were women. The absolute number is, however, not very high. In terms of empowerment, women have become financially more independent and have improved their status within the society. Also, their involvement in IGAs has enabled them to participate in the socio-economic development of their villages. The project provided literacy training for the youth, not foreseen in the original design. Altogether, the project had a relatively strong impact on social capital and empowerment.	4
Inst. & Policies	Project impact in the area of institutional and policy support has been strong. The project has helped initiate a policy dialogue at national level on microfinance. This policy dialogue has led to important results. The microfinance sector is now regulated. A national microfinance strategy was adopted and is now implementation through adequate laws and regulations. This is reinforced by a National Microfinance Commission established in 2012 and a supervision unit within the Djibouti Central Bank. A microfinance division in support of the CPEC was created within the Djibouti Agency for Social Development. It provides adequate support to the CPECs. The CPECs are operational and well equipped. They are managed and implemented locally, with the local authorities involved in their supervision. This has led to a notable improvement in the access to MF services, as shown by the growing number of CPEC members and savings. The geographical coverage is satisfactory. However, while the overall project concept was relevant, changes in the implementation approach	5

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	has hampered the creation of a national association of CPECs. Also, the status of “cooperative” of the SCAs/CPECS has led to confusion between operation, supervision and support. This could have been resolved by creating a national apex organization. Instead, decision-makers opted for a national association, adding to already existing governance problems. Besides, this decision has contributed to keeping operating costs high, since the present structure requires regular visits of central staff to the regional CPECs. Finally, the merging of the 2 SCAs in Djibouti city (established under the IFAD-financed PDMM and the AfDB financed SDF) was done too hastily and has created implementation problems, given that they could not be resolved since then. These different issues will need to be addressed in the after-project.	
Markets	Not assessed in the PCR. The project had no intended direct impact on markets.	n.a
Project Impact	The project had a positive impact on the living conditions of the beneficiaries, as shown by the terminal impact assessment carried out in 2013. Also, the microfinance sector is regulated, supervision is ensured by the Djibouti Central Bank, Government is strongly involved. Territorial coverage is good. The associations are all operational and well equipped. Support provided by a dedicated entity within the Djibouti Agency for Social Development. The CPECs concept has been well internalized by the beneficiaries who make good use of their credits. Viability of the CPECs remains an issue, incl. loan repayment. The M&E system as planned was not implemented. Impact measurement could therefore not be performed. Project impacts were assessed using the benchmark study of 2007, various socio-economic studies carried out since the MTR and beneficiary interviews.	4
Overarching Factors		
Innovation	The project has brought about several important innovations. It has introduced and developed: (i) a microfinance system, managed and controlled according to a regularly framework; (ii) a new profession and new skills; (iii) a division within ADDS responsible for the implementation and supervision of microfinance interventions; and (iv) a savings culture, which was inexistent before and is now well imbedded in the mentalities. The latter has helped promote self-help and independence among the populations. Altogether, the project has been an important learning experience at different levels.	5
Replicability and Scaling-up	No explicitly addressed. However, it can be stated that the project has largely contributed to the development of the microfinance sector in the country. Project activities are worth being replicated and scaled-up.	4
Innovation, Replicability and Scaling-up		5
Sustainability and Ownership	Prospects for sustainability are mixed. Political and institutional sustainability seem to be given with (i) the approval of the microfinance strategy; (ii) the creation of a microfinance department (Direction de la microfinance) which has taken over from the PCU; and (iii) the adoption of a legal and regulatory framework for governance and oversight. These achievements are signs of strong Government support and commitment, which is likely to be maintained, given the growing demand for suitable financial services among beneficiaries. On the more negative side, sustainability is compromised by: (i) the need for further capacity strengthening of CPECs; (ii) lack of clarity of respective roles and responsibilities within the microfinance sector and thus, the lack of cohesion; (iii) need to establish a risk fund; and (iv) low viability of the CPECs. Some CPECs are still weak and need further support to mobilize savings and better control the repayment of the loans. Loan non-repayment has become a major issue. The PCR mentions that the rate in Djibouti-city reached 27% (in 2012). The PCR mentions that the problem urgently needs to be addressed, but does not indicate how this will be done. Another issue concerns the viability of the CPECs, in particular in Djibouti-city where the salaries are extremely high and inflate the overhead costs of the CPEC up to an unsustainable level. The FY 2012 was closed with a 100 million DJF loss. The creation of a national apex organization would help address some of these issues.	4
Targeting	Targeting is not explicitly addressed by the PCR. The project's targeting strategy was rather broad (women, youth, crop and livestock farmers, fishermen, and microenterprises). It appears however, that the various target groups were adequately reached, especially women. Difficulties were encountered, however, in reaching out to the youth.	4
Gender	The project has successfully targeted women. More than 70% of the CPEC members are women. The rest are crop and livestock farmers, fishermen or heads of household. About 50% of the credits were given to women and 27% to groups, mainly consisting of women. While the project's focus on women was satisfactory, it failed to adequately address the need of the youth/young men.	5
Overall Performance		4
Estimated number of beneficiaries	The project has benefited 16 661 members (against an initial target of 7000), of which 80% are heads of household. Based on an average household size of 6.6, an estimated 90 000 individuals (men, women children) have benefited from improved access to microfinance and microenterprise development support, corresponding to 45% of the target group.	

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PCR Quality		
Scope	Guidelines were respected and all annexes were included.	6
Quality	The PCR is a good read and covers all required sections. However, the impact section has fallen short of subsistence, given that the final impact analysis was carried out very late and did not include all the indicators required. As a result, the PCR could not provide a deeper reflection of the results of the project. Also, little attention was given to microenterprise development. This was mainly due to the fact that given the delays in (i) setting up the credit and saving institutions network, and (ii) making it fully operational, in particular in remote rural areas, the MTR had recommended to focus on microfinance related activities. Micro-enterprise activities were limited to vocational trainings for young micro entrepreneurs and project components were redefined accordingly. There were little microenterprise activities for the PCR team to assess at completion. Finally, there is a slight confusion in the terminology, making it sometimes difficult for the reader to follow. (caisse – cooperative; direction – commission).	4
Lessons	The PCR makes a good analysis of what worked and did not work. It also makes good and realistic recommendations for follow-up by existing structures and those implemented under the project, in critical areas such as: outreach to the youth (young men), loan repayment issues, outreach to the poorest and most vulnerable, access to larger credits enabling investments into activities with good opportunities for growth; need for an apex organization; training of CPEC staff; need for technical assistance, etc.	5
Candour	Very objective.	5