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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

THE REPUBLIC OF DJIBOUTI

FOR THE

MICROFINANCE AND MICROENTERPRISE DEVELOPMENT PROJECT



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CURRENCY EQUIVALENTS

Currency Unit	=	Djibouti Franc (DJF)
USD 1.00	=	DJF 177.721
DJF 1.00	=	USD 0.005627

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
ANCEC	Association Nationale des Caisses d'Epargne et Crédit (National Union of Savings and Credit Associations)
AWP/B	Annual Work Programme and Budget
FSD	Fond Social de Développement (Social Development Fund)
IA	International Agency
M&E	Monitoring and Evaluation
PCC	Project Coordination Committee
PCU	Project Coordination Unit
NTF	National Task Force on the Development of a Microfinance Strategy
SCA	Savings and Credit Association
SOE	Statement of Expenditure
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services

GOVERNMENT OF THE REPUBLIC OF DJIBOUTI

Fiscal Year

1 January - 31 December

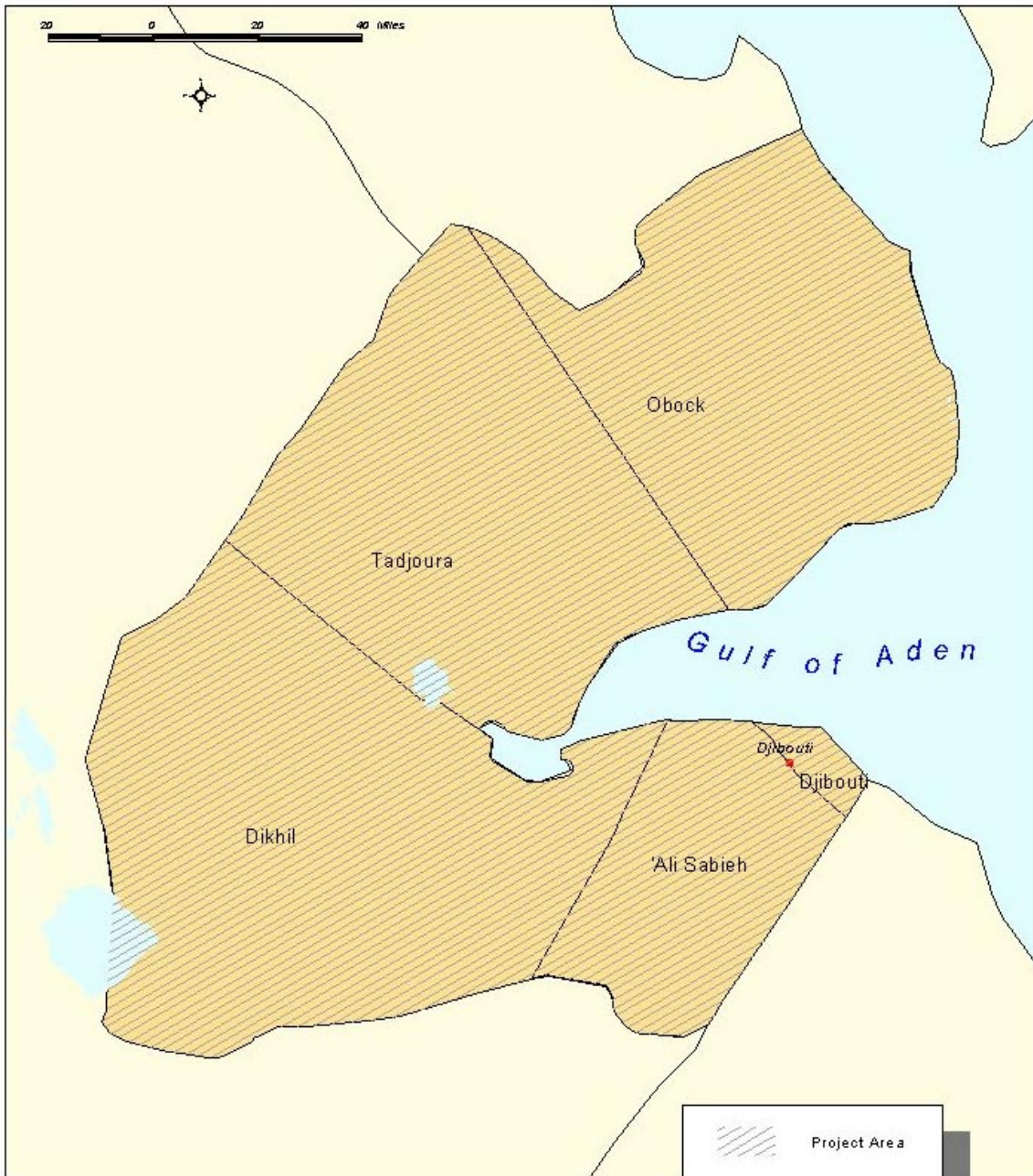


MAP OF THE PROJECT AREA



REPUBLIC OF DJIBOUTI

MICROFINANCE AND MICROENTERPRISE DEVELOPMENT PROJECT



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof

REPUBLIC OF DJIBOUTI
MICROFINANCE AND MICROENTERPRISE DEVELOPMENT PROJECT
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Djibouti
EXECUTING AGENCY:	Ministry of Agriculture
TOTAL PROJECT COST:	USD 3.94 million
AMOUNT OF IFAD LOAN:	SDR 2.75 million (equivalent to approximately USD 3.59 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	United Nations Development Programme (UNDP) (to be confirmed)
AMOUNT OF COFINANCING:	0.10 million
TERMS OF COFINANCING:	Grant
CONTRIBUTION OF BORROWER:	USD 0.08 million
CONTRIBUTION OF BENEFICIARIES:	USD 0.80 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

Who are the beneficiaries? The target group consists of approximately 200 000 persons, corresponding to about one third of the national population or roughly 30 000 households. This includes approximately 150 000 people living in rural areas and an additional 50 000 in the peri-urban and urban areas of the capital city. About 8 000 Djiboutian households will benefit directly from the project through access to improved and reliable financial services, either as members of savings and credit associations (SCAs) or through the provision of non-financial assistance to microenterprises.

Why are they poor? Poverty among potential beneficiary households is attributable to: (i) the effects of the protracted political and social unrest that has affected the country; (ii) limited assets base; (iii) lack of access to reliable financial services that are essential for scaling up and diversifying income-generating opportunities; (iv) frequent and severe periods of drought in predominantly low-input, low-output rainfed farming systems; (v) restricted opportunities for marketing and commercialization of agricultural and locally produced goods; and (vi) lack of access to essential rural and social infrastructure. This situation is further aggravated by falling employment levels in the capital since, up to now, urban employment and remittances to rural areas had always been a fundamental coping strategy for rural households. The worsening national economy has been hit even further by the reduced size of the French military base and the challenging structural adjustment programme negotiated with the International Monetary Fund and currently under implementation.

What will the project do for them? The project will improve beneficiaries' access to regular, reliable financial resources so that they may, *inter alia*, adopt improved technologies and undertake a wider range of income-generating activities in rural, peri-urban and urban areas, thereby improving their household incomes. At the present time, beneficiaries have no access whatsoever to any type of financial service owing to their inability to meet the conditions set by the formal financial sector. Women will be able to participate in SCAs, which will allow them to take up and/or scale up trading and commercial activities that would be otherwise beyond their reach due to lack of working capital. Increased incomes and the provision of savings services will enable beneficiaries to cope better with external shocks and help them to engage in sustainable economic activities as a means of coping with and reducing poverty. This will be enhanced by project assistance in the development and adoption of a national microfinance strategy and related legal framework, which will be the first of its kind in the country.

How will the beneficiaries participate in the project? Beneficiaries will form into groups as a prerequisite to accessing financial services through membership of SCAs. The project will support the establishment and development, with necessary technical and financial assistance, of a network of SCAs managed by local communities with a view to building up confidence and creating/reinforcing a culture of credit discipline. The very structure of self-reliant, member-owned and -managed community-based SCAs, as proposed under the project, will empower beneficiaries to participate in the selection and approval of credit applications.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
THE REPUBLIC OF DJIBOUTI
FOR THE
MICROFINANCE AND MICROENTERPRISE DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Republic of Djibouti for SDR 2.75 million (equivalent to approximately USD 3.59 million) on highly concessional terms to help finance the Microfinance and Microenterprise Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and the Agricultural Sector

1. The Republic of Djibouti is situated at the southern end of the Red Sea and covers an area of 23 000 km². The country occupies a strategic position in the Horn of Africa, providing port and transport services for Ethiopia and Northern Somalia. Djibouti is predominantly urban, with some 80% of the total population of approximately 650 000 living in the national capital. There are three ethnic groups in the country: officially half the population is ethnic Somali (Issa), slightly less than half is Afar and the rest made up of a small Arab minority. The north is inhabited by the Afar, while the Issa predominantly inhabit the southern part of the country.
2. The country is still recovering from a period (1991-94) of severe, ethnically motivated civil strife, which was settled only in 2001 following the signature of the last series of peace accords with opposition groups. The armed conflict resulted in considerable loss of life, livestock and economic and social infrastructure. Against this dramatic backdrop, the living conditions of the poor are worsening, with significant pockets of extreme poverty throughout the country – and seven times higher in rural areas than in the capital city.
3. Djibouti's economy depends essentially on services – accounting for an estimated 84% of Gross Domestic Product in 1999 – focused on the international free port, the Djibouti-Addis Ababa railway, and the provision of services to the French military base. The country has mineral reserves, and agriculture is severely constrained by shortages of both arable land and water. Industry is almost non-existent. Despite the existence of a free trade zone and a liberal legislative framework for investment, almost all consumer goods are imported. As such, Djibouti remains heavily dependent on foreign assistance, Saudi Arabia and France (which provides significant budgetary support) being the main donors. A comprehensive structural adjustment programme negotiated with the International Monetary Fund is currently under implementation.
4. In 1998, the World Bank classified Djibouti as a low-income country with a real Gross National Product per capita of USD 550. However, the living standards implied by this figure are distorted by the high cost of many imported goods and the existence of a large, well-paid expatriate community.

¹ See Appendix I for additional information.



5. The country produces only about 3% of its food requirements and only 10% of the fruit and vegetables consumed are produced locally. Agricultural activities are limited to irrigated areas (approximately 1 000 ha), where farmers cultivate small plots that range in size from 0.5 ha to 1 ha. These plots produce a variety of fruit and vegetable (mango, goyava, orange, tomato, onion) that are mainly grown for consumption/subsistence purposes. The agriculture sector is severely constrained by the lack of water, low and erratic rainfall, and the scarcity of cultivable land. Despite a number of improvements the two traditional agricultural production systems, i.e. pastoralism and oasis production, have reached their natural limits. The semi-nomadic pastoral system is still based on livestock rearing both for subsistence and, in good years, for income from the sale of surplus milk, butter or meat. There are about 600 000 goats, 400 000 sheep, 50 000 cattle and 40 000 camels in the country. The fishing industry is entirely artisanal and accounts for a fraction of the employment market. Limited demand, high operating costs and lack of export markets have all contributed to depressing the fisheries subsector, which no longer meets its objectives in terms of monthly catch.

6. The microenterprise subsector has a strong potential for poverty alleviation but is currently underdeveloped. At the present time, it mainly consists of petty trade in agricultural commodities, consumer goods or second-hand clothes, most of the traded goods being imported from Ethiopia or Yemen. Women are involved in handicrafts such as basket making, sewing and knitting and in general activities that do not require a significant initial investment; men are traditionally masons, electricians, mechanics and carpenters but often lack basic tools and equipment.

7. The microenterprise subsector faces a number of constraints: significant production costs due to high labour costs and imported raw materials; a small national market and limited purchasing power; reduced potential for exports; competitiveness hampered by the value of the Djibouti franc; disorganized or a complete lack of marketing channels for agricultural products and other goods; and scarce financial resources.

B. Lessons Learned from Previous IFAD Experience

8. Despite the limited size of the Fund's portfolio in Djibouti, a number of valuable and pertinent lessons have been drawn to guide future project design. These lessons have been summarized into the three following major areas to be addressed in future project design and implementation:

- **Portfolio management.** Administrative bottlenecks and limited managerial capacity led to delays in the disbursement and implementation of past projects. Appropriate mechanisms, modalities and procedures for channeling and managing funds – involving beneficiary associations and autonomous agencies as well as the establishment of autonomous project management units – are needed to facilitate project implementation.
- **Institutional and human resources constraints.** Djibouti is characterized by a rudimentary social infrastructure, few qualified national staff and limited institutional capacities. This implies that rural development projects in Djibouti should be limited in size and scope, with a small number of highly focused activities that rely on available local expertise and capacities supported by international technical assistance.
- **Group and beneficiary participation.** The mobilization and involvement of beneficiaries has achieved the best results in areas of the country where the population belongs to a homogeneous and cohesive group. IFAD projects should be therefore built on existing grass-roots organizations, taking account of the degree of social cohesion, and beneficiaries' willingness, motivation and their management capacity. Projects should thus aim at strengthening of participatory community-based development approaches and enhancing of local capacities.



C. IFAD's Strategy for Collaboration with Djibouti

Djibouti's Policy for Poverty Eradication

9. The Government's overall objectives for the rural sector are: to reduce food dependency; improve incomes and living standards; facilitate access to credit to finance income-generating activities; a more integrated rural sector in the national economy; and decentralized decision-making. The Government's poverty alleviation strategy has several aspects, including policy reform aimed at promoting labour-intensive growth; removal of the urban bias in public expenditure, with larger shares for infrastructure – including community-based infrastructure for drinking water and sanitation, and for health and education services that benefit the poor; targeting of slums and rural areas; removal of subsidies that are of more benefit to the upper-income groups; investment in human resources (basic education, especially for women; basic preventive health care; social safety nets); and employment generation (policy reform to reduce dualism in the labour market; promotion of vocational training, self-employment, and the urban informal sector; off-farm income-generating activities; microfinance).

The Poverty Eradication Activities of Other Major Donors

10. External assistance to Djibouti is mainly focused on urban areas with the exception of the Special Programme for Food Security of the Food and Agriculture Organization of the United Nations, which focuses on increasing food production and productivity through the introduction of new improved technologies. France is the major foreign contributor to Djibouti's development efforts, with overall annual expenditures in the range of USD 30 million. The priorities set by the French Cooperation and the French Development Agency are education, health and *Etat de Droit* (good governance). Involvement in agriculture is relatively modest, the main intervention being a project aimed at developing oasis agriculture and palm tree cultivation. The World Bank is financing a USD 14.8 million social fund programme in support of infrastructure rehabilitation and development and community development and capacity building, mainly in the capital. The African Development Bank (AfDB) is implementing a USD 10 million poverty alleviation programme that includes support for social infrastructure development, capacity building and microcredit – the latter component specifically targeting urban women through a Grameen Bank-type joint-and-several guarantee approach. AfDB is also financing seaport installations and technical assistance for fishermen. The United Nations Development Programme (UNDP) has launched a programme for the rehabilitation of war-affected areas, that focuses on infrastructure rehabilitation and capacity building, while the European Commission recently approved an Euro 2 million programme focused on the rehabilitation of water and sanitation infrastructure.

IFAD's Strategy in Djibouti

11. Within the overall framework of IFAD's strategic framework for Djibouti, the driving element for project design and concept will centre on empowering the poor through diversifying their livelihood systems and sources of income through the promotion and financing of alternative and innovative off-farm income-generating activities; and improving their access to financial resources and building up a rural financial infrastructure. The creation of sustainable community-based financial services would be the key element for development and poverty alleviation, because the great majority of the population has no access whatsoever to any type of financial service and the formal and informal sectors are unable or unwilling to finance income-generating activities.



Project Rationale

12. Both Government and IFAD strategies recognize that, for most households, lack of access to financial services is a key constraint on increased production, productivity and incomes. It also precludes the scaling up and diversification of activities for income generation and for the marketing of their produce. At the present time, the demand for financial services vastly exceeds supply, which is limited to the provision of microcredit. Access to savings and credit by poor households is critical to sustained poverty reduction, as it permits households to build up their assets base by unlocking hitherto untapped opportunities for income diversification and generation. In particular, poor households with access to financial services are better able to cope with external shocks such as sickness, drought and unemployment. They are also able to access basic socio-economic services, and are better prepared to expand economic activities. Women in particular have demonstrated a capacity to develop small-scale income-generating activities (mainly of a commercial nature) that would have been impossible without access to working capital.

13. At present, there is no organization or institution in the country is in a position to meet such needs on a sustainable basis. Present activities focus on microcredit operations and do not offer saving services. Informal systems (such as the women-only *tontine* networks) work well but are limited in scope and size and cannot meet the needs of the poor.

14. It is clear that there is a demand for community-based financial services. In view of the strong social cohesion and solidarity that exist in the rural communities, and savings habits as demonstrated in the *tontines*, community-based SCAs would appear to be the most suitable way of leveraging the savings potential and developing the resource base necessary for providing credit to the poor. Therefore, it will be necessary to support the gradual development of a network made up of self-managed SCAs that are accessible to the poorest people in Djibouti.

15. The absence of non-financial and business development services has also been identified as a constraint on the development of microentrepreneurs. To remedy this situation, the project - which was designed in line with lessons learned from previous projects (see paragraph 8) - will provide the necessary business development services to build up entrepreneurs' capacity to create and sustain viable business concerns.

16. The development of sustainable structures will be the cornerstone of the project strategy, the main features of which are as follows:

- beneficiaries will be fully involved in the management of SCAs as project support is gradually reduced;
- special emphasis will be placed on training at all levels: for facilitators and for managers of SCAs; and
- the viability of savings and credit-based financial systems depends on strict adherence to the principles of transparency in governance and sound financial norms.

17. With a view to ensuring its viability and impact, the project will support the creation of an enabling environment by participating in the preparation of a national strategy for microfinance and corresponding legal framework.

PART II - THE PROJECT

A. Project Area and Target Group

18. **Project area.** The project covers all rural and peri-urban areas of the country, including the capital city, initially focusing on the district capitals of Ali Sabieh, Obock, Tadjourah, Dikhhil. Based on the results obtained and lessons learned during the first three years of project implementation, activities will be extended to other parts of the country where population density and economic activities are sufficient to sustain viable SCAs and business development services.

19. **Target group.** The incidence of extreme poverty is more than seven times higher in the rural areas than in the capital. Therefore, focus will be placed primarily on the rural population, estimated at 150 000 people, and on the approximately 50 000 peri-urban poor, i.e. about 200 000 persons or 30 000 households. The target group will comprise persons earning a living from animal husbandry, gardening and agriculture, fishing, handicrafts and other small-scale income-generating activities such as petty trade and services. It will also include young unemployed people who are willing to start up a productive activity of their own. Special attention will be paid to households headed by widows or divorced women, which are considered the most vulnerable.

20. Women are involved in the decision-making process in the home and in managing part of the household resources. Since it is socially acceptable for women to conduct productive activities on their own account, many are actively involved in small-scale food and handicrafts production. A number of women's associations have been formed, and focus on training in handicrafts, sewing and basket-making, literacy for girls and self-managed microcredit schemes.

21. Unemployment is particularly high among young people (estimated at more than 60%). Many of them are demobilized soldiers without skills while others have school and technical training, but all of them lack financial resources and business skills to start up a productive activity. The project will also support the promotion of microenterprise development for women and unemployed youth.

B. Objectives and Scope

22. The aim of the project is to reduce poverty throughout Djibouti by increasing the incomes of poor households through enhanced access to financial and business development services in rural, peri-urban and urban areas. Its main objectives are to establish a sustainable SCA network that would provide financial services to beneficiaries; develop sustainable non-financial services and market-based business development services; develop and adopt a national microfinance and microenterprise strategy and legal framework; and strengthen and diversify a range of income-generating activities for the target group.

C. Components

23. The project is structured around three components, as follows:

- **Microfinance and Microenterprise Development**

24. Access will be provided to financial services in rural, peri-urban and urban areas through the development of up to ten SCAs that will be owned and managed by the beneficiaries themselves. Seven of the SCAs will be established during the course of the first three years of project implementation, thereby achieving national coverage (one SCA in each district capital and two in Djibouti city). A credit line of USD 200 000 will be used to enhance the savings mobilized in each SCA and therefore add to the credit funds available for lending to SCA members. As far as microenterprise-focused activities are concerned, the project will: identify and assess potential demand for business development services for microentrepreneurs; based on the demand, design and



organize targeted literacy, management and technical training programmes in collaboration with the University of Djibouti, the Chamber of Commerce and other institutions; and, where feasible, support the development and enhance and strengthen the capacity of local producers and/or commercial associations.

- **Institutional Capacity Building**

25. Given the limited institutional and human resources available and the innovative nature (within Djibouti) of the SCA development approach, the project will rely on technical assistance provided by an international agency (IA). The IA, which will be specialized in microfinance development and the provision of business development services, will be a key partner in the development, management and supervision of the first seven SCAs in the initial four years of project implementation. The IA will also be responsible for administering the credit line, for training national staff and for developing the necessary capacity for the establishment of the national union of SCAs (*Association Nationale des Caisses d'Epargne et de Cr dit* (ANCEC)), which will gradually take over the IA's responsibilities, including the control, audit and credit fund management tasks for the SCA system as a whole. The IA will also supervise the delivery of non-financial services by other service providers. In addition, the project will create and support, with targeted technical assistance, the National Task Force on Development of a Microfinance Strategy (NTF), which will draw up a national strategy for microfinance and microenterprise and develop a specific regulatory framework (the first of its kind in Djibouti). UNDP has expressed strong interest in cofinancing the NTF activities foreseen under the project.

- **Project Management and Organization**

26. The project will be under the overall responsibility of the Ministry of Agriculture, which will nominate a Project Coordinator. Coordination at the national level will be ensured by a Project Coordination Committee (PCC) made up of representatives from the Central Bank, the Ministries of Agriculture, Finance, Local Government and the Interior and other concerned national institutions. Project management will be the responsibility of an autonomous project coordination unit (PCU) charged with coordinating project activities and monitoring performance.

D. Costs and Financing

27. The total costs of the project will amount to USD 3.94 million, including physical and financial contingencies, as summarized in Table 1. The project will be financed by an IFAD loan of USD 3.59 million, or 91.2 % of total costs. UNDP has expressed its interest in cofinancing the NTF activities in an amount of USD 0.10 million (2.6% of total costs), and the Government's contribution of USD 0.17 million (4.2%) will cover all taxes and duties. The beneficiaries will contribute an amount of USD 0.08 million, or 2.0% of total project costs. The financing plan is given in Table 2.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% Base Costs
• Institutional Capacity Building	166	1 351	1 517	89	41
• Microfinance and Microenterprise Development					
- Microfinance development	593	73	666	11	18
- Microenterprise development	140	29	169	17	5
Sub-Total	733	101	834	12	22
• Project Management and Organization	829	551	1 381	40	37
Total base costs	1 728	2 004	3 732	54	100
Physical contingencies	19	13	31	40	1
Price contingencies	89	92	181	51	5
Total Project Costs	1 835	2 109	3 944	53	106

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		Other Donor		Government		Beneficiaries		Total		Foreign Exchange	Local	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
• Institutional Capacity Building	1 511	94.7	64	4.0	20	1.3	-	-	1 594	40.4	1 411	163	20
• Microfinance and Microenterprise Development													
- Microfinance development	536	78.0	37	5.4	36	5.2	79	11.5	688	17.4	79	573	36
- Microenterprise development	177	100.0	-	-	-	-	-	-	177	4.5	30	148	-
Sub-total	714	82.5	37	4.3	36	4.1	79	9.1	865	21.9	109	721	36
• Project Management and Organization	1 372	92.5	-	-	112	7.5	-	-	1 484	37.6	589	784	112
Total Disbursement	3 597	91.2	101	2.6	168	4.2	79	2.0	3 944	100	2 109	1 667	168

^a Discrepancies in totals are due to rounding up.





E. Procurement, Disbursement, Accounts and Audit

28. **Procurement.** Goods and works to be financed from the proceeds of the IFAD loan will be procured in accordance with IFAD's procurement guidelines. Procurement of vehicles, equipment and office furniture will be grouped whenever possible to establish lots of a more significant size. International competitive bidding will be required for vehicles, equipment and goods estimated to cost USD 150 000 or more. National Competitive Bidding will be required for procurement of vehicles, equipment, goods, services and civil works contracts estimated at less than USD 150 000 but more than USD 25 000. Purchases of the same items worth USD 25 000 or less will be undertaken through local shopping, with pro forma invoices obtained from at least three suppliers. Contracts for procurement of the same items worth less than USD 5 000 will be awarded on the basis of direct contracting. Recruitment of consultants will be made in accordance with the UNOPS guidelines and in line with the loan agreement.

29. The PCU will enter into service agreements with the IA and other implementing and/or contracting agencies as required, specifying modalities for procurement. It will procure goods and services for project partners that lack capacity in this respect.

30. **Disbursement.** The project will be implemented over a period of eight years. Withdrawals from the loan account will be effected in accordance with UNOPS procedures and in line with the loan agreement, and include the use of Statements of Expenditure (SOEs). A Special Account denominated in United States dollars will be opened and maintained in a bank acceptable to IFAD. The authorized allocation for the Special Account will be equivalent to USD 0.25 million. Goods and services provided through the project will be exempted from taxes and duties. In order to cover the tax element for small expenditures, a counterpart fund account will be opened in a bank acceptable to IFAD, with an initial contribution of USD 10 000 for PY1. This counterpart fund will be replenished annually on the basis of the projected tax requirements, as per the approved annual programme of work and budget (AWP/B).

31. **Accounts and audit.** In accordance with established practice, the project accounts and IA accounts will be audited annually by a recognized auditing firm, acceptable to IFAD, which will audit the SOEs and transactions under the Special Account. The auditing firm will also provide an opinion on the project's contracting procedures, including the accountability of the IA and its management of project resources. The audit report will be submitted to IFAD and the cooperating institution within six months of the close of the relevant financial year.

F. Organization and Management

32. **Overall approach.** The responsibility for project management will be entrusted to the PCC, which will be jointly chaired by the Central Bank and Minister for Agriculture, comprise representatives of the Ministries of Agriculture, Finance and the Interior and oversee and formulate policies for project implementation. The PCC will ensure that the project is implemented in accordance with national strategy (once formulated) and as agreed with IFAD. The PCU will be responsible for programming, financial management, and monitoring and evaluation of the project.

33. The IA will constitute an important implementation partner as it will be responsible for staff training, the establishment and management of the project credit line and follow-up with the SCAs. It will also be responsible for setting up ANCEC, which, during the last four years of project implementation, will gradually take over the responsibilities of the IA. However, the IA's role will remain fundamental. A significant amount of IA input in terms of TA is foreseen, on a gradually decreasing basis, during the second half of project implementation.



34. The IA will enter into a service agreement with the PCU, acceptable to IFAD, for a period of two years. This agreement will be renewable subject to availability of funds. Each contract renewal will be subject to satisfactory performance and will require both the PCC's approval and an indication of no objection from IFAD and the cooperating institution.

35. **Reporting, monitoring and evaluation.** The project will be implemented on the basis of AWP/Bs in line with the project's objectives and achievements. In collaboration with the IA, the PCU will produce quarterly progress reports, which will compare results with the approved AWP/B. The reports will show the results achieved, highlight implementation issues, and outline any remedial action required. Copies of such reports will be provided to PCC members, the cooperating institution and IFAD. An annual report on project progress and impact, including consolidated financial statements for each SCA, will be prepared by the PCU in collaboration with the IA for submission to the PCC, UNOPS and IFAD.

36. Project monitoring and evaluation (M&E) will be the joint responsibility of the PCU and IA, which will be in a position to provide a regular flow of information on SCA development. The main indicators to be monitored have been already identified and means for verification and methods for data collection will be adjusted on the basis of the Logical Framework. Provision has been made for regular M&E surveys. Evaluation will be carried out continuously, backed up by technical assistance and based on results obtained from the monitoring system. A joint mid-term review by the Government and IFAD to evaluate project progress and impact is scheduled to take place in PY 4.

G. Economic Justification

37. The provision of financial services is expected to have a substantial impact in terms of activating the largely underutilized productive resources of the urban and rural poor. Financial analysis of a typical cross section of investments in on-, off- and non-farm enterprises shows high returns on investments in a number of activities.

38. The project will support the development of a maximum of ten SCAs with their membership drawn from more than 7 000 households. The development of the SCAs will not only increase their capacity for enhanced micro financial service delivery, but will also contribute to a competitive environment leading to qualitative, efficient and demand-driven financial services. A number of different of on-, off- and non-farm activities to be financed will contribute to increased household incomes.

39. The project's main achievements are to be:

- development of a national-level, community-managed microfinance network that will provide financial services to the poorest segments of the population;
- implementation of non-financial services benefiting SCAs and microentrepreneurs;
- formulation of a national policy for microfinance and relevant legal framework;
- strengthening of local economies, in line with Government policy;
- strengthening of associations and individual microentrepreneurs through improvement of internal capacities and know-how.
- empowerment of women through enhanced participation in local development processes and management of associations; and
- improved access to management capacity, technical skills and adapted technology for farmers, fishermen and microentrepreneurs.



40. The total number of beneficiaries is estimated at approximately 8 000 persons for the two main components, including members of SCAs (about 7 000 persons) and business development services (estimated at 1 000). This will involve about 53 000 people, based on an average of 6.6 persons per household or approximately one fourth of the target group at the national level.

41. **Impact on women.** There are no legislative barriers to equal access by women to project savings, credit or other services. The savings and lending products developed and offered through the project will suit the types of economic activities that Djiboutian women undertake – microeconomic activities, petty trade, etc. In its sensitization activities, the IA will be required (as per the implementation agreement) to be gender-sensitive and to ensure that women are able to take part in project-financed activities on an equal footing. The design criteria for the SCAs will also provide for women’s participation in management committees.

H. Risks

42. **Participation.** The project will be implemented on the basis of a community-based participatory approach, which will require close collaboration between the project, the IA and the beneficiaries. Risks include the possibility of limited participation by beneficiaries, which would negatively impact project implementation in a number of ways: insufficient SCA membership would limit savings mobilization and therefore impact on the sustainability of individual SCAs. The provision of financial services, for which there is a significant unmet demand in rural, peri-urban and urban areas, is expected to mitigate this risk by attracting significant numbers of potential SCA members.

43. **Dependency attitudes.** It is unclear to what extent dependency attitudes have been generated by the country’s history of generous government assistance, and how difficult it will be to overcome them. However, such attitudes will be of particular importance in establishing the SCAs and exerting community pressure to ensure high repayment levels.

44. SCA sustainability, and therefore project success, will be enhanced by the careful business plan developed for SCA development, the significant level of continuous in-country technical assistance to be provided by the IA, training of concerned project and SCA staff, and adherence to sound policies with regard to SCA development and management.

I. Environmental Impact

45. The proposed project will be environmentally neutral. Although some project activities will be targeted to agricultural development in rangelands and credit will be granted to help improve irrigation, livestock numbers (the most important agricultural activity in the country) will not be significantly effected as the SCAs, by virtue of their international regulations, will not be allowed to lend for livestock purchases. Based on the stipulated IFAD screening procedures, and in view of the fact that any disturbance of the physical setting and resources will be minimal, the project justifies Category C classification.

J. Innovative Features

46. The project design includes a number of innovative features that are in line both with IFAD’s corporate strategy and with the Government’s objectives. The fundamental innovations involve: (i) creation of a network of sustainable SCAs covering the entire country and providing, for the first time, savings and credit services to the great majority of the population; (ii) establishment at the national level of an NTF responsible for the development of an overall microfinance and microenterprise support strategy together with the necessary legal framework; and decentralization in the provision of fundamental services requested by the population, in line with the country’s decentralization programme. The important capacity-building activities foreseen in the project, including the presence of



an IA charged with providing TA and with responsibility for setting up the SCAs, the development of a national union of SCAs and the training programmes for beneficiaries, SCA and project staff, represent an innovative package that will help ensure the success of project implementation over the longer term.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

47. A loan agreement between the Republic of Djibouti and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

48. The Republic of Djibouti is empowered under its laws to borrow from IFAD.

49. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

50. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Djibouti in various currencies in an amount equivalent to two million seven hundred and fifty thousand Special Drawing Rights (SDR 2 750 000) to mature on and prior to 1 December 2042 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Negotiations concluded 18 November 2002)

1. In addition to the proceeds of the loan, the Government of the Republic of Djibouti (henceforth 'the Government') shall make yearly budgetary allocations to provide counterpart funds from its own resources in an aggregate amount equivalent to USD 168 000 to cover all taxes, duties and levies on goods and services procured under the project, in accordance both with customary national procedures for development assistance and with the provisions of the AWP/Bs. To this end, the Government will make an initial deposit into the Counterpart Fund Account of USD 10 000 equivalent to cover all taxes, duties and levies on expenditures made during the first 12 months of project implementation, for which no recourse will be made to the Government's tax exemption procedure. The Government will subsequently replenish the Counterpart Fund Account in advance on a yearly basis by depositing therein the amounts of counterpart funds foreseen in the AWP/B relevant to the project year in question.
2. The Government will exempt from all taxes, duties and levies the goods and services procured under the project and/or resort to the Government's tax exemption procedure by means of an order issued by the Ministry of Finance. The overall amount of these taxes will be considered as being part of the counterpart funds provided by the Government.
3. The Government will ensure that, in collaboration with the IA, the PCU assumes responsibility for all project monitoring and evaluation. PCU and IA will prepare joint M&E reports. The IA will design the M&E system, and draw up indicators of project performance, impact and physical and financial progress results. It will also establish the frequency of M&E operations, the method for collection of information and data, and methods for their dissemination and use. All such information will be contained in the project operations manual. Key M&E indicators will be limited to criteria governing the use and reliability of the information, and the cost of collecting and processing it. Particular attention will be paid to establishing procedures for participatory M&E. The PCU will provide copies of the M&E reports to the Ministry of Agriculture and IFAD, to enable them to follow the status of project implementation on a continuous basis and evaluate its impact on the beneficiaries. The M&E system thus designed will make it possible to: (i) supervise and evaluate the work of national staff, animators and advisors; (ii) compare results and achievements with those foreseen and identify bottlenecks to project implementation; and (iii) submit recommendations for any remedial action considered necessary.
4. The Government will ensure that the staff of PCU are insured against health and accident risks, in accordance with customary practices in force in Djibouti.
5. The Government will ensure that men and women candidates are given equal consideration for positions with the project. In implementing the project, the Government will ensure that, in certain areas, the PCU and IA give priority consideration to women candidates in view of (i) the experience gained by women's groups in the provision of microcredit and in collecting savings through the *tontines*; and (ii) women's groups' higher reimbursement rates.



6. The following are specified as conditions for the disbursement of funds from the loan:
- (a) No disbursement will be made in respect of expenditures for the project until such time as:
 - (i) the Government has established the PCC;
 - (ii) the Government has established a specific statute for the SCAs, approved by the Central Bank of Djibouti and IFAD, that will allow the SCAs to engage in financial activities on behalf of their members;
 - (iii) the Government has opened the Special Account;
 - (iv) the Government has opened the Counterpart Fund Account and has deposited therein an amount equivalent to USD 10 000 to cover taxes, duties and levies that will not be covered under the Government's tax exemption procedure during the first 12 months of the project;
 - (v) a manual of administrative, financial and accounting procedures has been prepared and submitted to IFAD for approval; and
 - (vi) the first year's AWP/B has been submitted to IFAD.
 - (b) No disbursement will be made in respect of expenses for the framework agreement with the IA and in connection with the project's financial services until such time as:
 - (i) the IA has been selected in accordance with the provisions of the loan agreement; and
 - (ii) a preliminary draft of the framework agreement with the IA has been submitted by the lead project agency to, and approved by, IFAD; the final version of the framework agreement signed by the main executing agency and the IA, which will not differ substantially from that approved by IFAD, has been provided to IFAD; the lead project agency has been duly authorized to sign and implement such agreement; and all conditions for effectiveness have been met.
 - (c) No disbursements will be made in connection with the project's financial services until such time as the Government has taken steps to set up a national task force on the development of a microfinance strategy.
7. The following are specified as additional conditions precedent to the effectiveness of the loan agreement:
- (a) a project coordinator shall have been selected by the lead project agency;
 - (b) the Government has registered the project in the Public Investment Programme;
 - (c) the Central Bank of Djibouti has approved the statute of the SCAs;
 - (d) the Central Bank of Djibouti has authorized the establishment of SCAs in accordance with Djibouti's Banking Law;
 - (e) the loan agreement has been signed and the Government has received full power to authorize and execute the terms thereof; and
 - (f) the Government has forwarded a favourable legal opinion, delivered by the Supreme Court of Djibouti and acceptable in both form and substance, to IFAD.

APPENDIX I

COUNTRY DATA

DJIBOUTI

Land area (km² thousand), 2000 1/	23	GNI per capita (USD), 2000 1/	840
Total population (million), 2000 1/	0.66	GNP per capita growth (annual %), 2000 1/	n.a.
Population density (people per km²), 2000 1/	28	Inflation, consumer prices (annual %), 2000 1/	n.a.
Local currency	Djibouti Franc (DJF)	Exchange rate: USD 1 =	DJF 177.721
Social Indicators		Economic Indicators	
Population (average annual population growth rate), 1980-99 2/	n.a.	GDP (USD million), 2000 1/	554
Crude birth rate (per thousand people), 2000 1/	37 a/	Average annual rate of growth of GDP 2/, 1980-90	n.a.
Crude death rate (per thousand people), 2000 1/	17 a/	1990-99	n.a.
Infant mortality rate (per thousand live births), 2000 1/	109 a/	Sectoral distribution of GDP, 2000 1/	
Life expectancy at birth (years), 2000 1/	47 a/	% agriculture	4 a/
Number of rural poor (million) (approximate) 1/	n.a.	% industry	21 a/
Poor as % of total rural population 2/	n.a.	% manufacturing	6 a/
Total labour force (million), 2000 1/	n.a.	% services	76 a/
Female labour force as % of total, 2000 1/	n.a.	Consumption, 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	28 a/
School enrolment, primary (% gross), 2000 1/	39 a/	Household final consumption expenditure, etc. (as % of GDP)	78 a/
Adult illiteracy rate (% age 15 and above), 2000 1/	35	Gross domestic savings (as % of GDP)	-6 a/
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	2 084	Merchandise exports, 2000 1/	20
Malnutrition prevalence, height for age (% of children under 5), 2000 1/	26 a/	Merchandise imports, 2000 1/	250
Malnutrition prevalence, weight for age (% of children under 5), 2000 1/	18 a/	Balance of merchandise trade	-230
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 2000 1/	n.a.	before official transfers, 1999 1/	n.a.
Physicians (per thousand people), 1999 1/	0.13	after official transfers, 1999 1/	n.a.
Population using improved water sources (%), 1999 4/	100	Foreign direct investment, net 1999 1/	n.a.
Population with access to essential drugs (%), 1999 4/	80	Government Finance	
Population using adequate sanitation facilities (%), 1999 4/	91	Overall budget deficit (including grants) (as % of GDP), 1999 1/	n.a.
Agriculture and Food		Total expenditure (% of GDP), 1999 1/	n.a.
Food imports (% of merchandise imports), 1999 1/	n.a.	Total external debt (USD million), 1999 1/	280
Fertilizer consumption (hundreds of grams per ha of arable land), 1998 1/	n.a.	Present value of debt (as % of GNI), 1999 1/	35
Food production index (1989-91=100), 2000 1/	87.5	Total debt service (% of exports of goods and services), 1999 1/	3.4 a/
Cereal yield (kg per ha), 2000 1/	1 625	Lending interest rate (%), 2000 1/	n.a.
Land Use		Deposit interest rate (%), 2000 1/	n.a.
Arable land as % of land area, 1998 1/	n.a.		
Forest area (km ² thousand), 2000 2/	n.a.		
Forest area as % of total land area, 2000 2/	n.a.		
Irrigated land as % of cropland, 1998 1/	n.a.		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2001

PREVIOUS IFAD FINANCING

Loan No.	Project Name	Initiating Institution	Cooperating Institution	Terms of Loans ¹	Approval Date	Effectiveness Date	Actual Closing Date	Loan Amount (SDR million)	Disbursements ²	
									SDR million	%
53-DJ	Artisanal Fisheries Pilot Development Project	IFAD	AFESD	HC	04/12/81	28/07/81	01/09/85	0.97	0.97	100
173-DJ	Artisanal Fisheries Pilot Development Project-Phase II	IFAD	AFESD	HC	05/09/85	27/03/86	31/12/93	1.15	0.73	64
017-DJ	Agro-Pastoral Development Project in the Gobaad Basin	IFAD	AFESD	HC	13/09/89	09/05/91	30/06/96	1.14	0.19	17

¹Highly Concessional

²At closing date



LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
<p>Goal</p> <p>Reduce poverty through sustained growth of household incomes.</p>	<ul style="list-style-type: none"> • Income indicators – household incomes increase and/or expenditures • Improved access to financial services • Enterprise indicators – increase in number of microenterprises • Gender empowerment – increase in the range of options for women’s income-generating activities 	<ul style="list-style-type: none"> • Evaluation and impact assessment/studies • National statistics • M&E reports 	<ul style="list-style-type: none"> • Political stability maintained • Macro-economic stability maintained • Government commitment to poverty reduction maintained
<p>Objective</p> <p>Promote and develop dynamic, responsive, sustainable and institutional framework efficient for SCA system to provide access to financial services to poor households and women</p>	<ul style="list-style-type: none"> • Development and number of SCAs/CECs created • Number of members of SCAs • Savings mobilized by individual SCAs • Loan portfolio 	<ul style="list-style-type: none"> • Evaluation and impact assessments/ studies • Reports on individual SCAs • Supervision mission reports • Rural financial studies/surveys 	<ul style="list-style-type: none"> • Marketing opportunities for products and services developed through SCAs are sufficiently developed to make sales profitable • SCAs are viable and the model is of interest to potential beneficiaries
<p>Outputs</p> <p>A. A national microfinance policy framework (including legal framework and regulatory standards) is developed and adopted</p> <p>B. Establish a national sustainable microfinance services network.</p>	<ul style="list-style-type: none"> • A national microfinance policy group is established with appropriate terms of reference (TOR) • Policy framework facilitates expansion, growth and outreach of financial services • Policy framework facilitates eventual integration of microfinance institutions into Djiboutian financial system at appropriate development stage • Framework developed, proposed to Central Bank and Ministry of Finance (MOF), and adopted • Number of SCAs established and operational. • SCAs financially viable. 	<ul style="list-style-type: none"> • IFAD involvement in policy dialogue • Supervision mission reports • Donor assessments, if any • Official gazette publication of regulations • M&E reports • Supervision reports • Mid-Term Review (MTR) report • Audit reports • Completion Report 	<ul style="list-style-type: none"> • Other involved and/or interested donors/non-governmental organizations would expand or become involved in the microfinance sector on the basis of an improved policy and legal framework • The SCA statute has been approved by the Central Bank and SCAs are allowed to operate within Djibouti.



LOGICAL FRAMEWORK – Continued

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
C. Development of financial and non-financial (business development) services in support of financial services institution-network.	<ul style="list-style-type: none"> • National SCA association (ANCEC) established and operational • ANCEC represents SCAs at the national level and provides assistance and TA as required • Microenterprise assistance provided to interested beneficiaries 	<ul style="list-style-type: none"> • M&E reports • Supervision reports • MTR report • ANCEC General Assembly minutes • Completion report 	<ul style="list-style-type: none"> • Risk: refusal of target group to pay for business development services
Project Activities			
1.1 National Task Force (NTF) on the Development of a Microfinance Strategy operationalized	<ul style="list-style-type: none"> • NTF formed • NTF resource centre developed • Strategy and legal framework developed, proposed and adopted 	<ul style="list-style-type: none"> • NTF records • Supervision reports • MTR report • Official gazette 	<ul style="list-style-type: none"> • Commitment by stakeholders to develop and adopt a national microfinance strategy and legal framework maintained
1.2 International Agency recruited and provides necessary implementation support, technical assistance and capacity building	<ul style="list-style-type: none"> • PCU-IA agreement signed • IA carried out responsibilities as per agreed TOR • IA trains IA Unit and project staff 	<ul style="list-style-type: none"> • IFAD indicates no objection to IA selection and agreement • M&E reports • Project reports • Supervision reports • Staff transferred to national union 	<ul style="list-style-type: none"> • Government willing to recruit operator to provide TA in the framework of the project
1.3 National Union of SCAs (ANCEC) established and operational	<ul style="list-style-type: none"> • ANCEC established in PY5 • IA unit staff transferred to ANCEC • ANCEC takes over responsibility for the management of SCA-level TA, credit line and representation on policy committees • ANCEC able to partially recover operating costs from SCA contributions from PY7 onwards 	<ul style="list-style-type: none"> • M&E reports • MTR report • Project reports • Supervision reports • IA report • ANCEC financial sustainability at PY8 • Stakeholder assessments 	<ul style="list-style-type: none"> • Staff trained by IA have developed the capacity to carry out the responsibilities assigned to ANCEC • SCAs are financially sustainable and able to assist in the financing of ANCEC
2.1 SCA network established and developed	<ul style="list-style-type: none"> • 8 SCAs created in PY1-PY5; possibility of additional SCAs based on implementation performance • SCA membership 	<ul style="list-style-type: none"> • Project reports • Supervision reports • M&E reports 	<ul style="list-style-type: none"> • Interest of potential beneficiaries in approach attracts sufficient numbers of participating members • Capacity of SCA officers at sufficient level to ensure sound management • Macro-economic stability maintained
2.2 SCA officers and members trained	<ul style="list-style-type: none"> • Number of training sessions held in literacy, management, savings and credit skills • Number of participants in each training session • SCAs function without mismanagement 	<ul style="list-style-type: none"> • Project reports • Supervision reports • M&E reports • Project audit report • Beneficiary interviews 	<ul style="list-style-type: none"> • SCA members selected for training have capacity to absorb training programme contents



LOGICAL FRAMEWORK – Continued

5

Narrative Summary		Verifiable Indicators		Means of Verification	Assumptions
2.3 SCAs are financially sustainable		<ul style="list-style-type: none"> • SCA membership, savings mobilization, deposits and credit portfolio amounts • Number of loans provided to women • Short- and medium-term credit recovery rates • Matching savings mobilization grant and credit line disbursed in support of SCA development and strengthening 		<ul style="list-style-type: none"> • Project reports • Supervision reports • M&E reports • Project audit report • Beneficiary interviews 	
3.1 Microenterprise (ME) - training programmes carried out for business development services (BDS)		<ul style="list-style-type: none"> • ME specialist recruited and trained • ME manual prepared • Number of training programmes held in literacy, introduction to management, and specialized technical subjects • Number of participants in training programmes 		<ul style="list-style-type: none"> • Project reports • Supervision reports • M&E reports • Beneficiary interviews 	<ul style="list-style-type: none"> • Sufficient interest in, and understanding of potential benefits of ME/BDS exists
4.1 Staff employ participatory methods for M&E and preparation of AWP/Bs		<ul style="list-style-type: none"> • Number of workshops/meetings held with beneficiaries and their representatives 		<ul style="list-style-type: none"> • AWP/B • Beneficiary interviews 	
4.2 PCU reports regularly on project implementation		<ul style="list-style-type: none"> • M&E system established in PY1 • Project reports received regularly 		<ul style="list-style-type: none"> • AWP/B • Project reports • M&E reports submitted 	
Inputs		Financing			
Expenditure Accounts		Financier			
	USD ('000)		USD ('000)		
Civil work	170	IFAD	3.59	Loan agreement	IFAD Executive Board approves project Subsidiary/implementing agreements approved and executed
Equipment and vehicles	376	Government	0.17	Subsidiary/implementing agreements	
Training	245	Other Cofinanciers	0.10	President's Report	
TA and studies	294	Beneficiaries	0.79	Appraisal Report	
Service contract with IA	1 277				
Financial resources	456	Total	3.94		
Salaries and allowances	766				
Other operating costs	362				



SUMMARY COST AND FINANCING TABLES

Summary of Project Costs by Component

Components	(DJF '000)			(USD '000)			% Foreign Exchange	% Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
• Microfinance and Microenterprise Development								
- Microfinance development	105 431	12 893	118 324	593	73	666	11	18
- Microenterprise development	24 807	5 136	29 942	140	29	169	17	5
• Institutional Capacity Building	29 413	240 114	269 527	166	1 351	1 517		
Subtotal	130 238	18 028	148 266	733	101	834	12	22
• Project Management and Organization	147 339	97 979	245 318	829	551	1 381	40	37
Total Base Costs	306 990	356 121	663 111	1 728	2 004	3 732	54	100
Physical contingencies	3 294	2 228	5 522	19	13	31	40	1
Price contingencies	15 783	16 424	32 207	89	92	181	51	5
Total Project Costs	326 067	374 773	700 841	1 835	2 109	3 944	53	106



Summary of Project Cost by Expenditure Accounts

	(DJF '000)			(USD '000)			Foreign Exchange	Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
I. Investment Costs								
A. Civil Works	18 659	7 997	26 655	105	45	150	30	4
B. Vehicles and Equipment								
Equipment	5 229	26 084	31 313	29	147	176	83	5
Vehicles	10 566	22 147	32 713	59	125	184	68	5
Subtotal Vehicles and Equipment	15 796	48 231	64 026	89	271	360	75	10
C. Training	35 103	5 932	41 035	198	33	231	14	6
D. Technical Assistance	1 777	47 624	49 401	10	268	278	96	7
E. IA Contractual Services	-	217 772	217 772	-	1 226	1 226	100	33
F. Credit and Matching Grants	81 008	-	81 008	456	-	456	-	12
Total Investment Costs	152 342	327 555	479 897	857	1 843	2 701	68	72
II. Recurrent Costs								
A. Salaries and Allowances	126 083	-	126 083	710	-	710	-	19
B. Operation and Maintenance								
Maintenance of equipment	1 534	1 534	3 068	9	9	17	50	-
Operation of vehicles	11 756	11 756	23 512	66	66	132	50	4
Other operating costs	15 276	15 276	30 552	86	86	172	50	5
Subtotal Operation and Maintenance	28 566	28 566	57 132	161	161	322	50	9
Total Recurrent Costs	154 649	28 566	183 214	870	161	1 031	16	28
Total Base Costs	306 990	356 121	663 111	1 728	2 004	3 732	54	100
Physical Contingencies	3 294	2 228	5 522	19	13	31	40	1
Price Contingencies	15 783	16 424	32 207	89	92	181	51	5
Total Project Costs	326 067	374 773	700 841	1 835	2 109	3 944	53	106



ORGANIZATION AND MANAGEMENT

A. Introduction

1. The Minister of Agriculture will have overall responsibility for implementation. A PCU will coordinate the implementation of project activities under the guidance of a PCC. The roles and responsibilities of the IA and other service providers will be based on subsidiary/implementation agreements signed with Government (through the PCU) and acceptable to IFAD.

B. Project Management and Execution

Project Coordination Committee

2. Project coordination will be guided by a PCC chaired by the Minister of Agriculture, or his representative, who will *ex officio* have overriding authority in matters of project policy. Membership of the PCC will include representatives of the Ministry of Agriculture, and other concerned line ministries, government agencies and microfinance projects.

3. The PCC will meet twice yearly and have the right to co-opt other members and to form executive subcommittees when necessary. It will ensure that project activities are not at variance with government policies and that implementing agencies are fulfilling the terms and conditions of the project loan agreement. The PCC will review reports, approve the project's consolidated AWP/B, ensure compliance with MOF requirements for the submission and reimbursement of claims accounts, financial reports, and ensure cooperation with concerned government agencies and other donors in matters affecting project implementation. It will also provide a forum for the resolution of any inter-agency, bureaucratic or financial *impasses* and generally oversee project implementation.

Project Coordination Unit

4. An independent PCU will be established as an administrative entity of the Ministry of Agriculture, responsible to the Minister and reporting to the PCC, through Ministerial Decree. It will have legal status and administrative and financial autonomy within the structure of the Ministry. The PCU will be led by a project coordinator appointed by the Minister, and acceptable to IFAD, and staffed by a finance officer/accountant, M&E officer and five support staff (two secretaries, two drivers and a watchman). The PCU will be responsible for programming, procurement for its own requirements, financial management, accounting and M&E of the implementation and impact of the project. An M&E specialist will be recruited to implement an M&E programme throughout the project area.

5. Specific tasks assigned to the PCU include: (i) management and coordination of component activities; (ii) operation of the project account; (iii) regular preparation and submission of withdrawal applications; (iv) maintenance of separate financial records and accounts for the PCU, and preparation of annual financial statements for all project expenditures; (v) procurement of major items, including vehicles and equipment; (vi) preparation and consolidation of monthly and quarterly progress reports for all project activities; and (vii) preparation of half-yearly and annual progress reports for onward transmission to the PCC, IFAD and the cooperating institution.

6. On the basis of the modalities and planned budgets in the appraisal report, the loan agreement and the subsidiary/implementation agreements in force, the IA, based on the results of the previous year, will proposed in October of each year a work programme and budget to the PCU. In consultation with the IA, the PCU will prepare a consolidated AWP/B for the next implementation year. The

AWP/B will be sent to the cooperating institution and IFAD for comment, after which it will be reviewed by the PCC and approved by the Minister of Agriculture in December of each year.

Implementation

7. **Implementation approach.** Project activities will be implemented by PCU and IA staff in accordance with the approved AWP/B. In particular, all project activities foreseen under the microfinance and microenterprise development component will be implemented by the IA through PY4, and gradually transferred to the responsibility of the ANCEC in PY5-8.

8. **Project start-up.** IFAD will provide resources to facilitate the start-up of project implementation, including a project start-up workshop to be held in Djibouti once the loan becomes effective. The workshop will clarify procedures related to project implementation, management and coordination, as well as disbursement and procurement, planning, budgeting, monitoring and reporting.

9. **Phasing.** It has been agreed that work will begin on the development of the initial three SCAs in PY1, followed by another three SCAs in PY2 and a seventh in PY3. The selection of suitable sites for the SCAs will be based on the IA's experience, local conditions and interest shown by potential beneficiaries in the field, but will cover one northern, one southern and an additional SCA in Djibouti itself for PYs 1 and 2. Additional SCA development will depend on the implementation performance of the first series of SCAs as well as on the judgement of the IA as to the feasibility of the development of additional SCAs in locations beyond the District capitals and national capital.

10. **International agency.** The IA will be recruited through international competitive tender carried out with IFAD's assistance. The IA will be selected on the basis of the operational experience of the IA in the development of SCA systems, preferably in sub-Saharan Africa, and on a detailed project implementation programme and financial proposal prepared for the offer and evaluated by Government with assistance from IFAD. It should be emphasized that, within the limits imposed by the project loan agreement, President's Report and Appraisal Report, the IA will be allowed a degree of flexibility to propose operational mechanisms in line with its IA's particular institutional experience that would lead to meeting the project's objectives. The IA input and presence in-country will be clearly defined and based on a continuous presence in the initial three years of implementation, followed by a gradual decline in IA input and services as national staff are trained and institutional capacity in the sector is created.

11. **IA implementation agreement.** Once selected with IFAD clearance, an implementation agreement will be signed between the IA and the PCU for a period of two years. Project resources will be made available by Government to the IA for the implementation of activities foreseen under terms and modalities specified in the implementation agreement, acceptable to IFAD. This agreement will be renewable on the basis of satisfactory IA performance, as well as an indication of no objection from IFAD for the duration of project activities. The agreement's TOR will be revised on the basis of implementation performance, as necessary.

12. **SCA development.** In PY1, following the appointment of the IA and creation of the IA Unit and PCU, necessary project and IA Unit staff will be recruited and trained. Once the project's institutional framework is in place, three suitable SCA sites (selected as per paragraph 9 above) will be selected and a publicity campaign mounted to announce the nature and terms of the proposed project approach. The SCA approach will be explained and the contribution of beneficiaries in the form of savings to the SCA will be emphasized, and a promotion committee created (with the support of local authorities). Once a sufficient number of potential members have been identified, based on of the judgement of the IA, a suitable site will be selected for the SCA offices (either rented in the capital city or constructed in District capitals). Once the SCA offices are completed, beneficiary



APPENDIX V

participation will be formalized at the time of an initial General Assembly meeting, with the election of SCA officers from the community. These officers will then be provided literacy (as necessary), management and SCA approach training. Once SCA staff are trained and have continued to hold community meetings for the purpose of explaining the SCA approach, requirements and benefits, beneficiaries will formalize their membership through making initial savings deposits. All these activities will be carried out under the supervision of the IA, and process repeated for each series of SCAs to be established.

13. **Microfinance strategy and legal framework.** The NTF will be created in PY1 with the participation of all concerned line ministries, government agencies, donors, projects involved in microfinance and private institutions interested in the development of a national microfinance strategy and legal framework. The NTF, which will meet regularly and benefit from periodic TA in the development of the strategy and legal framework, will develop and propose a microfinance strategy for adoption, as well as a detailed legal framework covering the activities of microfinance institutions as per the approaches agreed upon by Government in the context of the national strategy. The work of the NTF should be completed before the MTR.

14. **Microenterprise development.** The project will recruit and train a microenterprise specialist who, under the initial supervision of the IA, will identify training needs and organize literacy, management and technical training programmes (in general, business development services) as demanded by microentrepreneurs. Wherever possible, the facilities and capacities available in Djibouti, mainly through the IA, Pole Universitaire de Djibouti (PUD) and International Chamber of Commerce and Industry, will be used. However, provision has been made to take advantage of South-South cooperation through the recruitment of technical specialists, as required, from other developing countries.

15. **ANCEC.** As the input and presence of the IA declines in the second half of the project, its role and functions will be gradually taken over by ANCEC. The latter will be established with relevant IA Unit staff and initially financed completely by the project on a declining basis, with ANCEC operational costs increasingly absorbed by SCA contributions. By PY8, ANCEC will rely on a limited amount of TA from the IA and will be entrusted with representing the SCA network vis-à-vis Government and the donor community, identification of necessary TA for individual SCAs, administration of the project credit line, and all other activities required for the support of SCA activities.



ORGANIZATIONAL CHART

