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Republic of Djibouti

President's memorandum

Microfinance and Microenterprise Development Project

Amendment to the loan agreement

Executive Board — Ninety-seventh Session
Rome, 14-15 September 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Recommendation for approval

The Executive Board is invited to approve the amendment to the loan agreement for the Microfinance and Microenterprise Development Project in the Republic of Djibouti, as contained in paragraph 10.

President's memorandum

Microfinance and Microenterprise Development Project

Amendment to the loan agreement

I. Background

1. At its seventy-seventh session in December 2002, the Executive Board approved a loan to the Republic of Djibouti to finance the Microfinance and Microenterprise Development Project. The IFAD loan of SDR 2.75 million (equivalent to approximately US\$3.59 million) was extended on highly concessional terms. The total project cost amounted to US\$3.94 million, consisting of the IFAD loan, the Government's contribution of US\$0.08 million equivalent and the local communities' contribution of US\$0.80 million equivalent. The loan agreement became effective in November 2004. The cooperating institution is the United Nations Office for Project Services. The project lead agency at the time was the Ministry of Agriculture, Livestock and Fishing, in charge of Water Resources.

Project objectives

2. The project's overall goal is to reduce poverty throughout Djibouti by increasing the incomes of poor households through enhanced access to financial and business development services. Its main objectives are to: (i) establish sustainable savings and credit associations that would provide financial services to beneficiaries; (ii) develop sustainable non-financial services and market-based business development services; (iii) develop and adopt a national microfinance and microenterprise strategy and legal framework; and (iv) strengthen and diversify a range of income-generating activities for the target group. 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. The target group is estimated at 150,000 people, equivalent to about 30,000 households. It consists of poor people earning a living from animal husbandry, gardening and agriculture, fishing and handicrafts production, and in particular women and young people who are willing to start up productive activities on their own.

Project achievements

3. IFAD carried out a mid-term review mission in March 2009 to assess project performance and sustainability. It concluded that the main achievements of the project are: (i) the promulgation of a law on microfinance in 2007, in collaboration with United Nations Development Programme and the Central Bank of Djibouti, providing the legal framework for the credit and savings system established by the project; (ii) the establishment of the first savings and credit association in Djibouti, the *Caisse Nationale d'Epargne et de Crédit*, supported by the project in February 2008. The savings and credit association is urban-based. As of December 2008, it had a membership of 2,432 people, of whom 1,270 are women. It has mobilized US\$626,000 equivalent in savings and provided 367 loans, of which 210 to women. The credit portfolio reached US\$371,500 equivalent. Financial projections estimate that the savings and credit association will achieve operational self-sufficiency in four years.
4. In view of the high potential of the savings and credit association model for savings mobilization and credit delivery, the Government has decided to adopt this model for its delivery of financial services to the urban and rural poor. The borrowers of the *Fonds Social de Développement*, the leading microcredit organization in Djibouti, established the *Caisse Populaire d'Epargne et de Crédit*, adopting the savings and credit association model. The Government is also now promoting the establishment

of two new savings and credit associations in the rural districts of Tadjourah and Ali Sabieh.

II. Proposed amendments to the loan agreement

5. The institutional framework of microfinance in Djibouti has largely evolved since the design of the project. In 2007, the Government of Djibouti launched the *Initiative Nationale pour le Développement Social (INDS)* with the aim of distributing more broadly the dividends of economic growth registered in the country over the past four years. The INDS aims to: (i) promote access to basic services; (ii) restructure the national production system in order to create sufficient jobs and to reduce unemployment; and (iii) assist people who are vulnerable. The current world food crisis worsens the situation of vulnerable groups in the country, drastically decreasing their already limited purchasing power. The INDS, as the second generation of poverty reduction strategy papers, will ensure inclusiveness and pro-poor growth.
6. In the context of the implementation of INDS, a government entity – the General Secretariat for National Solidarity – was established under the authority of the Prime Minister, and the *Agence Djiboutienne de Développement Social (ADDS)* was created, its mandate including the promotion of microfinance development. The vision of the Government is to promote the establishment of a network of savings and credit associations reaching out to urban and rural populations. A technical backstopping team will be established within the ADDS to provide training and technical assistance to the management teams of the savings and credit associations and their governing bodies. The technical backstopping team will also be responsible for verifying and inspecting the accounts and internal control systems of the savings and credit associations. It is expected that the network of savings and credit associations, with the support of the backstopping team, will later form a federation and will also acquire an autonomous legal capacity as a cooperative organization. In parallel, the capacity of the Central Bank of Djibouti will be developed to enable it to discharge its supervision and regulatory functions.
7. The African Development Bank and the Islamic Development Bank are currently supporting the operationalization of the Government's vision for the development of microfinance in the country. The African Development Bank will finance technical assistance to the Central Bank of Djibouti on supervisory and regulatory aspects, whereas the Islamic Development Bank is providing credit lines to the ADDS for on-lending to the savings and credit associations. The Government has called on the IFAD-funded Microfinance and Microenterprise Development Project to finance the staff and operational costs of the technical backstopping team and the capacity-building of the savings and credit associations. The Government is financing the operational deficit of the savings and credit associations until they reach operational self-sufficiency.
8. The amendment of the loan agreement is therefore required to align the Microfinance and Microenterprise Development Project with the national programme and the Government vision for the development of the microfinance sector. The main amendments consist in the transfer of the management of the Microfinance and Microenterprise Development Project to the ADDS, the allocation of remaining funds under the loan to the financing of the technical backstopping team and capacity-building of the savings and credit associations, and re-evaluating the Government contribution to the project. A table showing the revised project financing plan is provided in the annex. The amendment has been endorsed by the United Nations Office for Project Services.
9. The loan will be provided to the Republic of Djibouti under the same terms and conditions as those approved by the Executive Board in December 2002. The project objectives, area and target groups will remain as described in the project design

report and the loan agreement. The specific amendments to the loan agreement are as follows:

(a) **Project implementation.** The project will be managed by the *Agence Djiboutienne de Développement Social* (ADDS) under the overall responsibility of the General Secretariat for National Solidarity.

(b) **Project description.** The project comprises the following three components:

Component 1: Capacity-building and strengthening in microfinance. The two main outcomes of this component are: (i) the technical backstopping team, in collaboration with the microfinance department of the ADDS, provides effective support for the development of the network of savings and credit organizations; and (ii) the federation of the credit and saving groups is created and operational.

Component 2: Microfinance and microenterprise development. The main outcome of this component is the extension and consolidation of the network of saving and credit associations, which will be achieved through: (i) capacity-building and management training for the managerial staff of the credit and savings associations; (ii) equipping the savings and credit associations with a computerized and standardized management information system; and (iii) establishing savings and credit associations in the rural areas.

Component 3: Project management and coordination. The lead agency is the General Secretariat for National Solidarity. The coordination, planning and programmatic functions will be undertaken by the ADDS. The role of the project steering committee will be undertaken by the executive board of the ADDS.

(c) **Project special account:** the Director for External Financing of the Ministry of Economy, Finance and Planning, in charge of Privatization, and the Director of the ADDS will be authorized to manage the project special account.

III. Recommendation

10. It is recommended that the Executive Board approve the proposed amendment to the loan agreement of the Microfinance and Microenterprise Development Project.

Project financing plan

<i>Financing source</i>	<i>Original planned amount (millions of US dollars)</i>	<i>Planned percentage</i>	<i>Mid-term review revised amount (millions of US dollars)</i>	<i>Percentage</i>
IFAD	3.597	91.2	3.597	40.7
Government ^a	0.168	4.2	1.090	17.9
Other donors	0.101	2.6	0.101	40.8
Beneficiaries	0.079	2.0	0.079	0.6
Total project costs	3.944	100	4.867	100.0

^a The contribution from the Government has increased as it will be financing the establishment and running costs of the savings and credit associations until they reach operational self-sufficiency.

