

Republic of Djibouti

Microfinance and Microenterprise Development Project Project Performance Assessment

Executive Summary

1. **Background.** The independent Office of Evaluation of IFAD (IOE) has undertaken a project performance assessment of the Microfinance and Microenterprise Development Project (PDMM) in Djibouti. The objectives of the assessment were to provide an independent review of the performance and results of the project; and formulate conclusions and recommendations for the design and implementation of ongoing and future interventions in Djibouti. This assessment was based on a literature review and fieldwork in March-April 2015 that consisted of interviews and discussions with key stakeholders, including beneficiaries.
2. **The project context** was characterized by the absence of both a microfinance strategy/policy and a regulatory framework for microfinance development in the country. Moreover, no sustainable decentralized financial structure has been installed. The microfinance sector in Djibouti was limited in scope, with isolated experiences of microcredit. The PDMM objectives were to: (i) establish a viable network of credit and savings banks (CSBs); (ii) implement sustainable non-financial services and business promotion services; (iii) formulate a national strategy and legal framework for microfinance and microenterprise; and (iv) strengthen and diversify income-generating activities among the target group. The project consisted of three components – institutional capacity-building, microfinance development and microenterprise promotion, and project management and organization. Initial total project cost was US\$3,944,000, with funding by IFAD of up to 91 per cent, the United Nations Development Programme cofinancing (4 per cent), a Government contribution (3 per cent) and the beneficiaries (2 per cent).
3. **Project performance.** The PDMM was **relevant** to the institutional context of microfinance and of microenterprise promotion, consistent with Government strategies, IFAD priorities and strategies, and the expectations and needs of the beneficiaries, especially women. The project creates a dynamic of dialogue and partnership between Government agencies, technical and financial partners, and local institutions. However, relevance was moderate in relation to the management of CSBs (credit policy), the approach to profitability and value chain, and microenterprise promotion.
4. In terms of **effectiveness**, the project has established a network of CSB targeting vulnerable beneficiaries and has mobilized several donors, including a substantial contribution from the Government. Achievement rate was high and disbursement of funds exceeded the projections of the design report (nearly 1.9 times). However, the effectiveness of support to microenterprises and non-financial services has been unsatisfactory. Furthermore, the lack of an apex organization has produced confusion between governance, management and support of CSB. The three-year delays between loan effectiveness and the actual start of the project, as well as loan disbursement delays by CSBs to clients, have jeopardized the operations of the PDMM.
5. In terms of **efficiency**, not all CSBs have been profitable. The shortcomings in the management of CSBs have led to an increasing deterioration of the portfolio. The net margins of the activities funded by the CSBs showed that their contribution to

income generation has been significant for project beneficiaries. These margins showed how the opportunities to increase products value have been tremendous. The cost-benefit analysis showed that economic rate of return, net present value and the benefit-cost ratio have been satisfactory and that the PDMM has been worthy. Thus, project performance is fairly satisfactory.

6. The project's **impact** on household income and assets was positive mainly because of the increase in membership in CSBs, the volume of savings and loans granted the diversification and expansion of activities, and the improved income and living conditions of CSB clients. Respondents pointed out their satisfaction with CSB services, although they expressed dissatisfaction with some weaknesses in CSB credit policy and operations.
7. In terms of human and social capital, the PDMM strategy contributed to the development of local community structures and the inclusion of beneficiaries by microfinance institutions. The momentum generated by the PDMM allowed mobilizing savings and credit. However, the governance bodies and CSB management still have some way to go for further empowerment of project beneficiaries. Likewise, the shift from associations to financial cooperatives undertaken by the project was fast.
8. The PDMM has had an obvious impact on the development of the microfinance sector in Djibouti, both strategically and operationally. This impact has allowed an ongoing political dialogue with the Government as well as with technical and financial partners. The impact on human and social capital and empowerment as well as on institutions and policies is satisfactory.
9. The project's **sustainability** has been evidenced through the development of a microfinance strategy, a series of legal texts, and the involvement of national and international partners. The creation of cooperatives and associations, solidarity groups, and CSB governing and management bodies has been an assurance of sustainability. While some cooperatives have reached a certain maturity in terms of operational autonomy and management, others were still vulnerable. Financial sustainability has been problematic because of the importance of state subsidies, the low profitability of the portfolio and low operational and financial autonomy, and the continued increase in operating expenses. Sustainability is considered moderately satisfactory.
10. The Microfinance Development Project and micro business (PDMM) helped the beneficiaries to start changing their attitudes toward credit and savings with respect to development actions. Therefore, the evaluation considers **innovation** moderately satisfactory. In terms of women's empowerment, CSBs' customers have been predominantly women who have subsequently achieved financial autonomy and contribute to decision making within the family and the community. The PDMM has strengthened women's involvement in CSB management through training, information, advocacy and technical assistance. Thus, the evaluation considers this criterion as satisfactory.
11. The **performance** of IFAD and the Government is considered moderately satisfactory because of the turnover of country programme managers (CPMs), the inadequate contribution of the Ministry of Agriculture, the limited involvement of the Project Steering Committee, and the weak performance of microfinance private operator.
12. **Overall performance of the project.** The PDMM contribution is important in terms of reform of the microfinance sector in Djibouti, particularly through the adoption of legal texts and strategies, and partnerships with institutions specialized in microfinance. The project has advocated for an inclusive approach that has promoted women's participation in decision-making regarding the governance of CSBs. However, the delays in project start-up impeded the operation of the project.

Sustainability has been hampered by human resources constraints of CSBs, the absence of an apex structure, the continued importance of subsidies, weak profitability of the portfolio and weak CSB operational and financial autonomy. PDMM performance is considered moderately satisfactory.

13. **Recommendations.** Below are some key recommendations for consideration by IFAD and the Government:
- **CSB financial sustainability.** Interventions should focus on strengthening the CSBs so that they can better serve the target group. Capacity-building of the CSBs should be conducted through training, establishing realistic business plans and exchanging experiences on good practices in microfinance and microenterprise. Several factors can ensure financial sustainability, particularly a more framed credit and savings policy, and a more effective communication strategy. Similarly, it is necessary to diversify the financial and non-financial products of CSBs such as micro-insurance and equipment loans, especially for productive value chains. The organization of the CSB network should be gradual before reaching an autonomous apex organization whose legal form should be determined by the CSBs, the Government, the private sector, farmers' organizations and international ethical funds. IFAD needs to continue to invest in microfinance and microenterprise because of its pioneering role in this sector, the interest shown by the various PDMM stakeholders, and the response to social demand of the poor.
 - **Credit and savings policy.** The policy needs to be revised to have flexible and effective prudential rules in order to prevent client dropouts, encourage potential loan applicants and promote financial inclusion. Similarly, savings should be encouraged in areas where the penetration of financial institutions is very low.
 - **Sustainability of income-generating activities (IGA) and microenterprises.** To direct loans to IGA and microenterprises linked to production sectors such as fishing, a pro-poor value chain approach should be encouraged. Cost-effective micro-enterprises that monitor production and marketing processes should be developed, especially for women's groups. Adequate support for IGA/Micro-enterprises is to be initiated in terms of HR, advisory support, training, and information of clients on promising markets. The awareness and communication campaigns to encourage savings towards CSBs must be differentiated by targeted clients. The scope of CSBs must be expanded to cover more beneficiaries and increase the supply of diverse financial services. Moreover, the structural investments made in the PDMM areas (port, railway, and road) should allow the creation of IGA/Micro-enterprises that will use the CSB services.
 - **Socio-organizational aspects.** The approach used by the PDMM to coordinate activities by a light managerial structure is to be replicated. This structure should look primarily to strategic and programming aspects and strategic partnerships to ensure sustainability. But the coordination of all activities related to microfinance and microenterprise should be strengthened and institutionalized. Viable solidarity groups should be developed in an endogenous and gradual manner to avoid any risk of implosion. Similarly, the grouping of structures (associations, cooperatives) should be gradual.