SUM Technical Review Mission
Republic of Djibouti

Strategic review of existing UNDP-Social Fund Microfinance Operations

September 2001

Reda Mamari, with the collaboration of Racha Chahine
in cooperation with SUM/UNCDF

Table of Contents

Background

DJI/99/Z01/A/9W/31 is a preparatory assistance project launched by UNDP in partnership with UNICEF, UNFPA, AGFUND and the Social Fund for Development (SFD). The main objective of this project is to contribute to poverty alleviation through the support of income generating activities. Specifically the project aims to establish a system of solidarity lending that will provide small scale, short term loans to support the activities of poor women entrepreneurs operating in the informal sector. By supporting one NGO in each district (3 in the capital) the project aims to create a network of sustainable microcredit operators that may eventually provide national coverage.

The purpose of this consultancy, undertaken from the 25 August to 2 September 2001 was:

1. To review the state of UNDP supported microfinance activities in Djibouti and its prospects for sustainability.
2. To review the institutional arrangements (including funding modalities) under DJI/99/Z01/A/9W/ and its effectiveness for providing the necessary financial and technical support to partner institutions
3. Propose a strategy for UNDP's continued support to the microfinance sector in Djibouti making specific recommendations regarding project expansion/reformulation.
4. To contribute to inter country learning through the dissemination of lessons learned and the spread of best practices.

The consultants would like to thank the team at UNDP-Djibouti and at the Social Fund for Development for their kind assistance and support, especially Omar Habib, Ahmad Araita and Hussein Ismail, without whom we would not have been able to undertake the necessary work.

Summary of Recommendations

	Review of National Strategy	**Time-Line***
1	The SFD must capitalize on its existing strength in order put together a coherent microfinance strategy	Phase one
2	The SFD has to lead the way in the development of a national strategy that is based on "best practices"	Phase one
3	A national microfinance survey must be undertaken,	Phase one
4	SFD should clarify its own vision and mission for the field of microfinance in Djibouti. What does it hope to see in 10-20 years?	Phase two
5	a viable long-term strategy (what could be termed a "Business Plan") should be put in place for the field of microfinance.	Phase two
6	the SFD should put in place a plan for communicating this strategy to the partner NGOs.	Phase one

	Review of National Strategy	Time-Line*
	Institutional capacity of Partner NGOs	
7	If the SFD's strategy is to implement small-scale operations in a project oriented manner, appropriate development plans need to be put in place to strengthen the existing partners.	Phase three
	Funding agreement between SFD and NGOs	
8	The contracts signed with the NGOs should reflect a long-term strategy for the partnership with the NGOs	Phase three
9	A simpler method for cash advancement should be designed	Phase three
10	Institutional development objectives that must be reached by the NGOs should be added to the contract	Phase three
	Technical Assistance of SFD to NGOs	
11	A detailed training plan should be developed for the staff of the organizations.	Phase one
12	Staff should be taken through a complete training course in microfinance	Phase one
13	followed by significant and sustained field training and follow-up.	Phase one
14	The accounting methods used by NGO staff need to be reviewed by an Auditor	Phase one
15	reports by NGOs to the SFD should be prepared not on a bi-monthly basis but on a monthly basis, and they should be supplemented by weekly reports	Phase one
16	SFD should groups together the staff of the NGOs for monthly meetings so that they may share their ideas	Phase one
	Product review	
17	It is recommended that a working group be established with the partner NGOs and all other concerned parties to review the product recommendations made in Annex one	Phase one
18	The interest rates charged should be reviewed urgently	Phase one
	MIS	
19	The following should be estimated in order to take the necessary decision for the completion of the MIS- Date for completion, Total cost of system to meet existing needs and Cost of future modifications	Phase two
20	Based on the above the SFD should review the possibility of purchasing a simple MIS that is already operational elsewhere.	Phase two
21	If the SFD continues with the coding it should fix a clear date for the completion of the system and establish a detailed plan for the completion and deployment The SFD should also seek help in the design of the system	Phase two

* The time-line is only indicative. The phases proposed for the national strategy must take the lead, with the other recommendations following.

Review of National Strategy

Strategy of SFD

Overview of the SFD

The Social Fund for Development (SFD) is a Government body established in 1999. Its main objective is poverty alleviation, through a multi-sector approach. In effect, the SFD has five main departments. These are:

- Microfinance
- Capacity Building
- Infrastructure
- Promotion and follow-up
- Accounting and Finance

The Fund's mandate is to operate across the territory of Djibouti with a focus on the poorest areas. The Fund may not execute its own projects, and must work with partner organizations that will be funded by the SFD in order to implement the necessary work.

The SFD has received a ten million dollar soft loan from the African Development Bank, of which three million have been earmarked for microfinance.

SFD Human Resources

The fund is managed by a Director (appointed by the government) and a Manager heads each of the aforementioned departments.

A review of the relevant Job Descriptions shows that the Director is responsible for day-to-day management, supervision of project implementation, management of accounts, report writing and project selection.

The Manager of the Microfinance department is responsible for coordinating all the various microfinance activities, selecting partner organizations, managing the relationship between micro-credit partners and the SFD and follow-up of the work and performance of partners. The present manager has been trained as an accountant and was previously a teacher. He has no previous microfinance experience and has received limited training in

the domain. He is consequently acting more as an administrator of the programme as opposed to a manager.

The Manager of the microfinance department has an assistant. We were unable to meet her as she was on annual leave and no job description for her position was seen.

No job description reviewed included any element related to strategic planning.

SFD and Microfinance

As previously mentioned, one of the major elements of the SFD's poverty alleviation strategy is the implementation of microfinance operations across Djibouti.

Little, if any, market information is available on micro-enterprises in Djibouti. The country's economy is nearly exclusively based on trade and services, and very small female-based micro-enterprises are in evidence. Having said that, few estimates of the demand for microfinance services exist. A study of specific productive sectors (restaurants, hair-dressers, taxis, mechanics etc.) has been undertaken, but does not include the number of small and micro-enterprises in the country, their location, needs, capacity to repay etc.

It is in this analytical vacuum that microfinance operations at the SFD have been split into two programs. One, entitled "Micro-Credit" focuses on the delivery of small, stepped loans to groups of women micro-entrepreneurs, and the other entitled "Micro-Enterprise" focuses on individual loans to micro and small entrepreneurs, men and women.

The Micro-Enterprise programme has not yet been launched, and is in the process of being designed (during the time of our visit, a consultant from the African Development Bank was present, designing the Micro-Enterprise programme).

The partnership between UNDP and the SFD is focused on the "Micro-Credit" programme, for which the SFD has allocated in the first phase USD 200,000 (matched by UNDP one-to-one).

SFD's Micro-Credit Strategy

The SFD's micro-credit programme has been largely inspired by a previous Caritas programme that was implemented in Djibouti (see Annex two). This relationship between the SFD and Caritas was embedded in the preparatory document for the loan between the African development Bank and the Djibouti Government. The document identifies the Caritas model as the one to follow for microfinance in Djibouti. There are no clear explanations why this model was selected, except the fact that it was the only one being implemented at the time in the country.

It is interesting to note that over the past year, the SFD's programme and partners have taken resources over from Caritas, as the latter has wound operations down and the SFD has grown its programme.

The SFD's programme is implemented through a series of local NGOs. Each NGO has been allocated a distinct geographical area of operation, and the said objective of the SFD is to render the NGOs autonomous and self-sufficient.

The SFD has put in place a uniform institutional strategy across the country no matter if the operations are in sparsely populated rural areas or dense urban areas. What is clear is that urban operations are largely motivated by a large-scale client need while rural operations are motivated by the SFD's mandate to be national in scope and to be operational in all of the country.

Having said that, it is unclear what the SFD's long-term strategy is in the field of microfinance, and what is their exact vision of the partner NGOs in 5-10 years time. Except the idea of having self sustained organizations it is not clear if these institutions will grow to be national in scale, or if there will be an umbrella organization that will group all of the NGOs together; it is not clear if the NGOs will offer a multitude of financial services or just the existing product etc.

This lack of vision is in part due to the SFD's lack of understanding of its role over the longer term. In some discussions it is understood that the Fund would like to see itself continuing its microfinance operations beyond the existing five year ADB programme, but is unable to define how. This question is made more difficult to answer due to the SFD's multi-sector nature, and the fact that all of the sectors except microfinance are expense oriented. In effect, if there are no more donor funds in the future, will the SFD be exclusively focused on microfinance? If there are more donor funds, how will this donor-driven approach of the fund be in-tune with the self-reliance needed for microfinance?

Moreover, the self-imposed distinction between "micro-credit" and "Micro-enterprise" is not totally clear and raises more questions than it answers. Is it based on a market-defined segmentation, on a developmental ideology or maybe on a product incompatibility? What is the impact of this strategy on the present NGO partners, both in the short term and in the longer term? Will the existing NGOs implement the new "micro-enterprise" programme? If not why not, and will they generate enough volume from their "micro-credit" programs to achieve their objectives over the long run (taking into consideration the possibility of a client flow away from them and towards the other programme). If the present NGO will implement the "micro-enterprise" programme do they have the capacity to do so and can they be assisted to reduce any shortcomings?

Recommendations

The SFD must capitalize on its existing strength in order put together a coherent microfinance strategy. These strengths include its national scope, considerable budget,

the political will that exists to implement a successful operation, the early stage of operational development (and thus the capacity to change easily), and the fund's understanding of the dangers of subsidy and the importance of financial sustainability (a strength that is rare and must be commended).

Following the failure of the Djibouti Development Bank, there is an extensive political will to create something new and successful; an institution that will rise to the developmental challenges of the 21st century. The lack of clear direction and strategy on the part of government officials is understandable given the early stage of development of the microfinance field in Djibouti. The SFD has to consequently seize this opportunity to lead the way in the development of a national strategy that is based on "best practices", and to use its advantageous position to raise awareness at a government level in order to turn this strategy into a reality for the people of Djibouti.

It is furthermore clear that the development of a coherent strategy will allow to SFD to leverage its existing funds in order to raise additional capital from donors. The Agence Francaise de Developpement, for example, has voiced its interest in participating in a successful venture that will offer financial services at a national level. The AFD, which has lost money in the failed Djibouti Development Bank, has placed the onus on the SFD to develop a convincing and novel strategy, and to prove itself on the ground.

The small size of the country makes it extremely important to have clear and well-defined market information. Market segmentation (men-women, size of business, location, presence of collateral etc.), needs (products, capacity to repay) and volume (clients and loan value) are a key to establishing a viable long-term strategy. The 600,000 population of the country means that nothing must be taken for granted in terms of market understanding; a knowledge that should be relatively easy to acquire in Djibouti.

Once that has been established, the Social Fund must decide if it is to be service or programme oriented. Does it want to establish operations that will grow with the needs of the clients or does it want to impose products and ideas on its target beneficiaries. In fact, it is key for the SFD to clarify its own vision and mission for the field of microfinance in Djibouti. What does it hope to see in 10-20 years?

Once the two aforementioned prerequisites have been defined, a viable long-term strategy (what could be termed a "Business Plan" given the small size of the country) may be put in place for the field of microfinance. It is only then that the distinction between "Micro-Credit" and "Micro-Enterprise" can be placed within a national context of implementation; it is only then that the uniform urban-rural model developed can be adequately evaluated, and the national obligations of the SFD can be in-tune with the long-term objectives of the programme. In effect, an adequate institutional model can then be defined that will meet the SFD's wishes not only in the short term but also in the long-term.

Lastly, it is clear that the SFD has existing obligations on the ground with regards to the operations that have been launched in the context of the "Micro-Credit" programme.

Loans have already been disbursed and contracts have been signed with partner NGOs. The duration of the contracts is not clear, but revolves around the one year period (the loans are to be paid back within 14 months but the operational subsidies are for 12 months)

This gives the SFD a window of about 9 months before the first contract signed ends (with ACP, a partner NGO, which started operation at the end of May). This time should be used by the SFD in order to clarify its strategy and it plan vis-à-vis the existing operations (after that period, the existing contracts will have to be reviewed). It is therefore recommended that the SFD continues with the existing programme in the short term, improving operations by implementing the recommendations suggested below, (section "Detailed Review of Existing Operation". The money already obligated to the partner NGOs should be disbursed, but limited additional funds should be loaned until the national strategy is put in place.

Note that the SFD should put in place a plan for communicating this strategy to the partner NGOs. Not informing them of anything will lead to confusion, frustration and lack of trust, whilst too much information may lead to the creation of a sense of insecurity and a drop in motivation.

Relationship of UNDP with SFD

UNDP is the only institutional partner of the SFD. The two organizations have partnered in order to implement the programme of "Micro-Credit" across Djibouti.

UNDP has matched the SFD's funding to the tune of USD 200,000. These funds are earmarked for technical assistance, institutional support (for the partner NGOs) and loans capital. A Project Document was signed between UNDP and the Djibouti government in July 2000 (operations started in September 2000). The project duration was set at one year (see Annex XXX for details).

So far, the main input of technical assistance by UNDP to the SFD has been the recruitment of a full-time Coordinator for the project. This position, funded for a one-year period, was originally filled in September 2000 by an expatriate. Since July 2001 a local consultant has replaced the expatriate. The Coordinator is responsible for:

- Training the local NGOs in microfinance best practices
- Follow-up of each NGO and report to partners on their progress
- Develop necessary training plans
- Raise awareness with local partners about microfinance
- On-the-job training of SFD staff in the management of UNDP projects and in microfinance,
- Establishing a Coordinating Committee comprised of all the partners of the programme. This Committee is to take-over the coordinating role after the departure of the Coordinator.

It is important to note that the SFD is extremely appreciative of the assistance offered by UNDP, not so much for the money infused by UNDP, but for the moral and technical support that it offers. In effect, UNDP is seen as an important link for the SFD to the outside world, especially in the domain of microfinance.

Observations

The major link between UNDP and SFD is the position of Coordinator. The following observations are made with regards to this position:

- There seems to be some dissatisfaction by many involved, in the recruitment of the previous expatriate Coordinator; a Canadian with little experience in microfinance or project management,
- There is lack of clarity on paper in the terms of reference of the Coordinator, especially with over-lapping with the SFD's Programme Manager. On the ground, this over-lapping is all too obvious and is creating both inefficiencies and lack of accountability. It is unclear who is responsible for the training on the field of the NGOs in the domain of microfinance and more importantly who is responsible for the management over-sight of the NGO's operations.
- There is no vision of continuity in the tasks undertaken by the Coordinator. Will the position be renewed? If not, does the SFD have the capacity to continue with the work? The Coordinating Committee has not yet been established, and it is furthermore clear that many of the tasks undertaken at the moment by the Coordinator cannot be done by a Committee (especially TA to the partner NGOs)
- The present Coordinator is extremely dynamic and motivated, but has had little exposure to microfinance. His experience is more in the domain of management (he is seconded from the Office of Employment, where he was the Director) and this is reflected in his emphasis on institutional development of the NGOs as opposed to microfinance assistance to the institutions on the field

The UNDP project will end in September 2001 (one year after the start of project implementation). Of the total $200,000 only about 80,000$ have been spent so far, and there does not seem to be a clear idea with regards to the continuation or extension of the programme. Implicit to discussions held is the idea that a "no-cost" extension of the project will be requested, keeping the project outputs and inputs the same as previously planned. Having said that, it seems that UNDP-Djibouti is amenable to a change in strategy.

Recommendations

SUM (the Special Unit for Microfinance within UNCDF) is a recognized center of excellence for microfinance within UNDP, it provides Country Offices with a range of technical advisory services on a cost-recovery basis. Its continued support could involve, but is not limited to:

- Drafting and finalizing terms of reference (for both the mapping and visioning exercise as well as for any technical assistance contracts)
- Assisting with the identification of consultants and/or an international microfinance organizations
- Technical review of project documentation (e.g. market surveys, national strategy paper, workplans, semi and annual reports, etc.)
- Review and analysis of MFI quarterly and annual reporting
- Facilitation of staff training opportunities through SUM regional and global workshops

Within this context it is recommended that UNDP focus on its competitive advantage, which is to offer technical support to the SFD. As previously mentioned, the Fund is extremely appreciative of the support offered by UNDP, especially as it gives the fund essential access to a world of knowledge that is not existent for the time being in Djibouti.

In effect, if the SFD accepts the aforementioned recommendations, it is suggested that it works closely with UNDP to put in place a package of technical assistance. It is suggested that a two-staged approach be taken to the provision of TA.

In the first phase TA should be supplied in order to undertake a national market survey of micro-enterprises and to facilitate the necessary dialogue in order to establish a national microfinance strategy.

Once this strategy has been set, a second phase of assistance could be designed in order to help the SFD put in place on the ground the required institutional and operational elements needed.

It is recommended that each phase be contracted to competent international microfinance organizations and not individual consultants. This will allow more continuity on the ground, something essential given the lack of free resources at the SFD and UNDP-Djibouti.

It is also recommended that the company selected for the first phase be versed in various loan methodologies and institutional models. This is important, as they will play an important role in animating a national dialogue for the development of a Djiboutian Microfinance Strategy. The chosen road must be selected by the People of Djibouti with no imposition of a fixed model by a consultant. The consultant's role would be to expose to local parties the pros-and-cons of each solution in the short term and long-term and to creatively challenge people's ideas in order to stimulate their thinking.

If the SFD does not accept the strategic recommendations detailed above, it is recommended that UNDP does not invest further funds in the programme as its long-term financial and institutional sustainability is unclear.

Institutional capacity of Partner NGOs

At the heart of any microfinance strategy are the institutions that will deliver the loans and other financial services to clients.

Four out of the five participating NGOs were visited during the consultancy. These include Union des Femmes de Djibouti (UNFD), Action contre la Pauvrete (ACP), Association des Femmes d'Obock (AFOD), and DJI-AID. The first two operate in the urban area of Djibouti city while the later two operate in the rural areas of Obock and Tadjoura.

It is important to note here that in general NGOs in Djibouti do not seem to have significant experience, size or depth. Most organizations that exist have developed in response to specific donor projects and tend to live and die as a function of project cycles; In fact few have been around for very long, and most tend to be fully staffed by volunteers. There are off course exceptions and these include el Hibri, a large Islamic organization that is well respected, and UNFD which was created in 1977 (see below).

As a point of reference it is interesting to note that the largest NGO in Djibouti in terms of sustained budget, is ADPF, which is specialized in family planning. They have an annual budget of 30 million FJ (170,000 $). It was created in 1994 and has a large permanent staff.

Institutional Structure of NGOs

All NGOs participating in the SFD programme are rather similar in nature and operation, with the exception of UNFD. They are relatively new organizations that have very weak institutional structures. They are managed by a volunteer Board, and have at most two salaried staff (only due to the SFD programme). In effect it is difficult to really talk of an Institutional Structure for these NGOs as there is really no structure to talk of at all. The NGOs are effectively one or two women who have institutionalized themselves.

ACP

A very dynamic and ambitious woman, Gomati, who used to be a credit agent in the Caritas programme, heads ACP. She has recently established her NGO and effectively works alone. She has an assistant (who was on maternity leave during our visit), whose role in the organization is not clear. In fact, Gomati, the President of the Board, is responsible for all activities within the organization (group creation and follow-up loans repayments and disbursement, accounting, relations with the Bank and partners etc.) She works from a room in her home that she has set-up as an office, having installed the computer and printer donated by the SFD.

The institution is operational in the dense neighborhood of Hay el Ibli, a suburb of Djibouti city. Its objective is to expand its operations across the urban sprawl that is Djibouti city, targeting what it perceives to be the largest market of micro-enterprises.

ACP was created after the launch of the SFD programme, and its President, Gomati has no previous experience in project management.

AFOD

AFOD an NGO established in 1998. It is marginally involve in non microfinance programs (sewing classes, artisan production etc.), but has been rather dormant until the emergence of the SFD programme.

The institution's operations are focused on the city of Obok. The city is in a rural area on the northern cost of the Bay of Tadjoura, an area that was heavily affected by the civil war of the early 90s. Estimates for the population of Obok city vary between three and five thousand people, with an additional five thousand people living in the Obok district (that spreads all the way to the Eritrea border).

Similarly to ACP, the institution has limited human resources. The Secretary General of the organization manages the credit programme with her daughter being the Credit Agent and the daughter of her cousin being the accountant (and part-time Credit Agent).

The institution has for the time-being no offices and shares a space within the local office of UNFD, where they have placed the computer equipment donated by SFD (it has been in place for one month and is still not being used).

It does not seem like the institution has any previous project management experience.

UNFD

UNFD is a large NGO that is presided by the wife of the President of the Republic, who created the organization in 1977.

The organization manages numerous projects across the development arena. These include Kindergartens, environmental projects, health clinics, income generating activities for women, and recently micro-credit (with the advent of the SFD programme).

The organization is staffed by civil servants that have been seconded from their jobs in government ministries and agencies. The only paid staff work within the microfinance project. The staff allocated to the project are one supervisor (who also acts as a Credit Agent), one accountant and another Credit Agent.

The supervisor of the microfinance unit was previously a teacher and in the absence of the Secretary General of the organization is responsible for oversight of the whole institution. She has no previous microfinance experience and seems to have little interest in doing field work (she had never been to the institution's area of operation prior to the start of the project). The other credit agent used to work with Caritas on their microfinance project.

The organization has had previous experience in dealing with donors, having managed programs with the African Development Bank amongst others.

The UNFD has an independent accounting department and a Secretary General who is present on a full-time volunteer basis and is responsible for day-to-day management of the organization.

Human capacity of NGOs

A motivated staff that is determined to make a success out of the microfinance project staffs the NGOs visited.

It seems that the staff present in the organizations have on the whole the capacity to be extremely capable field staff given adequate training. The odd exception may, after the accumulation of significant experience, be able to hold junior management positions. None of the staff met at the partner NGOs have the capacity to manage large-scale microfinance operations at a Senior Manager or Director level.

Recommendations

It is clear that the partner NGOs in the SFD's programme are at present very weak. Even though they are able to manage operations at the moment, their capacity to significantly grow is on the whole limited. The lack of experience, institutional structure and human resources are the major weaknesses of the partners.

Given that the stated objective of the SFD is to deliver loans on a national level, with institutional development being a bi-product, (as opposed to the opposite), it is difficult to see if the partner NGOs will be able to grow at the required pace to keep-up with demand from clients. It is furthermore assumed that the SFD will not delay disbursement of loans due to the slow development of the partner NGOs.

An important aspect of microfinance must clearly be stated here. It becomes exponentially more difficult to manage a portfolio that grows in a linear manner. Moreover, once institutional weaknesses start having an impact on the quality of a small part of the portfolio, a snowball effect is created that may lead to deterioration of large parts of the portfolio. Institutional strength must therefore always be one step ahead of the requirements.

Given the above, it is recommended that the SFD established its long-term strategy as soon as possible. If this strategy is to involve large-scale national microfinance operations, it is recommended that the microfinance operations of the present NGOs be fused into one large institution, with a solid management structure. If the SFD's strategy is to implement small-scale operations in a project oriented manner, appropriate development plans need to be put in place to strengthen the existing partners.

Detailed review of existing operations

Funding agreement between SFD and NGOs

All partner NGOs sign a contract with the SFD. This contract details the funding agreement between the two parties along with the reporting requirements of the NGOs.

The funding agreement is limited to an immediate projections of loan disbursement by each NGO (i.e.: how many loans do they plan on disbursing in the eight weeks after signature of the contract). The loan capital is loaned to each NGO, who is obliged to reimburse the loan to the SFD after 4 months, in weekly installments, that are equivalent in value to the weekly installments due form clients to the NGO. The NGO also pays the SFD an interest of 3% (declining balance) per year for the loan capital. This interest is paid on a monthly basis after the four months grace period.

The contract between the two parties stipulates that the NGO may apply to the SFD for further funding once its clients have completed their repayments in full (max. after 30 weeks). The NGO is to present a proposal and on this basis the SFD is to advance the requested funds to the NGO.

The staff of the SFD with the help of the previous Coordinator established the aforementioned set-up. In the eyes of the SFD, the purpose of this set-up is to hold the NGOs accountable and to ensure money is not lost.

The SFD is not clear if it intends to change the present arrangement over time. Do they want to give grants to the NGOs in the future or maybe change the terms of the loans? They suspect that something will need to change but cannot specify what.

Observations

It seems that the funding agreement specified in the contract is not implemented by the SFD. In effect, the contract stipulates that the SFD is to give each NGO the full amount requested for disbursement to its projected number of clients for the eight weeks following the signature of the contract. Given the present methodology whereby loans are disbursed first to half the group and after 8 weeks to the second half, the NGO is to keep

in its bank account half the money advanced by the SFD until the second half of the group is ready for disbursement. In fact, at the moment the SFD is only advancing to the NGOs half of the requested amounts, and only upon receipt of a request by the Ngo and a submission of relevant reports is the second half of the funding transferred to the NGO. The only NGO to have so far benefited from the second disbursement of funds ACP has complained that delays by the SFD have meant that clients have not received their loans promptly even though their colleagues in the groups have made prompt payments.

It is interesting to note here that the SFD has requested that the NGOs produce their first report after two months. This report is to serve as a prerequisite for the authorization to deliver the second round of loans to waiting group members. As it happens, eight weeks is less than two months, leading to an in-built delay for clients (not least if we factor the time needed for the reports to be reviewed and payment to be approved).

Furthermore the contracts signed have no detail of the TA that the institutions will receive and a benchmark of institutional development that they are expected to reach

The present set-up consequently:

- Allows for unnecessarily complicated cash-flow management. In effect, as detailed in Annex XXX, a projected model produced by the SFD, the present contract implies that money remains idle with the NGO for long periods of time (essentially caused by the 4 months grace period, and the fact that NGOs are not allowed to use loan re-flows to issue new loans).

- Does not seem to add the required value in terms of reducing the risk to the SFD for mismanagement by the NGOs. In effect, if an NGO mismanages the funds, the SFD has very little recourse to recuperate its money. The NGO's present financial and institutional weaknesses leave the SFD with few options to recuperate its money in case of mismanagement. It can only cancel plans for future cooperation and hope for the best with regards to money already advanced.

- Induces short-term thinking on the part of the NGOs. They at most have the incentive to think as for as the next funding round and are not encouragement to think of themselves as part of a long-term process of development

Recommendations

The contracts signed with the NGOs should reflect a long-term strategy for the partnership with the NGOs. It is therefore very important to establish this strategy at the onset. Based on this strategy, the present contract must be reviewed to include:

- A simpler method for cash advancement. The present system does not seem to yield much value-added and can only cause confusion. The long-term strategy

will allow the SFD to decide if it wishes to offer grants, ballooned loans or lines of credit to the partner NGOs

- Institutional development objectives that must be reached by the NGOs. They may include the creation of a certain type of Board, development of business plans, recruitment of staff etc.

Note that one may choose to link specific types of funding to the attainment of institutional development objectives. If this is to be done it is important that the terms of the conditionality be clear up-front.

Technical Assistance of SFD to NGOs

The support offered to the partner NGOs by the SFD is to have numerous facets. These include:

- Provision of computer equipment and software (accounting and loan tracking)
- Technical training in the use of the software
- Technical training and supervision in microfinance
- Training in financial planning and management
- Payment of the salaries of staff, up to a total value of 70,000 FD per month.

As for the NGOs, they are to present reports to the SFD every two months. These reports should detail all of the NGO's activities in the past two months, the NGO's bank statements and details of any problems that the NGO may have encountered.

Observations

The support offered to the NGOs by the SFD does not seem to fit within a well defined plan or strategy. To date, most of the training offered by the SFD to the NGOs has been in the fields of accounting and financial planning, and in the use of the computer software used.

A detailed review of the accounting methods used by one NGO have shown a lack of understanding of basic accounting methods. Loan repayments are collected by the NGO from client and after a number of days are deposited in the bank. In effect, the date of the accounting transaction (NGO to Bank) is logged as the date the repayments were collected from the clients. This is not accurate accounting and makes bank reconciliation rather difficult.

Some of the NGOs have had previous experience in microfinance within the old Caritas programme (one staff in all of the NGOs visited except AFOD). As a consequence none have received additional microfinance training since the beginning of the project except the staff of AFOD who were trained by the staff member of ACP through 3 field visits.

There has only been one workshop organized by the SFD, on participatory facilitation methods (one week in class), and the President of Djib-AID has been sent to a training course at the ILO in Turin.

It is important to note that none of the staff of the partner NGOs have received on the job training in microfinance by the SFD. In fact, it seems that they are left to their own devises in the field and are being assisted by no one in their day-to-day fieldwork. Moreover, the SFD has undertaken extremely few field visits to monitor project implementation. Some NGOs report no field visits at all, while others report only one or two visits by SFD staff, who have always been accompanied by visitors at the time of the visits (i.e.: the purpose of the visits is to accompany visitors as opposed to follow-up on implementation).

The issue of field visits was raised with the team. It seems that on the one hand there is a lack of appreciation for the importance of "dual-calls", and on the other hand the responsibility for field visits seems lost between the SFD Manager, his assistant (who is away) and the UNDP Coordinator.

None of the staff we met at the partner NGOs felt that they needed additional training on microfinance. They requested training in accounting, computer use and planning.

In terms of reporting, to date only one NGO has submitted its bi-monthly report. In effect it is the first NGO to have disbursed loans and therefore to have reached the end of the first two month reporting period. It has therefore been extremely difficult for programme staff to supply complete and accurate information on portfolio for the participating NGOs. Two reports presented during this consultancy included basic figures, for amount of money advanced to the NGO and the date of the advances, which did not tally with each other. A consolidated report was request from the SFD to include for each NGO, amounts of money advanced and date of each advance, number of clients who have cashed their loans, number of clients waiting for loans, value of loans outstanding and value of money in each NGO's bank account. This report was never produced by the SFD, as they did not have the information. They were waiting to receive it from the partner NGOs, who were unable to supply it during the 10-day consultancy.

The SFD has hinted in discussions that they plan on shifting reporting to a quarterly basis once they have received the preliminary reports from all the organizations. The aim is to reduce the reporting burden on the NGOs. No mention is made of the SFD's needs for oversight of operations!

Recommendations

It is impossible to over-estimate the importance of continuous training for field staff. This is at the heart of any successful microfinance operation. Any staff that understands the business will understand that they always need more training. Any staff that says s/he does not need training is just not getting it!

It is therefore imperative that in the first phase a detailed training plan be developed for the staff of the organizations. Even though the staff interviewed feels that they do not require additional microfinance training, it is recommended that they be taken through a complete training course as soon as possible. Examples of topics to be followed in this training are:

1. Overview of best practices across the world
2. Group dynamics
3. Promotion and group formation
4. Delinquency management
5. Review of methodology and tips for implementation (does and don't)
6. Basic Business evaluation (business risk, investment plans etc.)
7. Time Management

The aforementioned trainings must be undertaken in a classroom environment followed by significant and sustained field training and follow-up. One cannot over-emphasize the need for the regular presence of experienced staff in the field with the NGO's staff. Only this will complete the necessary training and, just as importantly, allow the staff to understand the shortcomings in their jobs.

The accounting methods used by NGO staff need to be reviewed by an Auditor, and staff will most probably require further training in basic accounting methods.

Information is key to adequately manage a microfinance operation. The information must be regular, prompt and precise. Anything else is dangerous and unacceptable.

It is therefore recommended that the present reports by NGOs to the SFD be prepared not on a bi-monthly basis but on a monthly basis, and that they be supplemented by weekly reports on portfolio outreach and quality (total disbursed, repaid, outstanding and delinquency). More regular reporting will allow the SFD to have a better understanding of each institution's performance and to be able to better detect any impending issue that may arise.

It is also recommended that the SFD groups together the staff of the NGOs for meetings so that they may share their ideas, experiences and performance with each other. These meetings could start off every month, and move to a bi-monthly routine at a later stage.

Product review

The product used by the SFD is largely inspired by that used in the Caritas lending programme. It is based on the Grameen Bank model, with some basic alterations.

A policy document has been prepared by the SFD. It details what needs to be done in order to issue loans within the programme. Having said that, the document fails to clearly

explain the procedures that need to be followed in order to implement the policies (it generally tells you WHAT to do, but not HOW to do it).

Furthermore, there seems to be some confusion at the field level as two different versions of the manual have been distributed to partner NGOs by the SFD. This confusion is seen in the implementation of policies and procedures, as we have identified little uniformity across NGOs in their implementation of the programme, something which is important for successful microfinance.

Most importantly, an anomaly has been identified with regards to the interest charged to clients. The documents produced by the SFD, and in particular the contract signed between the NGOs and the SFD, state that the interest charged to clients should be 18% PER YEAR, calculated in a straight line method. In fact, clients are being charged 18% for the period of 30 WEEKS. This is resulting in a straight-line interest of over 31% PER YEAR, which yields an effective rate of interest of 57% per year. This oversight may be a result of the poor rigor that is followed by staff at the SFD and the partner NGOs.

A detailed review of the product policies and procedures is presented in Annex one.

It is recommended that a working group be established with the partner NGOs and all other concerned parties to review the product recommendations. These recommendations are presented for indicative purposes only, and must be validated by the project team before implementation. This validation will allow partner NGOs to feel the ownership of the P&P and thus increase the likelihood of proper implementations.

MIS

Two systems are being used by the SFD for the management of the microfinance programme. An accounting system (Ciel-Compta) and a tailor-made loan tracking system.

The SFD has developed a computerized MIS that is to be given to each NGO so that they may track their loan portfolio. The staff of the SFD designed the MIS. No external help was sought for the design of the system. A local company that started its work in January of this year programmed the software for a cost of USD 1,500 (not verified). It has recently delivered an incomplete version, which has been installed in two NGOs (ACP and UNFD) for testing. No date has been set for completion of the system.

All but one of the NGOs have been supplied with a computer and printer for the aforementioned software. The remaining NGO will be supplied with their computer in the very near future (it has been purchased but not yet delivered to the NGO’s offices)

A review of the MIS system has shown some issues of varying importance. These include:

- The screen used to enter loan repayments does not give accurate information and more importantly does not show the user the amount owed by the client,
- The system calculates the penalties due by the clients but has no way to allow the user to enter the penalty payments made by the clients
- The system is not at all parametrisable, which implies that it will need constant re-coding every time the methodology is changed
- There are no adequate delinquency reports. There is no aging report and no report that lists the delinquent clients along with their delinquent amount and the number of days their payments are late,
- There is no report that shows a complete picture of a client or group (list of payments made, outstanding balances, balances of payments-penalty, capital, interest, savings etc.)
- None of the reports show the date that clients have actually made their payments.
- No security features were evident. These are important in order to allow a segregation of duties between the accountant, the manager and the Credit Agents-reducing the possibility of fraud.

Recommendations:

Not enough information is available at the moment to recommend completion of the MIS or the purchase of a new existing system from a third party. The following should be estimated in order to take the necessary decision:

- Date for completion
- Total cost of system to meet existing needs
- Cost of future modifications

If the aforementioned estimates are deemed unacceptable, the SFD should review the possibility of purchasing a simple MIS that is already operational elsewhere.

If the SFD continues with the coding it should fix a clear date for the completion of the system and establish a detailed plan for the completion and deployment. The SFD should also seek help in the design of the system. This is particularly important in the design of reports.

Annex One. Detailed Product Review

Center/Group Model and Responsibilities.

Overview

A center is composed of 2 to 10 groups of 4 women each, a total of a maximum of 40 women. Members of the same center elect a president and an assistant and decide on a fixed *lieu* for meetings. Weekly meetings -not mandatory to all members- take place in the chosen lieu, in the presence of the Credit Agent, to repay back the loan.

The President of the center is the focal point between the groups and the Credit Agent. She is in charge of ensuring that repayments and penalty fees, if any, are collected. Other responsibilities include the selection and preparation of new group members; the President has the authority of dismissing groups within the center and/or members within groups of the center.

The legal responsibility of the center is not outlined in the procedures. The legal responsibility lies at the group level where members of the same group guarantee each other's loans; the center seems to have no legal liability vis a vis repayment of the loan. When asked about their willingness of guaranteeing each other within a center, center members replied that they would only pay in case of sickness. Other members in another center explained that they don't have a choice but to repay the loan of any client even if the later run out with the money. There is confusion in identifying the legal responsibility of the center amongst different clients and different NGOs.

The structure of the center seems to be present for purely administrative reasons. The model followed by SFD, and previously by Caritas, is not replica of any of the major solidarity group-lending models established worldwide. It is not a Grameen Bank model where groups -acting as a primary guarantee- are again guaranteed by other groups within the center; the center in Grameen Bank acts as a form of secondary guarantee. It is neither a Village Banking model where a group of women guarantees each other loans and savings, nor a Group Solidarity model where all group members are accountable for each other loans, and are treated by the institution as one entity, as a group.

Recommendations

A simpler model is recommended; the effectiveness of the center for guaranteeing one another loans needs to be put *en cause*, and accordingly its validity needs to be studied. Any model has to balance between the risk and the cost associated with microcredit, and has to reflect group solidarity and discipline. The present set-up does not offer more

guarantee than a standard group of four, but with higher cost in formation. There is also a high risk associated with this group of four due to its relatively small size.

SFD needs to either enlarge the size of the group from four to eight forgetting about the center concept and adopting the solidarity group model, or it must strengthen the center concept by adding an effective formal layer of secondary guarantee between the different groups like the Grameen Bank model.

Disbursement within the group

Overview

Disbursement within a group is made in two parts; two members of each group of the center would be disbursed at the same time, whilst the other two members of the group would get their disbursement eight weeks later. The group itself decides which 2 of the 4 women would get the money first based on who is poorer (as stated in the methodology manual), but in reality decision is not based on who is poorer, but rather decided by the group on an add-hoc basis.
In other words, out of 40 women in one center, 20 women would be disbursed at time x, and the other half would get their disbursement 8 weeks later.

The reasons behind this specific procedure are not clearly stated in the methodology manual. Staff answered that one of the reason was to pressure clients who have received loans to pay on time, because failure to do so would ban the remaining two members from receiving money; another reason was to assess the solidarity of the group members. When asked about their opinion about the present system, almost all clients voiced their preference of getting disbursed all at the same time.

Recommendations

Eight weeks out of a thirty week loan does not allow the Credit Agent in charge of the center to assess the solidarity of the group. Furthermore, disbursing in two parts might not be adding any operational value. In fact, in a number of cases, women not having a business (start-up clients) nor a loan (not their turn yet to receive money) end up guaranteeing women having a business and having a loan. This weakens the group guarantee even further.

Disbursing the group in two parts needs to be reviewed. It is recommended that all group members should be disbursed at the same time.

Group and Center Pre-disbursement Training

Overview

Proper group/ center predisbursement training is at the root of group formation and is of key importance. Procedures detailing the center/ group pre-disbursement training is non existent; content of the various meetings are not stated, and steps and timing of preparatory meetings are lacking.

Group/center pre-disbursement training was not observed during the field visits. However, based on discussions with staff of different NGOs, it does not seem that there is a uniformity of who does what with regards to group/ center pre-disbursement training. There seems to be a confusion between roles of the Credit Agents and those of the president of the center.

When clear procedures detailing all the steps required for group pre-disbursement training are nonexistent, there is a fair chance to end up having misunderstanding and miscommunication between clients and staff. For instance, one center, a group of 20 women, gave back all their loans three days after disbursement because they were fundamentally against the concept of the interest rate for religious reasons. Surprisingly enough, this center in question has been in preparation and formation for a period of eight months.

Recommendations

There is an immediate need to develop detailed operational procedures outlining all the steps required for group/center pre-disbursement. Procedures should be standardized at the institutional level amongst all NGOs, and should be strictly enforced.

Example of themes to be done during the pre-disbursement training:

- Review of institutional culture, mission and vision.
- Concept and philosophy of group solidarity.
- Concept and philosophy of loan ladder
- Responsibilities of group members.
- Explanation of forms to be used during the course of the loan.
- Papers and forms needed for disbursement

Tools such as flip-charts and hand-outs should be developed to assist the Credit Agent in implementing the aforementioned meetings in a clear and efficient manner. Furthermore, rules should be put in place for client attendance to the preparatory meetings (e.g.: cannot miss more than one, must not be more than 10 minutes late, must all participate in discussions etc). These rules should reflect the methodology used (discipline,

participation, solidarity etc.) and will on the one hand help train the clients, whilst on the other whand weed-out unwanted prospects.

Loan Size and Loan Maturity

Overview

First time clients in a group are eligible for a loan of 30,000 FD each, to be repaid within a maximum period of 30 weeks. Once the loan is fully repaid, each member within a group is eligible for a bigger loan amount as per the following table:

Cycle	Loan Amount	Minimum Repayment	Maximum no. of weeks	Interest rate on the capital (18%)	Mandatory Savings (10% of capital)	Minimum weekly payment
1	30 000	1 000	30	180	100	1 280
2	45 000	1 500	30	270	150	1 920
3	60 000	2 000	30	360	200	2 560
4	75 000	2 500	30	450	250	3 200
5	90 000	3 000	30	540	300	3 840
6	100 000	3 333	30	600	333	4 266

Even though the methodology allows flexibility with regards to loan maturity (clients could choose to repay back the loan within a period of 30 weeks), SFD staff do not seem to agree; they say that the loan maturity is fixed at 30 weeks. The methodology itself does not encourage clients to choose shorter loan maturity since the disbursement of their next loan cycle would only be made on the 30th week.

When asked whether the loan amount (30,000 FD) was enough, both the Credit Agent and the clients answered that it was not sufficient, but rather little. When asked further questions about their investment plan, it became obvious that the majority of the clients did not know what to answer; they would invent any project so that it adds up to the total amount of the loan offered. In fact, the loan amount did not seem to be little; on the contrary, it appears like being rather large for first time clients having very small activity (selling doughnuts on a small table in the street). For instance, a woman who sells doughnuts and who intends to buy bigger quantity of flour with her loan would be able to buy one larger flour bag (50 Kg) for 4,000 FD, which would be consumed in 25 days. Even if she buys three big bags of flour at 12,000 FD, more than half of the loan would not be used. In fact, some of the Credit Agents and the majority of the clients feel that as long as the clients are capable of reimbursing the loan, the NGO should not care about the loan amount and the use of the loan.

The aforementioned issue was highlighted by an interview with a microentrepreneur who has a very small activity, she sells bread, and who is not a client in any of the NGOs was asked whether she was interested to take a loan. She answered positively and asked for a 20,000 FD for reinforcing her activity and for selling lentils on the side.

Some women voiced their wishes to prolong the repayment period from one week to one month. Although their sales are on daily basis, and the majority sells on cash, they still preferred to pay on monthly basis instead of weekly basis**.** Other women, in other district, were pleased with the weekly installments because they said to have daily sales. In an UNDP-UNICEF survey of the Caritas and Djib-Aid programme on client satisfaction, it was reported that 80% of the clients were content of the weekly installment, as it allowed them to pay smaller sum each time.

Recommendations

Given that most activities are in trading that requires short working capital loans, it is recommended to reduce the maturity of loans. This will reduce the risk to the institutions and will allow clients to renew their loans more quickly, thus allowing them to have fresh input of cash on a more regular basis.

The short loan maturity will also allow the NGOs to turn their money over more quickly.

It is recommended that the weekly repayments now in place be kept. These payments reduce the lending risk. This recommendationis made largely because it fits clients' cashflows, given that they are largely traders who have daily inputs of cash.

Savings

Overview

Savings are mandatory in the microcredit programme implemented by all NGOs in Djibouti. Any client has to pay 10% of the loan capital as savings; the amount is stored in an NGO saving account at the bank.

When asked about their feelings about savings, clients felt that it is not a bad idea; after all they would be making savings on the side.

Savings, as written in the methodology, would also serve as a form of guarantee for the NGOs whenever a group members defaults. In case a client is late, her savings and the group's savings balance would be retrieved to repay back the loan.

Mobilizing clients' savings is a liability for both the NGOs and the FSD; it is a risk that microentrepeneurs are taking with the NGO. When Caritas closed its microcredit

programme in Djibouti, it was accused by clients of stealing their savings, as noted by one of the Credit Agent who used to work at Caritas.

Recommendations

FSD needs to investigate the legality of managing clients' savings. Most NGOs in the world are not allowed to mobilize people savings; only banks have the right to do so, a fact that is clearly stated in the Djibouti Central Bank regulations. Having said that, the Djibouti National bank is at the moment looking the other way. A fact that will surely change as operations grow.

It is very important that the SFD and the NGOs clearly define why they are mobalising savings. Is it an additional service offered that should be of benefit to clients, is it a source of guarantee for the SFD or is it a bit of both?

If the primary objective of mobalising savings by the SFD is the creation of a safe place for clients to put their money, a service that complements the loans, the present set-up is inadequate as the weakness of the NGOs and of the systems will create conflict in the future (possily similar to the issues that have arisen with Caritas). To attain this objective it is recommended that the SFD negotiates with its partner bank to open bank accounts for each group or center. The account could be in the name of two members of the center (chosen by the clients) and the NGOs and SFD have no rights to access the funds without the authority of the account holders. In effect, the SFD and the NGOs act as facilitating agents between the bank and the clients. This service oriented objective is incompatible with the element of formal guarantee. If clients do not feel that they have control over their money, they will only save the obliged minimum and will keep any extra cash they have elsewhere; thus not using the service to its maximum and reaping its benefit.

If savings are mobilized as a second source of guarantee for the SFD and the NGOs, strict rules and controls must be put in place for the withdrawal of the money by NGO staff. These rules should ensure that proper accountability exists, and that the NGO staff do not access the funds in a manner that is too easy and will discourage proper field follow-up. (In case of late payment by a client it is easier for the Credit Agent to go to the air-conditioned bank to withdraw the savings than it is to spend hours (if not days) in the heat following-up on late clients.)

Last but not least, the SFD should define its responsibility with regards to the savings. If money goes missing from the savings accounts managed by the NGOs, what is the liability of the SFD? This liability may not be purely legal, but is a function of the SFD's responsibility vi-a-vis the community it is working in. In effect, the SFD, a government agency, will have trouble continuing any operation in a community that has lost its savings, even though a third party was responsible. If the SFD wants to be present in the communities during the good times (when the loans are given) it must accept this responsibility in the event of bad times.

Delinquency Management

Overview

A client is considered late when her payment is not made, or made partially, during the weekly meeting of the center. A penalty fee of 150 FD is imposed, however it was not clear whether this penalty is to be paid per day late or per installment. As stated in the methodology, the Credit Agent visits a client only after she has been late for 4 weeks, to ask her to repay back the loan. Failure to do so would label the client as delinquent. In that case, the collected mandatory savings of the group would be retrieved to pay back the delinquent loan. Pressure by an outsider committee is exerted on the delinquent client whenever the total balance of the savings is not sufficient to cover the delinquent loan.

To this date, payments seem to be made on time; no late payments were recorded during the organized field visits. Having prompt repayments to this date does not say much about the performance of the NGOs, as the first loan has been disbursed by the end of May 2001. The programme is still new to be evaluated.

Recommendations

It is crucial in the field of microfinance to develop a rigorous mechanism to pressure defaulters. The methodology needs to portray an emergency state-of-mind in case there is a late payment; one-day late payment should be radically unacceptable at the institutional level and each group needs to be visited after day one of late payment.

The methodology that needs to be developed should include in detail what needs to be done after 1day. 7 days, 14 days and 30 days. At each one of these time-marks it should be clear who the actor responsible should be, what s/he should do and what reporting needs to be done. It is recommended that as the delinquency increases, more senior staff should be involved in resolving the issue. A possible example of such a structure would be :

Delinquency	Actor	Action	Report
1 day	Credit agent	Visits client and all group members. Hold meeting with all	None
7 days	Credit Agent	Informs center Chief and has meeting with all group members and Chief	Informs supervisor
14 days.	Credit Agent and supervisor	Organises meeting with all center members	Etc.

It is recommended that the SFD holds working sessions with the NGOs in order to design the aforementioned plan in a manner that fits within the existing institutional structures and community.

Cash Management

Overview

All transactions activities are made in cash; Credit Agents disburse and receive back installments in cash. For instance, for a center of 40 women at their first cycle, the Credit Agent carries the amount of 600,000 FD (30,000 FD x 20 women) in a village where hardly the bus has a stop. Most days of the week, the same Credit Agent has to carry back an amount of approximately of 51,200 FD (1,280 x 40). This, as expressed by one Credit Agent, is creating a daily heavy burden, accompanied by a feeling of pressure and fear. In Obok, the case is even worse: the staff carrying money needs to travel for several hours in a boat -the only way of transport- to get into Djibouti city.

All NGOs, working in rural and urban areas, send the reimbursed money on weekly basis at the bank in Djibouti city. During the week, money is kept in a small cash box at the Credit Agents' house or office.

This system obviously does not work; it is a risky, costly and inefficient system that could encourage fraud.

Recommendations

There is a high danger and risk involved with such a system. It is important that FSD studies other alternatives in order to reduce the risk to staff and the programme. Possible options are to ask the clients to disburse and cash money at the bank, or to do a cash insurance. At any rate, NGOs should go to the bank everyday to deposit money collected.

Death Fund

Overview

Each client is expected to pay a sum of 100 FD per loan for a "*Death Fund*" at the disbursement date; further explanation was not noted in the procedures manual.

As explained by a Credit Agent, the loan of a client that died is never written off by the NGO, but it is rather retrieved from the death fund of all members of the same center.

The remaining balance needs to be closed again by the group. Clients thought that it is an unfair system, and that the NGO should share some of the cost with them.

Recommendations

The problem with the death fund is that it is confusing in terms of ownership. Who owns the money? Is it a liability to the NGO? There is a risk involved with such a fund. It is important that SFD studies other alternatives and put in place control mechanisms for the use of the fund. All possible reporting systems and rules for managing the fund are to be though of; for instance, if the client leaves, can she withdraw her contribution?

Group / Center Meetings and Follow-up

Overview

Meetings are held on weekly basis at the center -the lieu where the "center" meets- on a fixed day and at a specific hour. Attendance is not obligatory by all members, but absent members have to secure their installments with the President of the center, ahead of time, before the meeting takes place. The primary purpose of that meeting is for the Credit Agent to collect the repayments.

There is no explanation in the methodology manual for the running of those meetings. It seemed from the field visits that there is no further objective to that meeting; clients showed up, paid their installments and then left.

Recommendations

Weekly meetings with the client of the same center need to be structured properly. It is in the center where the microcredit concept, its philosophy and its long-term vision are mostly learned and captured. It is in such meetings where clients would be educated on a proper discipline, which is of key importance in the microfinance field.

It is important that project staff take advantage of such meetings to sell the institutional culture and to reinforce the concept of group solidarity, which should be compulsory.

It is recommended that a fixed structure be put in place for the meetings. This structure should help emphasize the group dynamic. An example of a possible structure is:

Opening of meeting-welcome	Center President
Role-call/attendance	Credit Agent

Publicly review balance of accounts loans and savings	Credit Agent
Publicly discuss any shortcomings of payment	Credit Agent
Discuss business growth and challenges	Interactive session
Close meeting- Thanks to every-one	Center President

NGO staff should be trained in order to manage the meeting in an interactive manner, allowing clients to feel ownership of the meeting and the information.

Annex two; Caritas- an Overview

Caritas were the pioneers in the field of microfinance in Djibouti. They started a programme offering small loans to women micro-entrepreneurs in 1995 in the capital city.

The programme was launched with Caritas funds and with the held of two Belgium Volunteers who helped manage and set-up the operations. These volunteers had little if any experience in microfinance.

The credit methodology used today is very similar to that used by the SFD.

At its peak, the Caritas project had 800 loans outstanding, and employed 5 credit agents.

Caritas stopped their project because of high delinquency and a management concern that they could not manage the project (after the second Belgium Volunteer left). The main issues as explained by the manager of Caritas were:

- Low education level of the Credit Agents, and their inability to take on a lot of responsibility
- No adequate follow-up from the main office on the implementation of procedures. It was felt that on the one hand the procedures were not adequate and on the other hand, Head Office did not adequately manage their implementation in the field
- In effect, the Credit Agents were amending P & P as they saw fit without informing Head Office or each other. Moreover, given that Caritas had wanted to give staff a sense of ownership over the project, staff took things too far and were not responding to instructions from their supervisors.
- Caritas believed that their interest rate of 10% was too low

It was explained that due to the lack of efficient systems and follow-up, Caritas management had believed for a while that delinquency was under control. In effect, things were falling apart and management did not know it.

Caritas was selected as one of the NGOs participating in the SFD project. They withdrew before the start of the project because they believed that the contractual system put in place between the SFD and the NGOs was unfair. The fact that the loan capital was to be loaned by the SFD to the NGOs with full responsibility for repayment being on the NGOs was deemed unacceptable by Caritas in view of their previous experience and the fact that they did not see any technical novelty in the SFD project that would reduce the possibility of future high delinquency.

Caritas believes that they could have reached 2,500 clients if their project had been successful.

Annex three; List of Meetings held

Names	Position	Date of Meeting
Mrs. Sarah Hussein	Coordinatrice du programme Communautaire- ADETIP	26/08/01
Mr. Lemelle	Directeur- AFD	27/08/01
Pere Sandro	Directeur- Caritas	27/08/01
Mr. Mohamed Hassan Abdullah	Secretaire Generale du Gouvernement	27/08/01
Mr. Ali Ahmad	Directeur de l'Industrie et de l'Artisanat- Ministere du Commerce	27/08/01
Mrs. Samira Hussein and Mrs. Aminah	Responsable du Centre de Documentation- Ministere des Femmes	28/08/01
Mr. Ahmad Araita Ali	Directeur- FSD	On-going
Mr. Omar Habib	Charge de Programme- PNUD	On-going
Mr. Hussein Ismael	Directeur du microcredit-FSD	On-going
Mr. Ali	Coordinateur- Consultant- PNUD	On-going
Mr. Diuf	SFD Consultant	On-Going
Mrs. Goumati Ahmed	Presidente- ACP	26/08/01 28/08/01 01/09/01
	Accountant- UNFD	28/08/01
Mrs. Khadija	Gestionnaire- UNFD	28/08/01
	Gestionnaire- AFOD	28/08/01
Ms. Ayshe	Gestionnaire- DJIB/ AID	29/08/01
	Prime-Minister's Office	02/09/01