ECONOMISTI ASSOCIATI

DJIBOUTI

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ACTION PLAN FOR SME FINANCING MECHANISMS

FINAL REPORT

February 23, 2008

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This Study was carried out on behalf of the FIRST Initiative (Financial Sector Reform and Strengthening), financed by several donors and managed by the World Bank (http://www.firstinitiative.org/index.cfm). The conclusions and comments contained herein are those of consultants and should not be attributed to and do not necessarily represent the views of the World Bank or the FIRST Initiative or its funding donors.

This document is the translation of the orginal report, which was prepared in French.

ACRONYMS AND ABBREVIATIONS

ADDS	Agence Djiboutienne de Développement Social
ADETIP	Agence Djiboutienne d'Exécution des Travaux d'Intérêt Public
AFD	Agence Française de Développement
AfDB	African Development Bank
ANPI	Agence Nationale pour la Promotion de l'Investissement
BCD	Banque Centrale de Djibouti
BDCD	Banque de Dépôt et de Crédit de Djibouti
BDD	Banque de Développement de Djibouti
CNEC	Caisses Nationales d'Epargne et Crédit
CCD	Chambre de Commerce de Djibouti
CREM	Comité de Réflexion sur la Micro-finance
DID	Développement International Desjardins
FDED	Fonds de Développement Economique de Djibouti
FDJ	Franc Djibouti
FSD	Fonds Social de Développement
IDB	Islamic Development Bank
INDS	Initiative Nationale pour le Développement Social
MCI	Ministère du Commerce et Industrie
MFI	Micro Finance Institution
NGO	Non-Governmental Organisation
PDDM	Projet de Développement de la Micro Finance et de la Micro Entreprise
SFI	Société financière internationale
SME	Small and Medium Enterprise
SNMF	Stratégie Nationale de Micro Finance
WFP	World Food Program
WHO	World Health Organization
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization

Currencies

Djibouti Franc (FDJ)

Exchange rate
US$ 1.00 = FDJ 177.8

EXECUTIVE SUMMARY

Introduction

The objective of the study is to devise an action plan to strengthen financing mechanisms for small and medium enterprises (SME) in Djibouti. The assignment included two main components, namely:

- a financial sector review, covering the operations of commercial banks, micro finance institutions and other financial intermediaries, and
- the implementation of an SME survey, aimed at gathering information on financing needs and other obstacles to development.

The study involved three field missions during the period November 2007 – February 2008. During field work the Consultant had meetings with government entities, financial institutions, private sector leaders and donor organizations and interviewed over fifty SME. Preliminary findings were presented at a workshop held in early February 2008, which saw the active participation of key stakeholders. The assignment was carried out in close collaboration with the local beneficiary, the Ministry of Industry and Trade, whose collaboration is gratefully acknowledged.

Financial Sector

Banking. At the end of the 1990s, the banking sector suffered from a severe liquidity crisis and only two commercial banks, both controlled by French interests, remained in operations. Things started to change in the mid 2000s, when Djibouti's improved economic performance attracted the interest of new operators. At present, six commercial banks are in operations and two more are expected to start operating during 2008. This positive evolution was a paralleled by a growth in deposits, which expanded considerably to exceed DFJ 110 billion, i.e. more than 80% of GDP. Lending also expanded but at a much lower rate. In particular, lending to private operators remains modest in absolute terms, at some FDJ 27 billions (US$ 150 million), equivalent to less than 20% of GDP. In addition, lending is mostly in the form of overdraft and other short term facilities, and medium and long term loans account for only 25% of the total. Bankers' cautious attitude is not without justification, given the high level of non performing loans recorded in the past, but the lack of competition that characterized the banking sector until recently also generated an overly conservative attitude. Over the last few years, interest rates have shown a tendency to decline, but they remain fairly high, at some about 12%. Banking services are largely concentrated in the capital, with a limited presence in other parts of the country. As a result, the level of bancarization remains fairly low, with only one bank account per 12 inhabitants.

Micro Finance Institutions. In Djibouti, micro finance operations started in the mid 1990s, with a pilot initiative implemented by *Caritas*. In subsequent years, several other initiatives were launched but, due to a variety of factors, results achieved so far are limited. The ***Fonds Social de Développement*** (FSD) is the main microfinance initiative implemented so far in Djibouti. Funded by the African Development Bank (AfDB), the FSD was a national scheme, providing loans in the FDJ 30-100,000 range (US$ 170-565) through some twenty women associations operating at the local level. Over the 2001 - 2007 period, the FSD served about 3,000 clients, with a total volume of lending of FDJ 360 million. The program was certainly useful in popularizing the concept of micro lending but it largely failed to create a self sustainable network of micro finance institutions. The FSD ceased to exist as an independent entity at the end of 2007, when it was merged into to the *Agence Djiboutienne de Développement Social* (ADDS), a newly established government agency entrusted with all public interventions in the field of social development. The ***Projet de Développement de la Micro Finance et de la Micro Entreprise*** (PDMM) is an ongoing initiative funded by the International Fund for Agriculture and Development (IFAD), aimed at establishing a national credit cooperative system, including an apex institution and half a dozen local credit unions. Launched in 2003, the PDMM remained largely inactive until for several years. Activities started picking up in late 2007, following the recruitment of long awaited technical assistance (provided by the international arm of Canada's largest cooperative credit group) and the opening of the first credit cooperative in expected to take place in the first half of 2008.

Public Institutions. The only government-owned financial institution currently in operations is the ***Fonds de Développement Economique de Djibouti*** (FDED). Established in 2002, the FDED was given the mandate of supporting the development of private sector activities through the provision of medium and long term loans. Since 2004, the FDED is entrusted with the management of a US$ 5 million credit line financed by the Kuwait Fund for the Arab Economic Development (KFAED). The initiative attracted the interest of the business community but, due to a combination of factors (non fulfillment of some obligations under the financing agreement, weaknesses in project appraisal) the scheme remained non operational until the end of 2007, when a first batch of eleven loans were finally approved.

Small and Medium Enterprises

Overview. In Djibouti, information on the SME sector is scanty and unsystematic and even the number of operators in activity is somewhat uncertain. The number of ***structured SME***, i.e. those possessing a minimal organization, using some banking services and subject to taxation, is estimated to be in the 500 - 800 range. In addition, there are an estimated 1,000 to 3,000 ***micro enterprises***, sometimes operating without any form of registration. Finally, a large number of people, probably between 10,000 and 15,000, are involved in ***income generating activities***.

Main Sectors. The most dynamic players are found in the ***service sector***. Often operating in niche markets (e.g. IT services) and able to serve both the public sector and private clients, these operators have often recorded a significant growth and appear well positioned to benefit from the gradual development of the market for business services. ***Transport and logistics operators*** are also well established firms, with a sizeable staff and a respectable level of sales. Despite the strong and growing competition, these operators exhibit an above than average profitability as well as a remarkable propensity to invest, suggesting that the market remains in the expansion phase. The operating environment is more volatile in the case of ***construction firms***, their fate largely depending upon public procurement opportunities. However, considering the sizeable public investment programs envisaged for the coming years, the development potential of these firms appears significant. ***Traders*** are the less dynamic operators. While some successful cases can be found, in general traders appear to find it difficult to adapt to rapidly changing market conditions, characterized by more intense competition. Similar considerations apply to the ***handicraft and small manufacturing sector***, where the unfavorable operating environment (small size of the market, high production costs) inevitably limits their development potential.

Issues in Accessing Finance. The study broadly confirms the difficulties faced by SME in accessing external financing. There are cases of SME who have managed to establish a good working relationship with banks, but they are largely confined to the most dynamic sectors, such as transport and logistics services. The most severe constraint has to do with the ***scarcity of medium and long term financing instruments***, which makes it difficult to undertake significant investment plans, involving a substantial share of equipment and/or real estate. Overall, during the 2005 - 2007 period only one fifth of the SME analyzed during the study had access to a bank loan and in the majority of cases the duration did not exceed two years. ***High interest rates*** and ***collateral requirements*** are also a serious barrier, while many operators are totally unfamiliar with ***loan application and appraisal***

procedures. As a result, about one third of the SME surveyed can be regarded as ***discouraged potential borrowers***, i.e. operators who are interested in accessing some form of external financing but that so far have not dared to approach commercial banks.

Proposed Action Plan

Overview. The growing number of commercial banks in operations as well as the expected establishment of a cooperative credit system are going to increase the dynamism of Djibouti's financial sector and, in due course, this will certainly improve conditions for accessing finance. However, there remain areas where government and/or donor action is still needed, to alleviate the existing SME 'financing gap'. In particular, based on the findings of this Study, supporting measures can be envisaged in four main domains, namely:

- alleviating problems related to collateral requirements, by promoting the use of ***credit guarantees***;
- diversifying the offer of financial products, namely through the introduction of ***leasing***;
- facilitating access to finance for informal micro enterprises and individuals, through the strengthening of ***micro finance institutions***;
- facilitating the interaction between small operators and financial institutions, through the upgrading of project preparation and appraisal capabilities.

Introduction of Credit Guarantees. In many countries, credit guarantees have proved to be an important instrument to facilitate SME access to finance and their use has been actively promoted by donors and international organizations (EU, UNIDO, and lately the World Bank Group). In Djibouti, the establishment of a ***credit guarantee fund*** (CGF) has been under discussion for sometime, with the first proposals dating back to the 1990s. Recently, the creation of a CGF was envisaged within the framework of the restructuring of FDED undertaken in mid 2007. In order to be effective, the proposed scheme should be inspired to international best practice and, especially, be consistent with the key principles for credit guarantees spelled out in the Basle 2 accord. In particular: (i) the CGF should be subject to the regulatory powers of the Central Bank of Djibouti, who would be responsible for licensing and supervision; (ii) while the Government is expected to take the lead in the creation of the CGF, efforts should be made to associate the banking community and private sector organizations to the initiative, so as to ensure that the scheme is managed in a businesslike manner; (iii) CGF operating modalities should incorporate a clear focus on SME as well as the need to minimize the risk of moral hazard, with credit guarantees targeted at loans in the FDJ 5 – 20 million range (US$ 30 – 100,000) and covering not more than 50% of the value of guaranteed loans. An alternative to the establishment of the CGF could be represented by the recourse to some existing ***donor-supported guarantee schemes***. An example which appears particularly relevant to Djibouti is the scheme financed by the *Agence Française de Développement*, which provides a 50% guarantee either on individual loans or on the whole SME lending portfolio. The scheme is still scarcely known in Djibouti, and some promotional activities targeted at local banks and business circles could be useful.

Introduction of Leasing. Leasing is particularly well suited to address the financing needs of SME, and represents a useful complement to traditional bank lending. In Djibouti, the potential market for leasing is currently estimated at some FDJ 375-475 million (US$ 2 - 3 million), with a potential to grow up to FDJ 900-1,300 million (US$ 5 – 7 million) in the medium term. These figures are fairly modest, but under certain conditions, could nonetheless justify to the establishment of a local leasing company or the opening of leasing facilities by the commercial banks already operating in the country. The Government is playing at active role in promoting leasing and ***contacts with prospective investors*** are already underway. In this context, steps should be made to involve the IFC, which possesses and unparalleled experience in promoting leasing in developing countries. In case the interest of potential investors is confirmed, it would be necessary to conduct a detailed ***review of the fiscal and legal framework***, in order to establish the most appropriate conditions for leasing operations. In this context, special attention should be devoted to issues related to the repossession of leased goods (which should be feasible without recourse to court orders) and the accelerated depreciation of leased property.

Strengthening of Micro Finance Institutions. As in many other African countries, micro finance institutions could play a major role in supporting the development of informal micro enterprises and other income generation activities. However, despite the significant resources invested by various donors over a long period of time, the Djiboutian micro finance sector still displays serious weaknesses. The most urgent priority is the revitalization of the network created by the FSD under the AfDB project, with the ***resumption of lending to local micro finance associations***. Indeed, micro lending associations have not received any funding since mid 2007 and, therefore, have been unable to continue their lending activity. Such a prolonged suspension is having a major negative impact and, if protracted, could lead to the collapse of the whole system. A second important step is represented by the ***establishment of a proper legal framework for MFI activities***. Here the situation is comparatively better, because the BCD was rather quick in developing a draft regulation dealing with licensing and supervisory issues. The draft was reviewed and commented upon by the Consultant, who recommended the adoption of a number of amendments (removal of interest caps, introduction of limitations of deposit taking activities, adoption of more stringent criteria for provisioning, etc.). In the medium and long term, significant work will have to be done to reinforce existing micro lending associations, to enhance their operational capabilities and financial self sustainability, and this calls for the launch of a ***major institutional strengthening program***. As shown by the experience of the PDMM project, which remained idle until an international advisor was recruited, the restructuring of the MFI sector is likely to require significant technical assistance, for which funding will have to be mobilized.

Upgrading of Project Preparation and Appraisal Capabilities. In Djibouti, there is currently no structure providing assistance to private operators in the formulation of their investments projects. Government entities are ill equipped to cope with requests of assistance coming from private operators, while the market for consulting services is still largely undeveloped, consisting mainly of accountants without the necessary experience. This has two major implications. On the one hand, the quality of loan applications submitted to banks is often very low, providing further justification for the bankers' very cautious approach. On the other hand, not knowing how to make their case, many small operators simply do not dare to approach financial institutions. In this context, an improvement of the interaction between the 'supply' and 'demand' sides of the credit market could be achieved through the ***establishment of an SME financing support unit***. This unit should act as a financial advisor to SME, providing hands-on assistance on all the aspects related to the development of realistic investment proposals (from market assessment to the identification of potential suppliers of equipment and subsequent negotiations). Given the small size of the country, a light structure, consisting of a couple of local professionals, partly supported by international technical assistance, could be adequate. In prospective, the SME financing unit would become financially self sustainable, charging fees for the services provided. However, in the initial phase, some donor funding appears necessary. Another area of intervention relates to the ***upgrading of project appraisal capabilities in financial institutions***. This is especially the case of FDED, where there is a clear imbalance between the capabilities displayed by existing staff and the volume of SME lending potentially feasible under the KFAED credit line. Here again, some international technical assistance would be necessary, although there could be synergies with the support provided to the SME finance unit.

INTRODUCTION

This Report (the "Report") was prepared by *Economisti Associati* in association with *Microfinanza* (the "Consultant") within the framework of the assignment on "Djibouti: Action Plan for SME Financing Mechanisms" (the "Assignment" or the "Study"). The project was financed by the World Bank-managed FIRST program, following a request of assistance formulated by the Ministry of Trade and Industry.

As indicated in the Terms of Reference (TOR), the ***objective*** of the Study is to "propose concrete and realistic means in an action plan to strengthen financing mechanisms for SME". The achievement of this objective involved: (i) a review of the ***financial sector***, covering commercial banks, micro finance institutions and other financial intermediaries, and (ii) the implementation of an ***SME survey*** aimed at gathering information on financing needs and other obstacles to development. This analytical work led to the formulation of ***action plan***, including a set of operational measures aimed at addressing the main constraints identified.

The Report is based on a combination of desk and field work. ***Desk work*** involved the review of a wide range of studies and reports, including: (i) studies on recent socio-economic developments; (ii) studies and other documents dealing specifically with Djibouti's financial sector; and (iii) legal texts and provisions. ***Field work*** involved three missions, implemented in November and December 2007 and in January-February 2008, during which the Consultant had meetings with a variety of government entities, financial institutions, private sector operators and donor organizations.

Preliminary findings were presented during a workshop organized by the Consultant in collaboration with the Ministry of Trade and Industry. Held on 3 February 2008 at the Chamber of Commerce, the workshop saw the active participation of representatives from the private sector, the banking community and donor organizations. Comments formulated by workshop participants were duly incorporated in the Report.

The Report is structured in two parts. ***Part I*** analyzes the current situation, with a review of the salient features of Djibouti's financial and SME sectors. ***Part II*** illustrates in detail a set of operational measures which constitute the proposed Action Plan. The Report also includes five ***Annexes***. In particular:

- Annex A illustrates in detail the activities required to establish an SME credit guarantee scheme;
- Annex B offers an estimate of the potential market for leasing activities;
- Annex C formulates detailed comments on the proposed regulatory framework for microfinance institutions;
- Annex D illustrates in detail the activities required and the resources needed to establish an SME financing support unit;
- Annex E lists the entities and peopled met during the field missions.

The materials utilized during the workshop are provided in a separate volume.

The Assignment was carried out by a team including Mr. Roberto Zavatta (team leader, economist), Mr. Fabio Malanchini (microfinance expert), Mr. Enrico Giannotti (SME financing expert), Ms Amina Houssein Guireh (local consultant) and Mr. Yassin Boulhan Gouled (local consultant).

PART I – REVIEW OF CURRENT CONDITIONS

1 FINANCIAL SECTOR

1.1 Commercial Banks

Recent Developments. Over the last decade, Djibouti's banking sector underwent a significant transformation. At the end of the 1990s, locally owned commercial banks were faced with a high level of non performing loans. Unable to refinance in the international markets, most of the banks were forced to close down[1]. The same fate occurred to the state owned development bank, which ceased operations in 1999. Between 2000 and early 2006, the banking sector basically consisted of only two foreign owned banks, and despite a significant growth in deposits, the level of activity remained fairly limited (see below). In recent years, Djibouti's improved economic performance (since 2003, GDP has grown by more than 3% per annum) attracted the interest of other operators, and new banks have entered the market, with a few more expected to follow.

At the end of February 2008, there were five commercial banks in operations, namely:

- the *Banque pour le Commerce et l'Industrie – Mer Rouge* (BCI MR). Established in 1954, BCI MR is part of the French Group Banque Populaire, but with an important capital participation of the Government of Djibouti;
- the *Banque Indosuez Mer Rouge* (BIS MR), a wholly owned subsidiary of the French bank Crédit Agricole Indosuez, whose activities in Djibouti trace back to 1908;
- the *International Commercial Bank* (ICB), part of the Swiss-based (but with a Malaysian origin) ICB Financial Group Holdings AG**,** and established at the end of 2006;
- the Yemenite *Saba Islamic Bank* (SIB), which started its activities in Djibouti in mid 2006 and operates on the basis of Islamic financial principles (see below);
- the *Banque de Dépôt et de Crédit de Djibouti* (BDCD), controlled by the Geneva-based company *SF Swiss financial investments SA*, and recently inaugurated on February 11th, 2008.

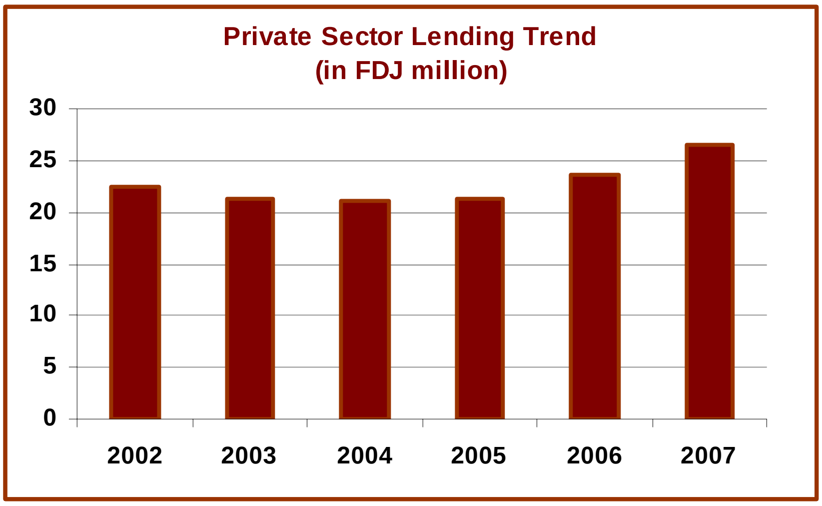
Two more banks are expected to start operations in the future. They include the *Dubai Investment Bank* and a second Yemenite bank.

At the end of 2006, total assets in the banking sector had reached the level of FDJ 107 billion (US$ 575 million), i.e. nearly 80% of GDP[2]. During the years 2000s, deposits displayed a positive trend, growing from FDJ 43 billion (US$ 240 million) in 2000 to FDJ 92 billion (US$ 520 million) in 2006. Lending activities had a much more contrasted trend. After peaking at FDJ 33 billion (US$ 185 million) in 2000, lending declined to some FDJ 27 billion (US$ 150 million) in the middle of the decade, to recover marginally to FDJ billion (US$ 165 million) in 2006. As a result, the deposit transformation ratio (i.e. the ratio of total credits to total deposits) declined from 60-70% in the early 2000s to little more than 30% in 2004-2006. Banking services are still largely concentrated in the capital city, with a limited presence in other parts of the country. As a result, the level of bancarization remains fairly low, with only one bank account per 12 inhabitants.

Private Sector Lending. Lending to private operators is scarce and mostly short term. During most of the 2000s, the total volume of loans to private enterprises (including individual entrepreneurs) has been ranging between FDJ 25 and 27 billion, i.e. about 20% of GDP. A more positive trend started to emerge in 2006, when an 8% increase was recorded. Preliminary data for 2007 suggest a continuation of the trend, with a projected growth of 15-20%.

[1] Djibouti has been operating a currency board mechanism since 1949. As a result, the central bank does not extend credit neither to the government nor to financial institutions. In case of liquidity crisis, commercial banks have to refinance in the international market or close down.

[2] All data regarding the banking sector are from IMF, *Djibouti – Staff Report for the 2007 Article IV Consultation Discussions*, April 16, 2007. Data for 2007 have not yet been published, although in certain cases it was possible to obtain estimates from the central bank.



The most common forms of financing are overdraft facilities and invoice discounting (the so called "avances sur facture"), but the amounts involved rarely exceed the FDJ 10 million threshold (i.e. some US$ 50,000). Medium and long term loans account for only 25% of total lending. The bankers' cautious attitude is not without justification, given the high level of non performing loans recorded in the past, but the lack of competition that characterized the banking sector until recently also generated an overly conservative attitude. Loans terms are not particularly favorable, with repayments in quarterly installments, and no grace period. Interests rates have been declining over the last two years, but they remain fairly high, at about 12%.

Box 1 - Islamic Financing Instruments

Until recently, Islamic financing instruments were scarcely used in Djibouti, but the situation has changed since the arrival of *Saba Islamic Bank*. SIB operates on the basis of *shariah* principles, which prohibit interest (*riba*) and encourage a partnership approach (*shirakat*) between provider and receiver of funds. The most common Islamic financial instrument, also used by SIB, is the *murabahah*, a sort of mark up sale in which the bank buys a certain good or asset and sells it to the client with a mark-up. The client pays for the good or asset at a future date or in installments. In the case of SIB, the mark up is currently in the order of 7% to 10%, depending upon the nature of the operation and client. The volume of transactions based on Islamic banking principles is expected to increase in the future, following the signing of a 'credit line' agreement between SIB and the Islamic Development Bank (IDB)[3].

1.2 State Owned Financial Institutions

A state owned development bank was established in 1983 but, overburdened with bad loans, it was put in liquidation in 1999. In 2002, the government established another financial institution, the ***Fonds de Développement Economique de Djibouti*** (FDED), a public entity of a commercial nature (*établissement publique autonome à caractère commercial*) initially placed under the supervision (*tutelle*) of the Ministry of Finance. The FDED was given the mission of supporting the development of private sector activities through the provision of medium and long term loans. In

[3] The agreement was announced during the meeting of the IDB's governing body which took place in Djibouti during our mission. See *La Nation*, November 5, 2007.

this context, in 2004 the FDED was entrusted with the management of an SME credit line of US$ 5 million financed by the Kuwait Fund for the Arab Economic Development (KFAED). The initiative attracted the interest of the business community, with the submission of more than 170 financing applications, for a total value of some US$ 15 million. However, due to the non-fulfillment of some obligations under the financing agreement, the scheme remained non operational for almost four years. Only at the end of 2007 the problems were eventually solved and the first batch of eleven loans (worth a total FDJ 357 million, i.e. US£ 2 million) was approved.

A restructuring of FDED took place in 2007, with the adoption of two presidential decrees[4]. With the first decree, the *tutelle* was moved from the Ministry of Finance to the Ministry of Presidential Affairs, which is also responsible for investment promotion. The second decree entrusted the FDED with the task of establishing and managing a credit guarantee fund ("*fonds de garantie*") aimed at facilitating SME's access to bank loans. The precise nature and operating modalities of the proposed credit guarantee schemes are still to be defined and proposals to this effect are included in Part II of this Report.

1.3 Microfinance Institutions

Early Developments. Microfinance operations started in the mid 1990s, when *Caritas Internationalis* launched a scheme intended to compensate for the negative social consequences of structural adjustment. Focused on women, the scheme adopted a typical 'group lending' approach, with groups consisting of four persons. During four years (1996 – 2000), over 800 women received micro loans worth between FDJ 30,000 and 100,000 (i.e. US$ 170 - 565), and carrying an interest rate in the 10% - 15% range. With a reimbursement rate of 97%, the initiative was widely regarded as a success and this paved the way for other similar schemes, usually involving the support of donors and international financial institutions (IFI).

Policy and Institutional Framework. The importance of microfinance as a tool to reduce poverty was officially recognized in 2000 by the Poverty Reduction Strategy Paper (PRSP). For some years, this declaration of intent was not followed by tangible measures, but in recent times there was an acceleration of activities. A study for the formulation of a national strategy (*Stratégie Nationale de Microfinance* – SNMF) was carried out in 2005 by UNDP. In early 2006, this was followed by the establishment of a microfinance committee, the *Comité de Réflexion sur la Microfinance* (CREM), including stakeholders from the public and private sectors. Finally, in the first half of 2007, the Parliament passed a law regulating the establishment and operations of MFI[5]. Based on the law, MFI are subject to the licensing and supervision of the *Banque Centrale de Djibouti* (BCD). A first set of proposals for the establishment of the regulatory framework for MFI was developed by the CBD in the second half of 2007. The draft was reviewed and commented upon by the Consultant as part of the Assignment. The nature and rationale of these comments are presented in Part II of this Report.

Fonds Social de Développement. The *Fonds Social de Développement* (FSD), was established in 2001 within the framework of an African Development Bank (AfDB) funded project. Aimed at supporting women involved in income generating activities, the scheme was implemented through a network of 20 associations, which received funding and technical assistance from the FSD. Lending was done on a group basis, with loans typically ranging between FDJ 30,000 and 100,000 (US$ 170 to 565), with an average of FDJ 50,000 (US$ 280). Loans ought to be reimbursed within 30 weeks and carried an interest rate of 18%, plus a 10% 'forced savings' to be returned to borrowers once the loan was fully reimbursed. Overall, the scheme served about 3,000 clients, with a total portfolio

[4] Presidential decrees n. 2007-0117/PR/MEFPCP of May 21, 2007 and n. 2007-0164/PRE of July 22, 2007.
[5] Law n°179/AN/07/5^e L, adopted on May 16, 2007.

of some FDJ 360 million. The AfDB project was closed at the end of 2007 while in early 2008 the FSD was incorporated into a new institution, the *Agence Djiboutienne de Développement Social* (ADDS). Established within the framework of the recently launched *Initiative Nationale pour le Développement Social* (INDS) and placed under the oversight of the Prime Minister's office, the ADDS consolidates all public interventions in the field of social development, with responsibilities ranging from micro lending to infrastructure development. The multipurpose nature of ADDS raises doubts regarding the future role of the public sector in micro finance activities[6]. Even more worrying, the closing of the FSD led to the suspension of all micro lending activities, and this may jeopardize the survival of the system created under the AfDB project. These problems are dealt with in some detail in Part II of this Report.

Projet de Développement de la Micro Finance et de la Micro Entreprise. The *Projet de Développement de la Micro Finance et de la Micro Entreprise* (PDMM) is an initiative of the International Fund for Agriculture and Development (IFAD), launched in 2003 with a financing of US$ 3.6 million. Following up an earlier IFAD initiative managed by the Near East Foundation[7], the PDMM is aimed at establishing a national credit cooperative system, including an apex institution (i.e. the *Caisse Nationale d'Epargne et Crédit* - CNEC) and 7 local *caisses*, covering 2 different zones of Djibouti Ville and all 5 country districts. Despite the availability of significant funding, the PDMM remained inactive largely inactive for almost four years. Activities started picking up in late 2007, following the recruitment of long awaited technical assistance, to be provided by the international arm of Canada's largest cooperative credit group, *Développement International Desjardins* (DID). The opening of the first credit cooperative in expected to take place in the first half of 2008.

Other Schemes. In addition to the above, two other (much smaller) micro lending schemes are in operations. The first was launched in 2000 by the World Health Organization (WHO) and provides loans of FDJ 30 – 50,000, with a duration of 18 – 24 months and a 10% annual interest. The number of people served is small, reportedly in the order of 100. The second scheme is a pilot project financed by the World Food Program (WFP) aimed at a special target group, the "*femmes exciseuses*". The objective is to induce these women to abandon their activity. The scheme also adopts a group lending approach and provides loans in the order of FDJ 50 – 100,000 (US$ 280 - 565), with a duration of 18 - 24 months and without any interest. The number of lending operations is not known but it is deemed to be small.

Box 2 – Informal Financial Mechanisms

As in the case of many other African countries, informal financial arrangements are quite common in Djibouti. The main types of informal finance instruments are the following:

- the ***tontines*** (*hagba*), revolving savings and credit schemes created by small groups of people who decide to pool their savings and, in turn, take out a very small loan (typically below FDJ 30,000) at no interest;
- the ***credit 'boutiquier'*** (*biil* or *masrouf*), a credit in kind extended to employees and wage earners by small merchants and reimbursed at the end of the month when they receive their salaries;
- the ***retailer credit*** provided by wholesalers to peddlers and/or small retailers, who are allowed to pay for the acquired goods after sales.

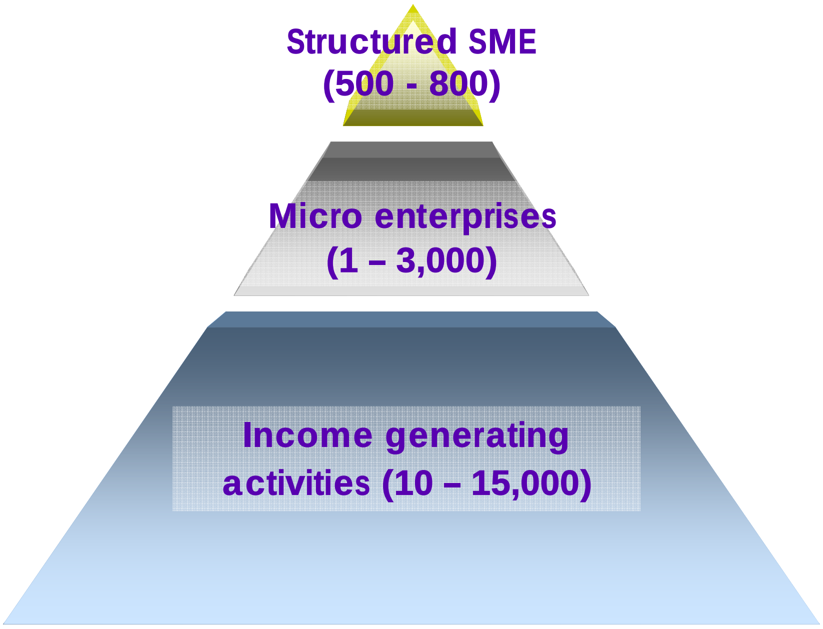
[6] The other entity merged into the ADDS is the *Agence Djiboutienne d'Exécution des Travaux d'Interet Public* (ADETIP), the former public works national agency. ADETIP used to have a much larger budgets than the FSD and its director was appointed at the head of ADDS.

[7] The initiative aimed at supporting the deprived population in rural and peri-urban areas. Between 2003 and 2005, the project assisted four agricultural cooperatives and one handicrafts association.

2 SME SECTOR

2.1 Introduction

Very little is known about small and medium-sized enterprises (SME) in Djibouti and there are uncertainties even with regard to the number of the operators in activity. The number of ***structured SME***, i.e. those possessing a minimal organization, using some banking services and subject to taxation, is estimated to be in the 500 - 800 range[8]. In addition, there are an estimated 1,000 to 3,000 ***micro enterprises***, sometimes operating without any form of registration. Finally, a large number of people, probably between 10,000 and 15,000, are involved in ***income generating activities***.



Within the framework of this Project, the emphasis was placed on structured SME, which were analyzed through a ***field survey***. The survey investigated fifty SME operating in different sectors or lines of business (retail and wholesale trade, construction and building materials, transport and logistics, handicrafts and small manufacturing, services). The remainder of this sectionr is based on the results of this survey[9].

2.2 Structure and Operations

Structural Features. Djiboutian SME are fairly young. Half of the SME surveyed were established in the years 2000s, although about one quarter, mostly traders, started operating before 1990, including some operations dating back to the 1960s. This 'bimodal' distribution clearly highlights the problems faced by the Djiboutian economy during the 1990s, and especially in the first years of that decade, when only a handful of SME were established. SME employ between 2 and 50 full-

[8] The database kept by the *Agence National pour la Promotion des Investissements* (ANPI) includes about 2,600 records, corresponding to firms that at a certain point in time had filed a registration with the *Registre du Commerce* (Company Register). However, for the overwhelming majority of these firms, it is not possible to ascertain whether they are still in business, and indeed the database contains contact details for only a tiny minority of enterprises.

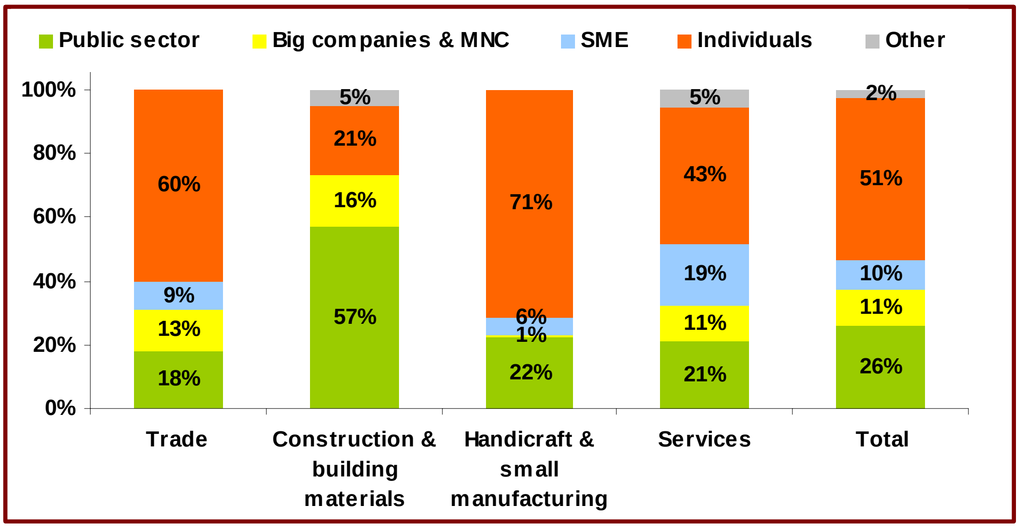
[9] The survey was carried out by two local consultants coordinated by an international expert between early December 2007 and mid January 2008. Detailed results of the survey as well as the adopted methodology were presented at the restitution workshop and are presented in details in a separate report.

time equivalent staff, with an average of 13. There are significant differences across sectors: with an average of 32 workers, transport and logistics operators are much larger than traders (on average, 6 staff). The limited degree of sophistication of Djiboutian SME is also reflected in the legal form adopted (sole proprietorships and limited liability companies account for the near totality of the SME surveyed), as well as in low degree of capitalization (often the statutory minimum of FDJ 1 million).

Turnover and Profitability. The average ***turnover*** posted by surveyed SME is in the order of FDJ 60 millions (about US$ 350,000), but, again, there are major differences across the various lines of business. Transport and logistic firms are by far the largest operations, with turnovers mostly falling in the FDJ 200 to 400 millions range (US$ 1 to 2 millions). At the opposite end of the spectrum, traders rarely exceed FDJ 20 millions (US$ 100,000), and most make only FDJ 5 - 10 millions (US$ 30 – 60,000). The recent trend is globally positive, and about two thirds of the firms for which it is possible to draw a comparison over the 2005 – 2007 period have increased their sales. Regarding ***profitability***, the overall picture is globally positive, with average profit margins for 2007 in the order of 20%. Profitability appears to be somewhat higher in the construction business and for service companies providing services characterized by a higher 'technological' content and facing only limited competition (see below).

Client Base. Transport and logistics operators are the only Djiboutian SME working primarily with ***foreign clients***, typically importers and transport companies from Ethiopia. Other firms operate exclusively in the ***domestic market***. In particular, the public sector generates about 60% of the revenues of construction companies, while small manufacturers and traders primary target individuals. The composition of domestic sales is shown in the figure here below.

Composition of the Domestic Client Base



2.3 Competition and Business Constraints

Competition. Djiboutian SME operate in a ***highly competitive environment***. The vast majority of operators in trade, transport and construction have to deal with more than 10 direct competitors. Competition is less intense, but still quite significant in the other sectors. In practice, only few firms, providing highly specialized services (such as IT maintenance, job placement, etc.), are shielded from competitive pressure. Even more importantly, competition is on the rise, with no less than 75% of surveyed firms lamenting an increase in 2007 compared with the previous year. Complaints tend to focus on the 'unfair' competition brought about by 'informal' operators, but problems related to the access to regulated trades (e.g. logistic operations inside Djibouti's port) and to public procurement are also frequently mentioned (see Box 3 below).

Box 3 – Some Respondents' Opinions on Competition

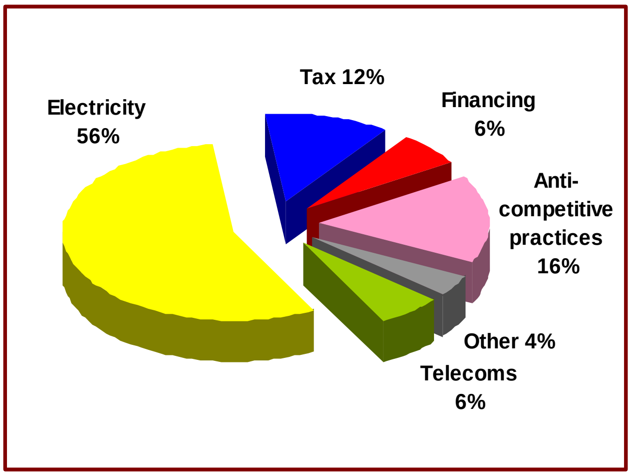
Trader: "in this sector competition is tough and sometimes unfair, due to the presence of a growing number of individuals who have started operations without any trading license"

Construction company: "construction companies face cut-throat competition from enterprises without any track record, which often disappear after the contract is awarded. Also …. public tenders always go to the same few people"

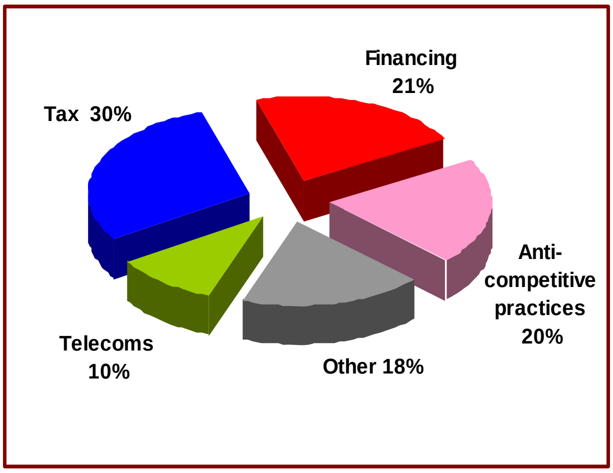
Forwarding agent: "new licenses are often granted to 'shadow entities', not fulfilling the necessary conditions and act as a screen for other operators, typically Ethiopians"

Business Constraints. The high cost of electricity is the most widely perceived constraint to business activity. However, it is worth noting that our survey was carried out right after a round of tariff increase, which might have influenced interviewees. Leaving aside electricity, ***taxation*** is perceived as the most severe constraint, followed by problems with financing and anti-competitive practices. Financing-related problems concern more the access to, rather the cost of, finance.

Most Severe Obstacle



Three Main Obstacles (without electricity)



2.4 Investments and Access to Finance

Trend in Past Investments. Over the 2005 – 2007 period, nearly two thirds of surveyed firms invested at least once and 6% invested every year. The amounts invested vary significantly, going from as low as FDJ 500,000 (US$ 3,000) in the case of *artisans* up to FDJ 50 - 70 million for larger operators. Transport and logistic operators were the most active: nearly all invested in at least one year (and one third in all the three years) and amounts were quite sizeable, in the order of FDJ 20 - 50 millions (or about US$ 100 - 300,000).

Prospective Investments. A marginal majority of surveyed SME (52%) expect to invest in 2008. Propensity to invest is greater among transport and logistics operators (nearly all envisage to invest) and lowest among service providers (with only one quarter of interviewees expecting to invest).In the majority of cases, SME plan to rely upon internally generated resources to finance prospective investments, although one third, typically those seeking larger amounts, is also considering to obtain a bank loan. The key features of the prospective investments envisaged by SME operating in the various sectors are summarized in the table below.

Prospective Investments – Salient Features

Sector	Propensity to Invest	Value of Investments (in million of FDJ)	Sources of Financing
Transport & Logistics	High	40 – 80	Commercial Banks
Construction & building materials	High	5 – 10	Commercial Banks and Retained Earnings
Handicrafts and small manufacturing	High	< 5 (handicrafts); 10 – 20 (small manufacturers)	Retained Earnings
Trade	Medium	0.5 – 2	Retained Earnings
Services	Low	4 – 20	Retained Earnings

Access to Finance. Djiboutian SME show a fairly high level of 'bancarization': overall, 94% of interviewees have a bank account and 26% work with two commercial banks. However, this does not translate into a high recourse to bank financing. ***Overdrafts*** are the most common form of bank financing: 30% of interviewees had an overdraft facility in 2007, while another 10% had access to this form of financing in the previous two years. About one fourth of SME surveyed make use of ***invoice discounting***, the so called "*avances sur facture*". Invoice discounting is fairly common among traders and, to a lesser extent, construction companies, and mainly refers to transactions with the public sector. In about half of the cases, invoice discounting is used as an alternative to overdrafts.

Loans are fairly uncommon among Djiboutian SME: only 4% of surveyed entrepreneurs got a loan in 2007 while another 18% borrowed from commercial banks in the previous two years. All in all, less than a fourth of the SME in the sample successfully applied for a bank loan over the 2005 – 2007 period. Transport and logistics operators and construction companies are those with a comparatively greater access to bank loans, but absolute numbers remain low. The majority of loans granted are short to medium term, with a duration of only 2 years, and concern relatively modest amounts, falling in the FDJ 2 - 10 millions range (i.e. US$ 10,000 to 60,000). Only few transport operators and manufacturers managed to obtain larger loans, worth around FDJ 20 million (US$ 110,000). In the majority of cases, loans are secured by a mortgage on immovable property, whose value is higher than the value of the loan, with a few cases of pledges on movable assets.

Box 4 - Access to Finance: Summing Up

Based on the above information on access to credit, four groupings of SME can be identified, namely:

- about ***one third of interviewees make use only of simple financial products***, overdrafts and/or invoice discounting, to finance their working capital needs. This grouping is mainly comprised of traders, but also includes firms in other lines of business. Micro enterprises are the majority, but there are also cases of larger firms, employing more than 20 people;
- another ***third is comprised of discouraged potential borrowers***, i.e. firms who have never applied for any type of bank financing because of the unfavorable conditions and/or because of lack of familiarity in

dealing with banks. This grouping is fairly composite, including very small and small firms (the majority have less than 10 workers) but also larger firms, especially in the construction and manufacturing business;

- about ***one quarter of firms have access to medium term loans and, often, also to overdrafts***. These ‘intensive users’ of financial products are mostly transport operators and service providers, usually with a turnover in excess of FDJ 20 millions;
- the rest of the firms surveyed, about 10%,, do not make any use of bank financing and ***appear uninterested in making use of bank financing***. These are very small firms, with less than 10 employees and with turnovers normally below FDJ 20 millions.

PART II – PROPOSED ACTION PLAN

1 INTRODUCTION

This second part of the Study is devoted to the detailed analysis a series of measures aimed at improving the conditions for SME access to finance. The proposed Action Plan consists of four different components, each aimed at addressing a specific constraint. In particular:

- Component #1 addresses the need of easing access to finance through the alleviation of collateral requirements, namely by promoting the ***use of credit guarantees***;
- Component #2 aims at diversifying the offer of financial products, especially by promoting the ***introduction of leasing*** as a complement to traditional bank lending;
- Component #3 focuses on the need to support the ***development of micro finance institutions***, through a combination of short-term and structural measures;
- Component #4 aims at improving the interaction between the demand and supply for finance, through the ***upgrading of project preparation and appraisal capabilities***.

The four components and the relative specific measures are illustrated in detail in subsequent sections. Further details on selected measures are provided in the Annexes.

2 PROMOTE THE USE OF CREDIT GUARANTEES

Introduction

The recent, positive developments in the banking system, with the arrival a of new commercial banks, are certainly going to improve the conditions for accessing finance. However, while a decline in interest rates is already noticeable, the mobilization of adequate collateral (normally in the form or real estate property) still poses significant problems to many SME operators. Under these conditions, the ***establishment of a credit guarantee fund*** specifically targeted at SME would represent a meaningful step to alleviate collateral requirements. Also, efforts should be deployed to ***encourage the use of credit guarantee facilities*** developed by donor organizations.

Measure 1.1: Establishment of an SME Credit Guarantee Fund

In many countries, credit guarantee funds (CGF) have played a crucial role in facilitating SME access to financing, and their establishment has been promoted by a number of donors and international organizations, such as the European Union, UNIDO and USAID. Recently, the CGF concept has been endorsed also by the World Bank Group. For instance, a major credit guarantee scheme was launched in by the IFC in Madagascar[10].

In Djibouti, the first proposal for the creation of a credit guarantee funds for SME dates back to 1990s. In 2004, the idea was re-launched by a study conducted by the EU-funded Center for the Development of Enterprises (CDE), following a request from the CCD[11]. Lately, the creation of a credit guarantee scheme was recommended in May 2007, within the framework of the reorganization of the FDED[12].

In general, the interest shown by the Government in the establishment of a CGF targeted at SME (SME-CGF) is a welcome development. However, in order to be effective, the proposed initiative should be inspired to international best practice. In particular, in line with the key principles for credit guarantees spelled out in the Basle 2 Accord, the proposed CGF should be subject to the regulatory powers of the Central Bank of Djibouti, who would be responsible for licensing and supervision.

The salient features of the proposed CGF can be summarized as follows:

- the CGF could operate with both established SME and prospective entrepreneurs, especially the so called *jeunes promoteurs*. In the case of ***established firms***, the primary objective would be to facilitate access to longer term and/or to larger loans. In the case of the ***jeunes promoteurs***, which constitute an intrinsically riskier market segment, measures should be devised to accurately scrutinize applications and, even more importantly, to ensure follow up support;
- ***operational parameters*** will have to be set and supervised by the CBD. In particular, this applies to maximum level of the so called ‘multiplier’, i.e. the ratio between the CGF capital and the total amount of guarantees that can be issued by the CGF. In parallel, the CBD should

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[10] The IFC credit guarantee scheme in Madagascar is part of a wider World Bank supported regional development project, the so called *Pôles Intégrés de Croissance* initiative. For more information, see www.pic.mg. The growing interest shown by the World Bank Group for credit guarantees is further witnessed by the organization of a workshop on the theme that is expected to take place in Washington in mid March 2008. For more information see www.ifc.org/ifcext/economics.nsf/Content/CON_Partial_Credit_Guarantee.

[11] Jean-Paul Couvreur, *La problematique du financement des PME à Djibouti*, August 2004.

[12] Presidential decree n. 2007-0117/PR/MEFPCP of May 21, 2007.

define the treatment of the CGF guarantees in the calculation of solvency ratios by commercial banks;

- while the Government is expected to play the role of promoter and to provide the bulk of the CGF initial capital, efforts should be made to ***associate the banking community and private sector organizations*** to the initiative, so as to ensure that the scheme is managed in a businesslike manner. In this case, the CGF governance bodies, namely the guarantee committee, should reflect the tripartite nature of the initiative;
- the CGF could to provide guarantees for both ***short term*** and ***long term loans***. The size of loans guaranteed by the CGF should reflect the SME development orientation of the initiative. In the case of established firms, the CGF could guarantee loans in the FDJ 5 - 20 millions range. In the case of the ***jeunes promoteurs***, amounts should be smaller;
- in order to avoid moral hazard and opportunistic behavior, the SME-CGF should only issue partial credit guarantees, normally covering not more than 50% of the value of loans. More favorable conditions could be extended to some sectors, geographical areas and/or categories of operators, but, in general, credit guarantees should never exceed 65%.

In an initial phase, a capital of FDJ 100 million could be adequate to attain a significant impact. Indeed, assuming that the CGF is authorized by the BCD to operate on the basis of a 'multiplier' of 4, this initial capital would allow to extend guarantees for up to FDJ 400 million. In turn, considering that the guarantee coverage would not exceed 50% of the value of guaranteed loans, this would allow to ***assist loans for a total amount in the order of FDJ 800 million*** (i.e. more than 5% of the current loan portfolio).

A detailed review of the steps to be undertaken for the establishment of the SME-CGF is presented in Annex A.

Measure 1.2: Promote the Use of Donor-supported Credit Guarantee Facilities

At the moment of writing, the Government has not yet allocated funds for the establishment of the SME-CGF. In case of delays in the mobilization of funds, an alternative could be represented by the recourse to credit guarantee schemes established by various donors. A scheme that appears of particular interest in the case of Djibouti is the *Assurance pour le risque des investissements* (ARIZ) program, funded by the *Agence Française de Développement* (AFD). The ARIZ program operates through two 'windows'. The first provides guarantees on ***individual loans*** with a value of at least € 200,000 (i.e. FDJ 50 million), with a coverage of up to 50%. The second window provides ***portfolio guarantees***, allowing to commercial banks to 'insure' their SME lending portfolio up to 50%[13]. The ARIZ program has been operational for some time, but the scheme is still scarcely known in Djibouti. Therefore, some promotional activities targeted at local banks and business circles could be useful.

[13] For more details on the ARIZ program, see www.afd.fr/jahia/webdav/site/myjahiasite/users/administrateur/public/plaquettes/plaquette-Ariz.pdf.

3 PROMOTE THE INTRODUCTION OF LEASING

Introduction

In Djibouti, the range of financial products currently available to the private sector is very limited, being largely restricted to overdraft facilities and short-term loans. An important step to broaden the range of products would be represented by the ***introduction of leasing***. Leasing is an instrument well adapted to SME, as it eliminates the need for collateral (see below), and it is especially suitable to finance investments involving the purchase of standardized materials, vehicles, agricultural machinery, and small industrial plants. Over the last decade, leasing has been successfully introduced into several African countries, such as Madagascar, Senegal, Tanzania, and Uganda. The diffusion of leasing in Africa has been actively supported by the World Bank Group, and in particular by the IFC, which contributed to the creation of leasing companies in several emerging countries[14].

Box 5 – Key Features of Leasing Operations

Leasing is a contractual arrangement whereby a company (the "lessee") obtains the right to use a capital good provided by a leasing company (the "lessor") in return for periodic payments. From the ***legal*** point of view, leasing is characterized by the separation between the ownership of an asset (which stays with the leasing company) and the possession and use of that asset (which is with the lessee). In case the lessee defaults on payments, the leasing company is entitled to take possession of the leased good. Therefore, unlike loans, leasing transactions do not require any collateral, as the goods leased are themselves a guarantee for the lessor. From a ***financial*** point of view, leasing contracts are typically more flexible compared to bank loans, and allow the financing of a higher share of the investment costs, sometimes up to 100%.

A distinction is typically made between financial and operating leasing. In the case of ***operating leasing***, the contract duration is usually short (much shorter than the useful life of the leased good), and at the end of the lease contract, the lessee can choose either to return the good to the leasing company or to renew the lease contract for a new duration. Operating lease is quite common in the case of vehicles and of goods characterized by a high rate of obsolescence (e.g. computers). In the case of ***financial leasing***, the goal of the lessee is not the simple use, but the acquisition, of the leased asset. Therefore, the contract provides the option for the lessee to purchase the asset for a specified price at the end of the contract.

In several countries, Governmental authorities provide tax incentives to encourage leasing development, as they recognize that this financial instrument allows SME and, especially, start-ups to finance their investments.

In Djibouti, leasing is still largely unknown. Few importers and distributors of vehicles have recently started to use a sort of operating leasing with large customers, but financial leasing, which allows to finance significant investments projects, is not practiced yet. Taking into account the small size of the Djibouti economy, the question has arose of whether the potential market could justify the establishment of a leasing company. To provide an answer to this question, the Consultant conducted a ***study of the potential market*** for some types of equipment goods that better lend themselves to the use of leasing. All in all, the potential market for leasing can be currently estimated at some FDJ 375 – 475 million (US$ 2 – 3 million), with a potential to grow to FDJ 900 – 1,300 million (US$ 5-7 million) in the medium term[15]. These figures are fairly modest, but under

[14] For a slightly outdated but still useful review of the IFC's experience in leasing, see : *Lessons of Experience: Leasing in Emerging Markets*, 1996.
[15] Study results are presented in the details in the Annex B.

certain conditions, could nonetheless justify to the establishment of a local leasing company or the opening of leasing facilities by the commercial banks already operating in the country.

Box 6 – The experience of other economies of comparable size

The modest size of the economy does not necessarily constitute an obstacle to leasing development. At present, leasing companies are active in several small countries, in Africa, Asia and Latin America. An interesting example is provided by the Maldives, which have a GDP (approx. US$ 900 million) comparable with that of Djibouti (about US$ 750 million). In the Maldives, leasing experienced a remarkable development and, following the creation in 2002 of the IFC-participated *Maldives Finance Leasing Company Limited*, the market has grown from zero to US$ 15 million (over FDJ 2.5 billion) in five years. The majority of transactions concern equipment (for tourism, fishery, etc), with a unit value of less than US$ 50,000. The Maldivian economy is more sophisticated and diversified that that of Djibouti, but Djibouti can also count on some important assets, such as the activities related to the port and the new industrial free zones, which could generate an important demand for equipment goods susceptible to be financed through leasing.

Measure 2.1: Attract the Interest of Specialized Leasing Operators

The Government has shown a keen interest in developing leasing and the results of the market assessment conducted within the framework of this Study could serve as a basis to ***approach potential investors***. In this respect, it should be noted that a financial group based in Europe, but with substantial experience in leasing in African countries, has already demonstrated some interest in opening a leasing operation in Djibouti. The representatives of this financial group are expected to carry out a scouting mission in Djibouti in the next future. Another possibility lies in the fact that the two French-owned banks operating in Djibouti are part of large groups with an active presence in the leasing industry, including experiences in some African countries. In parallel with the above, it would be useful to establish contacts with the IFC that, as already mentioned, plays a very active role in leasing development. In particular, thanks to its vast network of contacts among leasing operators, the IFC could contribute to the promotion of the initiative and, if the basic conditions are met, it could also consider a participation in the capital of the leasing company.

Measure 2.2 : Establish an Appropriate Legal and Fiscal Framework

The launch of a leasing operation requires the creation of an appropriate legal and fiscal framework. Typically, two issues are considered of crucial importance by operators, namely:

- the possibility to legally repossess leased goods without court procedures;
- the possibility for the leasing company to ‘accelerate’ the depreciation of leased goods.

The analysis of these aspects falls outside the scope of this Study. However, in case a tangible interest is demonstrated by potential investors, it would be necessary to perform a detailed ***review of the fiscal and legal framework***, in order to identify possible problem areas and, in case, envisage the most appropriate solutions. In this case, the IFC could provide an extremely important support, given its vast experience gained in other African countries.

4 STRENGTHEN MICROFINANCE INSTITUTIONS

Introduction

Microfinance could play a major role in supporting the development of informal micro enterprises and other income generation activities. However, despite the significant resources deployed over the last few years, the Djiboutian micro finance sector still operates well below its potential. The AfDB project implemented by the FSD certainly contributed to popularize the concept of microfinance, but several MFI organizations remain very weak and the range of products offered is still confined to 'classical' group lending. Even more worrying, the closure of the AfDB project and the consolidation of FSD into the ADDS has led to the suspension of all micro lending activities, and this is threatening the very survival of the system. Under these conditions, the ***resumption of lending to micro finance associations*** is the most urgent priority. A second important step is represented by the ***establishment of a proper legal framework for MFI activities***. In the medium and long term, significant work will have to be done to reinforce existing micro lending associations, to enhance their operational capabilities and financial self sustainability, and this calls for the launch of a ***major institutional strengthening program***.

Measure 3.1: Resume Financing to Micro lending Associations

The microfinance associations established within the framework of the AfDB project have not received any funding since mid 2007 and this has led to the complete suspension of micro lending activities. Such a prolonged suspension of activities poses a major threat to the survival of the whole system. Therefore, it is imperative that the microfinance department of the ADDS be put in the condition to ***rapidly resume the provision of funds to the micro lending associations***. This could be done utilizing the residual amount of the AfDB project and/or other allocations available for microfinance within the framework of INDS. The resumption of financing to associations should take into account the suggestions formulated in the final audit of the AfDB project completed at the end of 2007. In particular, this concerns the need to avoid delays in disbursement and, especially, the possibility for the associations to recycle the funds received from ADDS for new loans (see below).

Measure 3.2: Establish an Appropriate Regulatory Framework

An appropriate legal framework is fundamental for the development of a healthy microfinance sector. The general framework for MFI operations, provided by the law n°179/AN/07/5e of May 16, 2007, must be completed with the issuance of specific ***regulations covering licensing procedures and operational aspects***. The responsibility for overseeing the micro finance sector is entrusted to the CBD, which in late 2007 proceeded to formulate a first draft of the new regulations. The proposed text is broadly in line with the needs of the microfinance sector, but some improvements appear nonetheless necessary or at least desirable, especially regarding:

- the removal of interest rate ceilings;
- the introduction of limits to the possibility of collecting savings, which should be subject to an improvement of MFI's operational capabilities;
- the adoption of more stringent criteria for the measurement of credit risk and for provisioning;
- the introduction of provisions concerning the tracking and provisioning of renegotiated loans (refinanced or rescheduled loans);
- the introduction of rules aimed at incentivizing the progressive capitalization of MFI (especially if they are to engage in deposit taking activities)..

Detailed comments and specific suggestions regarding the proposed BCD regulations are included in Annex C.

Measure 3.3: Support MFI Long Term Development and Sustainability

Some of the associations created within the AfDB project have reached a decent operational level but many remain weak. In general, these associations can be better described as 'distributors of micro credits', rather than proper microfinance institutions. Also, the final audit report of the AfDB project shows that the cost recovery rate was quite low and the portfolio yield was well below the minimum needed to ensure sustainability. Under these conditions, it is clear that if the MFI sector is to play a significant role in the future, a major institutional strengthening effort is required.

In particular, a medium term program for the strengething of the MFI system should include measures aimed at:

- improving ***MFI funding mechanisms***. Under the AfDB project, micro lending associations were required to reimburse the loans obtained from the FSD in line with the repayments made by the final borrowers and only once the loan had been fully repaid, associations could apply for another loans. In other words, micro lending associations could not 'recycle' the funds received from the FSD to provide new loans to their clients. Such an approach could have been justified in the early stages, when it was necessary to exert a strong control on financial flows, but it was retained unchanged during the whole life of the project. As a result, the portfolio yield was drastically reduced, with a substantial negative impact on the sustainability of micro lending associations;
- promoting the ***gradual capitalization of MFI***. As a corollary to the above, if the micro lending associations are to become proper MFI, they should be able to count on their own resources and reduce the dependency from donor supported projects or funds made available by the Government;
- improving the ***skills of human resources*** involved in the management of the microfinance associations. This requires a significant amount of on the job training as well as the introduction of an incentive system to promote the adoption of a more professional approach;
- promoting the ***diversification of the financial products offered***, in particular with the introduction of individual loans for micro enterprises. This objective could be achieved either with the creation of new institutions (as in the case of PDMM) or through the diversification of services offered by micro lending associations. In the medium term, the introduction of micro leasing could also represent an interesting opportunity;
- improving ***financial self sustainability***, through the introduction of interest rates high enough to cover operating costs, financial costs and provisions. This implies, in turn, the establishment of a tracking system of the main ratios of sustainability and portfolio quality for all the MFI;
- supporting the ***consolidation of the MFI sector***, through the merging of some of the smaller associations. This would allow the remaining associations to achieve a more sustainable scale of operations.

From an institutional point of view, the consolidation of the FSD into the ADDS may have the merit of enhancing the coordination of all poverty reduction interventions at the 'strategic level' but it also brings under the same roof instruments (micro finance, infrastructure development) which have little in common. Therefore, it is essential to ***ensure the autonomy of the microfinance component*** through the adoption of a series of adequate measures (i.e. specialized and separate staff, clear definition of the objectives aiming at the institutional development and sustainability of MFI, etc.).

The experience of other countries shows that the establishment of well functioning MFI systems often require the deployment of significant ***long-term technical assistance***. The point is clearly made in the final audit report of the AfDB project, which underlines the need “to have [in the future] an adequate technical support” to ensure “a better management of the microfinance component”. As soon as the funding mechanism is restored within the new framework of the ADDS, the Government should start establishing contacts with the donors to mobilize the resources required.

Box 7 - Rating of MFI: a Tool to Facilitate Access to External Funding

The objective to reach the sustainability of the microfinance institutions could be supported by the diversification of the financial sources. At the international level, there are many charitable organizations, foundations and NGO, as well as private investors willing to support financially MFI in developing countries through the provision of investments and/or grants. However, in order to facilitate the access to these financing opportunities, MFI must be able to proof that their operations are conducted in a sound manner, in line with basic principles of financial sustainability. This can be done by obtaining a rating from a specialized microfinance rating agency. In the case of Djibouti, it is premature to proceed to the rating of existing associations but, if the above recommendations are implemented, the opportunity could arise in the medium term. Therefore, in perspective, the ADDS should be ready to allocate adequate funds to cover the cost of rating.

5 UPGRADE PROJECT PREPARATION AND APPRAISAL CAPABILITIES

Introduction

The quality of investment projects formulated by SME is often criticized by commercial banks. It is certainly possible that banks are sometimes too demanding, but the review of several business plans carried out during field work confirms that the problem is real. At the same time, a number of small firms have an extremely limited knowledge of loan application procedures and conditions, to the point that they do not even dare to approach commercial banks. In this context, an improvement of the interaction between the 'supply' and 'demand' sides of the credit market could be achieved through the ***establishment of an SME financing support unit***. Another area of intervention relates to the ***upgrading of project appraisal capabilities*** in certain financial institutions. This is especially the case of FDED, where there is a clear imbalance between the capabilities displayed by staff and the volume of SME lending potentially feasible under the KFAED credit line.

Measure 4.1 : Establish an SME Financing Support Unit

In Djibouti, there is currently no entity providing assistance to private operators in the formulation of their investments projects. Government entities are ill equipped to cope with requests of assistance coming from private operators, while the market for consulting services is still largely undeveloped, consisting mainly of accountants without the necessary experience. An enterprise support structure (the *Centre de Gestion Agréé*, CGA) was recently created within the Chamber of Commerce, but this entity is, at least in an initial phase, mainly focused on the provision of accounting and tax-related services. Therefore, the creation of an SME financing support unit (SME Unit) could help fill this gap.

The objective of this structure would be to increase the number of 'bankable' projects submitted to the financial institutions by SME and, in general, to increase the dynamism of private investment dynamism. As a first task, the structure should ***intensely interact with the entrepreneurs*** in order to: (i) guide the development of their investment projects, based on a realistic assessment of their strengths and weaknesses, and (ii) identify their financing needs as well as the most adequate financing sources to be approached. A non-exhaustive list of the activities to be performed includes: market analysis, pricing and break-even analysis, the assessment of fixed capital and working capital requirements, and the identification of equipment and/or raw materials suppliers. Following this preparatory work, the SME Unit would assist private operators in ***drafting loan applications*** and, more generally, in ***dealing with commercial banks***. Finally, in case the financing is granted, the structure could provide ***additional assistance during project implementation***. In order to mitigate bankers' concerns in lending to SME, it is possible to envisage that the provision of post investment assistance is regarded as a precondition for the granting of a loan. In this case, it could be useful to sign a framework agreement between the SME Unit and the banks, setting the obligations of the structure vis-à-vis financial institutions as well as the obligations of the entrepreneurs.

The structural features and operating modalities of the SME Unit should be inspired by a few basic principles, namely:

- in order to ***maximize synergies and avoid overlapping***, the new structure should be hosted by an entity already active in SME development. In this respect, the Ministry of Trade and Industry or the CCD are the most obvious candidates;
- given the small size of the country, a ***light structure*** should be envisaged. In the short to medium term, two local consultants, with a minimum of logistical support, could be sufficient;

- at the same time, the structure should count on ***qualified human resources***, having practical experience in the field of SME financing and in assisting private operators;
- in perspective, the SME unit should become ***financially self sustainable***, by charging fees for its services. However, this objective could only be attained in the medium to long term, as it would take time for private operators to start appreciating the benefits of the service.

The establishment of the SME Unit should be supported by some ***technical assistance***, to help structuring the operation and, especially, to provide the necessary on the job training to local personnel. To this effects, contacts should be made with donor organizations, to mobilize the necessary financing. In this respect, it should be noted that the theme of SME financing has already drawn the attention of some donors. For instance, SME support measures are envisaged in a report released by the UNIDO in November 2007. Previously, the adoption of measures aimed at improving the quality of investment projects had been identified by a diagnostic study carried out by the Center for the Development of Enterprises (CDE) on behalf of the CCD. It would be important to renew the contacts with these institutions as well as with other donors, which are traditionally sensitive to the SME financing theme, such as the USAID and the World Bank (IFC's PEP Africa programs as well as the FIRST Initiative).

More details on the activities and resources required to establish the SME Unit are presented in Annex D.

Measure 4.2: Strengthen Project Appraisal Capabilities

The settlement of problems that prevented the utilization of the KFAED credit line channeled through the FDED opens significant opportunities but also poses important challenges. At the time of writing, some 150 applications are pending before the FDED. However, a number of these applications display significant weaknesses, from both formal (poor documentation, lack of financial projections, etc.) and substantial point of view (vague economic logic, inflated costs, etc). At the same time, the FDED capability to appraise these applications appears limited, and would require strengthening with reference to several areas (e.g. market analysis, assessment of imported equipment costs, financial analysis). In this context, the upgrading of FDED project appraisal capabilities could contribute to ***accelerate the use of the resources available*** through the KFAED credit line and, at the same time, to ***ensure that the loans are given to well deserving SME***.

Ideally, the strengthening of FDED would also require the mobilization of some ***technical assistance***. In a first phase, the assistance should concentrate on the analysis of the existing financing applications. This would comprise the classification of applications into three categories, in particular:
- applications that can be quickly approved, on the basis of the available documentation and/or with a modest supplement of information;
- applications displaying interesting features, but requiring an update and/or a more detailed analysis;
- applications that do not meet the minimal condition criteria and that should be dropped.

The above operational work would be accompanied by a series of hands-on training sessions, during which the key features of the evaluated projects would be critically reviewed, to identify the criteria to be retained for the evaluation of the future financing applications. This should lead to the preparation of a simple operational handbook for project analysis. In order to maximize the impact of the know-how transfer, the personnel of the FDED should play an active part in the preparation of this handbook, leaving to the international experts a coordination role only.

In turn, once that the projects are approved, the attention should concentrate on the monitoring of the investments financed by the credit line, to ensure the rigorous application of loan conditions and, if necessary, to help the promoters to solve arising problems (problems with the foreign suppliers, etc).

ANNEXES

ANNEX A – SME CREDIT GUARANTEE FUND - DETAILED ACTION PLAN

Actions		Time Schedule[16]	Description/Comments
1.1.1	***Verify the availability of public funds for the capitalization of the Fund***	***Month 0***	The availability of public funds for the capitalization of the SME-CGF is an obvious essential precondition for its establishment. It has to be highlighted that, to ensure the solvency of the Fund, the start-up capital should be actually disbursed and not only allocated.
1.1.2	***Verify the willingness of other actors to actively participate in the initiative***	***Month 1***	An effort should be made to secure the participation of other relevant actors (i.e. commercial banks, business community and donors) in the capitalization and the management of the SME-CGF. The importance of the participation of ***commercial banks*** goes well beyond their financial contribution, as it would demonstrate confidence in this new instrument and, more importantly, readiness to use it. With regard to the ***businesses community***, a participation of the CCD would be useful, but, at present, the institution appears to have limited financial means[17]. Concerning ***donors***, their participation could reinforce the financial capacity of the funds and would greatly increase the credibility of the initiative[18].
1.1.3	***Drafting of a BCD regulation covering the activities of the SME-CGF***	***Month 2***	The BCD regulation should be inspired to the principles of the Basle 2 Accord, which require that CGF are subject to supervision equivalent to that adopted for the banks. The main aspects to be regulated are: • the nature of the guarantees and the payment modalities in case of default; • the 'multiplier' (i.e. the ratio between the fund's own resources and the total amount of guarantees that can be issued); • the procedures to be adopted for the issuance of the guarantees; • the treatment reserved to the loans assisted by a SME-CGF guarantee for the calculation of loan provisions by commercial banks.
1.1.4	***Decision concerning the legal form of the SME-CGF, with two options:*** ***A. autonomous legal entity, although controlled by the State through the FDED;***	***Month 2***	The establishment of the SME-CGF as an autonomous legal entity represents by far the most appropriate solution, as it would make it possible to clearly separate the issuance of credit guarantees from other activities entrusted to the FDED. Moreover, this option would facilitate the participation of other actors, who would become shareholders of the SME-CGF.

[16] The time schedule is expressed in months, starting from the date when the decision to allocate the resources required for the capitalization of the SME-CGF is taken.
[17] It seems that the State is debtor to the CCD of an important amount under contributions made by the companies. In case this is confirmed, a part of this amount could be transformed into contribution to the capital of the SME-CGF.
[18] In this respect, it should be noted that a credit guarantee scheme was recently launched by the World Bank – IFC in Madagascar, in the framework of a large scale PSD initiative. Credit guarantees are also provided to financial institutions by the USAID Development Credit Authority. FMO is also reportedly active in this field, but Djibouti does not seem to be a priority country for the Dutch assistance program.

	B. 'special section' of the FDED		The alternative is represented by the creation of a 'special section' within the FDED, which would be solely responsible for the credit guarantee business and which would be subject to the supervision of the BCD. However, in this case, it is difficult to envisage a participation of commercial banks in the CGF, as their financial contribution would not give them the statute of shareholder. ***Important***: the creation of an independent legal entity does not necessary involve an increase in operating costs: the FDED could host the SME-CGF in its premises (which are owned) and could make available at cost some of its personnel
1.1.5A	***Preparation of legal documents for the incorporation of the SME-CGF***	***Month 3***	In case option A (SME-CGF as an independent legal entity) is retained, the SME-CGF charter should reflect the nature of non-bank financial institution of the fund. Consistently with the 'development orientation' of the initiative, the charter should establish that profits would not be distributed but rather they would be set aside as reserves, so as to increase the financial strength of the SME-CGF.
1.1.5B	***Adoption of measures to ensure the independence of the "special section"***	***Month 3***	In case option B (SME-CGF as a 'special section' within FDED) is retained, measures should devised to clearly separate the credit guarantee business (and related funds) from FDED's activities. This would be essential in order to reassure the banks and the BCD about the solvency of the SME-CGF. To this aim, the deposit of SME-CGF money in a 'blocked account' on a third institution, such as the BCD, could be envisaged.
1.1.6	***Licensing of the SME-CGF by the BCD***	***Month 4***	The licensing would be done on the basis of the criteria and conditions indicated in the above mentioned BCD regulation. The BCD decision should specify the maximum multiplier that can be achieved by the SME-CGF. Taking into account local market conditions, it is expected that the SME-CGF would operate with a maximum multiplier of 4-5, starting from lower values (2 or 3) in the first three years operations.
1.1.7	***Set up operational procedures***	***Month 5***	This would involve two main tasks, namely: • the preparation of a manual of procedures for the issuance of the credit guarantees in conformity with the instructions of the BCD; • the development and installation of a management information system, to handle operational activities and allow for the fulfillment of reporting requirements imposed by the BCD.
1.1.8	***Drafting of key operational documents***	***Month 6***	This would involve the preparation of: • model guarantee contracts; • model framework agreements with commercial banks, specifying respective obligations and rights.
1.1.9	***Clarification of the tax regime applicable to***	***Month 6***	In case the SME-CGF is established as an independent legal entity, it would be subject to corporate taxation.

	the SME-CGF		Nevertheless, consistently with the 'development orientation' of the initiative, a case could be made to seek tax exemption. Steps should be made to this effect with the Ministry of Finance.
1.1.10	***Training of personnel***	***Month 7***	In Djibouti there is no previous experience with credit guarantees and the CGF personnel would need to be adequately trained. In the pre operational phase, it is necessary to envisage at least a one month of intensive training. This would be followed by a longer period of hands on assistance and coaching during the launching phase (see below).
1.1.11	***Set up of governance mechanisms***	***Month 7***	Decisions regarding the assessment and approval of credit guarantees would be entrusted to a Guarantee Committee, conceptually equivalent to a credit committee in a bank. The Guarantee Committee would be comprised of three regular members and three alternates. A regular member and an alternate should be indicated by each of the three 'components' which are expected to contribute to the establishment of the SME-CGF, namely: the public sector, the banking sector, and the business community. Members of the Guarantee Committee should be reputable persons, with high professional standing, and possessing all the qualifications generally required by the BCD in the case of the managers of commercial banks. In case the SME-CGF is established as an independent legal entity, members of the Guarantee Committee would be appointed by the Board of Directors. Otherwise, they would be named by the Board of Directors of FDED.
1.1.12	***Formulation of a communication strategy***	***Month 8***	Credit guarantees would a new financial product in Djibouti. Therefore, it is necessary to envisage an awareness campaign to the attention of SME. In formulating the communication strategy, it would important to stress that the SME – CGF would operate on the basis of sound financial principles. In other words, the SME-CGF should be perceived by the audience as an entity 'close' to SME but, at the same time, rigorous in the appraisal of applications.
1.1.13	***Start up and initial operations***	***Months 9 - 15***	The initial months of operations will be of crucial importance to establish the reputation of the SME-CGF as a reliable partner for both SME and banks. Therefore, it is necessary that the start up and the initial operational phase is adequately supported by technical assistance, with the coaching the SME-CGF staff for a period of at least 6 months.

ANNEX B – POTENTIAL MARKET FOR LEASING

B.1 Introduction

One of the tasks entrusted to the Consultant was to estimate the size of the potential market for leasing, in order to assess the feasibility of a leasing operation in Djibouti. The results of this analysis are presented in this Annex. In particular:

- section B.2 presents the scope of the analysis and the main sources used;
- section B.3 provides an estimate of leasing market, with special reference to a few categories of goods;
- section B.4 derives some indirect estimates of the leasing market, based on the analysis of some macroeconomic variables.

B.2 Scope of Analysis and Sources

The analysis concentrated on ***five categories of equipment goods*** for which operational and/or financial leasing traditionally plays an important role, namely:

- new and second-hand passenger and dual purpose vehicles, i.e. cars and pick ups;
- commercial vehicles (trucks, trailers, etc.);
- equipment for the construction industry (concrete-mixers, excavators, etc.);
- logistics equipment (forklifts, cranes, etc.);
- office automation equipment, and, in particular, computers.

The analysis did not take into account other investment goods whose purchase is often financed through leasing, such as power generating sets and industrial plants, due to the difficulty of clearly determining their market trends. The potential market for real-estate leasing was also not considered, as it is too early to envisage its development in Djibouti.

Due to the weaknesses of the Djiboutian productive structure, almost all the equipments included in the above mentioned categories are not locally produced but imported. Consequently, the starting point for the market research was the analysis of ***statistics on imports*** provided by the Customs Authority. In particular, the attention was focused on import statistics structured for three main chapters of the Harmonized System nomenclature for the years 2006 and 2007[19]. The analysis of import data was complemented with qualitative and quantitative ***information from other sources*** (such as the results of the SME survey or the data on the public expenditure on infrastructure), which proved particularly useful to gauge future trends.

B.2 Market Size Estimates

Passenger Vehicles. Based on import data, in 2007 the Djibouti car market consisted of about 1,100 – 1,200 vehicles, for a total value of approximately FDJ 3 billion[20]. Compared to 2006, this represents a 50% increase in value. The growth is due to a combination of 'quantity' and 'price' effects, with an increase in the number of cars imported but also a progressive shift from second-hand to new cars (or, in any way, to more expensive vehicles).

[19] Data for several sub-headings falling under the following HS items were retrieved and analyzed: (i) HS 84: nuclear reactors, boilers, machinery & mechanical appliances, computers; (ii) HS 85: electrical machinery & equipment & parts, telecommunications equipment, sound recorders, television recorders; and (iii) HS 87: vehicles other than railway or tramway rolling stock. Data provided the Custom Authority are summarized in two tables at the end of this Annex.

[20] An effort to validate our estimates with data on car registrations was made, but the last statistics kept by the Ministry of Internal Affairs are too old to be of any use (the latest data available refer to 2002).

In developing countries, cars represent a major component of the leasing market. In Djibouti, a sort of operational leasing is already adopted by a few importers working with large customers. However, this market is still limited to a few tens of cars. Based on the information obtained from some operators, it can be estimated that leasing could initially finance between 5% and 7% of the transactions related to imported cars, i.e. between 60 and 90 cars per annum. Considering an average value of FDJ 2.5 million per vehicle, in an initial phase, the potential market for leasing could be in the order of FDJ 150 - 210 million. In the medium-long term, both the car fleet and the recourse to leasing are expected to expand considerably, and the two trends are expected to be mutually reinforcing (i.e. the availability of leasing would contribute to increase the demand for vehicles). All in all, over a five-year period, it appears reasonable to expect that the potential market for car leasing could reach an annual value in the order of FDJ 500 to 700 million.

Commercial Vehicles. In Djibouti, the market for trucks is rather limited, as long distance haulage is traditionally the preserve of Ethiopian truckers. In 2007, about 60 trucks were imported, with an average unit value of FDJ 2.5 million (corresponding to a total value of FDJ 150 million). In the medium-long term, the governmental policy aimed at supporting national operators (involving, inter alia, the hardening the prerequisites to become an approved forwarding agent), is expected to generate a modest increase in the demand for trucks, which could reach the level of 100 units per annum. While the market is much smaller than in the case of cars, truckers and logistics operators are expected to display a comparatively higher propensity to rely on leasing, with a penetration rate of about 20%. Therefore, the potential market for leasing can estimated to grow from an initial value of FDJ 25 million (about ten trucks) to some FDJ 50 million in the medium-term.

Equipment for the Construction Industry. In 2007, the imports of equipment for the construction industry reached the remarkable level of FDJ 1.3 billion. Imports largely concerned two types of equipment, namely: (i) mobile cranes (70 units, with an average value of FDJ 6 million), and (ii) mobile concrete mixers (170 units, with an average value of FDJ 3 million). Most likely, 2007 was a peak year, because of an unusually high level of construction activity. Nonetheless, demand for construction equipment is expected to remain at fairly substantial levels also in the future. Indeed, the overall value of public investment in projects with an important infrastructure component (such as the rehabilitation of the southern corridor Arta-Guelilé) is set at about FDJ 34 billion over the 2008 – 2011 period[21]. Considering that construction equipment accounts for between 7% and 10% of the investment value, this could translate into a total demand in the order of FDJ 2.5 – 3.5 billion.

Regarding leasing, in an initial phase the value of transactions can be set at about 10% of the imports recorded in 2007, i.e. approximately FDJ 130 million. This would be equivalent to some ten mobile cranes and twenty concrete mixers. In the medium-term, the recourse to leasing is likely to be significantly influenced by government policy in the area of public procurement. In case tendering rules are geared towards large international contractors, the use of leasing services in Djibouti would be limited, as big players in the construction industry often have privileged relations with equipment manufacturers (which, in turn, sometimes have their own leasing companies, as in the case of *Caterpillar* or *Scania*). On the contrary, if a policy aimed at promoting the participation of local SME in tenders is adopted, then the use of leasing could be much more important. In general, it appears reasonable to assume that the annual market for the leasing of construction equipment could fall in the FDJ 200 to 300 million range.

Logistics Equipment. In 2007, developments in the new port and in the free zone triggered an exceptional growth in imports of logistics equipment (elevators or conveying, hoists, cranes, etc), which reached a total value of more than FDJ 400 million, compared with a mere FDJ 50 million in

[21] It is worth noticing that this value relates only to initiatives in pipeline for which full financial coverage is already secured. For more information, see the table at the end of this Annex.

2006. The level of investments recorded in 2007 appears to be largely influenced by one-shot investments, and therefore cannot be extrapolated into the future. However, results of the SME survey carried out within the framework of the study, suggest a high propensity to invest among forwarding agents and logistics operators. Therefore, the annual amount of investment can be roughly estimated to be in the FDJ 200 - 300 million range. The majority of logistics equipment can be financed through leasing and this financial instrument is likely to find a fertile ground among logistics operators, by far the most sophisticated entrepreneurs from the financial point of view. In this context, leasing could initially gain a market share of at least 20% (FDJ 40 - 60 million), to subsequently grow to 40 - 50% in medium term (i.e. a market of FDJ 80 - 150 million).

Office Automation - Computers. Over the last two years, the market for IT equipment recorded a dynamic very similar to the one described in the cases of the logistics equipment. Indeed, in 2007 the value of imports reached FDJ 1.5 billion, compared with only FDJ 200 million of 2006. More than half of this value is represented by equipment with a very high unit cost (over FDJ 50 million), purchased in connection with large investment projects, but the market for computers is also important, in the order of FDJ 600 - 700 million. In Djibouti, the rate of computer penetration (24 computers per 1,000 inhabitants) is higher than in the majority of Sub-Saharan Africa countries (less than 10 computers/1,000 inhabitants) but still well below the level found in the Middle East/North Africa region (48 computers/1,000 inhabitants)[22], and this suggests that the potential for further growth remains important. The experience of other emerging countries shows that the introduction of leasing could play an important role in supporting a wider use of IT equipment, as it makes the purchase of computers more accessible to micro enterprises and to a large share of the population. Therefore, using the 2007 data as a starting point, it is estimated that in an initial phase leasing could cover between 5% and 7% of the market, i.e. FDJ 30 to 50 million, reaching a market share of 15-20% in the medium-term, equivalent to FDJ 90 to 140 million.

Concluding Remarks. Based on the elements presented above, in an ***initial phase*** the potential market for leasing can be estimated between FDJ 375 and 475 million, i.e. between US$ 2.1 and 2.7 million. In the ***medium-term***, i.e. over a five years period, the market could expand significantly, reaching a value of FDJ 910 to 1,340 million (US$ 5 - 8 million). Cumulative data are presented in Table B.1 below.

Table B.1 – Potential Market for Leasing
(in million FDJ)

	Initial phase	**Medium term (after 5 years)**
Passenger Vehicles	150 - 210	500 - 700
Commercial Vehicles	25	50
Equipment for the construction and building industry	130	200 - 300
Logistic Equipment	40 - 60	80 - 150
IT Equipment	30 - 50	90 - 140
Total	**375 - 475**	**910 – 1,340**

B.3 Indirect Estimates

The estimates offered in the previous sections are based on a limited set of quantitative information and to a significant extent rely on subjective assessment Therefore, we decided to compare the

[22] Source: World Bank, *Information and Communications for Development 2006: Global Trends and Policies.*

results of our analysis with other, 'indirect' estimates based on some macro economic parameters. The results of this validation exercise are provided below.

Indirect Estimate of the Leasing Market based on Fixed Capital Formation. In developed economies, leasing typically accounts for 20% to 30% of capital expenditures. In developing countries, leasing has a much smaller 'market share', typically below 5%. For instance, in Uganda, where the leasing industry is still in its infancy, in 2006, leasing represented about 1% of private sector capital formation[23]. In the case of Djibouti, the International Monetary Fund (IMF) estimated the annual value of private sector capital formation between FDJ 40 and 50 billion over the 2008 - 2011 period (see Table B.2 below). Using as a reference the 1% market share found in Uganda, the Djiboutian leasing market can be estimated between ***FDJ 400 and 500 million per year***. This value is consistent with the lower bound estimate presented in the previous section.

Table B.2 – Leasing Market and Public Investment Expenditure, 2008 - 2011

	2008	**2009**	**2010**	**2011**
Total Private Capital Formation (*FDJ billion*)	41.9	53.0	52.2	52.1
Projected Leasing Share (%)	1%	1%	1%	1%
Projected Leasing Volume (*FDJ million*)	***419***	***530***	***522***	***521***

Source: IMF - Staff Report for the 2007 Article IV Consultation Discussions, 2007

Indirect Estimate of the Leasing Market based on Imports of Capital Goods. In developing countries, leasing finances up to 15% - 20% of imports of capital goods. In the countries where leasing is still in the early stages of development, the market share is substantially smaller, sometimes around the 5%. For instance, in the Maldives, where leasing was introduced only in 2002, the share of capital goods imports financed through leasing is at about 6%. According to the IMF, Djibouti's imports of equipment goods over the 2008 – 2011 period will range between US$ 200 and 250 million per year (see Table B.3 below). Based on the assumption that leasing could finance between 2% and 4% of these imports (i.e. one third or two thirds of the value recorded in the Maldives), the total market of leasing could be estimated ***between FDJ 700 and 1,800 million per year***. These are quite significant figures, suggesting a bigger market potential than the estimates presented in the previous section.

Table B.3 - Leasing Market and Imports of Capital Goods, 2008 - 2011

	2008	**2009**	**2010**	**2011**
Imports of Capital Goods (*US$ million*)	207	245	236	225
Projected Leasing Share (%)	2-4%	2-4%	2-4%	2-4%
Projected Leasing Volume (*US$ million*)	***4 - 8***	***5 - 10***	***5 - 10***	***5 - 10***
Projected Leasing Volume (*FDJ billion*)	***0.7 - 1.4***	***0.9 – 1.8***	***0.9 – 1.8***	***0.9 – 1.8***

Indirect Estimate of the Leasing Market based on Bank Lending Data. A third approach to indirectly estimate the potential market for leasing is to establish a link with the value of bank credit. In several countries, the leasing market ranges between 15% and 20% of the total value of private sector lending, but in the initial phase this percentage is much lower. For example, in the case of Uganda, leasing initially accounted for only 2-3% of total private sector lending, reaching 5% after a few years.

In Djibouti, the most recent data available put total private sector lending (including loans and overdrafts) at some FDJ 27 billion. As indicated elsewhere in this Report, this is a fairly modest

[23] Juma Kisaame: "Case Study of DFCU Leasing Company - Uganda".

value, corresponding to some 20% of GDP. Conservatively assuming that (i) future lending to private sector would remain broadly at the same level, and (ii) recourse to leasing would follow a pattern similar to the one recorded in Uganda (with an initial 'market share' of 2.5%, followed by an increase to 5%), the potential market for leasing would range ***between FDJ 675 and FDJ 1,375 million***. Once again, these values are in line with the 'direct' estimates presented in the previous section.

Appendix – Import Data

Year 2006

Chapter	Code	Description	Value CIF (US$)
84 - Nuclear reactors, boilers, machinery & mechanical appliance; parts	**8426**	Derricks; cranes; straddle carriers, & works trucks fitted with a crane	102.154
	8427	Fork-lift trucks; other works trucks fitted with lifting/handling equipment	41.287
	8428	Lifting/handling/loading/unloadg mchy (ex lift/ escalator/ conveyors)	83.243
	8429	Self-propelled bulldozer/ excavator	489.773
	8430	Moving/grading/scraping/boring mchy for earth; pile driver	8.790
	8431	Part for use solely/principally with mchy of hd 84.25 to 84.30	34.057
	8471	Automatic data proces mach; optical reader, mach for transcribg data	1.242.203
	8474	Machinery for sorting/screening/ washg; agglomeratg/shapg mineral products	52.367
85 - Electrical machinery, equipments and parts thereof	**8502**	Electric generating sets and rotary converters	1.238.605
87 - Vehicles (other than railways/ tramways), parts & accessories	**8701**	8701 Tractors (other than tractors of heading no 87.09)	273.091
	8702	8702 Public-transport type passenger motor vehicles	2.896.656
	8703	8703 Motor veh princ designd for transp person (o/t 8702) incl car/station wagon	11.331.645
	8704	8704 Motor vehicles for the transport of goods	196.142
	8705	8705 Specl purp motor veh, o/t for person/good (crane lorry, mobile concrete mixers,…)	3.615.412
	8706	8706 Chassi fittd with engine for the vehicle of heading no 87.01-87.05	4.803
	8707	8707 Bodies (incl cabs), for the motor veh of heading nos 87.01-87.05	13.625
	8708	8708 Parts & access of the motor vehicles of heading nos 87.01-87.05	6.302.387
	8709	8709 Work truck, self-ppld, o/t w lifting equip, for factorie/airport etc;	48.343
TOTAL			**27.974.583**

Year 2007

Chapter	HS Code	Description	Value CIF (US$)
84 - Nuclear reactors, boilers, machinery & mechanical appliance; parts	**8426**	Derricks; cranes; straddle carriers, & works trucks fitted with a crane	471.463
	8427	Fork-lift trucks; other works trucks fitted with lifting/handling equipment	657.856
	8428	Lifting/handling/loading/unloadg mchy (ex lift/ escalator/ conveyors)	1.152.383
	8429	Self-propelled bulldozer/excavator	1.442.062
	8430	Moving/grading/scraping/boring mchy for earth; pile driver	124.031
	8431	Part for use solely/principally with mchy of hd 84.25 to 84.30	155.807
	8471	Automatic data proces mach; optical reader, mach for transcribg data	9.043.700
	8474	Machinery for sorting/screening/ washg; agglomeratg/shapg mineral products	13.431
85 - Electrical machinery, equipments and parts thereof	**8502**	Electric generating sets and rotary converters	3.134.060
87 - Vehicles (other than railways/ tramways), parts & accessories	**8701**	8701 Tractors (other than tractors of heading no 87.09)	1.060.898
	8702	8702 Public-transport type passenger motor vehicles	3.870.384
	8703	8703 Motor veh princ designd for transp person (o/t 8702) incl car/station wagon	17.282.533
	8704	8704 Motor vehicles for the transport of goods	856.262
	8705	8705 Specl purp motor veh, o/t for person/good (crane lorry, mobile concrete mixers,…)	5.651.961
	8706	8706 Chassi fittd with engine for the vehicle of heading no 87.01-87.05	14.771
	8707	8707 Bodies (incl cabs), for the motor veh of heading nos 87.01-87.05	56.511
	8708	8708 Parts & access of the motor vehicles of heading nos 87.01-87.05	26.952.486
	8709	8709 Work truck, self-ppld, o/t w lifting equip, for factorie/airport etc;	63.445
TOTAL			**72.004.044**

Forecasts of Public Investment in Infrastructure, 2008 – 2011
(FDJ millions)

Sector	Donor	Project	Institution	Type Fin.	Fin. total	2008	2009	2010	2011	Total 2008-11
Public Works	Iran	Construction Parlement & Centre Commercial		Loan	2,200	751	800	267		1,818
WatSan.	EDF	Assainissement Quartier 4	MHUEAT	Grant	1,200	464	247			711
WatSan	AfDB	Eau et assainissement (FAD X)	MAEM	Grant	1,915	300	1,008	443	524	2,275
WatSan	AfDB	Extension et réhabilitation du canal pluvial Salines Ouest	MAEM	Grant	300		100	100	100	300
WatSan	FED	Réhabilitation de la partie aval du réseau depuis la station abattoir incluse	MAEM	Grant	1,200	400	400	400		1,200
WatSan	FED	Réhabilitation de la station d'épuration de Douda	MAEM	Grant	1,900	450	450	500	500	1,900
WatSan	AfDB	Réhabilitation et construction de réseaux sur la partie amont de l'abattoir	MAEM	Grant	1,000	250	250	250	250	1,000
Education	IDB	Construction de deux collèges	MENESUP	Loan	1,244		244	1,000		1,244
Education	AFESD	Construction écoles et lycées	MENESUP	Loan	2,380	297	587	623		1,507
Education	Saudi A.	Construction écoles et lycées	MENESUP	Loan	1,247	280	424			704
Education	AFESD	Construction Université de Djibouti	MENESUP	Loan	2,975	130	1,470	1,470		3,070
Energy	AFESD	Extension centrale de Boulaos (phase 4) - EDD	MERN	Loan	2,380	1,000	614			1,614
Infrast. Road transp.	IDB	Projet Route Djibouti - Hol Hol	MET	Loan	2,932		932	1,000	1,000	2,932
Infrast. Road transp.	IDB	Projet Route Djibouti - Loyada	MET	Loan	2,044		644	700	700	2,044
Infrast. Road transp.	EDF	Réhabilitation couloir sud (Arta-Guelilé)	MET	Grant	1,540	556	514			1,070
Infrast. Road transp.	Kuwait	Route Tadjourah-Obock	MET	Loan	4,710	700	1,500	1,475		3,675
Health	IDB	Construction d'un Hôpital anti-tuberculeux	MS	Loan	889		445	444		889
Health	IDB	Construction Hôpital régional d'Ali Sabieh	MS	Loan	858	543	313			856
Health	Italy	Extension Hôpital Balbala	MSP	Grant	2,028	500	500	800		1,800
Urbanism	AFESD	Construction des Mille logements (phase 2)	MHUEAT	Loan	3,570	888	1,421	1,327		3,636
		Total				**7,509**	**12,863**	**10,799**	**3,074**	**34,245**

NB The table includes only those investment projects for the which financing sources have already been secured, which explains the reduction in the total value of investments in the years 2010 and 2011. It appears reasonable to assume that new initiatives will be launched in the future. This in turn would increase the demand for equipment and the potential market for leasing transactions.

ANNEX C – COMMENTS ON THE DRAFT MFI REGULATION

In this Annex we reproduce the comments formulated by the Consultant at the request of the CBD on the draft regulation on micro finance institutions[24]. The text includes two sections, the first providing some general comments and the second formulating detailed proposals for amendment of specific articles.

[24] The nature and contents of the regulation of MFI were discussed during several meetings with BCD staff. The comments presented in this Annex were submitted in writing on February 19, 2008.

Commentaires Generaux

Avant d'avancer quelques commentaires spécifiques à la proposition d'instructions pour la réglementation du secteur de la microfinance à Djibouti, il est important de mettre en relief certains aspects de caractère plus général concernant le cadre de réglementation et supervision du secteur, objet de la proposition :

- ***Réglementation des taux d'intérêt:*** l'expérience des vingt dernières années de la microfinance au niveau mondial montre que l'imposition de plafonds aux taux d'intérêt mine le développement d'un secteur viable et la croissance du secteur. Dans ce sens, il est opportun que les IMF soient libres de fixer les taux d'intérêt, actifs aussi bien que passifs, tandis qu'en même temps il est important de garantir la transparence envers les clients. La Banque Centrale doit maintenir un monitorage constant de l'évolution du secteur, mais sans imposer des limites aux taux ;
- ***Variété institutionnelle:*** sur la base de la loi régissant le secteur de la microfinance approuvée à Djibouti, la forme juridique des IMF inclut un éventail de typologies, à savoir: les sociétés de capitaux, les coopératives d'épargne et crédit et les associations sans but lucratif. Etant donné que les caractéristiques de chaque forme institutionnelle sont différentes, il serait important de différencier le règlement selon la typologie institutionnelle (par exemple pour ce qui concerne le capital minimum, le levier, la possibilité de mobiliser l'épargne, les mécanismes de gouvernance et ceux de contrôle interne) ;
- ***Mobilisation de l'épargne:*** la mobilisation de l'épargne, notamment l'épargne volontaire, est une activité complexe, qui augmente remarquablement la complexité de la gestion d'un intermédiaire financier et qui engendre des risques pour les petits épargnants. Il serait souhaitable que les IMF soient autorisées à collecter l'épargne seulement après avoir rejoint une certaine solidité opérationnelle et la pleine viabilité. En ce sens, les IMF à Djibouti ne se trouvent pas encore à ce stade. Il est également important que la typologie institutionnelle des IMF soit prise en considération: dans le cas des coopératives d'épargne et crédit, et plus en général pour les formes mutualistes, la mobilisation de l'épargne peut être autorisée depuis le début, faisant partie du modèle opérationnel, même s'il serait opportun, si ces institutions sont formellement assujetties à la supervision de la Banque Centrale, qu'elles possèdent les qualités requises en terme de capacité opérationnelle et organisationnelle. En particulier, étant donné que le premier cas de coopérative d'épargne et crédit sera appuyé par un réseau international ayant une vaste expérience (DID), les risques sont mitigés ;
- ***Capitalisation:*** pour les institutions qui collectent l'épargne il est opportun d'établir un niveau minimum de capital social. Dans les cas des coopératives d'épargne et crédit il est convenable que capital inclus dans le calcul du niveau minimum de capital se réfère exclusivement au capital institutionnel (donc non rachetable). Le niveau de l'adéquation du capital devrait être également défini par le règlement, notamment dans le cas d'institutions qui collectent l'épargne. Un niveau de 10-15% devrait être adéquat. Etant donné la situation des associations Djiboutiennes (complètement décapitalisées), les limites relatives à la capitalisation devraient être introduites progressivement et seulement pour ceux qui collectent l'épargne (du moins dans le court terme). En tout cas une «moral suasion» de la part de la Banque Centrale à l'égard de ces thèmes devrait pousser toutes les institutions de microfinance à pousser progressivement leur niveau de capitalisation et se renforcer ;
- ***Activité de supervision de la Banque Centrale:*** une efficace activité de supervision sur place et non de la part de la Banque Centrale requiert un engagement important de ressources et de temps. Même dans le cas d'un nombre limité d'institutions, spécialement quand la Banque Centrale n'a pas d'expérience en ce sens, les ressources nécessaires peuvent être remarquables. Pour cette raison, on recommande de promouvoir un processus d'unification des associations qui opèrent dans le cadre de l'ADDS, afin de réduire le nombre d'institutions qui doivent être supervisées. Il est en outre important de prévoir un appui externe adéquat de la part des bailleurs

de fonds en terme de formation et définition des instruments et des procédures pour la supervision, outre que pour les éventuelles ressources pour un éventuel élargissement de l'effectif en charge. Une autre alternative à prendre en considération est la possibilité de soumettre à supervision seulement les institutions dont le total de l'actif dépasse un certain montant minimum, afin de réduire le nombre des IMF soumises à supervision ou bien soumettre à supervision seulement les institutions collectant l'épargne. Malgré ces alternatives diffèrent par rapport à ce qui est actuellement prévu par la loi et par les règlements d'application, elles peuvent être considérées dans le court/moyen terme sur la base de l'expérience concrète d'application du dispositif de réglementation ;

- ***Texte du règlement d'application:*** le texte des règlements devrait être complété et élargi de façon générale afin de couvrir des domaines qui n'ont pas encore été touchés par le texte actuel, à savoir la documentation requise aux clients, la transparence contractuelle, les procédures et les règlements internes requis, le contrôle interne, la gouvernance, les caractéristiques et les diversifications de la propriété, les normes sur les états financiers et les standards comptables.

Amendements Proposés

PROPOSITION D'INSTRUCTION PORTANT RÉGLEMENTATION DES ACTIVITÉS DE CRÉDIT ET DE COLLECTE D'ÉPARGNE EXERCÉES PAR LES IMF À DJIBOUTI

Texte actuel	Modifications proposées	Commentaires
<u>**Article 1**</u> **: Termes plans d'amortissement des crédits** Dans le cadre de la présente Instruction, les crédits sains sont classés selon leur durée initiale de remboursement en crédits à court, moyen et long terme, comme suit : ➢ **Les crédits à long terme** (CLT) s'entendent des crédits dont la durée contractuelle est supérieure à 3 ans ; ➢ **Les crédits à moyen terme** (CMT) s'entendent des crédits dont la durée contractuelle est comprise entre 1 an + 1 jour et 3 ans ; ➢ **Les crédits à court terme** (CCT) s'entendent de ceux dont la durée contractuelle n'excède pas 1 an. Quelle que soit la catégorie dont il relève, le crédit devra être conforme dans sa durée au cycle économique ou de la durée de vie du matériel qui en constitue l'objet. L'institution de Micro finance prêteuse et l'emprunteur pourront convenir d'un différé de remboursement. La périodicité des remboursements pourra revêtir un caractère : • Hebdomadaire; • Mensuel ; • Trimestriel ; • Semestriel ; • Annuel ;	La périodicité des remboursements pourra aussi être irrégulière. Il faudrait ajouter au fond de l'article : ***La périodicité des remboursements pourra revêtir un caractère :*** ***- Irrégulier*** ***Le plan de remboursement du crédit doit en tout cas être cohérent avec le flux de caisse du client.***	La périodicité des remboursements des crédits peut fortement varier selon la cible et les caractéristiques des clients. Il peut également être irrégulier suivant le cycle économique de l'activité financée (voir, par exemple, le cas des activités agricoles ou, plus en général, rurales). L'aspect fondamental est que le plan d'amortissement se base sur le flux de caisse du client.

<u>Article 3</u> **Les taux d'intérêts et autres conditions financières :** Par la présente Instruction, l'Association Professionnelle des Institutions de Micro finance est autorisée, après avis de la Banque Centrale et concertation entre ses différents membres, à proposer des taux débiteurs plafonds (ou taux effectifs globaux). Ces propositions de taux s'inscriront dans le souci de mieux prendre en charge les réalités des populations vulnérables.	Il est convenable que les taux d'intérêt, notamment les taux actifs, ne soient pas plafonnés. L'association peut avoir un rôle en termes de transparence, à travers la collecte de données à ce propos et le calcul des taux effectifs appliqués par les différentes institutions, mais il n'est pas opportun qu'un plafond soit imposé pour les taux. On suggère donc d'éliminer cet article et de limiter le rôle de l'association au monitorage et à la diffusion des informations relatives aux taux appliqués par les différentes IMF. L'article pourrait devenir: ***L'Association Professionnelle des Institutions de Micro finance recueille et diffuse périodiquement des informations complètes sur les taux effectifs appliqués par ses membres.*** On pourrait en outre intégrer cette partie avec un article successif portant sur la transparence contractuelle qui prévoit que: «les emprunteurs nécessitent d'être informés de manière transparente à l'égard des différents éléments du contrat de prêt, inclus comment le taux d'intérêt est calculé et tout autre aspect qui pourrait raisonnablement impacter sur le processus décisionnel du client. Les contrats de prêt devraient par conséquent être accompagnés par des notes explicatives qui spécifient, de façon simple, les droits et les obligations des parties du contrat. Lorsque des soldes de compensation ou autres dépôts sont requis (ou bien l'acquisition de droit d'adhésion, dans le cas des coopératives), ces éléments doivent être inclus dans le calcul du coût effectif du crédit et devraient également être communiqués au client».	Un des aspects clé émergé de l'expérience de la microfinance dans le monde entier au cours des 20 dernières années, est que le problème fondamental du crédit est représenté par l'accès et non par le coût. En outre, étant donné que la gestion de petits crédits (dépôts) est en proportion plus chère, afin de rejoindre la viabilité les institutions de microfinance doivent pouvoir appliquer des taux d'intérêt suffisamment élevés, pour couvrir les charges. L'expérience du SFD à Djibouti montre qu'un des problèmes rencontrés a été le manque de viabilité. Dans ce contexte il n'est pas convenable d'imposer un plafond aux taux d'intérêt.
<u>Article 4</u> **La collecte de l'épargne :** Dans le respect strict des dispositions de la loi, les IMF peuvent commercialiser au profit de leurs membres ou usagers/clients, les produits d'épargne ci après :	Interdire pour le moment la mobilisation de l'épargne aux institutions qui ne soient pas des banques ou des coopératives d'épargne et crédit. Cela pourrait être revu dans un deuxième moment, avec la consolidation progressive du secteur. Dans le cas des coopératives	La mobilisation de l'épargne représente un défi important et complexe pour les IMF. De surcroît, le secteur à Djibouti demeure encore peu consolidé et aucune institution n'a été jusque là à même de démontrer de pouvoir opérer de façon viable, avec

a) des comptes de dépôts à vue sans délivrance de formules de chèques. Les retraits se feront par bordereaux d'opérations remis au guichet. **b)** des comptes sur livrets ou assimilés ou sont retracées les opérations de versement et/ou retrait effectuées par leurs titulaires ou mandataires et débiteurs (pour les versements) ; **c)** des dépôts à terme objet de contrats ou formules à signer conjointement entre le mandataire de l'IMF et l'épargnant. **d)** des plans épargne – projet	d'épargne et crédit (il n'y a qu'un seul cas pour l'instant) l'autorisation doit être octroyée depuis le début, car leur activité se base naturellement sur la collecte de l'épargne, même si la Banque Centrale doit vérifier la capacité institutionnelle et technique d'opérer de façon convenable. On suggère donc d'intégrer l'article avec: ***L'autorisation à la mobilisation de l'épargne sera accordée par la Banque Centrale sur la base des règles suivantes*** - ***les associations à but non lucratif pourront collecter l'épargne seulement après deux ans d'opérations et après avoir rejoint la viabilité opérationnelle et après vérification de la part de la Banque Centrale de la réalisation d'un niveau adéquat de capacité opérationnelle.*** - ***Les coopératives d'épargne et crédit pourront collecter l'épargne au démarrage des activités, après vérification de la part de la Banque Centrale de la réalisation d'un niveau adéquat de capacité opérationnelle.*** - ***Les sociétés de capitaux pourront collecter l'épargne quand elles respecteront les conditions établies par la loi pour la collecte de l'épargne publique et après vérification de la part de la Banque Centrale de la réalisation d'un niveau adéquat de capacité opérationnelle.***	des procédures et des opérations consolidées. On suggère donc de ne pas permettre la collecte de l'épargne aux IMF, jusqu'à ce qu'elles n'aient pas rejoint la viabilité financière. Dans le cas d'institutions dont la propriété appartient aux membres l'épargne fait, au contraire, partie de l'approche.
Article 5 **Rémunération de l'épargne :** Poursuivant l'objectif d'encourager la formation progressive d'une épargne intérieure, l'Association Professionnelle des Institutions de Micro finance après avis de la **Banque Centrale et concertation entre ses différents membres**, pourra proposer l'application de taux créditeurs planchers à l'épargne constituée volontairement ou non par leurs sociétaires et usagers/clients.	Même dans ce cas, comme pour les taux actifs, il est opportun de ne pas imposer des contraintes au comportement des IMF. Il serait plutôt mieux que l'Association recueille les informations relatives aux taux appliqués et les diffuse et que le règlement prévoit un article (voir commentaires à l'article 3) qui oblige les IMF à être transparentes à l'égard des taux appliqués.	

PROPOSITION D'INSTRUCTION RELATIVE AU DECLASSEMENT DES CREDITS EN SOUFFRANCE ET A LEUR PROVISIONNEMENT		
Article 1 : Les crédits en souffrance sont des crédits dont une échéance au moins est impayée depuis plus de trois mois. Dès lors, la totalité de l'encours du crédit échue ou non, doit être déclassée dans cette rubrique.	Changer la définition incluant les prêts avec au moins une échéance impayée depuis plus de 30 jours.	L'expérience internationale dans le secteur de la microfinance montre qu'il est important d'intervenir rapidement dans le cas de prêts en retard. Cela implique que, même en termes de supervision et classification, il est important d'insérer immédiatement les prêts en retard dans le portefeuille en souffrance (naturellement il est important que des mesures adéquates vers les clients en retard soient subitement adoptées). Plusieurs cadres de réglementation de la microfinance considèrent les prêts en souffrance à partir du premier jour de retard. Dans ce cas, on peut proposer 30 jours qui permettent d'absorber des éventuels cas de retard dus à des causes logistiques. En outre, dans le cas de prêts avec remboursements fréquents et durée limitée il est d'autant plus important que la classification soit serrée. En général, quand un prêt n'est pas performant, l'institution financière devrait être obligée à: (a) enregistrer l'encours tout entier du crédit comme en retard, non seulement le montant des échéances ratées; (b) suspendre l'accumulation des intérêts courus, jusqu'à ce que les intérêts ne soient pas effectivement reçus; (c) établir des provisions pour couvrir les pertes attendues; et (d) dans un délai de 90 jours ou moins, reverser tout les produits issus des intérêts sur crédits enregistrés mais pas encore reçus ou bien établir des provisions pour couvrir les pertes attendues de cette accumulation d'intérêts.
Article 2 : Les crédits en souffrance doivent faire l'objet de provisions à constituer en fin d'exercice. Le montant de la provision est déterminé, selon les retards observés dans le paiement des échéances, conformément aux modalités ci-après : - crédits comportant au moins une échéance impayée de plus 3 mois à 6 mois au plus : le	Le niveau de provisionnement proposé n'est pas suffisant. Une proposition pour l'élever est la suivante: - ***31-60 jours: 10% de provision*** - ***61-90 jours: 25% de provision*** - ***91-180 jours: 50% de provision*** - ***> 181 jours 100% de provision***	Etant donné que pour les instituions jeunes, le risque le plus élevé est représenté par la qualité du portefeuille, il est important que le niveau de couverture du risque (et les charges liées à ce risque enregistrées dans le compte de résultat) soit adéquat et reflète l'expérience internationale.

montant de la provision s'élèvera à 30% du solde restant dû ; - crédits comportant au moins une échéance impayée de plus de 6 mois à 12 mois au plus : la provision se montera à 60% du solde restant dû ; - crédits comportant au moins une échéance impayée de plus de 12 mois : la créance est considérée comme irrécouvrable. Après reprise des provisions initialement constituées, la créance sera comptabilisée dans les autres charges.	On recommande en général l'introduction d'une provision générique de 1% pour le portefeuille non en souffrance. Après avoir évalué le niveau de viabilité des IMF et la qualité du portefeuille des premières institutions autorisées, la Banque Centrale pourra évaluer l'introduction de telle provision générique dans un deuxième temps.	
Article à ajouter **Prêts renégociés (rééchelonnés et refinancés)**	***Lorsque les IMF rééchelonnent ou refinancent des prêts, elles doivent :*** - ***Garder trace séparée dans leur système d'information*** - ***Avoir des procédures internes définies pour telles pratiques*** - ***Reporter le montant des prêts rééchelonnés et refinancés dans les rapports trimestriels à la Banque Centrale*** - ***Provisionner les prêts rééchelonnés et refinancés, sur la base du schéma qui suit :*** o ***1 rééchelonné/refinancé : 10% de provision du capital restant dû*** o ***2 rééchelonné/refinancé : 50% de provision du capital restant dû*** o ***3 ou plus de fois rééchelonné/refinancé : 100% de provision du capital restant dû***	Lorsqu'un client a, ou prévoit d'avoir, des difficultés à rembourser un emprunt en temps voulu, l'IMF peut autoriser la renégociation du crédit, à savoir son : ➢rééchelonnement/ sa restructuration (c'est-à-dire la prolongation de la durée du crédit ou l'assouplissement du calendrier des remboursements) ➢refinancement (c'est-à-dire le remboursement d'un crédit à problème par l'octroi d'un nouveau crédit) Si les crédits renégociés ne font pas l'objet d'un suivi distinct de celui des autres crédits, toute indication relative aux difficultés de paiement du client disparaît, du moins initialement. Si par la suite le client se trouve de nouveau en défaut de paiement, le taux des impayés (paiements en retard/ total du portefeuille) sous-estimera nettement le risque couru par l'IMF. Un rapport sur les impayés peut être très trompeur s'il ne décrit pas les pratiques de l'IMF en matière de renégociation et ne précise pas le montant des prêts renégociés. En outre, étant donné que le risque des crédits renégociés est plus élevé, il est aussi nécessaire qui soient provisionnés ad hoc.

Article à ajouter	**Radiation de prêts**	***Tous les prêts en retard depuis au moins 360 jours doivent être radiés du portefeuille (sur base au moins trimestrielle). Les procédures de recouvrement du crédit ne doivent pas être interrompues et ces crédits continuent d'être suivis et enregistrés hors de balance.***	La radiation régulière de prêts qui sont en retard depuis longtemps et qui ont été complètement provisionnés, permet d'avoir un cadre plus réaliste de la situation du portefeuille des IMF.

ANNEX D – SME FINANCING SUPPORT UNIT - DETAILED ACTION PLAN

D.1 Work Plan

<table>
<tr><th></th><th>Phases</th><th>Time Schedule</th><th>Description/Comments</th></tr>
<tr><td>1</td><td>Start up and Promotional Phase</td><td>Months 0 to 2</td><td>This initial phase comprises the following activities:
the finalization of logistical aspects (office to be hosted by an existing institution, possibly the Chamber of Commerce);
the organization of a series of promotional workshops to make SME aware of the services provided by the Unit (at least 5 workshops);
the establishment of contacts with trade associations to further disseminate information to their members (organization of additional workshops and/or field visits);
the definition of the operational procedures (including the establishment of a simple system for data collection, storing and processing);
the training of local consultants on the above indicated aspects.</td></tr>
<tr><td>2</td><td>Pilot phase and operational coaching</td><td>Months 3 to 5</td><td>In the second phase the provision of consulting services to SME will be accompanied by an intensive effort of know-how transfer to local consultants. The activities should concentrate on the SME best positioned to access bank financing, in order to create an ‘image effect’, which can contribute to establish the reputation of the new structure. The activities to be undertaken include:
the preliminary analysis (screening) of a number of SME to evaluate their potential;
the development of business plans and financing applications for selected SME;
the presentation of financing applications to the commercial banks and/or other financial institutions (for example, leasing company, if already established);
the dissemination of the first results achieved through interviews, workshops, and other communication activities;
the training of local consultants on the above indicated aspects, in particular with reference to the consolidation of the SME evaluation procedures and the drafting of an operational manual.</td></tr>
<tr><td>3</td><td>Operating phase</td><td>Since Month 6</td><td>Starting from month 6, the structure should become fully operational and able to provide assistance to SME with regard to:
SME screening and preliminary analysis;
preparation of business plans and financing applications;
assistance to SME in their interaction with the financial institutions.
Once local capabilities in these fields are consolidated, the structure could be progressively involved in follow-up activities of the investments projects, with the provision of a specific support to the operators facing difficult situations.</td></tr>
</table>

D.2 Required Resources

Given the limited size of the country, the proposed SME financing support unit could be a light organization: at a cruising speed, the unit could consist of ***two local experts***, with a minimal logistical and administrative support, to be provided by the host institution. However, during the first 6 months, local resources should be complemented by some ***international technical assistance***, with the deployment of one or two technical advisors, who would be mainly responsible for the coaching and the training of the local experts. The technical advisor(s) could be supported, on as needed basis, by some sector experts, providing assistance on specific aspects (for example, concerning the identification of suppliers of equipment and imported materials).

Overall, the resources required for the first 6 months can be estimated at 100 man/days for international experts and 180 man/days for local experts. These resources could be deployed as indicated below.

Phases		Timing	Details
1	***Promotion and launching phase***	***Month 0 to 2***	• International consultants: 30 days (2 missions) • Local consultants: 50 days (1 consultant full-time and 1 part-time)
2	***Pilot phase and operational coaching***	***Month 3 to 5***	• International consultants: 50 days (4 missions) • Local consultants: 90 days (1 consultant full-time and 1 part-time)
3	***Operating phase***	***Month 6***	• International consultants: 20 days (1 mission and distance support, according to the needs) • Local consultants: 50 days (2 consultants full-time)

ANNEX E – LIST OF INSTITUTIONS AND PEOPLE MET

Public Authorities

Présidence de la République
M. Fahmi Ahmed Mohamed EL-HAG
Conseiller du Président de la République pour la Promotion des Investissements

Primature
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Economisti Associati
Via Rialto 9
40124 Bologna
ITALY

Phone	**+39 051 6569606**
Fax	**+39 051 6486838**
E-mail	**main@economistiassociati.com**