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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF

DJIBOUTI URBAN POVERTY REDUCTION PROJECT
GRANT NO. H356-DJ

BOARD APPROVAL DATE: APRIL 29, 2008

AND

ADDITIONAL FINANCING
GRANT NO. H582-DJ

BOARD APPROVAL DATE: JUNE 10, 2010

TO THE

REPUBLIC OF DJIBOUTI

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ABBREVIATIONS AND ACRONYMS

ADDS	Djibouti Social Development Agency (<i>Agence Djiboutienne de Développement Social</i>)
CDC	Community Development Center
CSO	Civil Society Organization
DUPREP	Djibouti Urban Poverty Reduction Project
IDA	International Development Association
OVD	Office de la Voirie de Djibouti
PPIAF	Public-Private Infrastructure Advisory Facility
Q7	<i>Quartier 7</i> (area of intervention)
TA	Technical Assistance

Regional Vice President:	Inger Andersen
Country Director:	Hartwig Schafer
Sector Manager/Director:	Franck Bousquet/Junaid Kamal Ahmad
Task Team Leader:	François Boulanger

**DJIBOUTI
URBAN POVERTY REDUCTION PROJECT**

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DJIBOUTI URBAN POVERTY REDUCTION PROJECT

RESTRUCTURING PAPER

A. SUMMARY

1. This Restructuring Paper proposes a level-two restructuring of the Djibouti Urban Poverty Reduction Project (DUPREP) (Grant No. H356-DJ (P088876) and Grant No. H582-DJ (P088876). The Project Development Objective (PDO) is to increase access to basic economic and social infrastructure and to community development opportunities within Quartier 7 in the city of Djibouti. The project has three components: (i) Improvement of Infrastructure; (ii) Community Development; and (iii) Technical Assistance (TA).

2. As requested by the Borrower in their letter dated July 7, 2012, the proposed restructuring consists of the following:

- (i) **Extension of the project closing date:** A ten-month extension of the project's closing date, from May 31, 2013, until March 31, 2014, to address previous implementation delays under a sub-component of Component 3, the Djibouti Ville Master Plan, which cannot be absorbed under the current time line. This will be the first extension of the project's closing date since approval of the additional financing.
- (ii) **Revision of project components:** *Component 1 – Improvement of Infrastructure:* under the street rehabilitation sub-component, a reduction of the total length of streets to be rehabilitated from 3 km to 2.2 km, while preserving east-west and north-south links; *Component 2 – Community Development:* under the sanitation sub-component, a new focus on technical assistance complementary to investments by other donors in the solid waste management sector in lieu of establishing a community scheme for garbage collection.
- (iii) **Update of the results monitoring framework:** updating project indicators to more candidly reflect project impacts, including adding a missing core sector indicator, and adapting specific targets corresponding to the changes at the sub-component level mentioned above.
- (iv) **Reallocation between disbursement categories:** reallocation of SDR 520,000 (US\$800,000 equivalent) in grant proceeds, from the “unallocated” expenditure category under each grant, to the various components in order to reflect the increased knowledge at the Mid-Term Review (MTR) of actual costs of key sub-components, and alignment of eligible expenditure definitions between the initial and additional grants.

3. The proposed changes are necessary in order to allow the project to achieve its current development objective within the available funding. The proposed restructuring would not modify the PDO. The detailed content, rationale and implications of these changes, and their apportionment to each of the two grants, are provided below.

B. PROJECT STATUS

4. The DUPREP was approved by the Board of Directors on April 29, 2008, for a total IDA Grant amount of SDR 1.9 million (US\$3.0 million equivalent). The project became effective on January 29, 2009, and in June 2010, the Board approved an additional financing for the project in the amount of SDR 2.0 million (US\$2.9 million equivalent). The project development objective (PDO) is to increase access to basic economic and social infrastructure and to community development within Quartier 7 in the city of Djibouti.

5. The project consists of three components: (i) Improvement of infrastructure, including street rehabilitation and drainage; (ii) Community Development; and (iii) Technical Assistance. The Project's estimated costs at appraisal are presented in Table 1 below.

Table 1: Estimated total Project costs, to be financed by both Grants, at Project appraisal¹

Components (both grants include the same components)	Costs in US\$	% of Baseline Costs
1- Improvement of infrastructure	3,072,000	59%
• of which street rehabilitation and drainage	1,625,100	31%
• of which construction of a Community Development Center	362,000	7%
2- Community development	693,000	13%
3- Technical assistance	1,105,000	21%
• of which urban planning	400,000	8%
4- ADDS fees	348,000	7%
Total baseline costs	5,218,000	100%
Unallocated	682,000	
Total funding	5,900,000	

6. **Substantial Results to date and outlook.** Substantial progress in implementing project activities has already been achieved, including the following:

- Component 1 (Improvement of Infrastructure): (a) completion of the Community Development Center; (b) signing of both street rehabilitation contracts and near-completion of one; (c) near-completion of other social infrastructure such as a multi-purpose playground; (d) finalization of the design and bidding documents for the Community Health Center; and (e) completion of a technical options analysis for the installation of street lighting.
- Component 2 (Community Development): (a) completion of the first round of literacy campaigns and the vocational training program, and launch of a second round for both capacity building initiatives; (b) completion of a “willingness to pay survey” and launch of a study on cost reduction options for equipping neighborhood households with individual latrines; (c) completion of the first phase of a TA to identify a suitable and replicable model for solid waste collection within the neighborhood using local micro-enterprises; and (d) launch of a capacity building program for neighborhood Civil Society Organizations (CSOs).

¹ Costs for the project portion appraised under the initial Grant were not revised during the appraisal of the Additional Financing (AF). AF costs were appraised on the basis of the same unit costs as those at appraisal of the initial project.

- Component 3 (Technical Assistance): (a) implementation of a new Management Information System (MIS) for the Djibouti Social Development Agency (*Agence Djiboutienne de Développement Social, ADDS*) accompanied by staff training workshops; (b) launch of design work on the new Djibouti-Ville Master Plan; and (c) pursuit of ongoing mapping and cartography work, closely coordinated with other donors and development agencies funding similar activities in the city.

7. As of the last supervision mission, the most substantial results observed in terms of outcomes are as follows: (a) at least 200 residents using the CDC as of June 2012, but this figure has likely increased significantly since; (b) 1,326 residents benefitting from community development activities; and (c) 9,570 person-days of employment created. As for implementation progress indicators, all mid-term targets were met on time, except for road resurfacing, which has now been met as well.

8. **Issues during project implementation and corrective measures.** Following the Mid-Term Review of November 2011, the PDO on the likelihood of achieving the PDO by the project's closing date and implementation progress (IP) ratings were both downgraded to moderately unsatisfactory (MU), requiring implementation of a corrective action plan. This downgrade was essentially due to the following:

- (i) The disbursement level (in November 2011, 34.5% for the initial IDA grant, and 17% for both grants) stood significantly below initial estimates, mostly as a result of the delay in implementing the largest infrastructure sub-component: road resurfacing;
- (ii) there was a substantial procurement delay for the largest portion of the Technical Assistance Component (Urban Planning) making it impossible to complete that sub-component by the closing date; and
- (iii) concerns were raised regarding sustainability of the largest project investment completed at that point, the Community Development Center (CDC). The CDC had been completed in October 2010, but had been very little used and not properly maintained for lack of adequate management. By November 2011, the facilities had already showed signs of deterioration.

9. The above action plan implemented to address these issues included the following:

- (i) A new Project Manager was appointed in October 2011 following low proactivity in project management during FY11. As a result, by February 2012, all road resurfacing contracts were signed (representing commitments for an additional 27% of total project funds), as well as the contract for the urban planning sub-component; and
- (ii) the Government addressed nationwide CDC management issues through a decree establishing professional managers in each CDC to be hired by the State Secretariat for Youth and Sports. In Quartier 7, a CDC manager was appointed in January 2012; by March 2012, facility usage had drastically increased and repairs were underway to ensure better maintenance.

10. By June 2012, the agreed-upon Action Plan was fully implemented, all mid-term intermediate indicators had been achieved, commitments stood at 83%, disbursements had steadily resumed (17% in November 2011, 33% in June 2012, and 48% today) and subsequently, project ratings were upgraded to Moderately Satisfactory. This reflected strong commitment on the part of government to carry this project forward and to achieve the PDO.

11. Implementation ratings for Procurement, Financial Management, and Environmental Safeguards are all rated Moderately Satisfactory (MS) or Satisfactory (S). While OP 4.12 was not

triggered under the project, one case of economic activity relocation has arisen, for which an action plan through amicable resolution was designed in consultation with the Regional Safeguards Advisor. Its implementation has been closely monitored by the task team.. –An amicable settlement has been reached and documented between the relevant State counterpart and the affected person. The team will seek LEGEN views on the adequacy of this settlement and will keep monitoring the situation.

C. PROPOSED CHANGES

12. Despite very substantial progress achieved under the project, changes are required in the components and indicators, funds should be reallocated, and an extension of the closing date is required so that the project can achieve its current development objective within the available funding.

13. **Components:** The three project components will be maintained. However, some changes are needed to sub-components beyond normal adjustments made in the course of project supervision, as follows:

(i) *Component 1 (Improvement of Infrastructure):* the total length of streets to be rehabilitated would be reduced from 3 km to 2.2 km. The original Grant (NoH365-DJ) included the rehabilitation of 1.5 km of streets (paving and drainage), and an additional 1.5 km were added in the additional Grant (No. H582-DJ). However, at the time of contract award, it appeared that the lowest evaluated price for these works was 47% higher than the costs estimated at appraisal of the original project (the same unit costs were also used to appraise the Additional Financing). This increase was due to: (a) an optimistic initial estimate, based on outdated unit costs; (b) substantial price increases in Djibouti between appraisal and actual tendering; and (c) the limited competition for such works on the Djibouti market.

Since this increase could not be entirely absorbed by the project's unallocated funds, it was decided to remove one of the streets from the project scope (Avenue 39), keeping however basic access functionality with the rehabilitation of two north-south streets, and one east-west, to be funded as follows: about 1 km from Grant No. H365-DJ (P08876), and about 1.2 km from Grant No. H582-DJ (P120190). In addition to reducing the required, this also reduces some technical risks (due to modifications needed to a sewage collector). ADDS is seeking to identify further multilateral funding to execute the rehabilitation of Avenue 39 at a later date.

(ii) *Component 2 (Community Development):* the project will no longer establish a community scheme for garbage collection, but will focus instead on technical assistance complementary to investments by the Agence Française de Développement (AFD), the European Union (EU) and the Japan International Cooperation Agency (JICA) in this sub-sector. Project funds will be partly used for technical assistance to the public operator (Office de la Voirie de Djibouti, OVD) which was identified in a Public-Private Infrastructure Advisory Facility (PPIAF) financed study as a critical roadblock for any improvement in solid waste collection in *Quartier 7*, including through community systems. This will be carried out in coordination with AFD which is launching a large, community-based solid waste management project, and with JICA which will be funding equipment for OVD, and thus contribute to the integration of donor initiatives.

14. Regarding individual household sanitation, the willingness to pay survey and latrine prototypes have shown that unless a dedicated funding scheme is created and costs are further reduced, it is unlikely that households would invest in individual latrines at this stage. The project will thus continue to fund a campaign that promotes individual sanitation and a techno-economic study to explore possible cost-reducing technical alternatives, in coordination with the United Nations Development Program (UNDP), without expecting direct household investments by the grant closing date.

15. **Results/indicators:** The proposed restructuring does not change the overall PDO. The Results Framework, however, would be revised to reflect the impact of changes in the sub-components described above, and to adjust various definitions or targets for greater candor, based on information collected since Appraisal. These changes, together with their rationale, are detailed in Table 2 below, and a complete revised Results and Monitoring Framework is included in Annex 1.

Table 2: Changes to the Original Monitoring Framework

Current Indicators and 2013² Targets	Revised Indicators and 2013² Targets	Comments
Project Outcome Indicators		
Project Beneficiaries (None)	16,800 direct project beneficiaries, of which 50% female.	Indicator added to meet Core Sector Indicator requirements.
Basic Infrastructure Number of properties within 50m of surfaced roads increase by 50%.	Number of properties within 50m of surfaced roads increases by 35%.	The adjustment reflects the reduction in the length of streets to be rehabilitated.
10% of households willing to invest in new latrines.	10% of households have been made aware of the benefits of investing in new latrines.	This is aligned with the revised outcome expectations of this sub-component, following the willingness to pay survey.
70% of households benefiting from an organized solid waste collection.	Dropped	Under the proposed restructuring, the project will not directly improve coverage.
40% reduction of rain water evacuation time	Dropped	There is no measurable baseline or measurement method. However all streets to be resurfaced under the project will still benefit from new drainage, which is captured in output indicators.
Facilities 1000 Quartier 7 residents	540 Quartier 7 residents	Targets have been revised to

² 2013 unless another date is specified.

making use of the Community Development Center and its equipment. 70% of Quartier 7 residents making use of health center.	making use of the Community Development Center and its equipment. 47% of Quartier 7 residents making use of health center	more realistic values reflecting experience on CDCs and health centers in other districts of Djibouti.
Community Development 10% of Quartier 7 residents of all age groups, of which 50% women, benefit from the community development sub-projects.	5% of Quartier 7 residents of all age groups, of which 50% women, benefit from the community development sub-projects.	Targets have been revised to more realistic values reflecting experience with community development subprojects in the first phase of DUPREP.
Job creation 12,000 person-days of short-term employment created under the project.	20,000 person-days of short-term employment created under the project.	The target has been increased in line with the adoption of a more labor intensive road paving technique.
Intermediate Results Indicators Component 1		
Basic infrastructure Road rehabilitation and drainage works will be 80% completed at mid-term,	Road rehabilitation and drainage works will be 50% completed in 2012 and 100% in 2013.	The change reflects the revised project schedule.
Intermediate Results Indicators Component 3		
(None)	Launch (2012) and delivery (2013) of the Djibouti-Ville Master Plan,	This newly added indicator captures progress made on one of the only remaining activities of Component 3.

16. **Reallocation.** Since all but one of the larger infrastructure sub-components have been committed (construction of the health center is under procurement), and procurement of the largest technical assistance sub-component (the Djibouti-Ville Master Plan) has also been completed, there is sufficient cost certainty to allocate the unallocated amounts under each Grant. In comparison to the initial allocation³, there have been cost increases in all components and the total unallocated amount, SDR 520,000, will thus be reallocated as follows: SDR 188,000 under Component 1: Improvement of Infrastructure; SDR 97,000 under Component 2: Community Development; SDR 211,000 under Component 3: Technical Assistance; and SDR 24,000 under Component 3: Project Management.

17. While eligible expenditures under the original IDA Grant (Grant No.365-DJ) excluded taxes, they include taxes under the additional IDA Grant (Grant No.582-DJ). The change was made for the additional financing following the introduction of a value added tax in Djibouti. Under the proposed restructuring, eligible expenditures would be aligned between the original and additional grants, to include taxes which would simplify the financial management of the project. A detailed revision of the reallocation of grant proceeds is presented in Annex 2.

18. **Closing date:** A ten-month extension of the project's closing date is proposed, from May 31, 2013, until March 31, 2014, for both Grant No. 365-DJ and Grant No. 582-DJ. This would be

³ There was a minor reallocation between components in 2009, as shown in Annex 2.

the first extension of the project's closing date since the approval of the Additional Financing⁴. The closing date extension is necessary in order to allow sufficient time for completion of the Djibouti-Ville Master Plan (expected duration: 18 months) under Component 3 (Technical Assistance). The corresponding consultancy services in October 2012 and their delivery schedule have now been confirmed and this would be the last project activity to complete. Although the ongoing infrastructure works are scheduled to be completed before June 30, 2013, the previous project delays and the shift to more time-intensive technology (cut stones instead of asphalt), the current closing date does not allow for additional time in case of unforeseen delays during construction. The proposed extension would thus provide a contingency buffer for unexpected delays.

D. APPRAISAL SUMMARY

19. **Economic, financial and technical analysis.** The original (2009) economic rate of return estimate for the entire project was 12%, obtained through a forecast in the increase of property values due to project investments. This increase was calculated with a hedonic regression methodology, using another area of Djibouti (PK12) as a control. Since the length of roadway to be paved is the only change in investments under the proposed restructuring – namely, reducing the output for that component by 27% for the same monetary investment (itself representing 27% of the project investment), the economic rate of return (ERR) would empirically be expected to decrease with this restructuring. However, the very small data sample available for the 2009 analysis entails a wide margin of uncertainty. In particular, the property valuation coefficient calculated for 'proximity to a paved road' was close to zero, resulting in a calculated non-significant change in the estimated ERR for this restructuring under the existing model.

20. **Social and Environment:** The proposed restructuring would not result in any changes to the appraised social and environmental aspects. In particular, all roads to be resurfaced had already been included in the environmental impact assessment.

21. The proposed changes do not affect any other activities appraised under the original and the additional financing grants, in terms of procurement, fiduciary, implementation arrangements, or risks.

22. The proposed changes do not trigger any exception to Bank Policy.

⁴ When the Additional Financing was approved, the closing date of Grant No.365-DJ was extended by one year to align it with the closing date of the Additional Financing Grant No.582-DJ. Although Implementation Progress at the time was rated Fully Satisfactory, the alignment of completion dates allowed for optimizing the allocation of expenditures between the two grants.

ANNEX 1
Results Framework and Monitoring
DJIBOUTI- URBAN POVERTY REDUCTION PROJECT

Project Development Objective (PDO): Increase access to basic economic and social infrastructure and to community development opportunities within <i>Quartier 7</i> in the city of Djibouti (unchanged)									
PDO Level Results Indicators	Core	D=Dropped C=Continue N= New R=Revised	Unit of Measure	Baseline	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
					End of 2012	End of 2013			
<i>Project beneficiaries</i>									
Direct project beneficiaries, of which female	<input checked="" type="checkbox"/>	N	Number %	0	n.a.	16,800 50%	Semi-annual Reports	Aggregation of other indicators, surveys, registrations	ADDS
<i>Basic infrastructure</i>									
(i) Number of properties within 50m of surfaced roads	<input type="checkbox"/>	R ⁵	% increase	0%	10%	35%			
(ii) Households aware of benefits of investing in new latrines.	<input type="checkbox"/>	R ⁶	%	0	5%	10%	Semi-annual Reports	Contract documentation	ADDS
(iii) Households benefiting from an organized solid waste collection	<input type="checkbox"/>	D	%	0					
(iv) Reduction in rainwater									

⁵ Targets decreased to match the reduction in length of roads to be resurfaced under the project.

⁶ Definition revised.

evacuation time	<input type="checkbox"/>	D	%	0					
Community facilities									
(v) <i>Quartier 7</i> residents make use of the Community Development Center and its equipment.	<input type="checkbox"/>	R (targets decreased)	Number of users	0	320	540	Semi-annual reports	Registrations	ADDS
(vi) <i>Quartier 7</i> residents make use of health center	<input type="checkbox"/>	R (targets decreased)	Percentage of residents	0%	n.a.	47%			
Community Development									
(vii) <i>Quartier 7</i> residents of all age groups, of which 50% women, benefit from the community development subprojects.	<input type="checkbox"/>	R (targets decreased based on current program and new census data)	Percentage of residents	0	3.5%	5%	Semi-annual reports	Memoranda of understanding with associations, reports	ADDS
Job creation									
(viii) Short-term employment created under the project.	<input type="checkbox"/>	R (targets increased)	Person-days	0	15,000	20,000	Semi-annual reports	Contractor reports	ADDS

INTERMEDIATE RESULTS									
Intermediate Result (Component 1): Completion of road rehabilitation and drainage works									
Completion % of road rehabilitation and drainage works	<input type="checkbox"/>	R (2012 target)	%	0	50%	100%	Semi-annual reports	Contractor reports	ADDS
Rainwater drains constructed or rehabilitated	<input type="checkbox"/>	N	total drain length in m		-	3,500 m			
Intermediate Result (Component 1): Construction of various community facilities									
Completion % of Community Development Center	<input type="checkbox"/>	C	%	0	100%	100%	Semi-annual reports	Contractor reports	ADDS
Completion % of Health Center	<input type="checkbox"/>	R (2012 target)	%	0	Construction launched	100%	Semi-annual reports	Contractor reports	ADDS
Completion % of playgrounds and commercial spaces	<input type="checkbox"/>	C	%	0	0%	100%	Semi-annual reports	Contractor reports	ADDS
Intermediate Result (Component 2): Completion of community development subprojects									
Number of components identified/launched	<input type="checkbox"/>	C	Number identified / launched/ completed	0	4 launched; the rest identified	n.a.	Semi-annual reports	MoU with associations	ADDS
Intermediate Result (Component 3): Delivery of the Djibouti-Ville Master Plan									
Stage of Master Plan study	<input type="checkbox"/>	N	Study status	0	Launched	Delivered	Semi-annual reports	Contractor reports	ADDS

ANNEX 2
Proposed Reallocation of Grant Proceeds
DJIBOUTI- URBAN POVERTY REDUCTION PROJECT

Aggregated total of IDA Grants H3560 and H5820 (DJIBOUTI-Urban Poverty Reduction Project and Additional Financing*)

Category	Proposed allocation	Current allocation *	Initial allocation	Difference	
	(a)	(b)	(c)	(a)-(b)	(a)-(c)
	Amount of Financing	Amount of Financing	Amount of Financing		
	SDR	SDR	SDR	SDR	SDR
Goods, works & consultant services for Part I	2, 348,000	2,066,900	2,160,000	281,100	188,000
Community Grants for Part II.1 and goods, works, consultant services & training for Part II.2	447,000	443,100	350,000	3,900	97,000
Consultant services & training for Part III	851,000	640,000	640,000	211,000	211,000
Project implementing fees	254,000	230,000	230,000	24,000	24,000
Unallocated	0	520,000	520,000	-520,000	-520,000
	<u>3,900,000</u>	<u>3,900,000</u>	<u>3,900,000</u>	<u>0</u>	<u>0</u>

* Following the November 12, 2009, reallocation.

This aggregated total is split between two IDA grants, with the following disbursement tables

(1) IDA Grant - H3560 (DJIBOUTI–Urban Poverty Reduction Project - P088876*)

Category	Initial allocation		Current allocation *		Proposed allocation	
	Amount of Financing	% of Expenditures to be financed	Amount of Financing	% of Expenditures to be financed	Amount of Financing	% of Expenditures to be financed
	SDR	(Exclusive of taxes)	SDR	(Exclusive of taxes)	SDR	(Inclusive of taxes)
Goods, works & consultant services for Part I	1,080,000	100%	986,900	100%	1,087,000	100%
Community Grants for Part II.1 and goods, works, consultant services & training for Part II.2	220,000	100%	313,100	100%	321,000	100%
Consultants' services (including audits) and Training for Part III of the Project	190,000	100%	190,000	100%	375,000	100%
Project implementation Entity's fees	120,000	100%	120,000	100%	117,000	100%
Unallocated	290,000		290,000		0	
	1,900,000		1,900,000		1,900,000	

(2) IDA Grant - H5820 (DJIBOUTI–Urban Poverty Reduction Additional Financing - P120190 *)

Category	Initial Allocation (current)		Proposed Allocation	
	Amount of Financing	% of Expenditures to be financed	Amount of Financing	% of Expenditures to be financed
	SDR	(Inclusive of taxes)	SDR	(Inclusive of taxes)
Goods, works & consultant services for Part I	1,080,000	100%	1,261,000	100%
Community Subproject Grants for Part B.land goods, works, consultant services & training for Part B.2	130,000	100%	126,000	100%
Consultants' services (including audits) & training for Part C	450,000	100%	476,000	100%
Project implementing Entity's fees	110,000	100%	137,000	100%
Unallocated	230,000		0	
	<u>2,000,000</u>		<u>2,000,000</u>	

*Following the November 12, 2009, reallocation.