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INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF DJIBOUTI

FY2014-2017

March 13, 2014

**Djibouti Country Management Unit
Middle East and North Africa Region
International Development Association**

**Strategy Unit
Africa Region
International Finance Corporation**

Multilateral Investment Guarantee Agency

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Last Country Assistance Strategy (Report No. 47273-DJ): April 30, 2009

CURRENCY EQUIVALENT

Currency Unit = Djibouti Francs

US\$1 = DjF 177.7 (Exchange Rate Fixed under Currency Board Arrangement)

Fiscal Year

(January 1 to December 31)

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement	IDF	Institutional Development Fund
AfDB	African Development Bank	IFAD	International Fund for Agricultural Development
CAS	Country Assistance Strategy	IFC	International Finance Corporation
CAS CR	Country Assistance Strategy Completion Report	IGAD	Intergovernmental Authority for Development
CBD	Central Bank Djibouti	IMF	International Monetary Fund
COMESA	Common Market for Eastern and Southern Africa	IsDB	Islamic Development Bank
CPI	Consumer Price Index	JSDF	Japan Social Development Fund
CPS	Country Partnership Strategy	MDG	Millennium Development Goal
DISED	Direction of Statistics and Demographic Studies	MDRI	Multilateral Debt Reduction Initiative
DJF	Djiboutian Francs	MENA	Middle East and North Africa
DUPREP	Djibouti Urban Poverty Reduction Project	MIGA	Multilateral Investment Guarantee Agency
EAC	East African Community	MSMEs	Micro, Small and Medium Enterprises
EDAM	<i>Enquête Djiboutienne Auprès des Ménages pour les Indicateurs Sociaux</i>	NATO	North Atlantic Treaty Organization
ESMAP	Energy Sector Management Assistance Program	OFID	OPEC Fund for International Development
EU	European Union	PDNA	Post-Disaster Needs Assessment
FDI	Foreign Direct Investment	PIU	Project Implementation Unit
FGM	Female Genital Mutilation	PRODERMO	Rural Community Development and Water Mobilization Project
GDP	Gross Domestic Product	PSIA	Poverty and Social Impact Analysis
GEF	Global Environmental Facility	UNESCO	United Nations Education Scientific and Cultural Organization
GFDRR	Global Facility for Disaster Reduction and Recovery	UNICEF	United Nations Children's Fund
GPE	Global Partnership for Education	USAID	United States Agency for International Development
IDA	International Development Association	WFP	World Food Programme
ICT	Information and Communications Technology		

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EXECUTIVE SUMMARY

Djibouti's geostrategic location in the Horn of Africa offers important opportunities for economic growth and development. Economic growth has accelerated in recent years, and the country possesses natural assets and geographical advantages that could support more diversified growth in the future. Djibouti's economy is currently driven by the country's state-of-the-art port complex, which is among the most sophisticated in the world. Trade through Djibouti's port is expected to grow rapidly in parallel with the expanding economy of its main trading partner, Ethiopia. In addition, Djibouti is endowed with natural assets for the development of tourism, untapped marine resources that could support growth in artisanal fishing, and a significant infrastructure of undersea telecommunications cables on which it could draw to develop new service industries. Energy trade could also be a source of growth for the country.

Harnessing the country's human and economic potential to reduce poverty and enhance shared prosperity will require a new growth model, as current capital-intensive and public sector-dominated approaches are unsustainable. The increased growth of the past decade has relied in part on one-time events such as an economic resurgence after the political turmoil of the 1990s, the establishment of foreign military bases, and significant inflows of foreign investment that financed the construction of the new port and hotel infrastructure. Yet this growth pattern has not alleviated high levels of poverty or unemployment. Although poverty figures are difficult to pinpoint due to data limitations, available evidence indicates that poverty is widespread and worsening in the face of the current drought—the worst in 60 years. About 48 percent of Djibouti's population is unemployed, and estimates suggest that the unemployment rate rises above 70 percent for young people under the age of 30. Longer-term, sustainable growth will depend on diversifying the economy beyond the port and the public sector, and on creating jobs.

To take advantage of opportunities for more diversified economic growth and poverty reduction in Djibouti, the country will need to take action to address key development challenges on two broad fronts. First, Djibouti needs to take steps to address vulnerabilities such as high poverty and unemployment, deficits in human development indicators and social service delivery, limited access to basic infrastructure, and high natural disaster risks. Second, there is a need to strengthen the business-enabling environment through better-quality and more affordable energy and telecommunications services as well as improvements to the investment climate and governance framework.

This approach is embedded in the World Bank Group's Country Partnership Strategy (CPS) for Djibouti during the period FY2014–2017. The CPS is anchored in the Government of Djibouti's Vision 2035, a long-term development plan that focuses on economic integration, governance, and human development. The overarching objective of the CPS is to support the government's vision, working to reduce extreme poverty and build the foundations for shared growth by harnessing the country's human and economic potential. This objective reflects the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity and is in line with the MENA Regional Framework, which aims to strengthen governance, inclusion, jobs, and sustainable growth. The CPS rests on two pillars—reducing vulnerability and strengthening the business environment—while focusing on institutional strengthening and gender as cross-cutting themes. Progress toward expected CPS outcomes will be monitored through a realistic, measurable results framework (Annex 1).

This is the first joint World Bank Group strategy prepared for Djibouti, demonstrating the deepening engagement with national authorities, civil society, the private sector, and development partners. The strategy has been defined cooperatively by the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Even when combined, IDA, IFC, and MIGA resources represent only a small fraction of the total

development assistance available to Djibouti. As such, the value of an integrated World Bank Group strategy lies in the Group’s commitment to “bundling” its expertise and financing, transferring global knowledge, supporting institutional capacity development, and providing timely and agile implementation support to the government’s reform efforts.

The CPS aims to leverage the Bank Group’s modest financial resources for Djibouti by supplementing a focused country program with regional and global resources. The CPS assumes an indicative IDA envelope of US\$25 million under IDA17.¹ Given the transition to credit-based financing, trust funds are expected to play a particularly important role in implementing the CPS program and catalyzing complementary interventions by development partners. Drawing on past success in leveraging IDA resources through trust funds, the country team will seek to make innovative use of these resources, while taking care to avoid overtaxing the country’s limited institutional and implementation capacity. Opportunities for capacity building will be sought actively through a targeted program of knowledge activities, including support to the collection and development of statistics to help strengthen the understanding of poverty and wealth distribution in Djibouti.

Three principles have guided the preparation of the CPS, based in part on lessons learned in implementing the previous CAS and aided by the existence of a new Bank office in Djibouti. First, the strategy is selective, focusing on areas where reforms are possible and where the Bank Group has a comparative advantage within the broader community of Djibouti’s development partners. The current portfolio, which makes up the bulk of planned interventions, is well aligned with the strategic approach of the CPS. Selection of additional interventions has been limited to those that represent clear government priorities and fit within the Bank’s twin goals. Second, the CPS builds on past successes, in particular on positive outcomes in the social sectors, which can be attributed to clear sector goals backed up by well-specified programs, regular monitoring of outcomes, and flexible responses to changing needs. Third, the strategy sets out a more realistic results framework, tailored to the likely outcomes of specific interventions on which progress is measurable and monitored regularly.

Satisfactory implementation of the CPS is subject to a number of country-level and program-specific risks. At the program level, Djibouti’s fluid governance environment and frequent changes in leadership could interrupt program implementation or lead to fluctuations in reform commitment. Implementation of some CPS interventions could be stalled by the inclusion of innovative, but time-consuming, elements of behavioral change, such as adaptation of nutrition practices and increased female participation. Low capacity in project implementation units could slow or even hinder program implementation, and the level of donor coordination required to administer multidonor programs could lead to delays or overtax client capacity. At the country level, the Djiboutian economy is vulnerable to natural disasters such as floods, earthquakes, and severe and prolonged droughts, and to external shocks such as rising food and fuel prices. With relatively low budgetary and institutional capacity, the government could face challenges in implementing the strategy. In addition, there is a risk that elite capture and patronage could adversely affect project design and implementation. Although Djibouti’s internal politics have been relatively stable in recent years, social tensions exist and the risk of political instability remains. Finally, despite stable relations with its neighbors and international allies, Djibouti’s location in a region that has experienced many wars and episodes of civil unrest points to the risk of a worsening regional security environment, which would affect conditions in the country. While not all of these risks can be addressed through Bank interventions, the Bank’s presence on the ground through a newly opened country office and close monitoring of the situation should enable the Bank to respond quickly to adjust the program if needed.

¹ Amounts are indicative only. Actual allocations will depend on: (i) total IDA resources available; (ii) the country’s performance rating, GNI per capita, and population; (iii) the terms of IDA assistance (grants/credits) and the allocation deductions associated with MDRI annual debt service foregone; (iv) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (v) the number of IDA-eligible countries.

I. INTRODUCTION

1. ***This Country Partnership Strategy (CPS) presents the World Bank Group’s proposed program for Djibouti during the period FY2014–2017.*** The CPS is anchored in the Government of Djibouti’s Vision 2035, a long-term development plan that focuses on economic integration, governance, and human development. The government’s vision and this CPS reflect the understanding that Djibouti’s current capital-intensive, public sector-dominated growth model is no longer sustainable and that new approaches are needed to address current vulnerabilities and to accelerate economic growth and job creation.

2. ***The overarching objective of the CPS is to support the government’s Vision 2035, working to reduce extreme poverty and build the foundations for shared growth by harnessing the country’s human and economic potential.*** This objective reflects the World Bank Group’s twin goals of ending extreme poverty and promoting shared prosperity. The CPS rests on two pillars: (i) reducing vulnerability; and (ii) strengthening the business environment. These pillars are aligned with the World Bank’s Middle East and North Africa (MENA) Regional Framework, which aims for enhanced, shared prosperity and reduced poverty through governance, inclusion, jobs, and sustainable growth. The strategic focus of the proposed CPS builds on the lessons learned in implementing the Bank’s previous Country Assistance Strategy (CAS) for FY2009–2012. Progress toward expected CPS outcomes will be monitored through a realistic, measurable results framework (Annex 1), and outer-year programming will be defined through a mid-stream CPS Progress Report to maintain program flexibility in an uncertain environment.

3. ***This is the first joint World Bank Group strategy prepared for Djibouti, demonstrating the deepening engagement with national authorities, civil society, the private sector, and development partners.*** The strategy has been defined cooperatively by the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Even when combined, the resources of these organizations represent only a small fraction of the total development assistance available to Djibouti. The value of an integrated World Bank Group strategy lies in the Group’s commitment to “bundling” its expertise and financing, transferring global knowledge, supporting institutional capacity development, and providing timely and agile implementation support to the government’s reform efforts.

II. COUNTRY CONTEXT

4. ***Djibouti’s geostrategic location in the Horn of Africa offers important opportunities for economic growth and development, but harnessing the country’s human and economic potential will require a new growth model.*** Economic growth has accelerated in recent years, and the country possesses natural assets and geographical advantages that could support more diversified growth in the future. Resources such as arable land and water are scarce, however, and the economy is overly dependent on foreign direct investment (FDI), rents from foreign countries’ military bases, and revenues from its world-class port complex. Djibouti is a lower-middle-income country, with a per-capita income of about US\$1,430 in 2011, yet estimates suggest that 41.9 percent of the population lives in extreme poverty² and unemployment is alarmingly high, especially among young people. Recent growth has not translated into reduced poverty or shared prosperity. To achieve its economic potential, Djibouti will need to address key vulnerabilities and develop a platform for sustainable, diversified, private sector-led growth.

² Extreme poverty, defined according to the cost of a basic basket of food that provides the 2,115 calories per day needed for an adult, was estimated at 41.9 percent in 2012. Household consumption has not been surveyed since then, but the results of a 2010 governance survey of 700 households suggest that this rate has not decreased over the last decade. See Section IIC for analysis of the incidence—and measurement—of poverty in Djibouti.

A. Geography and Society

5. ***Djibouti is one of the smallest countries in Africa.*** It covers an area of 23,200 square kilometers and is home to a population of about 864,617 (2011). As in other small states, the small size of Djibouti's economy limits its ability to diversify production and increases its reliance on foreign markets, making it more vulnerable to external market downturns and hampering access to external capital. With less than 1,000 square kilometers of arable land (0.04 percent of the country's total land area) and an average annual rainfall of only 130 millimeters, Djibouti depends completely on imports to meet its food needs. Faced with this scarcity, the country's traditionally nomadic people have settled primarily in urban areas, and approximately 71 percent of the population lives in cities—58 percent in the capital, Djibouti-Ville, alone.

6. ***Strategically located at the southern entrance to the Red Sea, Djibouti forms a bridge between the Middle East and Africa.*** The country is adjacent to some of the world's busiest shipping lanes and, since the war between Ethiopia and Eritrea from 1997 to 2000, it has become the main sea-access route for landlocked Ethiopia and its market of 90 million inhabitants. Owing to its proximity to the Persian Gulf, Djibouti hosts military bases for France, the United States, Japan, and the North Atlantic Treaty Organization (NATO), as well as other foreign forces that are located in the country to support anti-piracy efforts. Given the country's geostrategic location and infrastructure, it plays an important role in MENA and could benefit from regionally focused approaches to economic growth, though efforts at regional cooperation and integration have thus far been largely *ad hoc* in nature.

7. ***Djibouti has remained relatively peaceful in recent years, unlike other countries in the region, but there are underlying tensions that are exacerbated by high poverty, high unemployment, and cross-border threats from Al-Shabaab.***³ The last presidential election was held in 2011, following a change in the constitution that allowed the incumbent president, Ismail Omar Guelleh, to run for a third term. Although Djibouti has had a multiparty system since 1991, the voting system that was in place until last year excluded small groups, and the opposition could not sit in parliament. In November 2012, the National Assembly approved a new voting law based on proportional representation. For the first time since 2003, the opposition participated in parliamentary elections in February 2013. According to published results, the opposition won 10 seats in parliament. The opposition contested the results and has not yet participated in parliament.

8. ***Social tensions could worsen as the number of unemployed graduates continues to grow.*** There continues to be room for greater citizen participation and youth inclusion. The country's population is relatively young, with nearly 40 percent of Djiboutians under the age of 15, but the ability of these young people to serve as an engine of growth and poverty reduction is challenged by severely limited employment options (paragraph 21). Recent increases in FDI (paragraph 14) have had only a minimal impact on job creation and poverty reduction.

9. ***These challenges are compounded by the widespread consumption of qat, a leaf that serves as a mild stimulant when chewed.*** Nearly 90 percent of Djibouti's male population chews *qat*, leading to adverse social, economic, and health effects on the population.⁴ Estimates suggest that Djiboutians spend about 20 to 30 percent of their disposable income on *qat*, which comes second only to food expenses and well ahead of spending on education (5.4 percent) and health (4.3 percent). It is common for users to spend several hours per day consuming it, thereby reducing worker productivity. Its effect on health is

³ Al-Shabaab is a militant Islamist organization based in Somalia, which has recently become a cell of Al-Qaeda.

⁴ World Bank. 2011. *Understanding the Dynamics of Qat in Djibouti: Social, Economic and Health Aspects*. Report No. 62823-DJ (May).

both direct, causing high blood pressure and tooth decay, for example, and indirect, by crowding out household spending on basic needs such as food and medicine.

B. Recent Economic Developments and Outlook

10. *Economic activity in Djibouti is driven by port-related pursuits such as transit trade with Ethiopia and transshipment activities.* The telecommunications, construction, and tourism sectors have experienced strong growth in recent years, now accounting for close to 75 percent of GDP and employing most private sector workers. Economic growth, which averaged 4.5 percent per year during 2009–2012, reached an estimated 5 percent in 2013 (Figure 1). Inflation is expected to remain fairly well contained, with the Consumer Price Index (CPI) falling from an average of 3.7 in 2012 to an estimated 2.5 in 2013.

11. *The fiscal situation is projected to have weakened slightly in 2013 (Figure 2).* After a marked improvement between 2009 and 2010, the deficit has grown gradually and is estimated to have increased from 2.7 percent of GDP in 2012 to 3.1 percent of GDP in 2013. Some of the deficit in 2013 was offset by US\$185 million in revenues (13 percent of GDP) earned from the sale of the government’s 23.5 percent stake in the holding company for Djibouti’s ports. Excluding expenditures financed by the proceeds of privatization, the fiscal balance shows a surplus of 1.2 percent of GDP. Financing of the fiscal deficit relies on external sources, with a growing but still limited role for domestic financing. External debt is high, at 49.2 percent of GDP in 2013, and borrowing costs are expected to rise. A Debt Sustainability Analysis carried out by the International Monetary Fund (IMF) in 2013 suggests that Djibouti remains at high risk of debt distress. Stress tests show that external debt sustainability is most vulnerable to an economic slowdown or a devaluation of the currency. Risks also include the projected increase in external debt and vulnerabilities attached to nonconcessional financing from emerging lenders, which would substantially increase the country’s debt-to-GDP ratio.

Figure 1: Growth and Inflation, % change

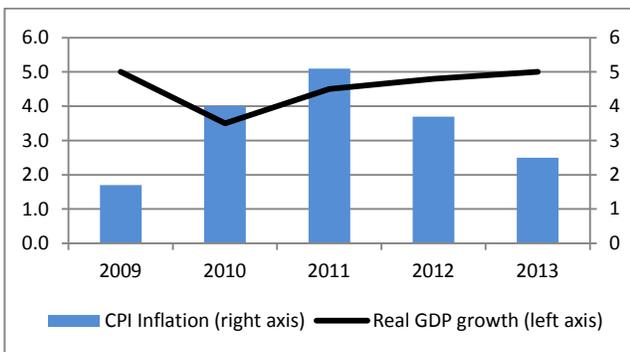
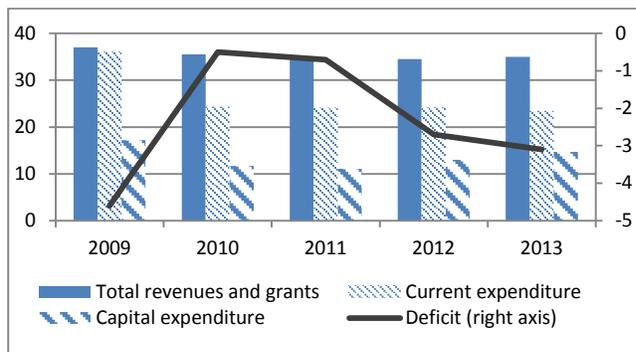
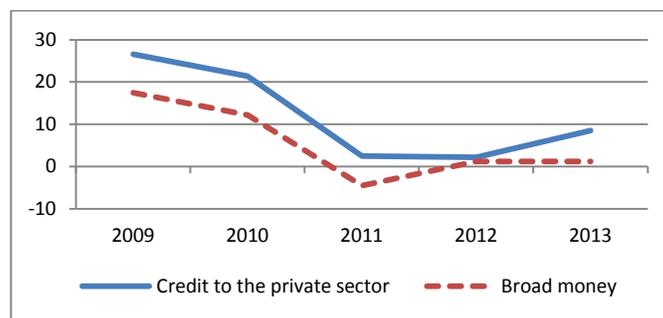


Figure 2: Public Finances, % of GDP



Source: Djibouti authorities and IMF estimates.

Figure 3: Money and Credit, % change year-on-year



Source: Djibouti authorities and IMF estimates.

12. *The Central Bank of Djibouti (CBD) has a good track record of stimulating the economy and helping to finance it.* Signaling a recovery in economic activity after the slowdown in 2009–2010, broad money grew by 8.6 percent in 2013 following an increase of 15.1 percent in 2012. Credit to the private sector is expected to have grown by 8.5 percent in 2013, up from 2.2 percent the previous year (Figure 3). The IMF recently highlighted the need to build supervisory and regulatory capacity in critical areas such as credit risk analysis, cross-border activities, macro-prudential regulation, and Islamic banking. The CBD is expected to issue a number of directives on Islamic banking and to introduce a liquidity ratio.

13. *The financial sector has developed rapidly, but there is a need to further strengthen supervision capacity and financial inclusion.* The financial sector has expanded with the introduction of Islamic financial instruments and the opening of accounts for small savers. Eleven banks are in operation, with total assets reaching 100 percent of GDP in 2012. Djibouti’s banking system has performed well and does not appear to pose systemic risks in the near term, with return on equity at 28 percent and liquid assets exceeding 60 percent of total assets in 2012. Domestic financial intermediation is limited in scope, however. Credit to the private sector has risen gradually, now representing over 80 percent of credit, but it remains concentrated. Only about 5 percent of small and medium enterprises received credit.⁵ Consumer and short-term credit dominates, while medium-term and long-term credit remains marginal.

14. *Djibouti’s external position has deteriorated (Figure 4) as a result of a significant increase in the level of imports associated with the country’s economic recovery.* The current account deficit is estimated to have widened to about 13.1 percent of GDP in 2013 from 5.1 percent in 2010. Imports grew by 18 percent per year on average, in nominal terms, during 2011–2013, as compared to 13 percent for exports. This deficit has been financed in part by significant FDI inflows, which are expected to have risen from 2.4 percent of GDP in 2010 to 18.6 percent in 2013. Djibouti requires significant reserves for imports of food, fuel, and manufactured goods, and to meet full coverage of money issued under the currency board management. It is estimated that official reserves increased to US\$365 million in 2013 from US\$218 million in 2009, averaging well over three months of imports during that period (Figure 5). These expected increases in FDI and official reserves reflect the proceeds of recent privatization initiatives; projections on the basis of this one-off inflow should be treated cautiously. The real effective exchange rate fell by about 4 percent in 2011–2012, as declining food and fuel prices led to lower inflation. The continuing decline in inflation should help maintain the moderate speed of depreciation. The IMF is taking the lead in supporting the government to assess and manage the macro-fiscal impact of the country’s risk exposures.

Figure 4: The External Sector

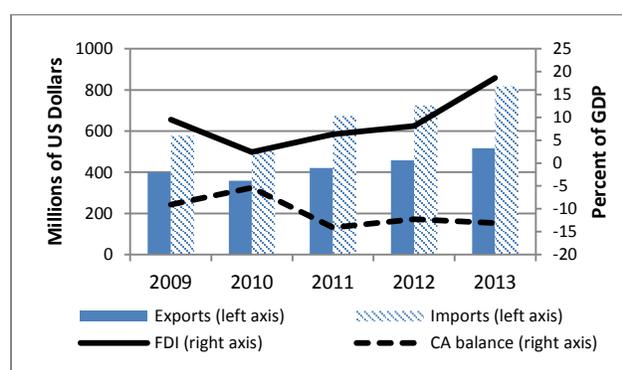
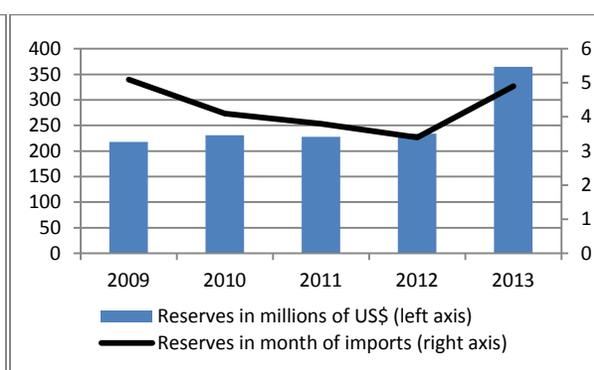


Figure 5: International Reserves



Source: Djibouti authorities and IMF.

⁵ World Bank and IMF. 2010. Financial Sector Assessment, Djibouti (December).

15. *Djibouti's medium-term economic outlook is favorable, but there remain significant risks to growth.* Real GDP growth is projected to reach 6 percent per year in 2014–2016, driven by strong FDI inflows and public investment. Inflation is expected to remain stable at about 2.5 percent per year. The main risks to growth and macroeconomic stability are fuel and food price shocks, adverse economic or security developments in neighboring countries, and domestic social and political instability.

C. Poverty and Shared Prosperity

16. *Analysis of poverty and growth data in Djibouti is made difficult by the weak quality of data and statistics, and the World Bank has been working with the government to improve the information base that will underlie a better understanding of the well-being of the country's citizens.* The poverty data compiled by the Directorate of Statistics and Demographic Studies (DISED) have been constructed using three rounds of the *Enquête Djiboutienne Auprès des Ménages pour les Indicateurs Sociaux* (EDAM-IS 1996, 2002, and 2012). These are the only available figures for Djibouti and are being used by the government and international institutions. However, these surveys are not exactly comparable because of changes made to the census used to construct the sample, the sampling methodology, the questionnaire, and the consumption aggregate. Moreover, the poverty lines being used are high by international standards (Box 1). As the Bank was only recently granted access to the micro-level data, it is not yet possible to assess with confidence either the poverty situation in Djibouti or its evolution over time. Alternative data sources that could have been used to make inferences about these issues, such as national accounts or population statistics, are not very reliable either. DISED does not produce national accounts statistics, but the African Development Bank (AfDB) has been providing support and, more recently, the government has requested World Bank assistance in this area.⁶ Population statistics are outdated and inconsistent with the data produced by the EDAM-IS surveys. Given these challenges, figures on poverty and wealth distribution must be interpreted in the light of a weak data base and the above caveats.

Box 1: Enhancing the Measurement of Poverty and Shared Prosperity in Djibouti

The poverty lines used to measure poverty incidence in Djibouti are high by international standards. Because DISED participates in the international purchasing power parity (PPP) project, it is possible to estimate that the absolute poverty line in 2012 was equivalent to 4.6 PPP \$/day and the relative poverty line to 10.1 PPP \$/day—much higher than the standard value of 1.25 PPP \$/day used by the World Bank for international comparisons of extreme poverty. Both poverty lines were constructed in 1996 and have been updated using the official CPI, though this index is currently under scrutiny.

The main technical challenge in the short term is the creation of a reliable, comparable database of poverty statistics. Djibouti will need to undertake a full analysis of the EDAM-IS micro survey data to ensure comparability over time. Revising the CPI, with which the government has requested Bank technical assistance, will help accurately portray the country's poverty status and dynamics. This will be necessary for measuring shared prosperity, which requires comparable surveys at two points in time to establish the degree to which incomes have grown among the bottom 40 percent of the population.

Second, there is a need to better understand the relation between GDP growth and growth in household spending. In addition to reassessing EDAM-IS data, this will require validating GDP growth figures and better understanding macro-micro economic relations. The country's wealth, which depends on the port and foreign military bases, does not appear to trickle down to the rest of the economy and to the population.

Finally, it will be important to renew efforts to measure the welfare of particular population groups and to track changes over time. Djibouti's population includes refugees, nomads, and homeless people, who are difficult to capture in censuses, challenging to reach with social protection programs, and unlikely to participate in the formal economy. Yet given the country's small population, changes in welfare among these groups can have important effects on overall welfare measurements.

⁶ The Bank has supported the statistics office in submitting a proposal to the Trust Fund for Statistical Capacity Building to strengthen the system of national accounts, update the CPI, and improve the comparability of poverty and welfare statistics over time.

17. **According to DISED’s latest welfare report, the incidence of poverty in Djibouti remains high despite moderate economic growth over the last decade.** The report suggests that, after dramatic increases in both absolute and relative poverty between 1996 and 2002, absolute poverty has declined only slightly from 42.2 percent in 2002 to 41.9 percent in 2012, while relative poverty has grown from 74 percent to 79.4 percent in the same period (Table 1). DISED figures suggest that poverty levels vary widely across regions. Outside the capital, seven out of ten Djiboutians fall below the absolute poverty line, and nine out of ten under the relative poverty line. Gender is not a major factor in the distribution of poverty. Absolute poverty within female-headed households (18.4 percent of total households) is 41.8 percent, as compared to 41.9 percent within male-headed households. The incidence of relative poverty is 65.3 percent in female-headed households and 70.3 percent in male-headed households. This is true for all regions. No figures are currently available on income growth among the bottom 40 percent of the population.

Table 1: Government of Djibouti Estimates of Absolute and Relative Poverty

	EDAM1-IS 1996	EDAM2-IS 2002	EDAM3-IS 2012
Absolute poverty	9.6	42.2	41.9
Relative poverty	41.1	74.0	79.4
Absolute poverty line per capita per year (DJF)	100,229	114,096	169,137
Relative poverty line per capita per year (DJF)	198,222	216,495	371,630

Source: DISED. 2012. *Profil de la pauvreté en République de Djibouti*. Ministère de L’Economie et des finances charge de l’industrie et de la planification, Direction de la statistique et des études démographiques.

18. **Despite the data limitations, it is clear that Djibouti is a very poor country and that recent economic growth has not benefited the population equitably.** Poverty has been exacerbated by drought conditions since 2007—the worst in 60 years. The drought is estimated to have affected at least half the rural population, with annual economic losses of 3.9 percent of GDP over the period 2008–2011 and a substantial flow of refugees from neighboring countries that also suffer from drought. It is estimated that Djibouti is currently hosting over 21,000 refugees and 4,200 asylum seekers, about 70 percent of whom are women and children and the majority of whom have fled conflict in their countries of origin—mainly Somalia, Ethiopia, and Eritrea.⁷ Agricultural production is constrained by a lack of water resources, soil salinity, and limited pastoralist traditions among what were historically nomadic people. At least 20 percent of Djibouti-Ville’s population remains in a state of food crisis, and three-quarters of rural households are severely or moderately food insecure. As all food items are imported, increases in international food prices are transmitted directly into domestic food prices. This further affects Djibouti’s poor people, who spend up to three-quarters of their income on food. In the absence of reliable income data, trends in social indicators and access to basic infrastructure (paragraphs 31–35) help elucidate the status of poverty and shared prosperity in Djibouti.

III. TOWARD A NEW GROWTH MODEL: OPPORTUNITIES AND CHALLENGES

19. **In 2012, recognizing the need for a diversified, sustainable growth path, the Government of Djibouti requested World Bank assistance in conducting a study of the potential sources of economic growth.** This joint effort aimed to develop a long-term vision for the country’s economic development based on a thorough analysis of the current situation and trends. The result, *A New Growth Model for*

⁷ Office of the United Nations High Commissioner for Refugees. 2014. “2014 country operations profile – Djibouti.” Online at <http://www.unhcr.org/cgi-bin/texis/vtx/page?page=49e483836>, accessed February 3, 2014.

Djibouti, sets out an action plan for generating economic recovery and growth in the country. The findings of the study can be summarized in three strategic messages: (i) the current growth model is unsustainable; (ii) Djibouti's economic potential remains fundamentally untapped; and (iii) to realize its potential, Djibouti must change its governance framework. This new growth model became the basis for Djibouti's Vision 2035 statement, and is the lens through which this CPS views Djibouti's development opportunities and challenges. Its findings offer a way forward for building on recent economic developments in Djibouti, drawing on the country's relative stability, excellent port, and sectors of potential growth. Taking advantage of these opportunities will require addressing key vulnerabilities and strengthening the business climate and governance environment.

A. The New Growth Model and Sources of Growth in Djibouti

20. ***Djibouti's capital-intensive growth model is unsustainable.*** The increased growth of the 2000s came after a decade of significant output decline in response to the political turmoil of the 1990s. Per-capita GDP in 2010 remained 20 percent below the 1990 level. Moreover, Djibouti's recent growth is linked to substantial inflows of foreign investment that financed the construction of new port and hotel infrastructure. As is common in small states, the public sector has long dominated the national economy, with the government budget representing an estimated 36.1 percent of GDP in 2012 and a strong role for public enterprises in key sectors such as electricity, transport, real estate, and telecommunications. Given significant fiscal constraints, however, developing the private sector will be crucial to promote and sustain a more inclusive pattern of growth, provide job opportunities for young people, and reduce poverty.

21. ***Current growth patterns will not create enough jobs to address the country's dire and systemic unemployment.*** About 48 percent of the overall population is unemployed, and estimates suggest that the unemployment rate rises above 70 percent for young people under the age of 30. The labor market is largely informal; only about 44,000 employees worked in the formal sector in 2010, 44 percent of whom worked in the public sector. Even where there are jobs, there is a gap between the skills needed by employers and the type of skills and training received by prospective employees. Recent economic growth has failed to generate enough job opportunities to reduce unemployment, and the medium- and long-term prospects are troubling. The pace of job creation will need to double in order to even begin to decrease unemployment levels, and demographic pressures will only intensify in the coming years, as a young and increasingly well-educated population enters the labor market.

22. ***Djibouti needs a new economic model that focuses on generating employment and supporting poverty reduction and shared growth in sectors with the greatest growth potential.*** The new growth model study identified, in consultation with government officials, four sectors where Djibouti has a comparative advantage and the potential for substantial job creation: transport and logistics, tourism, fisheries, and telecommunications.

23. ***The transport and logistics sector is the backbone of Djibouti's economy, based on the country's remarkable deep-water port complex, which has few precedents in Africa.*** Over the last decade, in partnership with the Emirate of Dubai, the Government of Djibouti has progressively expanded its port facilities with new oil and container terminals at Doraleh (the latter supported through a US\$427 million investment guarantee from MIGA, see paragraph 62), a bulk terminal in the old port, the Djibouti Dry Port, and the PK-12 logistics zone. The Djibouti Free Zone was established in 2004 as a hub for attracting diversified private investment and jobs. It has created an attractive business environment with lower taxes and a one-stop shop for administrative procedures, but with limited effects on job creation and product diversification due to the high cost of electricity and labor (paragraph 42). The port contributes substantially to the national economy, generating direct revenues in the range of US\$65 million to US\$90 million per year (20 to 25 percent of government revenues) and creating about 15,000 direct and indirect jobs (10 percent of the actively employed population). Nearly 85 percent of

traffic in the port of Djibouti is related to transit shipping for Ethiopia, and recent port and road improvements have made the Djibouti–Addis Ababa trade corridor more attractive to Ethiopian merchants than corridors running to Somalia and Sudan. The Djibouti–Ethiopian railroad shut down completely in 2010; construction of a new railway—through a loan from the Exim Bank of China in 2013—should start soon. Trade through Djibouti’s port is expected to continue growing rapidly in response to economic expansion in Ethiopia, although it is unclear how many jobs this will create for Djiboutians given that Ethiopia subsidizes trucks on this route. Developing potential trade with South Sudan could further expand port activities.

24. ***The tourism sector is one of the most promising for job creation.*** Djibouti welcomes about 50,000 tourists a year, most of whom are business travelers tied to the foreign military bases. Tourism’s contribution to growth and employment remains modest, with only 4,500 people working in the sector today. However, Djibouti is endowed with natural assets for the development of tourism, including marine life of great beauty, unique geological landscapes, and a rich cultural and archeological heritage. Many of these sites could be eligible for UNESCO classification. Tourism focused on the Red Sea is especially dynamic, as evidenced by the increasing popularity of scuba diving in Sharm el-Sheikh and Hurghada in Egypt. Djibouti could position itself as a first-class tourist destination in the region by focusing on three key elements: (i) business and recreational tourism in the capital; (ii) swimming and dive complexes on priority development sites at the seaside; and (iii) eco-conscious discovery tourism at archeological and prehistoric sites. According to Bank staff simulations, Djibouti could attract up to 500,000 tourists each year by 2030 and generate up to 30,000 direct jobs.

25. ***Though artisanal fishing currently plays a minor role in the economy, Djibouti has substantial marine resources that are underutilized.*** The fisheries sector employs about 2,600 people. The volume of catches unloaded is relatively small at 1,800 tons, with most of the yield sold on the domestic market. The authorized exploitable potential is estimated at more than 30,000 tons, however. Market demand is strong and diversified, and domestic fish consumption is growing steadily, in tandem with tourism and changing eating habits. There are opportunities for exports to Ethiopia, the Gulf countries, and Europe. Developing Djibouti’s marine resources through boat acquisition, skills training, and exploration of new fisheries could raise the total catch above 5,000 metric tons by 2020, creating more than 3,000 direct jobs.

26. ***Djibouti is one of only three remaining African countries (along with Ethiopia and Eritrea) to have a monopoly in the telecommunications sector, and despite positive trends, access to telecommunications services lags well behind the rest of Africa.*** The country’s only operator, Djibouti Télécom, is fully owned by the government, with revenues in excess of US\$80 million (7 percent of GDP). The company employs about 1,000 people, a high figure given the low number of subscribers. Mobile telephone and Internet services are expensive and of poor quality, with low penetration rates at 20 percent and 6 percent, respectively. Some parts of the country, especially in the north, are largely underserved. Only 3 percent of households have Internet access at home. These deficiencies severely hinder Djibouti’s competitiveness, as high-quality services are necessary to solidify its position as a regional hub, attract foreign investors, and promote economic diversification. Paradoxically, Djibouti has a powerful but largely underutilized infrastructure of undersea cables. Djibouti Télécom sells the excess capacity abroad, bringing in US\$22 million in revenues in 2012. The government is considering issuing a new mobile license, opening the mobile and Internet markets, and extending the network to the entire country. Djibouti has significant potential to use its existing infrastructure to develop offshoring activities such as call centers and back-office functions.

B. The Government’s Development Agenda: Vision 2035

27. ***The government’s long-term approach to development is encapsulated in the recently completed Djibouti Vision 2035.*** In addition to its three cross-cutting themes—promoting women’s conditions and

reducing gender inequality, supporting youth, and protecting the environment—the vision statement focuses on five pillars representing the country’s key development challenges:

- *Peace and national unity*: social justice, equity, and a culture of peace; a cultural identity and a national conscience; and a defense policy that guarantees the security of people and assets;
- *Good governance*: strong institutions; a strengthened democracy based on good governance as a social norm; justice system modernization; capacity building in the administration and e-government; strengthening civil participation and civil society; the media as instruments of good governance; consolidation of the business environment and strengthening of private initiatives; and the prevention and repression of corruption;
- *A diversified and competitive economy with the private sector as its engine of growth*: diversified growth, with the private sector driving a new growth model; a positive macroeconomic policy; an adequate financing strategy that preserves financial equilibrium; financial market development; supply chain improvements; strategic partnerships; a judicious global and integrated development plan of the national territory; and a global employment policy;
- *Consolidation of human capital*: ensuring the well-being of the population; reducing poverty through social actions; developing a global sanitation policy; education system improvements; a food security and nutrition strategy; a housing policy adapted to the national socio-cultural environment; defining and implementing a national population policy; and promoting artistic and cultural creativity; and
- *Regional integration*: capitalizing on Djibouti’s strategic location in the Horn of Africa through infrastructure and regional economic initiatives; developing commercial integration and a service platform in the subregion; commercial integration in the Intergovernmental Authority for Development (IGAD), the Common Market for Eastern and Southern Africa (COMESA), and the East African Community (EAC); a regional maritime outlet and service platform; and a stronger national strategy of international cooperation.

28. ***Implementing Vision 2035 will require coordinated assistance from Djibouti’s development partners.*** The government plans to present its vision document to development partners in early 2014, after which it will be launched formally. The government has requested World Bank support in formulating and costing a rolling five-year strategy and action plan to implement Vision 2035. The CPS approach and interventions will respond flexibly to the timing and content of this strategy and action plan as it develops. The Bank team will make use of the mid-term CPS Progress Report to further specify the CPS program, including its proposed use of IDA17 resources, in line with the government’s strategy. Given the country’s income constraints, implementing the strategy for accelerated growth and employment promotion⁸ will require substantial support from both traditional and nontraditional donors.

C. Key Development Challenges

29. ***To take advantage of opportunities for more diversified economic growth and poverty reduction in Djibouti by implementing the government’s vision, the country will need to overcome several key development challenges.*** Action is needed on two broad fronts. First, Djibouti needs to take steps to address vulnerabilities such as high poverty and unemployment, deficits in human development indicators and social service delivery, limited access to basic infrastructure, and high natural disaster risks. Second, there is a need to strengthen the business-enabling environment through better-quality and more affordable energy and telecommunications services as well as improvements to the investment climate and governance framework.

⁸ *Stratégie de Croissance Accélérée et de Promotion de l’Emploi (SCAPE).*

Addressing vulnerabilities

30. ***Djibouti faces serious challenges in protecting poor and vulnerable households against shocks and the risk of irreversible loss of human capital.*** Existing social protection programs are not well targeted, and their coverage remains low (0.8 percent of GDP for non-subsidy social safety nets). The share of (non-subsidy) social safety net beneficiaries is the same in the richest quintile as in the poorest quintile. Untargeted tax breaks on fuel benefit mainly those who are well off; according to IMF estimates, there is significant leakage of diesel and gasoline price reductions, and households in the highest income quintile receive 12 times more of these benefits than those in the two poorest quintiles combined. Efficient social protection and education programs linked to employability will be particularly important given low rates of economic activity: in 2012, only 30 percent of Djiboutians over the age of 15 were gainfully employed in the labor market, with the remainder inactive or unemployed.

31. ***Despite recent progress in the education and health status of Djibouti's population, the country lags behind on human development indicators.*** Djibouti ranks 164th out of 187 countries on the 2013 Human Development Index⁹ and is unlikely to meet most of its Millennium Development Goals (MDGs, Annex 2). Women and girls face particular challenges given deep-rooted gender inequalities in access to services, opportunities, and voice (Box 2).

Box 2: Gender Equality in Djibouti

Gender inequalities in access, opportunities, and power relations persist. Social and cultural norms sometimes limit women's access to productive resources, economic opportunities, and participation in decision-making bodies. These inequalities are exacerbated upstream by inadequate access to basic social services, and downstream by inadequate job skills. Employment prospects remain far better for male job seekers.

Only 37 percent of women aged 15 to 64 participate in the labor market, as compared to 69 percent of men. Women make up about 27 percent of the nonagricultural workforce and 31.7 percent of informal workers. Though the agriculture sector remains limited countrywide, the fishing industry—in particular, marketing or fish farming—could provide an alternate source of income for women, but its potential is hampered by inadequate infrastructure and material, limited access to financing, and a lack of training and organizational capacity.

Women play a growing role in government but remain underrepresented in management and decision-making posts. The lower house of parliament is subject to legislated quotas for the number of women. Seven of the 65 seats are currently filled by women.

Gender has been integrated into several national frameworks and sectoral programs, including the Strategic Framework to Fight against Poverty, the National Strategy for the Integration of Women, and the recently elaborated National Gender Policy. In 2002, the government enacted a Family Law that enhances the protection of women and children and unifies the legal treatment of all women. These initiatives have yielded mixed results, however, owing in part to limited budget allocations and weak local technical capacity on the supply side and lack of information, high illiteracy, and absence of appropriate legal assistance on the demand side.

The World Bank is undertaking a Poverty and Social Impact Analysis (PSIA) and a Poverty and Gender Study to fill the analytical and knowledge gaps related to gender in Djibouti, and to help inform the design and implementation of Bank Group interventions under this CPS (paragraphs 65, 74).

Sources: Politique Nationale Genre. 2011. Ministère de la Promotion de la Femme et du Planning Familial, Chargé des Relations avec le Parlement, FNUAP, UNESCO, PNUD, ONUSIDA; UNICEF. 2011. *Djibouti: MENA Gender Equality Profile, Status of Girls and Women in the Middle East and North Africa.*

32. ***Access to, and coverage of, education have improved considerably over the past decade, but the sector continues to face challenges in quality and relevance.*** Between 2008 and 2010, the number of classrooms in public basic and secondary schools increased by 22 percent, and the number of students

⁹ United Nations Development Programme. 2013. *Human Development Report 2013*. New York: UNDP.

grew by 15 percent. Gross primary enrollment stood at about 70 percent in 2012,¹⁰ though with a 21 percent difference between the richest and poorest quintiles of the population. The repetition rate in basic and secondary public schools is 4.7 percent. Primary school learning outcomes are quite low, however, as shown on math and French language exams. A gender analysis of the formal and non-formal education system reveals low levels of education and training of girls and women.¹¹ Recent gains have been important, including free and compulsory schooling up to age sixteen, free meals, and distribution of school supplies to families who send their daughters to school. Yet education of girls still lags behind that of boys, with a small but persistent gap between male and female enrollment ratios.¹² Limiting factors include travel distances, household poverty, helping with household chores, early marriages—particularly in rural areas, and parents’ limited participation in school management.

33. ***The country’s health status has improved in recent years, but health indicators remain among the lowest in the world.*** Important progress has been achieved in maternal and child health (Table 2), but mortality rates are still among the highest in the MENA region. High fertility rates, poor provision of emergency obstetric care, and the persistence of harmful traditional practices such as female genital mutilation¹³ negatively affect women’s health. HIV prevalence is higher for adult women than for men, at 3.3 percent and 2.5 percent, respectively.¹⁴ Recent improvements in the delivery of health services, in the availability of providers and drugs, and in management capacity have strengthened the sector, but are not yet sufficient to achieve the MDGs.

Table 2: Maternal and Child Health Indicators Over the Last Decade

Indicator	2002	2012
Maternal mortality ratio, per 100,000 live births	546	383
Child (under-five) mortality, per 1,000 live births	124	68
Medically assisted delivery, %	40	87
DPT3 vaccinations, % of children 12-23 months of age vaccinated before 12 months of age	45	93
HIV/AIDS prevalence, % of pregnant women 15-24 years old	2.9	1.4*
Number of paramedics enrolled in the High Institute of Health Sciences	515	1,098

*Data from 2010.

Sources: PAPFAM 2002 and 2012 Health Surveys. HIV data are based on MOH 2010 Annual Report.

34. ***In Djibouti-Ville, home to 58 percent of the country’s people, a majority of the population lives in substandard housing and about one-third in slums, which are expanding rapidly due to population growth and migration.*** There is a critical lack of housing supply, and even the narrow middle class has difficulty finding adequate housing, due in part to high construction costs. Poor neighborhoods in the older part of the city lack basic infrastructure, and living conditions are unsanitary. In the sprawling slums

¹⁰ UNESCO Institute for Statistics. Depending on the population denominator used, the gross enrollment rate for 2013 could be as high as 78.5 percent (MENFOP *Annuaire Statistique* 2012-13).

¹¹ The literacy rate for women 15-24 years old is 47.5 percent overall, dropping to 14.2 percent in rural areas. UNICEF. 2007. *Analyse de la situation des femmes et des enfants*.

¹² World Bank gender statistics estimate gross primary school enrollment at 56 percent for girls and 62 percent for boys in 2010. At the secondary level, the rates dropped to 31 percent and 40 percent, respectively. Female-to-male ratios in primary, secondary, and tertiary enrollments were 90, 79, and 67 percent, respectively, in 2010.

¹³ FGM, though illegal since 1994, is still widely practiced. In 2008, it was estimated that 93 percent of women aged 15 to 49 years had undergone some form of FGM, performed traditionally on girls between 7 and 10 years old. See EDIM (*Enquête Djiboutienne à Indicateurs Multiple*) *Rapport final* 2007.

¹⁴ *Recensement Général de la Population et de l’Habitat* (RGPH).

of Balbala, the water supply is provided mostly by truck, and electricity is relatively limited. Transportation is made difficult by high density. Shelters are made primarily of temporary materials, and the poor quality of construction increases exposure to risks such as fire and flooding, while providing inadequate protection from the hot, arid climate. The poorest communities were by far the most affected during the April 2004 floods, for example, when more than 100 people died and 20,000 houses were damaged. Urban management is hampered by institutional inefficiencies, including weak local governance and low capacity among public actors to mobilize and engage communities.

35. ***Djibouti's rural population faces severe constraints in access to basic infrastructure, particularly power and drinking water.*** Half of Djibouti's population does not have access to electricity, as a result of high tariffs, high connection costs, and an electricity grid that covers only Djibouti-Ville and its outskirts. It is estimated that 20 percent of the population has no access to potable water and that more than 70 percent of the rural population and its herds do not have access to water within a reasonable distance. During the three- to four-month dry season, the lack of access to water constitutes a major constraint to human and livestock mobility, and to the proper use of the limited and sparsely distributed agro-pastoral resources. The traditional techniques used by pastoral communities to cope with high levels of aridity and relative scarcity of fodder resources are threatened by the degradation of natural resources, largely as a result of overgrazing in areas where water is more easily accessible.

36. ***Approximately 33 percent of Djibouti's population lives in areas of high hazard risk.*** With less than 331 m³ of freshwater per capita in 2011, the country is classified as severely water poor.¹⁵ It averages only 130 mm of rainfall per year, a figure that is low compared to Eastern Africa's annual average of 250 mm and that is expected to drop to 100 by the end of the decade. Rainfall in Djibouti's driest region, Obock, averages only 50–100 mm a year. Djibouti has neither permanent rivers nor freshwater lakes, and less than 5 percent of total rainfall replenishes the water table because of evaporation.

37. ***Djibouti is highly vulnerable to multiyear droughts that result in water scarcity for livestock, irrigation, and domestic uses, as well as to frequent flash floods that follow extended drought periods.*** Over one-third of Djibouti's economy is vulnerable to flood and drought. The current drought, for instance, has affected more than 120,000 people in rural areas (50 percent of the rural population and about 15 percent of total population), resulting in economic losses equivalent to an average of 3.9 percent of GDP per year between 2008 and 2011. The greatest losses are in agriculture, livestock, and water, totaling US\$96 million. Djibouti's water crisis is exacerbated by rapid demographic growth, refugee inflows, and climate change. The recent drought has had particularly negative implications for women, compounding the burden of activities that are central to women's role as primary caregivers, including fetching water, collecting cooking material, preparing food, and caring for children and the elderly.

38. ***Djibouti is highly vulnerable to earthquakes and secondary effects such as tsunamis and landslides.*** An earthquake hazard and risk assessment conducted by the World Bank in 2013 indicates that nearby active tectonic faults can produce earthquakes of high intensity. A seismic event of magnitude 6.75 could potentially cause several thousand fatalities, with direct economic losses as high as US\$2 to 3 billion. One-fifth of the economy is exposed to these risks, but it does not appear that Djibouti has any retention or transfer financial risk instruments in place. These preliminary results indicate that losses would largely overcome all national social, environmental, financial, and economic capacities and resiliency, compromising recovery and requiring substantial international assistance. Implementation of integral risk management measures is critical to avoid at least the most extreme scenarios.

¹⁵ According to the World Health Organization definition of <1000 m³/yr/per capita.

Strengthening the business-enabling environment

39. ***Djibouti's private sector remains embryonic and poorly organized.*** The country's private sector encompasses approximately 3,000 companies, of which approximately two-thirds are individually owned with one wage earner.¹⁶ These micro enterprises operate mostly in the trade and services sectors and tend to lack formal structure. Only 141 firms with valid licenses reported annual revenue in excess of US\$100,000 in 2010, and 62 reported revenue over US\$1 million. The private sector's lack of depth reflects weaknesses in entrepreneurship.¹⁷ Few new businesses achieve significant growth. Local operators believe that entrepreneurship in Djibouti is motivated mainly by short-term opportunities, government contracts, or specific commercial operations. As a result, micro, small, and medium enterprises (MSMEs) are not able to tap into the opportunities available to large-scale contractors.

40. ***Spurring private sector development and diversifying Djibouti's sources of growth will require overcoming the deep structural barriers imposed by a complex and burdensome business environment.*** In *Doing Business 2014*, Djibouti ranks 160th of 189 economies on the overall ease of doing business (improved from 171st in 2013), as compared to Mauritius at 20th, Ethiopia at 125th, and Yemen at 133rd. Djibouti's performance on the component parts of this index varies widely, from relatively good performance on facilitating cross-border trade (60th) and paying taxes (66th) to low performance on access to credit (180th) and protecting investors (182nd). Despite recent improvements, Djibouti's low ranking reflects serious deficiencies in the business environment, which are confirmed by economic operators in the country.

41. ***Business startup procedures have improved in recent years, but regulatory, tax, and legislative barriers remain.*** As reflected in its improved ranking on the ease of starting a business (from an adjusted rank of 188th on the 2013 index to 127th in 2014), Djibouti has simplified registration formalities and eliminated the minimum capital requirement for limited liability companies. Yet the cost of registering a business, at 185 percent of per-capita income, is 1.8 times higher than in Ethiopia and 2.8 times higher than in Yemen. The tax system is regressive and does not favor small enterprises.¹⁸ Comprehensive reform of business taxes will be essential in unleashing Djibouti's private sector potential. Commercial legislation is fragmented and outdated. A national commission formed in 2007 is working to modernize the commercial code, incorporating the many disparate laws that are currently in effect and bringing the commercial legal framework in line with international standards.¹⁹

42. ***Private sector growth is held back by the high cost of factors such as labor, electricity, and telecommunications.*** Despite relatively low worker productivity, labor costs are high in Djibouti. For example, an unskilled worker earns US\$300 per month on average, as compared to US\$70 in Ethiopia, US\$100 in Egypt, and US\$170 in Mauritius. Electricity tariffs, at US\$0.32/KWh, are twice the African average, owing in part to the heavy reliance on expensive imported diesel fuel. Power outages are frequent, requiring the purchase of generators to ensure regular business operations. Electric bills account for approximately 25 percent of business expenses in Djibouti, hindering national competitiveness and industrial development, notably in the DFZ. In a 2010 governance survey, the majority of companies cited electricity as the most significant business constraint. The financial performance of the state monopoly *Electricité de Djibouti*, is poor, requiring heavy government subsidies. Generation capacity is below what is needed for economic growth, though an interconnection with Ethiopia, completed in 2011 and available

¹⁶ Private companies reporting at least one wage earner, registered at the *Caisse Nationale de Sécurité Sociale*.

¹⁷ Between 2006 and 2011, the National Agency for the Promotion of Investment recorded 150 investment projects (new projects and extensions), 64 percent local and 36 percent foreign.

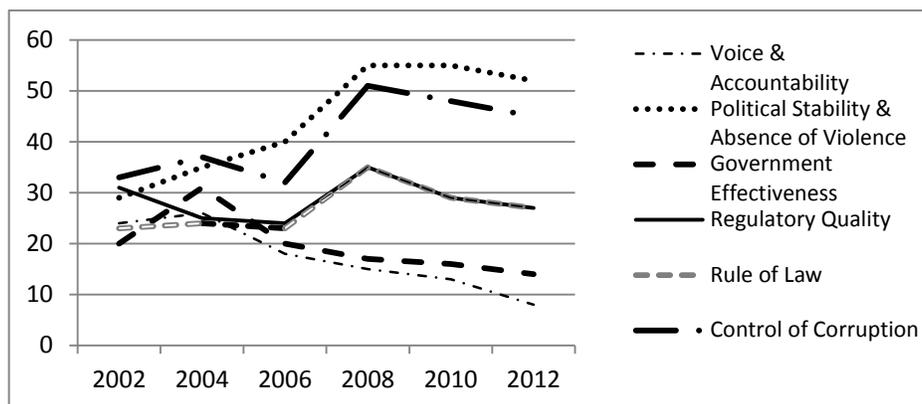
¹⁸ In particular, the business license tax is calculated on a lump-sum basis, regardless of company size. This tax has been eliminated in many countries, as it deters business creation and favors the informal sector.

¹⁹ These include COMESA, the United Nations Commission on International Trade Law (UNCITRAL), and L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA).

during part of the year, has helped meet growing demand, and the country has good potential to develop geothermal resources. There may also be potential to develop interconnections with Saudi Arabia and Yemen, as well as the potential sale of excess geothermal capacity, if the latter is confirmed. Although telecommunications rates are decreasing, they remain high compared to other developing countries. Internet connection fees are particularly expensive; a high-speed connection costs US\$63 per month in Djibouti, more than twice the US\$31 per month charged in Ethiopia.²⁰ Fixed and mobile broadband prices in Djibouti represent 22 percent and 77 percent, respectively, of per-capita GNI per month. Due to the prohibitive cost and low service quality, access to telecommunications services is extremely limited compared to other African countries. In 2012, the mobile penetration rate remained low at 22.7 percent, and Internet usage remained at 8.2 percent.

43. ***To exploit its economic potential to the fullest, Djibouti needs to improve its governance framework significantly.*** Djibouti suffers from major deficits in most dimensions of governance (Figure 6). Access to information and freedom of the press are limited. There is no freedom of information law, and the constitution makes no mention of the right to information. Corruption remains problematic. Djibouti ranked 94th out of 176 countries on Transparency International’s 2012 Corruption Perceptions Index. Property rights are insecure, as reflected in Djibouti’s low ranking (133rd of 189 economies) on registering property in *Doing Business 2014*. At 12.9 percent of the property value, registration costs in Djibouti are more than twice the MENA regional average of 5.9 percent. Accountability is weak throughout the service delivery chain, across sectors, and citizens have little voice with respect to service delivery performance. Strengthening governance in Djibouti will require improving legislative frameworks, especially for private sector activities; enhancing budget transparency and national accounts; strengthening accountability networks and the monitoring and evaluation of reforms, with civil society participation; expanding training and capacity building for public sector officials and institutions; and strengthening the courts. From an institutional perspective, the New Growth Model study identified two main problems: the lack of legal security and inadequate public policy planning and execution.

Figure 6: Dimensions of Governance Over Time in Djibouti



44. ***An effective and efficient justice sector is an important cornerstone of good governance, and Djibouti’s judicial system is in need of reform.*** Resources are insufficient, there is no judicial training, independence and impartiality are lacking, accountability is limited, and the system moves slowly. Domestic and international businesses express reservations about the justice system’s ability to protect their rights and resolve disputes fairly.²¹ Investors have watched with concern as foreign businesses were ordered to pay heavy fines, and recent decisions on unilateral cancellation of contracts and

²⁰ Basic rate for a one-megabyte asymmetric digital subscriber line (ADSL).

²¹ According to *Doing Business 2014*, it takes an average of 1,225 days, or 3.3 years, to resolve a commercial dispute between two companies, from the time a lawsuit is filed until final payment.

reconsideration of tax breaks have contributed to the sense of legal insecurity. All court facilities are located in the capital, and the judiciary does not do well in reaching the country's most vulnerable. The government has launched a judicial reform strategy, established commercial courts, and passed legislation to provide legal aid services to poor people, juveniles, and persons with HIV, but the effectiveness of these measures will depend on appropriate financing, personnel, and capacity.

45. ***Public policy planning and execution suffer from weak strategic and operational planning instruments in key sectors.*** This weakness is compounded by the absence of reliable data. Moreover, a lack of clarity in public policies poses challenges for informed, coordinated, and accountable decision making. Instead of offering investors a comprehensible framework, for example, the policy for attracting investments to Djibouti is limited to welcoming project developers and signing memoranda of understanding. This context discourages serious investors who are interested in developing long-term projects in Djibouti, and who are key to realizing the country's growth potential.

IV. WORLD BANK GROUP PARTNERSHIP STRATEGY

A. Lessons Learned from Previous Engagement

Outcome of the Previous CAS

46. ***The previous CAS, covering FY2009–2012, focused on three strategic pillars and proposed US\$24.2 million in IDA grant support.*** The three pillars were designed to: (i) promote growth by improving the business environment, including eliminating constraints and reducing the cost of factors of production such as electricity, telecommunications, and finance; (ii) support access to basic social services by improving access to and quality of education and health services, and strengthening social protection and direct support to the poorest; and (iii) support better governance and public sector management through economic policy discussion and technical assistance to strengthen the budgetary process and monitoring and evaluation.

47. ***As discussed in the CAS Completion Report (CAS CR) for the 2009–2012 strategy (Annex 3), solid progress was achieved toward most major expected program outcomes.*** Program performance was rated moderately satisfactory, with notable achievements in education and health and important steps forward on energy and expenditure transparency. Progress toward targets in telecommunications, business regulation, financial sector reform, social protection, and monitoring and evaluation was more gradual. In some cases, momentum was slowed by weak implementation capacity, delays in implementing relevant programs, or lack of dedicated operational support. Other areas, such as social protection, are beginning to make headway now that planned programs are finally under implementation.

48. ***The CAS CR rated the Bank's performance moderately satisfactory.*** The design of the CAS program was relevant to the country context at the time, emphasizing government ownership, selectivity, and flexibility. Strategy implementation was successful in mobilizing resources to scale up successful interventions and respond to evolving needs. As a result, the country's IDA allocation was nearly doubled through trust funds. However, gaps in the design of the results framework introduced a lack of clarity between objectives and instruments in some sectors and left room for insufficient follow-through on monitoring and evaluation. The Bank team has responded proactively to amend weaknesses in portfolio management, but there is a need for improved follow-up on analytical work and technical assistance.

49. ***Lessons from the CAS CR have informed the development of the CPS for FY2014–2017.*** First, the Bank program builds on the current appetite for reform in key areas such as governance and private sector development, working from analysis undertaken jointly with the government for the New Growth

Model study. Drawing on the success of education and health outcomes under the previous CAS, expected CPS outcomes have been aligned closely with specific operational activities to ensure dedicated Bank support and encourage regular monitoring of progress indicators. Second, capacity building remains fundamental in designing and implementing Bank projects. Design of the CPS has emphasized flexibility in programming and in the preparation and effective dissemination of technical assistance and analytical work in response to evolving country needs. Third, the Bank's limited financial assistance must be leveraged with resources from trust funds and other development partners; the CPS has sought to build on the Bank's positive experiences in this area, such as the successful mobilization of trust fund financing in response to the current drought. Finally, given capacity constraints and persistent weaknesses in the collection and management of key national statistics, and based on the experience under the previous CAS, the CPS will be highly selective, as reflected in the strategy's guiding principles (paragraph 68) and in the simplified results framework (Annex 1), which focuses on key indicators that are clearly specified, measurable, realistic given the project pipeline, and set up for regular monitoring and evaluation.

Stakeholder Consultations

50. *A CPS Preparation Workshop was held with the Government of Djibouti and World Bank staff in November 2012.* Geared toward jointly developing the proposed CPS program, the workshop was guided by the New Growth Model study and by the lessons learned in implementing the last CAS. Participating ministers and key government officials from all sectors were vocal about their appreciation for the coordinated partnership approach adopted to elaborate the CPS. They underlined the need for improved coordination across government agencies, among development partners, and between the Government of Djibouti and the Bank, including more frequent portfolio reviews of Bank activities.

51. *In June–July 2012, 220 stakeholders in Djibouti were invited to provide their opinions on the Bank's assistance to the country by participating in a client survey.* Participants were from government, civil society, media, bilateral and multilateral agencies, the private sector, and academia. A total of 118 stakeholders (54 percent), representing a wide range of groups and sectors, participated in the survey. This was the first survey of its kind in Djibouti. Findings will be used to benchmark the Bank's performance (Box 3), and the survey will be repeated in three years to help determine the degree to which perceptions and attitudes have changed as a result of the opening of a Bank country office in Djibouti.

Box 3: Key Findings of the Djibouti Client Survey 2012

One of the biggest challenges reported by stakeholders was that the World Bank did not have an office in Djibouti. This was identified as the Bank's greatest weakness. Stakeholders felt strongly that the Bank should play a significant role in Djibouti's future development efforts. While a majority of respondents believed that the Bank's most important instrument in Djibouti was investment lending, and the Bank was valued most by a plurality of respondents for its financial resources, the survey findings suggest that capacity development and training are valued highly, as is the Bank's technical assistance.

Education, health, jobs, trade, the domestic private sector, and governance and anticorruption were consistently identified as top development priorities. Stakeholders felt that poverty was best resolved through a focus on jobs and education. Around one-third of respondents felt that the Bank should emphasize governance and anticorruption in its research and knowledge services. In some priority areas, such as education and health, the Bank's work was viewed positively. The Bank was considered far less effective, however, in the agriculture/rural sector, jobs, and governance and anticorruption. Respondents also expressed concerns about the Bank's speed and flexibility.

One-quarter of respondents believed that reforms failed or were slow to take place because of inadequate participation from citizens and civil society. While respondents felt strongly that the Bank collaborated well with government and, to a lesser degree, with donors, the Bank received low ratings on its collaboration with country stakeholders outside of government.

52. *In September 2013, consultations were held with civil society in the capital city and in the northern areas of Obock and Tadjourah.* These consultations complemented those carried out regularly as part of the implementation of Bank projects, including on urban poverty reduction, rural community development, and social protection. In general, participants felt that the Bank had not engaged enough with civil society. In particular, they were keen to receive direct funding from the Bank and asked that government agencies use nongovernmental organizations more systematically and more regularly for the implementation of Bank projects. The Bank is including citizen engagement tools in ongoing and new projects and will redouble efforts to engage with CSOs (paragraph 93).

B. Performance of the Current World Bank Program

53. *Overall portfolio performance is satisfactory.* The Bank's Djibouti portfolio comprises seven projects, with a net commitment value of about US\$56.9 million and a total undisbursed balance of about US\$39 million as of November 2013. This is complemented by a trust fund portfolio encompassing four activities, for a total of about US\$11.6 million and an undisbursed balance of US\$10.3 million. As this is a new trust fund portfolio, about half of this amount was approved in late FY2010 and the remainder in June 2013. With the exception of one project, the Djibouti portfolio consists of new approvals and projects with effectiveness dates of 2011 or later. Project outcomes under the previous CAS were satisfactory on balance and, though portfolio performance declined over the course of CAS implementation, it has begun to rebound in response to proactive interventions. The portfolio comprises one problem project, the Power Access and Diversification Project, which was recently restructured. Low implementation capacity requires a highly selective program, which is emphasized in this CPS, as well as closer and more regular supervision of projects, which the country team has addressed by increasing project supervision budgets.

54. *A joint financial management, disbursement, and procurement training workshop for Project Implementation Units (PIUs) in Djibouti was successful in resolving a number of issues that were delaying project implementation.* Held in March 2013, the three-day workshop brought together all PIU staff to explain the Bank's fiduciary processes and address implementation bottlenecks and delays due to capacity and other constraints. The workshop enabled all projects to be transitioned to e-disbursement, increasing the disbursement ratio, significantly improving the quality of withdrawal applications, allowing funds to flow smoothly to the PIUs, and closing four lapsed loans. A subsequent portfolio review was conducted in September 2013 to continue to strengthen the capacity of PIU staff and expedite project implementation. The review identified four challenges. First, while project execution has improved in the last six months, insufficient planning and a lack of familiarity with Bank rules continues to cause procurement delays. The new, locally hired Bank procurement specialist will work closely with the PIUs to build their capacity. Second, the government's recent decision to increase the number of signatories on disbursement requests from two to three has created an additional hurdle. Third, there is a need for closer and better coordination between line ministries and government agencies. Fourth, the government needs a strong monitoring and evaluation system to complement Bank supervision, a task that is being addressed by the Ministry of Finance.

55. *Use of country public financial management systems in Bank-funded projects is limited to certain commitments and payment controls as a result of continuing fiduciary challenges in Djibouti.* The accounting system falls short of international practice, with issues ranging from the calculation of the treasury balance and control of resource allocations, to timeliness and integrity of general accounts. The Ministry of Finance is trying to address these concerns through an integrated financial management information system to be rolled out by early 2014. This system will permit the maintenance of standard accounting records for ministries, thus enhancing fiscal transparency. The Chamber of Accounts, Djibouti's supreme audit institution, intends to align its law more closely with international standards and has volunteered to assess its performance using a new measurement framework developed by the

International Organization of Supreme Audit Institutions. The Bank expects to support the government in these areas through further policy dialogue and technical assistance. Because the sustainability of these reforms depends largely on the availability of a skilled workforce, the Bank will look for opportunities to partner with Djibouti in developing the accountancy profession and general financial reporting practices.

56. ***A Public Expenditure and Financial Accountability Report, conducted in 2011, highlighted key implementation challenges.*** Although Djibouti's public financial management system is governed by an elaborate legal and regulatory framework, the report indicated a need for improvements in the budget preparation process, the medium-term expenditure framework, cash management in the context of a treasury single account at the central bank, procurement management, state accounting, internal audit, and external audit. The Bank will monitor developments in the public financial management system with a view to identifying opportunities to expand the use of those systems in the context of Bank operations.

57. ***Djibouti's new procurement code, prepared with World Bank technical assistance and promulgated in July 2009, has addressed the main weaknesses raised in the 2004 Country Procurement Assessment and Review and aligned the country's procurement framework with international good practices.*** Bank technical assistance was offered within the framework of an Institutional Development Fund (IDF) grant (US\$357,000), which aimed to strengthen the country's legislative, institutional, and manpower capacity in the area of public procurement by: (a) updating the Procurement Code and harmonizing procedures; and (b) increasing transparency and efficiency in the *Commission National des Marchés Publics* and the control bodies and improving the local private sector's competitiveness when seeking government contracts. Implementation of the new procurement code faces significant weaknesses, however, including: (i) a lack of awareness of the new procurement code among public entities; (ii) delays in contract signings due to administrative procedures; (iii) delayed procurement implementation under Bank-funded projects as a result of delayed bid opening; (iv) lack of publicly available procurement plans to enable broader private sector participation in tenders; and (v) weak procurement implementation and management capacity (as highlighted in the 2011 Country Portfolio Performance Review).

58. ***The Bank has continued to provide procurement support to Djibouti.*** This support has taken the form of workshops, on-the-job training, and day-to-day guidance on Bank procurement guidelines and procedures, standard bidding documents, and requests for proposals. The Bank has tailored procurement arrangements to conditions in Djibouti. The new procurement specialist in the country office will help improve response times and build capacity in PIUs and among country counterparts. In addition, as a small state, Djibouti would be eligible to benefit from special procurement arrangements, which would be agreed upon during project implementation. In these cases, at the request of the borrower/beneficiary, the Bank may agree to specific procurement arrangements as set forth in Situations of Urgent Need of Assistance or Capacity Constraints: Simplified Procurement Procedure.²²

C. Proposed World Bank Group Partnership Strategy

59. ***The overarching objective of the CPS for FY2014–2017 is to support the Government of Djibouti's Vision 2035, working to reduce extreme poverty and build the foundations for shared growth by harnessing the country's human and economic potential.*** This objective reflects the World Bank's twin goals of reducing extreme poverty, as measured by the percentage of people living with less than US\$1.25 per day, and promoting shared prosperity, as measured by income growth among the bottom 40 percent of the population. The Djibouti CPS rests on two pillars: (i) reducing vulnerability; and (ii)

²² These special arrangements are made possible by the World Bank's Operational Policy on Investment Project Financing (OP10.00), paragraph 11, which is triggered in emergencies and crises, in fragile and conflict-affected states, and in cases of national or subnational fragility, including small states.

strengthening the business environment. These pillars are aligned with the Bank's MENA Regional Framework, which aims to increase governance, transparency, accountability, and citizen participation; accelerate private sector inclusive economic growth; create jobs; and increase social and economic inclusion.

60. ***Recognizing the critical importance of the private sector and diversified growth in Djibouti's future development, the CPS embodies a joint strategy for the World Bank, IFC, and MIGA.*** Enhanced IFC/IDA collaboration will allow Djibouti to tap into its economic potential more effectively, bringing together efforts to address key development challenges with the exploration of investment opportunities in growth sectors. The relevant regional and global experience that the World Bank Group possesses in each of these areas, together with each institution's specific mechanisms and comparative advantages, will give Djibouti access to a breadth of integrated development solutions, resources, and instruments in both the public and private sectors. Similarly, CPS implementation will involve close coordination with MIGA, of which Djibouti has been a member since January 2007. Djibouti ranks 20th among MIGA clients in terms of exposure. Working together with the IFC, MIGA will continue to support Djibouti's efforts to attract foreign private investors, including from the region and the developing world, through the provision of guarantees for noncommercial risk. This support aligns with MIGA's MENA Initiative, announced in June 2011, according to which the agency has mobilized capacity of up to US\$1 billion in new guarantees for cross-border investment within the region. MIGA remains committed to supporting sustainable projects with high development impact in sectors aligned with the broader World Bank Group strategy, including through its Small Investment Program, and is exploring a possible business development mission to Djibouti early in the CPS cycle.

61. ***IFC's engagement in Djibouti centers on investment climate reforms.*** This reform program serves as an entry point for IFC's collaboration with the Djiboutian authorities, given the government's strong focus on improving the country's *Doing Business* indicators. An assessment of the country's credit market and credit information sharing system was undertaken in 2009, and IFC shared with the government its recommendations on options and implementation steps for building a private/public credit reporting infrastructure in Djibouti. Although IFC has not yet made investments in Djibouti, it has evaluated several options and will continue to seek opportunities for potential investments in areas identified as having the greatest growth potential (paragraph 88).

62. ***By supporting a new container terminal, MIGA has allowed Djibouti to grow its transshipment business.*** In December 2007, MIGA put forward a US\$427 million investment guarantee for the development, financing, design, construction, operation, and maintenance of the new container terminal at Doraleh, a sizeable project with respect to Djibouti's economy. The ten-year guarantee against the risks of transfer restriction, war and civil disturbance, expropriation, and breach of contract has helped the banks mitigate perceived political risks, enabling the project sponsors to raise medium-term, cross-border project financing. The project supported the development of Djibouti's port sector and reinforced its position as Ethiopia's preferred transit port for its growing international trade. Dividends and royalty payments in relation to this project are contributing to government revenues. The port has generated new direct and indirect employment and training opportunities and is helping to strengthen the domestic economy through links to local enterprises and spillover effects emanating from increased trade and economic activity.

63. ***The CPS assumes an indicative IDA envelope of US\$25 million.*** The amounts for FY2014-17 are indicative only. Actual allocations will depend on: (i) total IDA resources available, (ii) the country's performance rating, GNI per capita, and population; (iii) the terms of IDA assistance (grants/credits) and the allocation deductions associated with MDRI annual debt service foregone; (iv) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (v) the number of IDA-eligible countries.

64. ***Trust funds have played an important role in the Bank's program in Djibouti and are fully integrated into the CPS.*** Trust funds have leveraged Bank resources and catalyzed complementary interventions by other donors, for example US\$30 million mobilized from the international community following the Post-Disaster Needs Assessment (PDNA) prepared through a grant from the Global Facility for Disaster Reduction and Recovery (GFDRR). Trust funds have also complemented Bank projects; for example, GFDRR grants to build resilience to climate change have been integrated closely with the Bank's work on urban poverty reduction. Trust fund resources have made possible the development of pilots to inform the design of Bank projects, as in the case of a Japan Social Development Fund (JSDF) crisis response grant that supported the provision of short-term employment opportunities in poor communities while offering community-based nutrition support for women and children. Recognized for its innovative approach, the JSDF pilot was scaled up with IDA funds and its lessons are being integrated into a proposed follow-on JSDF grant on piloting models of livelihood opportunities. The Bank is currently pursuing JSDF funding for an integrated package of projects on livelihood, sanitation, and local service delivery (paragraph 76). The Bank's Djibouti country team will continue to seek opportunities to mobilize trust fund resources to complement the IDA envelope. These grant resources will be especially critical during this CPS period, following the country's transition to IDA credits.

65. ***Knowledge activities will include a poverty and gender assessment and extensive support to the collection and development of statistics.*** A Poverty and Social Impact Analysis (PSIA) and a Poverty and Gender Study, with gender as a core theme, are planned to fill the analytical and knowledge gaps in this area, and emerging findings from these studies will inform the design and implementation of interventions planned under this CPS. Opportunities for capacity building will be sought actively through south-south exchanges, particularly in strengthening procurement and audit functions through IDF grants that will build capacity and help improve governance and transparency. The Bank will provide just-in-time analysis in the form of short technical and policy notes to respond to country needs, for example through an ongoing study on rural electrification. Finally, at the government's request, a roundtable will be organized in early 2014 to bring in experts from select countries such as Mauritius, Panama, Cape Verde, Rwanda, and the United Arab Emirates, to share the lessons learned on their path to development.

66. ***Recognizing the country's important regional role, the CPS will seek opportunities for Djibouti to participate in regional initiatives, both in MENA and in Africa more broadly.*** For example, the proposed telecommunications operation (paragraphs 67 and 85) will create the institutional environment needed to facilitate Djibouti's potential role as a regional telecommunications hub. In addition, the Bank is looking into the possibility of tapping into regional IDA funds to support a feasibility study with regard to electric power interconnections with Saudi Arabia and Yemen. The success of regional cooperation and integration schemes is imperative, not only for economic development, but also for internal and regional peace and stability. Finally, the fact that the IGAD trading bloc is based in Djibouti may offer prospects for strengthening regional approaches to economic growth.

67. ***Djibouti will be included in the World Bank Group's initiative for the Horn of Africa, which is currently under preparation.*** Given the region's geostrategic location, it is uniquely positioned to supply itself and the economies of the Gulf and South Asia with food and energy. Despite strong economic growth in many of the region's countries, however, there remains an increased risk of acute food crisis and regional fragility, owing to environmental and demographic changes, low levels of basic services, and high instability. These challenges underscore the need to work on a long-term, systematic approach to building the resilience of vulnerable countries and populations. The Horn of Africa initiative will support a limited number of transformative operations that focus on the region's underlying challenges and have strong country ownership. The main objectives of the proposed regional approach are to: (i) reduce vulnerability in mobile and refugee populations through collective cross-border action; (ii) improve regional connectivity through support for cross-border infrastructure investments focused on the information and communications technology (ICT) and transport sectors, and to facilitate cross-border

trade; and (iii) support the regional development of the extractive industries through support to skills, policy, and infrastructure development. These key objectives will be achieved through: (a) human development, particularly support to a regionally coordinated safety net program; (b) connectivity, including the development of an international backbone (for example, reinforcement of the Djibouti-Addis line); (c) regional oil pipeline development (for example, South Sudan–Ethiopia–Djibouti); and (d) knowledge support (such as IGAD’s climate change and adaptation strategy development).

68. ***Three principles have guided the preparation of the CPS, based in part on lessons learned in implementing the previous CAS and aided by the existence of a new Bank office in Djibouti.*** First, the strategy is selective, focusing on areas where reforms are possible and where the Bank Group has a comparative advantage within the broader community of Djibouti’s development partners. The current portfolio, which makes up the bulk of planned interventions, is well aligned with the strategic approach of the CPS. Selection of additional interventions has been limited to those that represent clear government priorities and fit within the Bank’s twin goals (Table 3). Until now, Bank assistance focused on the social sectors, with good results in improving health and education indicators but less success in reducing poverty (Annex 3). Under this CPS, as agreed with the government, direct support to poor and vulnerable people will continue through ongoing interventions in the social sectors, while new interventions will focus on parallel improvements in the investment climate with a view to reducing poverty by attracting investment, generating jobs, and creating an environment conducive to shared prosperity. Second, the CPS follows the principle of building on past successes, in particular on positive outcomes in the social sectors, which can be attributed to clear sector goals backed up by well-specified programs, regular monitoring of outcomes, and flexible responses to changing needs. Third, the strategy sets out a more realistic results framework, tailored to the likely outcomes of specific interventions in which progress is measurable and monitored regularly.

69. ***The CPS will focus on institutional strengthening and gender as cross-cutting themes.*** Institutional development and capacity building are critical to improving economic management and service delivery in Djibouti. Institutional capacity is low and the governance environment is fluid, with frequent changes in ministers; reform commitment often resides in a particular minister and can be affected by ministerial turnover. Throughout the CPS program, interventions will encompass efforts to strengthen institutions, build capacity, and improve sector regulations across both strategic pillars. In addition to capacity building activities included in each project, this agenda will be tackled head-on in an education project designed to strengthen the capacity of the Ministry of Education (paragraph 77), two IDF grants to strengthen procurement and audit functions in relevant institutions (paragraph 65), and GFDRR support for better preparedness and response to floods and climatic changes (paragraph 82). Gender will also be an area of focus across the CPS program. The Bank is currently responding to gender needs directly or indirectly in various sectors. For instance, a “workfare plus” program targets pregnant and lactating women, and an urban poverty reduction project aims to ensure that women make up at least half of the expected beneficiaries of infrastructure subprojects. Moving forward, in the context of Bank support for improved statistical capacity in Djibouti, the elaboration and regular collection of gender-disaggregated data will help the Bank to more strategically set priorities for developing a comprehensive approach to empowerment. The planned PSIA and Poverty and Gender Study could be a vehicle for these efforts, for example (paragraph 74).

70. ***Progress toward CPS objectives will be monitored on the basis of a simplified results framework that links outputs and outcomes to country development priorities.*** The results matrix (Annex 1) focuses on a select set of clearly specified, measurable indicators that reflect the expected outcomes of the Bank Group’s ongoing and near-term portfolio in Djibouti. The intention is to concentrate on indicators that will be monitored in the course of project implementation and that can reasonably be achieved during the CPS period. Preparation of a CPS Progress Report, planned for

FY2016, is expected to help the country team evaluate mid-term progress and make needed course corrections to ensure flexibility and maximize the relevance and effectiveness of interventions.

Table 3: Indicative CPS Program for FY2014–2017

		Ongoing	New under CPS
Pillar One: Reducing Vulnerability	Lending	<ul style="list-style-type: none"> • Social Safety Net Project (FY12) • Strengthening Institutional Capacity and Management of the Education (FY12) • Improving Health Sector Performance (FY13) • Urban Poverty Reduction Project (FY09) • Rural CDD & Water Mobilization (FY11) 	<ul style="list-style-type: none"> • Urban Poverty Reduction Project II (FY14) • Social Safety Net Project - Additional Financing (FY15) • Rural CDD and Water Mobilization - Additional Financing (FY16)
	Technical Assistance	<ul style="list-style-type: none"> • Employment and Human Capital (JSDF) (FY10) • Djibouti: Community-Driven Workfare, Health, and Human Rights (NTF) (FY12) • Piloting Nutrition/Workfare for SSN (SIEF TF) (FY14) • Access to Quality Education Project (GPE) (FY14) • Djibouti Natural Disaster Risk Assessment and Monitoring Program (GFDRR) (FY10) 	<ul style="list-style-type: none"> • Strategic engagement funded by the JSDF: Three interlinked proposals to support safety nets, urban infrastructure and governance (FY14 & FY15) • Trust Fund for Statistical Capacity Building (FY14)
	Knowledge	<ul style="list-style-type: none"> • Pirate Trails: Tracking the Illicit Financial Flows from Pirate Activities off the Horn of Africa (FY14) • Understanding the dynamics of Qat in Djibouti: Social, Economic and Health Aspects (FY11) 	<ul style="list-style-type: none"> • Rural Electrification Study (FY14) • PSIA: Reforming Social Safety Nets in Djibouti (FY14) • Poverty and Gender Study (FY14)
Pillar Two: Strengthening the Business Environment	Lending	<ul style="list-style-type: none"> • Geothermal Power Generation (FY14) • Power Access and Diversification (FY06) 	<ul style="list-style-type: none"> • Governance for Private Sector Development (IDA and IFC, FY15) • Telecoms Project (FY15)
	Technical Assistance	<ul style="list-style-type: none"> • PPIAF grants in energy (FY12) • PPIAF grants in telecoms (FY12) • FIRST Project (FY13) 	<ul style="list-style-type: none"> • PPIAF grants in telecoms (FY14) • Support to legal and institutional PPP framework (PPIAF) (FY14) • FIRST Project (FY14)
	Knowledge	<ul style="list-style-type: none"> • New Growth Model Study (FY12) • Port Study (FY12) • Transport Study (FY13) • Indexed Based Insurance for Herders (FY13) • IFC Support to improving Doing Business indicators • IFC Support for Introduction of Leasing 	<ul style="list-style-type: none"> • Support to improving Doing Business indicators (with IFC)
	Guarantee	<ul style="list-style-type: none"> • MIGA 10-year guarantee for Doraleh container terminal 	

Pillar One: Reducing Vulnerability

71. *The first pillar of the CPS will seek to support the government's efforts to alleviate poverty and boost shared prosperity by reducing the vulnerability of Djibouti's population directly through improvements in social protection and disaster risk mitigation, as well as indirectly through enhancements to education, health, and basic infrastructure services.* In line with the government's sectoral strategies, Bank-funded operations on education, health, and rural and urban development will focus on enhancing service delivery, while also helping the government to enhance its monitoring capacity at the sectoral level. Citizen engagement will be mainstreamed into operations to collect feedback from users on services provided and respond in order to enhance service quality. In particular, the CPS program will aim to address the following challenges: (i) the inadequate targeting of beneficiaries of safety net programs and difficulties in ensuring that benefits reach the poorest and most vulnerable; (ii) the lack of institutional capacity in the Ministry of National Education and Vocational Training, which holds back the delivery of efficient and effective education services; (iii) the weak quality of maternal and child health care and communicable disease control programs; (iv) the lack of access to basic infrastructure, including water and agro-pastoral resources in rural communities and water and roads in poor urban areas of Djibouti-Ville; and (v) the country's poor resilience to climate change and natural disasters. These challenges will be addressed through the achievement of the following five outcomes:

Outcome 1.1: Improved institutional capacity to reach the poorest and most vulnerable and increase their access to short-term employment opportunities

72. *The CPS aims to help strengthen social protection systems in Djibouti, which have low coverage and are not well targeted and thus miss opportunities to reach the country's poorest and most vulnerable.* In helping the government achieve greater efficiency in its social protection programs, the Bank will support the government in understanding the effectiveness of the current (targeted and untargeted) social safety net. Bank interventions will focus on four key areas: (i) strengthening targeting through the creation of a unified registry of poor and vulnerable households; (ii) strengthening the information base on which social protection programs draw; (iii) providing integrated support for employment creation and nutrition interventions; and (iv) piloting innovative approaches to reduce vulnerability at the community level.

73. *Creation of a unified registry of poor and vulnerable households will be critical to better target poor and vulnerable populations.* The proposed CPS will assist in conceptualizing and developing such a registry as a single platform used by all social assistance programs, resulting in significant cost savings and substantial improvements in targeting the poorest households. Preliminary analysis of the targeting effectiveness of current social safety net programs shows that there is considerable leakage and that a proxy means test would improve targeting. The Bank is providing technical assistance financed by the Nordic Trust Fund to further support the conceptualization of this approach. Once the registry is operational, the Bank will work with donors to mobilize funds to increase the targeting efficiency of social assistance programs and their coverage of poor and vulnerable households. The proposed scale-up of the Social Safety Net Project (paragraph 75) will help establish the registry as a credible instrument for protecting poor and vulnerable people and will allow for targeted payments such as compensation for welfare losses caused by fuel and food price reforms.

74. *To help strengthen the information base that underlies the design and implementation of Djibouti's social protection programs, the CPS aims to support the government in gaining a deeper understanding of reform options for improving safety net targeting and of the potential impact of these reform options on poverty.* With support from the PSIA Trust Fund, the Bank will conduct a poverty and

social impact analysis to shed light on the inefficiencies of the current social safety net, examine possible policy reform options (such as tax reform with regard to fuel products), and analyze the potential impact of these reform options. A Poverty and Gender Study will include gender as a core theme and examine whether past growth has trickled down to households and contributed to reducing poverty. These efforts will be strengthened by planned technical assistance on improving statistics in all areas of the economy, including but not limited to poverty and employment. The government has requested World Bank assistance in updating the CPI, and this work will be undertaken in close coordination with efforts by the AfDB to support the government in updating the 2012 poverty profile. The government's statistics office is planning to set up a working group to coordinate donor efforts in this area, in which the World Bank Group will participate.

75. ***In addition to strengthening the targeting of safety net programs, the CPS aims to provide integrated support to the design and implementation of employment creation and nutrition interventions to improve the quality of life of poor and vulnerable populations in Djibouti.*** Building on the social protection strategy that was prepared with World Bank technical assistance and validated by a wide set of stakeholders, the pilot “workfare plus” program (US\$3 million in JSDF financing) has been scaled up through an IDA-financed Social Safety Net Project (US\$5 million IDA). Approved in June 2012, this innovative program seeks to increase the efficiency of nutritional interventions by leveraging the effect of short-term additional income on child nutritional status. The program focuses on the critical first 1,000 days of life, combining a workfare component targeted to pregnant women and mothers of children aged 0–2 with community-based nutrition activities. The program includes rigorous impact evaluation, which will contribute to the still-insufficient literature on cost-effective interventions for improving early child nutrition and development in low-income and fragile contexts. The collection of data for the quantitative evaluation and in-depth qualitative work are being financed through the Strategic Impact Evaluation Trust Fund. The social protection strategy postulates the scale-up of this program for certain target groups, as well as the provision of cash transfers where appropriate. The proposed scale-up will help build a menu of suitable social assistance measures and support the government in achieving greater coordination and defragmentation of ongoing programs and initiatives.

76. ***Building on these experiences, the proposed CPS program seeks to pilot innovative approaches to reduce vulnerability at the community level by building sustainable livelihood opportunities in urban and rural areas, targeted to women and young people.*** The Bank is coming forward with three interlinked proposals for JSDF funding for an integrated package of projects encompassing livelihood opportunities, sanitation improvements, and local-level service delivery for a total of US\$9 million in grants (Annex 8). Once funding is secured, these programs will be pursued in a coordinated manner. The projects seek to help create short- and long-term job opportunities and to support grassroots communities to elicit change where needed. These interventions will complement or further inform the Bank's ongoing engagement on safety nets, urban infrastructure, and governance through enhanced service delivery mechanisms and resultant effects on transparency and accountability.

Outcome 1.2: Strengthened management of the education system

77. ***Building on the Bank's successful record of support to Djibouti's efforts to strengthen quality and access in education, the CPS will focus on strengthening education sector management efficiency and accountability.*** Djibouti's new National Education Strategy for 2010-2019 aims to establish an efficient education system with a focus on results, to guarantee a higher-quality education, and to expand the role of technical and vocational education and training. This results-based approach will require efforts to strengthen the capacity and tools available to education sector authorities in managing the education system, particularly in light of the reorganization of sector ministries that took place in May 2011. The CPS will support the government's efforts to implement the National Education Strategy by helping to put in place key building blocks without which broader efforts to strengthen quality and focus

on results cannot succeed. These building blocks include introducing results-oriented management tools and practices—such as annual work plans and annual statistical reports with key sector indicators—that will promote greater efficiency and accountability as a means to reinforce the institutional organization and systems of the Ministry of National Education and Vocational Training. This will be accomplished through the Strengthening Institutional Capacity and Management of the Education System Project (US\$6 million IDA), which became effective in January 2013.

Outcome 1.3: Improved utilization of good-quality maternal and child health care services and communicable disease control programs

78. *CPS support to the health sector will focus on strengthening service delivery in maternal and child health care services and communicable disease control programs, targeting health improvements in key populations with a view to improving Djibouti's overall health indicators.* Support in this area will continue the Bank's past assistance in strengthening health sector performance and will align with the government's implementation of its second National Health Development Plan for 2008–2012, which focuses on sector management, quality, financing, human resources, and availability and rational management of drugs. Approved in April 2013, the Improving Health Sector Performance Project (US\$7 million IDA) aims to support improved performance in child health services such as immunization and treatment of malnutrition; maternal care services such as prenatal care, family planning, and obstetric services; and prevention and treatment of communicable diseases such as HIV/AIDS, tuberculosis, and malaria. In addition, the project will work to strengthen health system management through support for capacity improvements in the Ministry of Health. This initiative builds on the Bank's role since 2001 as the principal donor in the health sector generally, and on HIV/AIDS, tuberculosis, and malaria control in particular.

Outcome 1.4: Increased access to basic infrastructure in disadvantaged rural and urban areas

79. *The CPS will support Djibouti's poor rural communities, which are facing the impact of changes in climate (less frequent and more intense rainfall) and social organization (increasing sedentarization), through efforts to improve access to water and strengthen rural livelihoods.* Access to drinking water, both for people and livestock, is a challenge in Djibouti's rural areas and has become even more problematic under current drought conditions, especially as traditionally nomadic populations have become more sedentary over time. The CPS will support improvements in water access through the Rural Community Development and Water Mobilization Project (PRODERMO, US\$5.83 million IDA), which was launched in 2012 to increase rural communities' access to water and enhance their capacity to manage water and agro-pastoral resources in project areas, using a participatory approach to community-based development. Additional financing of US\$3.0 million for PRODERMO, secured in response to the persistent drought conditions, will aim to improve access to water and strengthen rural livelihoods through income-generating activities in fisheries and handicrafts. The community-based approach integrates technical and livelihood mechanisms. Both women and men are targeted and participate actively. A Rural Community Development and Water Mobilization Project (US\$7 million IDA) is expected to be presented for approval in FY2016. Its objective is to consolidate and scale up PRODERMO's achievements in order to increase resilience to drought and climatic change, reduce food insecurity, and improve the livelihoods of households living in the targeted areas. The project would also introduce innovative approaches, such as an emphasis on enhancing the value-added of agricultural, livestock, and fish production. Financing from trust funds and other donors that target the same population, mainly the European Union (EU), AfDB, International Fund for Agricultural Development (IFAD), and World Food Programme (WFP), will be sought.

80. *The CPS will maintain and expand assistance to the urban and housing sector, focusing on the poorest and most vulnerable neighborhoods of Djibouti-Ville.* Quartier 7 (Q7) is the largest and densest

old neighborhood of Djibouti city, with 25,000 inhabitants living on 0.56 square kilometers. It presents a microcosm of the country's significant challenges with respect to poor access to services and wide social disparities. The Bank aims to help tackle urban poverty in three ways: (i) providing essential public infrastructure to reduce the impact of poverty, boost economic opportunities (including for women), and improve economic resilience²³ by preventing flooding (through drainage) and water-borne diseases (through sanitation), and providing better access to city jobs (through roads) and spaces for community education and recreation; (ii) improving social cohesion and job opportunities through community development and vocational training, focusing on young people; and (iii) piloting the use of local, labor-intensive construction techniques. The Bank's efforts in this area have been channeled through the first Djibouti Urban Poverty Reduction Project (DUPREP I), a multidonor initiative launched in 2008 (US\$3 million IDA). Additional financing for DUPREP I (US\$2.9 million IDA), approved in 2010, will help scale up the project's impact through additional economic and social community development activities within Djibouti-Ville's Quartier 7.

81. *The proposed program will deepen efforts to ensure sustainable access to urban services through complementary interventions in infrastructure, institutional strengthening, and social development.* The Second Urban Poverty Reduction Project (DUPREP II) will build on and scale up the work undertaken through DUPREP I to build resilient urban infrastructure in Quartier 7. In addition to targeting Djibouti's poorest urban populations, the project will focus on improving participation and strengthening institutions to sustain urban development efforts. DUPREP II will deepen engagement with citizens to promote voice, transparency, and social accountability throughout the project cycle and beyond, and to ensure the participation of women and young people in all phases of project design and implementation. This will not only benefit the Quartier 7 neighborhood, but will also have important demonstration effects for other urban neighborhoods. The CPS expects to complement this work with JSDF-financed support to upgrade individual sanitation across Djibouti-Ville's poorest neighborhoods. With financing from Norway and GFDRR, the Bank is also supporting the government's efforts to improve access to housing among urban poor people through the preparation of a national housing strategy. This work will increase urban resilience to recurrent natural hazards touching mostly the poorest.

Outcome 1.5: Improved assessment of natural disaster risk and vulnerability

82. *The CPS will continue to support Djibouti's shift to a proactive, multisectoral disaster risk management platform as a means to reducing the vulnerability of the poor, including against recurrent floods, droughts, seismic events, food insecurity, water shortages, climate change, and other external shocks.* The Djiboutian authorities, in partnership with the Bank, have scaled up disaster risk management activities through a US\$2.5 million GFDRR Country Program,²⁴ including a multisector risk assessment and communication platform that is enabling the country to expand its meteorological stations across the country, complete its national emergency planning, integrate risk management and climate change adaptation into university curricula, establish an early warning system, and systematize risk assessment. The CPS will support the second phase of this program, to be launched in early 2014, focusing on the completion and operationalization of the risk assessment and communication platform. In addition, the Bank will support the government in assessing the effectiveness of the PDNA process and designing a recovery framework that will help Djibouti absorb future disaster shocks. Djibouti's request for GFDRR

²³ The economic appraisal showed that the package of infrastructure investments would have a positive and significant impact on property values, which are often residents' only asset and are crucial to economic resilience.

²⁴ GFDRR has chosen Djibouti as one of its priority countries in implementing its mandate to reduce natural disaster risks, as foreseen by the Hyogo Framework for Action. Selection of priority countries was based on their high vulnerability to natural hazards and low economic resilience to cope with disaster impacts, including anticipated climate change and variability.

membership was accepted in May 2013, which will enable the country to benefit more systematically from the experience and knowledge accumulated in GFDRR.

Pillar Two: Strengthening the Business Environment

83. *The second pillar of the CPS will support the consolidation of gains achieved in infrastructure services, private sector development, and governance, with a renewed focus on strengthening the targeting of Djibouti's job creation, energy, and telecommunications programs in support of the government's efforts to reduce poverty and boost shared prosperity.* In particular, the CPS program will seek to reduce the barriers to business growth and investment by: (i) working to reduce the costs of electric power by improving the government's capacity to assess the commercial viability of geothermal energy and addressing the tenuous financial viability of the energy utility, Electricité de Djibouti; (ii) helping to improve access to telecommunications by addressing the limited coverage and high cost of Internet services; and (iii) improving the quality of the business environment. These challenges will be addressed through the achievement of the following three outcomes:

Outcome 2.1: Improved access to affordable electricity through stronger capacity to assess the commercial viability of geothermal resources, increased connections, and reduced energy utility losses

84. *The proposed CPS will support the government's strategy for improving access to electricity by helping to reduce electricity losses, develop potential geothermal energy resources, and define a rural electrification strategy—all with the aim of addressing the major business constraint posed by high electricity tariffs in Djibouti.* The Power Access and Diversification Project (US\$7 million IDA) was launched in 2005 with a view to: (i) increasing access to electricity service in the poorest areas of Djibouti-Ville through the extension and rehabilitation of the grid; (ii) diversifying the sources of electricity production by investing in a wind farm in Arta; and (iii) improving the efficiency of the electrical utility, which despite high tariffs has required regular budgetary support from the government, through the deployment of smart meters and technical assistance. The project has been restructured twice to maximize its efficiency and sustainability. The wind farm component was dropped after it became clear that its budget allocation was insufficient to attract bidders. This enabled the emergency purchase of heavy fuel oil for power generation in the face of historically high petroleum prices, which would have driven the electricity utility to bankruptcy, save for US\$28 million in support from the Government of Djibouti. The project was supplemented by additional financing of US\$6 million in 2010, to support the costs associated with scaling up efforts to expand access to electricity among poor people, as well as to develop and implement a smart meters pilot project, and US\$5.2 million in 2012, to reduce the negative effects of drought on water pumping in rural areas and increase resilience to natural disasters by setting up security stocks of petroleum products that could be used, in the event of a regional drought, for water pumping. Approved in June 2013, the Geothermal Power Generation Project (US\$6 million IDA, US\$6 million GEF) is a multidonor initiative that will assess the commercial viability of, and develop, geothermal resources in the Lake Assal region. As part of this project, well test protocols will be designed, executed, independently reviewed, and certified. A rural electrification study will help the government develop a strategy to improve access to clean and affordable electricity in rural Djibouti.

Outcome 2.2: Improved access to quality broadband services at a reduced price

85. *The CPS will support the government's ICT strategy and strengthen Djibouti's role in the region by helping to strengthen competition, deliver higher-quality services, and create jobs through effective private sector participation and the development of offshoring capabilities.* The proposed support to the ICT sector will be phased. The first phase, a proposed IDA-funded telecommunications operation (US\$2 million IDA), will help the government improve the legal and regulatory framework,

manage the strategic repositioning of Djibouti Télécom, and manage the complex process of defining and selling a new license to an international (facilities-based) operator. This new license will bring healthy competition to the mobile and Internet sectors, improve the quality of service, and eventually increase the mobile phone penetration rate to more than 60 percent. If sector improvements were to encourage the arrival of a second operator in the market, this would be expected to create around 250 jobs directly and more than 500 jobs indirectly, not counting the short-term opportunities brought about by the development of the second operator's infrastructure across the country. For the past two years, Djibouti Télécom has been trying to encourage the creation of small enterprises in the sector, but one operator cannot generate enough work for these enterprises to be profitable. The second phase will assist the government in establishing call centers, each of which could create between 700 and 1,000 jobs immediately, and up to 5,000 jobs over five years, in particular for women.²⁵ In addition, the operation will support the development of fiber optic backbones at both the national and the regional level so as to solidify Djibouti's position as a hub in eastern Africa.

Outcome 2.3: Improved investment climate in selected areas

86. *The CPS will seek to address constraints to private investment in Djibouti, working to improve the business-enabling environment by streamlining business startup procedures, simplifying contract enforcement, and supporting business formalization.* These interventions will build on a strong program of ongoing advisory support. Following the preparation of a *Doing Business* reform memorandum in June 2010, the IFC team has been helping the Djiboutian authorities to implement some of the memorandum's recommendations. Under the CPS, the IDA and IFC teams will enhance their support to the government through technical assistance and equipment and software support. In addition, the CPS outlines initial areas of coordinated World Bank Group operational support, most notably to strengthen critical aspects of Djibouti's investment climate, including: (i) improved access to financial services through the creation of a guarantee fund and modernization of payment systems; (ii) judicial reform as it relates to the resolution of commercial disputes; and (iii) support for business environment reforms in key areas measured by *Doing Business*. IDA and IFC initiative will jointly support regional integration by strengthening cross-border trade through technical assistance to improve the quality and timeliness of trade services and support for the establishment of a one-stop shop for business creation. These objectives will be pursued under the proposed Governance for Private Sector Development Project (US\$2 million IDA, US\$300,000 IFC).

87. *The CPS will seek to strengthen access to finance through the establishment of a leasing regulatory framework.* Under the CPS, IFC will help the Djiboutian authorities to draft a regulatory framework for leasing, including a law and central bank supervision directives. This work will be accompanied by capacity building activities to support key stakeholders, including training provided to leasing companies, banks, accountants, the judiciary, and tax authorities in applying the new leasing regulations, as well as awareness-raising efforts among small- and medium-sized enterprises and equipment suppliers.

88. *The CPS will promote investment in sectors with high growth potential.* The Bank Group hopes to leverage the potential synergies among IDA and IFC portfolios to support policy reform and directly encourage foreign investment in the country, focusing on the sectors highlighted in the New Growth Model study as most promising for economic growth and job creation: tourism, fisheries, transport and logistics, and telecommunications. IFC will continue to seek ways to support financial institutions in

²⁵ For instance, the future strategic partner of Djibouti Télécom, a recognized international operator, could establish a call center as part of the conditions of the request for proposals. This would have two advantages: first, the operator would benefit from the proximity of this service to its customers, and second, the establishment of such a service would benefit from the connectivity and investments immediately available through Djibouti Télécom.

reaching out to small and medium enterprises more efficiently and effectively. Drawing on its expertise on business environment and investment climate improvements, IFC will offer technical assistance on regulatory reform, focusing initially on regulations measured by *Doing Business* and other investment climate indicators. The IFC team will offer targeted recommendations for improving and facilitating processes such as starting companies, transferring property, obtaining construction permits, and paying taxes. The IFC will stand ready to provide implementation support, as well as a communication strategy to help implement these recommendations on the ground.

89. ***Djibouti is receiving support through the Bank's financial sector strengthening (FIRST) technical assistance program.*** The ongoing Modernization of the Payments System and Credit Reporting Infrastructures Project supports the modernization of payment and credit reporting infrastructure through the development of a national strategy, including functional requirements for payment and credit reporting systems, improvement of the legal and regulatory framework, and implementation of oversight frameworks for both payment and credit reporting systems. A new grant of US\$250,000 will seek to increase access to credit for MSMEs through the operationalization of a MSME Partial Credit Guarantee Scheme in Djibouti.

D. Fostering Stronger Partnerships

90. ***Though a formal framework for donor coordination is not yet in place in Djibouti, the small size of the donor community facilitates regular sharing of information.*** This collaboration has led to parallel financing of programs in several sectors (paragraph 92). Preparation of the PDNA was carried out in record time in late 2011 by bringing together a team of multisectoral specialists from the World Bank, EU, United Nations, United States Agency for International Development (USAID), IGAD, and Arab Academy to assist the government with drought assessment and recovery. The PDNA enabled the organization of a technical south-south exchange between Djibouti, Kenya, and Mozambique to share experience on drought mitigation and drought-resilient agriculture.

91. ***While the government is moving forward on establishing a donor coordination mechanism, the Bank office in Djibouti organizes regular coordination meetings.*** These meetings take place on a monthly basis and are attended by Bank sector colleagues on mission in Djibouti and partners on the ground. The meetings provide the opportunity to discuss and identify common implementation challenges and coordinate interventions. With the aim of formalizing and strengthening donor coordination in the country, the government is setting up an aid coordination mechanism led jointly by the Ministry of Finance and the Ministry of Foreign Affairs. At the request of the government, the Bank will co-lead one of the pillars, though the exact arrangements are still being determined. This mechanism will help to strengthen information sharing, allowing for more robust and structured coordination among development partners.

92. ***Implementation of the CPS will be undertaken in close coordination with development partners at the sectoral level (Annex 4), recognizing the role of external aid in helping Djibouti reduce poverty, enhance shared prosperity, and achieve its long-term growth potential.*** In the social protection sector, the Bank is working closely with the World Food Programme on food distribution and school feeding programs, with the United Nations Children's Fund (UNICEF) on programs for HIV-positive orphans and rural community kindergartens, and with religious organizations such as Al Wamy, Diwan az-zakat, and Caritas on small-scale social assistance programs. The Bank is collaborating closely with the IMF and the AfDB on the PSIA and on support to the statistics office. The Bank is a member of the local education donor group and prepared the current education project in consultation with the Agence Française de Développement (AFD), UNICEF, and USAID. In the urban sector, the Bank's preparation of DUPREP I leveraged the entry of other donors, including AfDB, AFD, and the Islamic Development Bank (IsDB), who now provide complementary support to the government's program for a total of US\$28.5 million.

The Bank, UNICEF, and other education sector actors cooperated closely in preparing the 2014–2016 Education Action Plan and on the pending Global Partnership for Education Grant (US\$3.8 million). Donor coordination has been strong in the energy sector. IDA’s contribution to the Geothermal Power Generation Project is being cofinanced by the OPEC Fund for International Development (OFID), AFD, Energy Sector Management Assistance Program (ESMAP), Global Environment Facility (GEF), and AfDB. Bank interventions in the health, agriculture, and rural development sectors also complement the activities of bilateral and multilateral organizations. More recently, China, India, and Arab countries have stepped up lending to Djibouti. In 2013, for example, Djibouti contracted two large loans from China for a water pipeline from Ethiopia and for the Djibouti-Addis railway. The Saudi Fund is financing the Tadjourah port.

93. *Under the CPS, the Bank Group will seek to strengthen partnerships with civil society.* A Country Citizen Engagement Analysis will be conducted to assess the governance challenges and opportunities posed by citizen engagement activities within the portfolio. The assessment will be tailored to the fragile country context and will include a mapping of local social intermediaries. This will enable the design of tools that are context-specific and sustainable over time. An update of the country citizen engagement ICT assessment will be carried out, focusing on options for integrating ICT-based citizen engagement tools where appropriate. Scaling up consultations throughout project preparation and monitoring will help empower citizens to voice their demand for better services and monitor the use of public resources. Depending on the context, the following citizen engagement mechanisms may be considered: grievance redress mechanisms; project monitoring, reporting, and tracking mechanisms; beneficiary feedback on project satisfaction; geo-referenced citizen reports; and citizen report cards. This approach is expected to be piloted in the proposed DUPREP II project, which will employ citizen engagement activities to help foster community voice and ensure greater responsiveness to citizen needs throughout project implementation. An integrated citizen engagement platform that allows for citizen monitoring of project activities will be developed to help track beneficiaries’ satisfaction regularly. This process will improve citizens’ access to, and monitoring of, various urban services in the project.

V. MANAGING RISKS

94. *Satisfactory implementation of the Bank Group’s partnership strategy is subject to a number of risks, both country-level risks and program-specific risks.* While not all of these risks can be addressed through Bank interventions, the Bank’s presence on the ground through a newly opened country office and close monitoring of the situation should enable the Bank to respond more quickly to adjust the program to changing circumstances. The presence of a Bank office in Djibouti has already yielded dividends, helping the Bank engage in continued dialogue with counterparts to achieve mutually satisfactory solutions to varying perspectives on program design. Going forward, the new country office will continue to offer opportunities for regular engagement on the part of the Resident Representative with government counterparts and representatives from the private sector, development partners, and civil society. This engagement will continue to be complemented by sector staff who visit regularly in the course of project implementation. Preparation of a mid-stream CPS Progress Report will allow a more formal opportunity to update this risk assessment and, if needed, adjust the program accordingly.

A. Program-Specific Risks

95. *Governance challenges.* Djibouti’s governance environment is fluid, with frequent changes in leadership. The Bank Group will seek to mitigate this risk through continued dialogue with key sector counterparts at all levels, achieving broad-based consensus on reform priorities, program design, and implementation mechanisms. All decisions made in relation to Bank projects will be documented in aide-memoires, implementation status reports, and other official documentation, and filed according to

standard Bank procedures for easy reference after the fact. If needed, project interventions can support stakeholder reviews with the aim of clarifying roles and responsibilities in a given reform implementation activity.

96. ***The slow pace of behavioral change.*** The ongoing Social Safety Net Project supports the improvement of nutrition practices among women and young children, which can take time and is ultimately in the hands of participants. This risk has been mitigated through careful implementation of the project's pilot phase, through which the implementing agency has gained experience and cross-sectoral collaboration has been established at the ministerial level. The design has proven successful, and the Bank will continue to provide thorough supervision with a view to eliciting similarly successful results in the main program. The CPS also places a special emphasis on strengthening the basis for gender empowerment in Djibouti, including several outcomes and targets aimed at expanding women's and girls' participation. Achieving these targets will include an element of behavioral change on the part of both women and men in Djibouti, which will be tackled over time. In addition to setting targets realistically, the CPS will mitigate this risk by implementing awareness raising and capacity development activities and tracking gender-disaggregated indicators to assess progress and make adjustments over time.

97. ***Capacity constraints.*** Low capacity in PIUs could slow or even hinder program implementation. The Bank Group will seek to mitigate this risk by continuing to insist on sufficient standards for project implementation, procurement, and financial management, together with regular efforts to strengthen counterpart capacity to manage these standards. Such efforts could include hands-on support through regular supervision and appropriate supervision budgets, as well as twice-yearly workshops on procurement, disbursement, and financial management issues that pose systemic challenges. The Bank will work to ensure that PIUs have sufficient staff with the skill sets needed to tackle these aspects of project implementation, including sector expertise and accounting and financial management skills. It is recognized that PIUs may be further challenged by the planned introduction of new financing instruments, such as results-based financing (for example, in the health sector). Experience from other countries shows that this risk can be mitigated successfully through gradual scale-up, technical assistance, and training, and the CPS will adopt this approach. Finally, the innovative Social Safety Net Project requires its PIU to supervise implementation activities on the part of nongovernmental organizations, which themselves face capacity limitations. To mitigate this risk, the PIU uses a management information system to monitor inputs, outputs, and performance. It has drawn up performance-based contracts with the nongovernmental organizations, with which it holds monthly meetings, and has hired staff to ensure regular supervision on the ground.

98. ***Nascent donor coordination mechanisms.*** The level of donor coordination required to streamline international assistance through multidonor programs and parallel financing could lead to delays or inadvertently overtax limited client capacity. While multidonor assistance efforts are intended to ease the burden on the government posed by overlapping or inconsistent donor programs, it will be important to ensure regular communication among donors and with government counterparts so as to minimize delays and avoid introducing coordination costs to project implementation. Cofinancing arrangements envisioned under the CPS are expected to be administered by the Bank Group, while some smaller contracts will be implemented through parallel financing. To mitigate this coordination risk, the Bank will ensure that PIU staff have the necessary expertise and that regular communication mechanisms are built into cofinanced programs.

B. Country-Level Risks

99. ***Vulnerability to natural disasters and external shocks.*** Most households in northwestern pastoral areas and southeastern border areas face acute food insecurity due to low rainfall, and in Djibouti-Ville, poor households are still coping with the effects of large seasonal expenses. As

demonstrated by the current prolonged drought, natural disasters can affect the implementation of Bank Group programs, especially in rural areas, and shed light on areas in which Bank Group support could be aligned more effectively to address the needs of the Djiboutian people. As in its response to the drought, the Bank Group will carefully monitor the situation on the ground and, should a natural event arise, act quickly to amend its program support in a manner that continues to work toward CPS goals while responding to emerging needs. This risk can be mitigated by addressing vulnerability more directly, including to natural hazard risks. External technical assistance and financial support will help mitigate the impact of future shocks, including CPS support for rural water access, urban poverty reduction, disaster risk management mechanisms, and attraction of private investment in potential growth sectors.

100. ***Relatively low budgetary and institutional capacity.*** The government could face challenges in implementing the strategy because public service delivery is vulnerable to risks associated with weak procurement, financial management, and monitoring and evaluation systems. The government is keen to make public financial management more transparent and more effective. The Bank Group is working to ensure simple project design and will support the government's efforts to improve implementation capacity through capacity building and technical assistance activities.

101. ***Potential for elite capture and patronage.*** To mitigate this risk, the Bank Group will ensure that the stringent criteria and processes laid out in the operations manual are enforced through internal controls and audits. Furthermore, the Bank Group will work to put in place communication and feedback mechanisms to ensure that all stakeholders understand the procedures and their rights in order to guarantee transparency. More broadly, the CPS program intends to support targeted improvements in key areas of governance and accountability that affect the program as a whole, responding flexibly to emerging needs as program implementation proceeds and looking for entry points to engage in further dialogue as appropriate.

102. ***Enduring social tensions and risk of political instability.*** Although Djibouti's internal politics have remained relatively stable in recent years, the results of the February 2013 parliamentary election were contested by the opposition, with ensuing demonstrations, clashes with the police, and incarceration of several opposition leaders and civilians. Together, political tensions and social inequalities could lead to further instability in the country, disrupting CPS program implementation by possibly making some project areas difficult to access and diverting the attention of key counterparts. Although this risk is largely exogenous, the recent opening of a country office in Djibouti will greatly enhance the Bank's ability to monitor country-level risks and maintain a constructive dialogue with the government in order to anticipate these potential risks and make necessary program adjustments.

103. ***Regional security.*** Djibouti's location in the Horn of Africa, a region that has experienced many wars and episodes of civil unrest, could pose risks to the implementation and sustainability of the CPS program. Djibouti's relations with neighbors and international allies are stable, and the country is on good terms with Ethiopia, its most important neighbor. There is a risk, though, that regional security conditions could worsen, which would affect conditions in the country. It is likely that such a situation would lead to fiscal unsustainability due to increased spending on defense and internal security, as well as the additional service needs of the refugee population, as is currently the case with the thousands of Somali refugees. These conditions would affect the Bank's ability to implement its programs. This risk will be closely monitored throughout the CPS period, and program adjustments will be made if necessary.

Annex 1: Djibouti CPS FY2014–2017 Results Matrix

Country Development Goals	Development Challenges addressed by CPS	Expected CPS Outcomes and Indicators	World Bank Group Program and Partners
Pillar One: Reducing Vulnerability			
Improve social safety net programs	<ul style="list-style-type: none"> • Inadequate basis of targeting of beneficiaries of safety net programs • Difficulties ensuring that the benefits reach the poorest and most vulnerable 	<p>1.1 Improved institutional capacity to reach the poorest and most vulnerable and increase their access to short-term employment opportunities</p> <p><i>1.1.1 Beneficiary cards distributed through the social registry</i> Baseline: No (2013) Target: Yes (2017)</p> <p><i>1.1.2 Proxy means-tested benefits introduced</i> Baseline: No (2013) Target: Yes (2017)</p> <p><i>1.1.3 Employment in labor-intensive community works and services increased (person-days)</i> Baseline: 15,000 (2013) Target: 400,000 (2017)</p> <p><i>1.1.4 Female employment in labor-intensive community works and services increased (person-days)</i> Baseline: 7,500 (2013)</p> <p>Target: 200,000 (2017)</p> <p><i>1.1.5 Poverty and gender monitoring system improved through the strengthening of statistics and the carrying out of a poverty and gender diagnostic.</i> Baseline: No (2013) Target: Yes (2017)</p>	<p>Crisis Response Social Safety Net project (P130328)</p> <p>Human Capital Social Safety Net Project (P120588)</p> <p>Poverty and Social Impact Analysis: Strengthening Safety Nets in Djibouti (P148622)</p> <p>Gender and Poverty ESW</p>

<p>Develop human capital through the improvement of health indicators and the quality of education</p>	<ul style="list-style-type: none"> • Need for enhanced institutional capacity in the Ministry National Education and Vocational Training to ensure more effective delivery and monitoring of education quality • Low utilization of maternal and child health care services and communicable disease control programs 	<p>1.2 Strengthened management of the education system <i>1.2. Annual education statistical reports produced with key national indicators (cumulative number), including gender disaggregated data, to support education management</i> Baseline: 1 (2013) Target: 3 (2017)</p> <p>1.3 Improved utilization of good-quality maternal and child health care services and communicable disease control programs <i>1.3.1 Share of women giving birth in a facility assisted by qualified personnel increased (%)</i> Baseline: 53% (2013) Target: 65% (2017)</p> <p><i>1.3.2 Share of children fully immunized before their first birthday increased (%)</i> Baseline: 83% (2013) Target: 89% (2017)</p> <p><i>1.3.3 Share of HIV-positive pregnant women receiving antiretroviral therapy according to protocol increased (%)</i> Baseline: 12% (2013) Target: 37% (2017)</p>	<p>Strengthening Institutional Capacity and Management of the Education System (P123315)</p> <p>Education Access and Quality</p> <p>Improving Health Sector Performance Project (P131194)</p> <p>Partners: WHO, UNICEF, UNFPA and WFP, as well as multilateral and bilateral organizations: AfDB, IsDB, AFD, USAID, and Italian Cooperation.</p>
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<p>Revitalize and strengthen rural development and implement a policy of development of cities without slums</p>	<ul style="list-style-type: none"> • Scarce water and agro-pastoral resources in rural areas • Lack of access to water and roads in poor urban areas of Djibouti-Ville, specifically within Quartier 7 	<p>1.4 Increased access to basic infrastructure in disadvantaged rural and urban areas</p> <p><i>1.4.1 Number of rural households with more secure access to drinking water within a reasonable travel time (two hours roundtrip) increased in project areas (number)</i> Baseline: 1,026 (2013) Target: 2,350 (2017)</p> <p><i>1.4.2 Number of income-generating activities financed by the project for women</i> Baseline: 0 (2013) Target: 30 (2017)</p> <p><i>1.4.3 Share of properties in Quartier 7 within 50m of surfaced roads (including drainage and street lighting) increased (%)</i> Baseline: 50% (2013) Target: 80% (2017)</p> <p><i>1.4.4 Share of Quartier 7 residents of all age groups benefiting from improved community development subprojects and services increased (%)</i> Baseline: 10% (2013) Target: 30% (2017)</p> <p><i>1.4.5 Share of women among subproject beneficiaries in Quartier 7 (%)</i> Baseline: 0% (2013) Target: 50% (2017)</p> <p><i>1.4.6 Share of funded subprojects completed by women's associations (%)</i> Baseline: 0% (2013) Target: 50% (2017)</p>	<p>Rural Community Development and Water Mobilization Project/PRODERMO (P117355)</p> <p>Urban Poverty Reduction Project (P088876)</p> <p>Second Urban Poverty Reduction Project (P145848)</p> <p>Partners: IFAD, EU, FAO</p>
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<p>Strengthen the country's capacity to address disaster risks</p>	<ul style="list-style-type: none"> • High vulnerability to climate change and natural disasters • Lack of information system on disaster risks and mitigation measures • No current platform for assessment and communication of natural disaster risk and vulnerability 	<p>1.5 Improved assessment of natural disaster risk and vulnerability</p> <p><i>1.5.1 Implementation of Comprehensive Approach to Risk Assessment in Djibouti and risk assessment platform in place</i> Baseline: No (2013) Target: Yes (2017)</p> <p><i>1.5.2 Recently established risk management platform being used to monitor sectoral vulnerabilities to natural hazards and shocks</i> Baseline: Not in use (2013) Target: Sectoral risk data being integrated into the platform by relevant ministries on an annual basis (2017)</p>	<p>GFDRR Grant</p> <p>Partners: EU, FAO, WFP, UNDP, UNESCO, UNFPA, USAID, WHO</p>
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Pillar Two: Strengthening the Business Environment

<p>Improve the efficiency and effectiveness of the economy by modernizing and strengthening infrastructure</p>	<ul style="list-style-type: none"> • Limited capacity to assess commercial viability of geothermal energy • Tenuous financial viability of energy utility, despite high tariffs 	<p>2.1. Improved access to affordable electricity through stronger capacity to assess the commercial viability of geothermal resources, increased connections, and reduced energy utility losses</p> <p><i>2.1.1 Bank support to a full-fledged geothermal power generation feasibility study provided</i> Baseline: No (2013) Target: Yes (2017)</p> <p><i>2.1.2 Well test results independently reviewed and certified</i> Baseline: No (2013) Target: Yes (2017)</p> <p><i>2.1.3 People provided with access to electricity by household connections</i> Baseline: 14,800 (2013) Target: 22,800 (2014)</p> <p><i>2.1.4 Electricity losses reduced due to the deployment of smart meters (% of total billed in selected 20 kv feeder)</i> Baseline: 12% (2011) Target: 3% (2014)</p>	<p>Geothermal Power Generation Project (P127143)</p> <p>Power Access and Diversification Project (P086379)</p> <p>Partners: AFD, AfDB, EU, OPEC/OFID</p>
<p>Exploit opportunities in new technologies of Information and Communication (NTIC)</p>	<ul style="list-style-type: none"> • No strategy in place to guide telecommunications sector development • Low penetration of mobile and Internet services • Low-quality broadband network • High connection and service costs 	<p>Program under development; expected outcomes to be identified in CPS Progress Report</p>	<p>PPIAF (new) IDA Project (new)</p> <p>Partners: AFD (potentially)</p>

<p>Promote a diversified and competitive economy with the private sector as its engine of growth</p>	<ul style="list-style-type: none"> • Private sector growth is held back by the high cost of inputs such as labor, energy, and telecommunications • Despite high labor costs, worker productivity is low • Major deficits in nearly all areas of governance—including public policy clarity and consistency, justice and security of property, and corruption and accountability—have a dampening effect on investment • Absence of flexible, alternative, mid- to long-term financing models 	<p>2.3 Improved investment climate in selected areas <i>2.3.1 Business start-up process streamlined (number of days)</i> Baseline: 37 days (2013) Target: 10 days (2017) <i>2.3.2 Number of days for the commercial chamber to issue a ruling in commercial litigation</i> Baseline: 400 (2013) Target: 60 (2017)</p>	<p>PSD Project Governance AAA IFC support for improving <i>Doing Business</i> indicators IFC support for introduction of leasing framework MIGA Guarantee for Doraleh Container Terminal</p> <p>Partners: IMF</p>
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Annex 2: Djibouti's Progress toward the MDGs

MDG	Status in Djibouti
MDG 1: Halve between 1990 and 2015, the proportion of people who suffer from hunger	Underweight prevalence (under 5 years) 1989: 20% 2010: 23%
MDG 2: Ensure that by 2015, children everywhere will be able to complete a full course of primary schooling	Net enrollment 2011: 45%
MDG 3: Eliminate gender disparity in primary and secondary education in all levels of education by 2015	Gender parity index for enrollment/attendance in primary and secondary education 2012: 0.9 (primary) 2012: 0.8 (secondary)
MDG 4: Reduce by two-thirds between 1990 and 2015, the under-five mortality rate	Under-five mortality rate 1990: 122 2010: 90
MDG 5: Reduce by three quarters, between 1990 and 2015 the maternal mortality ratio	Maternal mortality ratio 2012: 383
MDG 6: Have halted by 2015 and begun to reverse the spread of HIV/AIDS and malaria and other major diseases	HIV prevalence 2012: 0.1 (male) 2012: 0.3 (female) Percent of children under 5 with fever receiving anti-malarials 2009: 1% Percent of children under 5 sleeping under insecticide-treated bed nets 2008/09: 20%
MDG 7: Halve by 2015 the proportion of people without sustainable water access to safe drinking water and basic sanitation	Percent using improved drinking water sources 1990: 78% 2010: 88% Percent using improved sanitation facilities 1990: 66% 2010: 50%

Annex 3: Country Assistance Strategy Completion Report (CAS CR) for Djibouti, FY2009–2012

Date of CAS: March 30, 2009

Period covered by CAS CR: FY2009–FY2012

I. INTRODUCTION

*The objective of this Country Assistance Strategy Completion Report (CAS CR) is to evaluate the World Bank’s Country Assistance Strategy (CAS) for the Republic of Djibouti for the period FY2009–2012. The CAS CR assesses: (i) program performance in influencing the CAS outcomes as laid out in the results matrix; and (ii) the World Bank’s performance in designing and managing the implementation of the program, in line with the implementation of Djibouti’s National Initiative for Social Development (INDS) for 2008–2012. In addition, the CAS CR seeks to draw lessons to guide the design and preparation of the forthcoming Country Partnership Strategy (CPS) for FY2014–2017. This CAS CR is based on discussions within the country team, feedback from government counterparts, and a review of key documents.*²⁶

*Following a thorough review of CAS implementation, the country team has rated both program and Bank performance moderately satisfactory.*²⁷ The program saw solid progress toward most major outcomes, though in some cases momentum was slowed by weak implementation capacity, delays in implementing relevant programs, or lack of dedicated operational support. The Bank’s program design was relevant to the country context at the time, emphasizing government ownership, selectivity, and flexibility, and its implementation was successful in mobilizing resources to scale up well-performing interventions and respond to evolving needs. However, gaps in the design of the results framework introduced a lack of clarity between objectives and instruments in some sectors and left room for insufficient follow-through on monitoring and evaluation. The Bank team has responded proactively to amend weaknesses in portfolio management and design a realistic results framework for the new CPS, and has placed a Resident Representative in Djibouti to strengthen dialogue, project implementation support, and results monitoring on the ground.

II. PROGRESS TOWARD LONGER-TERM DEVELOPMENT GOALS

The CAS for FY2009–2012 was anchored in the INDS, the country’s Poverty Reduction Strategy Paper (PRSP), which set forth key development targets such as boosting economic growth to 7 percent per year and reducing poverty to 28 percent by 2012. The INDS rested on four pillars: (i) ensuring macroeconomic stability and creating conditions for strong and sustainable economic growth; (ii) developing human resources and improving access to basic services, notably for women and youth; (iii) promoting the harmonious development of rural and urban areas; and (iv) improving governance and strengthening public sector management. The IMF-World Bank Joint Staff Advisory Note (JSAN) on the INDS, completed in September 2008, acknowledged progress made in better prioritizing goals and drawing lessons from the shortcomings of the first PRSP. It suggested that the INDS could be enhanced by: (a) strengthening the poverty analysis, which suffered from a paucity of accurate and reliable data; (b) further elaborating on the financing of the public spending program, which could potentially challenge

²⁶ Key reference documents include the CAS for FY2009–2012, Project Documents, Implementation Status and Results Reports, Implementation Completion and Results Reports, trust fund progress reports, and portfolio reviews.

²⁷ Ratings are based on the October 2012 guidelines for preparation of CAS CRs. See World Bank. 2012. *Guidance to Staff on the Country Assistance Strategy Completion Report*. Operations Policy and Country Services Department. October. According to these guidelines, a moderately satisfactory rating suggests that “the program achieved good progress toward *most major* expected outcomes. No major shortcomings were identified.”

debt sustainability; (c) placing more emphasis on measures to promote equitable economic growth; and (d) taking action to make public administration reform operational. Attachment 4 highlights INDS results.

Djibouti's economy enjoyed solid growth of about 4.6 percent per year on average between 2005 and 2012 (Table 1). In 2011, despite one of the worst droughts in 60 years, it is estimated that the economy grew at 4.4 percent. This growth pattern was made possible by the return to political stability after years of interethnic civil strife in the 1990s, consistent Bank support to Djibouti over the period 2005-2011 and the increased use of Djibouti's port services for rapidly growing Ethiopian trade and of military bases established by France, the United States, and Japan. In 2012, the growth rate is estimated to be 4.8 percent.

	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (estimated)
National Accounts					
GDP (US\$ millions)	983	1,049	1,129	1,238	1,354
Growth rate (%)	5.8	5.0	3.5	4.5	4.8
Fixed capital investment (% GDP)	46.7	35.5	19.8	24.6	26.4
<i>Of which:</i> Private	32.9	18.3	8.1	13.5	13.4
Public	13.8	17.2	11.7	11.1	13.0
Inflation (%)	12.0	1.7	4.0	5.1	3.7
Public Finance (% GDP)					
Revenue and grants	41.9	37.0	35.5	34.4	34.5
<i>Of which:</i> Revenues	20.0	20.1	20.2	20.3	18.5
Current expenditure	25.4	24.3	24.3	24.1	24.2
Capital expenditure	13.8	17.2	11.7	11.1	13.0
Overall balance (commitments)	2.6	-4.6	-0.5	-0.7	-2.7
External Sector					
Exports (US\$ millions)	369.1	399.4	359.0	420	457
Imports (US\$ millions)	-703.6	-578.3	-504	-674	-725
Foreign Direct Investment (% GDP)	23.8	9.5	2.4	6.3	8.1
Official external debt (% GDP)	60.2	59.8	56.1	52.3	49.2

Sources: IMF, World Bank.

Despite economic growth, the overall business climate remains poor. In the joint World Bank-International Finance Corporation *Doing Business* survey report for 2012, Djibouti ranked 170th out of 183 countries on ease of doing business, down from 153rd out of 181 countries in 2009.²⁸ Problem areas included the high cost of starting a business and weak protection of investors (Attachment 5). Expensive and unreliable power and telecommunications services were cited as major constraints to private investment. The report had a significant impact on the authorities, as evidenced by the inclusion of private investment as a central focus of the government's Vision 2035. The authorities have requested Bank-IFC support in specific areas measured by the *Doing Business* indicators. This increased attention is already beginning to bear fruit, as *Doing Business 2014* ranks Djibouti 160th of 189 economies on overall ease of doing business. The country has made significant improvements on business registration in particular, as reflected in a new ranking of 127th in this area, up from an adjusted rank of 188th in *Doing Business 2013*.

²⁸ The *Doing Business* methodology was adjusted in *Doing Business 2012*, so these rankings are not directly comparable. But they give a general sense of Djibouti's deterioration in this area.

Despite strong growth in recent years, real per-capita GDP has not yet rebounded to 1990 levels. Per-capita GDP (in constant 2000 US dollars) deteriorated significantly from US\$1,389 in 1990 to US\$856 in 2002, before rising to US\$954 in 2011 and to about US\$1,560 in 2012 thanks to relatively strong economic growth. Social indicators are below average considering Djibouti's lower-middle-income status. Extreme poverty is estimated to affect over 40 percent of the population, though available data are unreliable, and unemployment remains high at 48.4 percent in 2012.²⁹ Djibouti ranked 165th out of 187 countries on the United Nations Development Programme's Human Development Index for 2011, as compared to 149th out of 177 countries in 2008. Djibouti is unlikely to meet most of its Millennium Development Goals (MDGs).

There is a continuing need to strengthen governance in Djibouti, both in the use of resources and in the delivery of services to the population. The government has launched several initiatives to improve transparency, and these need to be further improved and consolidated. The Bank carried out a governance and anticorruption survey in 2010, the results of which indicated that access to public services (for both households and firms) is often hampered by problems such as bribery, and that these problems are more serious in some regions of the country (Arta and Ali Sabieh). The survey revealed that 58 percent of household heads and 41 percent of entrepreneurs did not trust the justice sector. In June 2012, drawing on these results, the Ministry of Justice and World Bank co-organized a judicial reform workshop that led to the identification of priority reform areas, some of which will be addressed under the investment climate and private sector development activities that form part of the Bank's upcoming CPS.

In June 2012, Djibouti concluded a three-year Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF). Program performance was considered broadly on track. In February 2012, the IMF approved the government's request for additional financing to meet a shortfall due to the increase in global commodity prices and the drought in the Horn of Africa. This brought the total disbursed amount to US\$33.9 million.

III. PROGRAM PERFORMANCE

The CAS for FY2009–2012 was discussed by the World Bank's Board of Directors on April 30, 2009. In alignment with the government's INDS, the CAS was framed around three strategic themes: (i) *supporting growth* through efforts to strengthen the business environment, with a focus on reducing constraints and costs to private sector development, especially in the power, telecommunications, and financial sectors; (ii) *supporting access to basic social services and human development* by increasing access to and quality of education and health services and strengthening social protection and direct support to poor people; and (iii) *supporting governance and public sector management* through policy dialogue and technical assistance to strengthen the budget process and improve monitoring and evaluation.

Overall performance on the CAS program is rated moderately satisfactory. Solid progress was achieved toward most major expected outcomes, with notable achievements on the education and health agendas and important steps forward on energy and expenditure transparency. Progress toward targets in telecommunications, business regulation, financial sector reform, social protection, and monitoring and evaluation was slower to materialize during the CAS period, though several of the expected results have since been achieved. In some cases, momentum was slowed by insufficient operational support for weak implementation capacity. Other areas, such as social protection, are beginning to make headway now that planned programs are finally under implementation. The remainder of this section will briefly review

²⁹ Official unemployment figures are derived from the most recent household survey, la troisième Enquête Djiboutienne Auprès des Ménages pour les Indicateurs Sociaux (EDAM3-IS), conducted in 2012.

program performance by CAS theme. Details are provided in the self-evaluation summary matrix (Attachment 1).

Theme 1: Supporting Growth

Reducing constraints and associated costs to private sector development (Outcome 1.1). This outcome focused on the high cost of electricity and telecommunications services, the cumbersome and expensive procedures involved in starting a business, and weaknesses in the financial sector. Access to electricity has increased modestly, including in targeted poor areas, and electric losses were reduced from 21 percent to 12 percent in 2011. There were no reductions in unplanned electricity outages during the CAS period, though these reductions have since taken place. The electric utility's operating costs have not yet been reduced. The slow progress in implementing reforms in the power and water utilities can be attributed in part to the fact that such reforms were not within the scope and budget of the Bank-supported projects in the sector, and in part to the absence of a champion for these reforms. Competition in telecommunications services has not increased, as required institutional reforms have been identified but not agreed upon. There have been some improvements in business regulation, including the enactment of a new Commercial Code in 2009, but the time required to open a business remained at about 37 days in 2012, as in 2009. Since the end of the CAS period, however, the number of days it takes to register a business has dropped sharply to about 17 days in 2013, boosting Djibouti's ranking on ease of starting a business from 188th (adjusted) in *Doing Business 2013* to 127th in *Doing Business 2014*. The planned Financial Sector Assessment Program was completed in FY2012, and the IMF has taken the lead in following up on its recommendations.

In addition to the activities originally planned under the CAS, a New Growth Model report was presented to the government in June 2012 as a key element in the policy dialogue to improve Djibouti's growth performance. The report concludes that Djibouti's present growth model is unsustainable due to the acute social crisis represented by extremely high unemployment. It explores the country's growth potential in four sectors (tourism, fishing, transport and logistics, and telecommunications) and indicates that improving governance is key to unleashing Djibouti's potential. The report was widely disseminated in country, and the government has agreed to the findings in the four sectors and indicated its commitment to improve governance.

A transport and logistics study was also completed and presented to the government in June 2012. This study concluded that the transport and logistics sectors would have limited potential to alleviate unemployment owing to the capital-intensive nature of port activities, Ethiopia's domination of key trucking corridors, and ongoing efficiency improvements that lead to job reductions. It noted that Djibouti's economic future in the sector would lie in efficiently serving trade corridors to the Horn of Africa and remaining the primary gateway for Ethiopia.

Theme 2: Supporting Access to Basic Social Services and Human Development

Increasing access to quality basic education (Outcome 2.1). Access to education has improved, including for girls, as reflected by an increase in gross primary enrollment from 62 percent in 2008 to 70 percent in May 2012 according to the UNESCO Institute for Statistics and by a steady ratio of 96 girls to 100 boys over the same time period. There has been some progress in improving educational efficiency, with primary cycle completion rates improving from 2005 to 2009. Primary school repetition rates dropped below 5.4 percent in 2008, representing partial progress toward the CAS target, but rebounded to 9.8 percent in 2011 following the discontinuation of the primary school exit exam, which unleashed such an influx of students into capacity-constrained middle schools that students had to repeat the last year of primary education in order to ease the bottleneck. This also affected the primary cycle dropout rate, which fell to below 1.2 percent in 2009 before increasing to 2.9 percent in 2011, while remaining below

the CAS target of 3 percent. Efforts to strengthen school quality centered on teacher training, textbook availability, and parent-teacher partnerships, and CAS targets were largely surpassed.

Improving access to and quality of health services (Outcome 2.2). Djibouti made important strides toward key health sector outcomes over the CAS period with Bank support, thus contributing to the country's progress toward its MDGs. Regarding maternal and child health, the maternal mortality ratio declined from 546 deaths per 100,000 live births in 2002 to 383 in 2012, and the under-five mortality rate dropped from 124 deaths per 1,000 live births in 2002 to 68 in 2012, in both cases nearly meeting CAS targets. The HIV/AIDS prevalence rate among pregnant women aged 15–24 has decreased to 1.4 percent in 2010, as compared to 2.9 percent in 2002. Health facility staffing improved. The CAS results framework included an outcome on containment of an avian flu outbreak, but none occurred during the relevant period.

Strengthening social protection and direct support to the poor (Outcome 2.3). Concrete progress toward this CAS outcome has been challenging to assess given that several relevant interventions are only now beginning to be implemented. The Employment and Human Capital Social Safety Net Project, launched in 2010 with funding from a Japan Social Development Fund grant, is supporting community-driven and participatory approaches to social safety net creation, including short-term job opportunities and nutrition sensitization programs. Preparatory activities such as identification of beneficiaries, development of potential work opportunities, and implementation of a management information system have made good progress, but works did not begin until after the end of the CAS period. The Bank supported the development of a Social Safety Nets Strategy, in part to guide donor coordination in the sector. A Social Safety Net Project, developed under the Crisis Response Window and approved at the very end of the CAS period, became effective in January 2013. Since then, baseline surveys have been conducted, and enrollment of beneficiaries has begun. A framework for providing social assistance to poor people has been developed, but the institutional framework for social security has not yet been set up. The Rural Community Development and Water Mobilization Project (PRODERMO) became effective in January 2012 and began to work during the CAS period toward targets on community development structures, improved water access, and increased agriculture and livestock production. Some progress has been made on range management since the close of the CAS period, but improvements in livestock production will depend on the availability of water from subprojects that will be implemented over the course of the project, up to 2016. There has been no recent flood in key areas identified in the CAS, thus implying a reduction in flood risk in those areas.

Theme 3: Supporting Governance and Public Sector Management

Improving expenditure transparency (Outcome 3.1). Solid progress was made toward transparency improvements set out in the CAS. The public procurement code was revised to bring the legal framework in line with good practice and promulgated in July 2009, and a series of implementing decrees and regulations have been completed. There remain some weaknesses in implementation, however, including a lack of awareness among public entities, procedural delays, capacity shortfalls, and remaining gaps in transparency, such as (i) lack of publicly-available procurement plans resulting in a weak participation of the private sector in public tenders and (ii) non publication of contract awards. These two transparency measures have been introduced by the new procurement code. To help address these concerns, the Bank has continued to provide on-the-job training and day-to-day operational guidance and has added a procurement specialist to the country office staff. Audit reports were produced annually and made available upon request but not publicized by the government. The government's most recent audit report, produced after the end of the CAS period, has been finalized and submitted to the National Assembly; it is expected to be sent to the President in early 2014 and published in the official gazette by the end of January 2014.

Improving monitoring and evaluation (Outcome 3.2). Efforts to strengthen monitoring and evaluation met with mixed results during the CAS period. The population census was completed in 2009 and its demographic data made available to the public. The results of the household poverty assessment, launched in 2012, are available for use in updating poverty indicators; further results in this area are expected in 2014. While a national accounts system has not yet been established, the government has shown clear interest in doing so. In June 2012, the Ministry of Finance organized a roundtable meeting with development partners to discuss how to improve the country's national accounts system. The Bank stands ready to assist in the rapid production of estimates of GDP and its components. Despite slight capacity improvements and the identification of monitoring indicators, the system in place to monitor and evaluate progress toward INDS goals is not operational.

IV. WORLD BANK GROUP PERFORMANCE

Overall, World Bank Group performance under the CAS is rated moderately satisfactory. The strategy emphasized country ownership and aid harmonization by aligning closely with the government's INDS. Its design was highly selective at the CAS outcome level, taking into account limited government capacity and limited IDA resources, and allowed the country team plenty of room for flexible adjustments in response to changing circumstances. However, the results framework could have been improved through stronger linkages between CAS outcomes and progress indicators, together with better-specified baselines and targets. On the implementation side, the Bank team made good use of additional financing and other funding sources to scale up successful interventions and adjust to evolving needs, though in some areas this expansion may have overtaxed weak government capacity for implementation and monitoring. As detailed below, the Bank team was successful in mobilizing additional resources from trust funds and adjusting Bank support to new circumstances, such as the drought of 2011. Project outcomes were satisfactory on balance and, though portfolio performance declined over the course of CAS implementation, it has begun to rebound in response to proactive interventions. The Bank's program supervision has been broadly effective, though there have been some limitations in follow-through on monitoring and evaluation, owing in part to the lack of staff on the ground on a day-to-day basis. A sound program is in place for the follow-on CPS, which will build on the progress made under the CAS and strengthen focus on key areas that did not receive sufficient attention in the past but now enjoy a stronger appetite for reform, including governance and private sector development. Regular monitoring and follow-up will be made easier by the recent establishment of a field office.

Strategy and Program Design

The CAS for FY2009–2012 was designed with the lessons of the previous CAS in mind. The principal message of the completion report on the CAS for FY2006–2008 was that the follow-on strategy should be highly selective, focusing on enhancing competitiveness and improving the provision of basic services in a sustainable way. In response, the CAS for FY2009–2012 set out four guiding principles: (i) aligning the CAS to the government's INDS; (ii) emphasizing selectivity in program interventions; (iii) building on the success of the ongoing portfolio; and (iv) leveraging IDA grants through close coordination with other donors, keeping in mind the Bank's comparative advantage. This design was relevant to the situation in Djibouti at the time, characterized by limited government implementation capacity in a small state together with a relatively small IDA envelope. The intervention areas laid out in the CAS were closely aligned with the government's INDS in an effort to maximize government ownership, though there were some areas (such as governance) in which follow-through remained slow.

Though the CAS did achieve an important degree of selectivity, focusing narrowly on six key outcomes, there remained some areas in which the CAS program as originally designed was not backed up by concrete program interventions. For example, objectives with regard to reducing constraints and associated costs to private sector development focused too heavily on direct support to the

power sector. While the interconnection with Ethiopia in 2010 somewhat reduced Djibouti's heavy reliance on expensive fuel supplies, this benefit was only felt during the summer season. Yet the Bank was in no position to help the power utility invest in efficient power plants. This should have been accomplished with private sector participation, with the Bank employing its comparative advantage to help the utility become more efficient. Additional financing was sought to increase access to electricity among underserved populations and to improve the power utility's efficiency, but institutional reforms were needed to support efficiency improvements. It was not clear that continued investment of scarce IDA resources in the power sector would be the best way to help Djibouti pursue its growth agenda. Similarly, proposed technical assistance to the telecommunications sector did not materialize in large part because of uncertain government commitment to telecommunications reforms at that time, although ongoing dialogue in the sector has convinced the government of the need to move rapidly with sector reforms and the Bank is planning a telecommunications project in the CPS period.

The country team introduced an important element of flexibility into the CAS program, offering just-in-time technical assistance and analytical work in response to evolving country needs. Most notably, the Bank presented a New Growth Model report and a transport and logistics study to support the government's agenda on removing deep-seated constraints to growth. The Bank also provided on-demand technical assistance to the government in developing a vision for 2035, in formulating a new consumer price index to assess inflation, and in defining new estimates of GDP and its components. In the social sectors, the Bank prepared notes on curbing the HIV/AIDS epidemic and on reproductive health and provided technical assistance to develop a strategy on social safety nets.

The results framework was too ambitious overall and suffered in some areas from unclear objectives and a lack of connection between outcomes, targets, and instruments. While the results framework succeeded in keeping things simple at the CAS outcome level, the specification of targets and intermediate outputs did not sufficiently take into account the time needed to put projects into operation in Djibouti. This was the case in the social protection sector, for example. Despite attempts to limit the number of indicators, the results matrix remained complex in comparison to local monitoring and evaluation capacity. Some indicators (such as those on financial sector reform, the business climate, and utilities' institutional reform) were included in the matrix without being explicitly attached to a corresponding activity in the CAS program, thus easily falling off the monitoring radar over the course of strategy implementation. Targets in the telecommunications sector could not be met during the CAS period due to the absence of a champion within government. The small TA activity carried out in 2009 provided the government with a detailed diagnostic of the telecom sector and recommendations that provided the back drop for a dialogue, and the Bank has successfully re-engaged in the sector, bringing in the necessary expertise and financing to support key reforms.

The risks identified in the CAS were well managed and remain relevant today. The CAS drew attention to Djibouti's narrow economic base and dependence on external financing and foreign direct investment from partner countries that were themselves experiencing global downturn. These factors continue to underline the need for more competitive port services and greater overall economic diversification. Though Djibouti was less heavily affected by the Arab Spring than other countries in the region, the risk of civil unrest remains in the light of widespread poverty, unemployment, and corruption. The CAS successfully mitigated the risks posed by the Bank's limited financial assistance by leveraging significant resources from trust funds and other development partners. This type of leveraging will continue to be important going forward, with due attention to limitations to the government's absorptive capacity.

Program Implementation

The FY2009-2012 CAS lending program, which included indicative IDA financing of US\$24.2 million, was delivered largely according to plan. The main exception was the proposed technical and

vocational education project, which was dropped in favor of: (i) catalytic fund financing in the amount of US\$4 million to ensure continuity of support for and scaling up of successful primary education initiatives; and (ii) a new project on Strengthening the Institutional Capacity and Management of the Educational System, including in the area of technical and vocational education. During the CAS period, additional financing was approved to scale up successful interventions and incorporate additional activities that were being implemented under the HIV/AIDS, Malaria, and Tuberculosis Control Project (May 2009); on Urban Poverty Reduction (June 2010) to finance additional economic and social community development activities in Quartier 7; and on Power Access and Diversification (June 2010), to scale up successful project activities on increasing electricity access and efficiency. In response to acute drought conditions in 2011, US\$13.2 million in financing from IDA's Crisis Response Window was approved for three projects in Djibouti: (i) additional financing for the Power Access and Diversification Project (US\$5.2 million) to reduce the negative effects of the drought on water pumping in rural areas by developing urban oil and diesel stocks; (ii) additional financing for the Rural Community Development and Water Mobilization Project (PRODERMO) (US\$3 million) to scale up activities to enhance rural water access and water management capacity, and to expand into new areas that were particularly affected by the drought; and (iii) and emergency Social Safety Net Project (US\$5 million) to support short-term employment and improved nutrition practices among poor and vulnerable groups. Total IDA support for the CAS program amounted to US\$27.93 million.

The Bank team was highly successful in mobilizing additional resources from trust funds and adjusting Bank support to new circumstances, such as the drought of 2011. The CAS program envisioned five activities to be supported by Institutional Development Fund (IDF) grants and other trust funds for a total of US\$3.74 million. In its implementation, the CAS program drew upon two IDF grants and 12 other trust fund sources supporting 21 activities for a total of just over US\$12.3 million. Areas of support included monitoring and evaluation, aid coordination, infrastructure (including energy), education, social protection, disaster management and climate change, and governance and anticorruption (Attachment 6).

Project outcome ratings have been considered to be broadly satisfactory. The country team completed three Implementation Completion and Results Reports (ICRs) and one interim ICR during the CAS period. Project outcomes were rated moderately satisfactory for the Flood Emergency Rehabilitation Project (October 2009) and the Second School Access and Improvement Project (June 2012), and the interim ICR for the Primary Education Support Program financed by the Education for All–Fast Track Initiative Catalytic Fund (March 2009) rated the outcome as satisfactory. The ICR for Food Crisis Response Development Policy Grant (December 2010) rated the outcome satisfactory, citing the emergency project's coverage of the government's budget shortfall, which supported the country in maintaining fiscal and macroeconomic stabilization, ensuring food supply and improving access to water, strengthening the statistical basis for policy development, and launching a dialogue on improving social safety nets and nutrition that ultimately led to a new operation, the Employment and Human Capital Social Safety Net Project, in 2010. Despite these successes, the ICR noted that it was difficult to determine whether the operation had passed through tax reduction in the form of lower prices for affected foods. The ICR for the Health Sector Project (December 2012) rated the outcome as satisfactory.

A Project Performance Assessment Report (PPAR) for the Food Crisis Response Development Policy Grant, prepared by the Bank's Independent Evaluation Group (IEG) in April 2012, deemed the project's outcome to be unsatisfactory. This rating was determined on the basis of what the PPAR deemed to be modest progress toward the project's objectives, together with questions about the extent to which the overall progress achieved could be attributed to the project itself. The country team felt, however, that the PPAR's ratings focused too heavily on actual macroeconomic results and not enough on what the macroeconomic situation might have been without the operation. The project, which was the only mechanism for crisis response at the time (given the absence of an effective social safety net that

could be scaled up), provided fiscal space for the government to implement its food crisis response program. Moreover, the consumption of tax-exempted items increased while overall food expenditures decreased, implying that tax-exempted items became relatively more affordable. Though causality cannot be clearly attributed, the PPAR's analysis of price data alone fails to capture the possibility that prices may have increased more steeply without the tax exemption.

Portfolio performance deteriorated over the CAS period (Table 2), but has begun to turn around thanks to proactive attention to key implementation issues. The November 2011 CPPR concluded that targeted client support was needed in three areas: addressing weak capacity in project management and monitoring and evaluation, providing training to overcome inadequate experience with World Bank fiduciary and procurement requirements, and removing bureaucratic bottlenecks (such as delayed contract signing or slow release of funds by relevant government agencies). Discussions around the CPPR also brought to light areas in which the Bank team could improve its support for portfolio implementation, including the high turnover of task managers, lack of adequate handover as projects changed hands, and insufficiently clear communication between task managers on the Bank side and project managers on the client side, especially on bureaucratic requirements. The CPPR process identified monitoring indicators by which to measure progress in addressing these issues (Attachment 7). Finally, the CPPR found trust fund implementation to be relatively slow in Djibouti as a result of weak management capacity, interagency coordination issues, lack of procurement and financial management experience, and high turnover among staff in the country's project management units. A follow-up to the CPPR in March 2012 found that significant progress had been made in strengthening project management capacity, improving disbursements, increasing the timeliness of processing and release of funds, and speeding up contract approvals. Together, these changes have contributed to recent implementation progress and improvements in portfolio performance.

Table 2: Djibouti Portfolio Highlights

Indicator	FY2009	FY2010	FY2011	FY2012
Number of projects under implementation ^a	4	4	5	5
Average implementation period (years) ^b	3.9	4.9	4.7	2.4
Problem projects ^{a, c}				
% of total, by number	0.0	0.0	20.0	20.0
% of total, by amount	0.0	0.0	22.9	13.4
Projects at risk ^{a, d}				
% of total, by number	25.0	25.0	60.0	20.0
% of total, by amount	23.8	19.6	79.3	13.4
Disbursement ratio (%) ^e	53.4	24.5	14.5	23.6

Notes: a/ As shown in the Annual Report on Portfolio Performance; b/ Average age of projects in the Bank's country portfolio; c/ A problem project is one for which implementation progress is unsatisfactory and/or development objectives are not likely to be achieved; d/ Projects at risk are those at risk of not meeting development objectives, including both actual and potential problem projects; e/ Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year, including only investment projects.

Source: CPPR, November 2011.

During program implementation, more attention could have been focused on monitoring results. As mentioned above, some indicators included in the CAS results matrix were not directly linked to an established program monitoring framework and were thus not closely followed over the course of strategy implementation. There was no framework in place to ensure regular monitoring of CAS outcomes outside the context of project implementation. Though a decision was taken to forego the preparation of a CAS Progress Report, in light of the small size of the country program and following the experience under the CAS for FY2006–2008, taking the time to conduct a mid-term review of the

program and its objectives may have afforded the team an opportunity to further streamline the results matrix and adjust targets to provide a more realistic picture of expected implementation progress.

The country team was successful in preparing relevant, just-in-time knowledge products, but at times fell short in following through on dissemination and dialogue. For example, a public expenditure review (PER) was prepared and a governance and anticorruption survey conducted in support of the CAS outcome on improving expenditure transparency. Yet the PER was not discussed with the government during the CAS period, and there was little follow-up on either the government or the Bank side in response to the results of the governance and anticorruption survey. On monitoring and evaluation, though the CAS made clear that addressing deficiencies in the statistical system would require a comprehensive approach, no such approach was proposed and progress was limited. In the area of telecommunications, a policy note issued in March 2009 emphasized that Djibouti's ambition to become a regional hub for transport and services would be undermined by the public monopoly on all segments of the market. The note proposed reform options, on which there is now follow-up.

Though there was no formal framework for donor coordination in Djibouti during the CAS period, the small size of the resident donor community facilitated regular sharing of information. The World Bank had no country office at the time, but managers and task team leaders communicated closely with development partners during regular visits to Djibouti and at their headquarters. This collaboration led to the parallel financing of the Urban Poverty Reduction Project by the Agence Française de Développement, African Development Bank, Islamic Development Bank, and World Bank. Similarly, the Education for All–Fast Track Initiative Catalytic Fund, managed by the World Bank and financed by France, the United States Agency for International Development, the United Nations Children's Fund, the Agence Française de Développement, the Arab Development Fund, and the World Bank, has brought donors together around a common agenda in the education sector. Moreover, the World Bank financed the coordination of education sector activities through its education project. In 2010, the World Bank secured an IDF grant to help strengthen aid coordination and management capacity within government institutions in charge of designing, managing, and monitoring public investment projects and external resources, with the aim of effectively and transparently coordinating and managing development assistance flows in support of donor coordination.

IV. LESSONS LEARNED AND RECOMMENDATIONS FOR THE CPS

- ***It will be important to consider political economy factors.*** While a formal political economy analysis may not be appropriate given the fluidity of the current context, informal monitoring and close engagement can assist in understanding Djibouti's slow progress in transitioning from a state-dominated economy to a more open one, as well as why some reform areas have gained more traction than others and how the Bank can best position itself to support reforms that are more likely to yield effective results. For example, the new CPS program should strive to build on the current appetite for reform in key areas such as governance and private sector development. In this context, the placement of a Resident Representative in the field has allowed a good understanding of political economy factors and provided opportunities to more reliably assess areas of support that are more likely to maintain traction within the political economy environment.
- ***The lack of a Bank office in Djibouti during the CAS period hampered the country team's ability to effectively manage and monitor progress toward results on the ground.*** Delivery of the CAS program and implementation follow-up was affected by the limited implementation capacity on the ground and the absence of an effective mechanism to follow up in between supervision missions.

- Mixed progress on the growth agenda demonstrates the ***importance of aligning CAS outcomes to specific operational activities*** that fall within the Bank’s comparative advantage and thus have a good chance of moving forward. More general outcomes and targets may be useful goals, but without targeted assistance under the strategy and regular monitoring under linked programs, it is difficult to assess or even maintain progress toward those goals. Given the fluid environment in Djibouti, flexible responses to changing circumstances are crucial to ensure continued momentum. Under the CAS period and in the year since its conclusion, the country team has sought to focus intervention efforts and results targets on high-priority, realistic goals, including through the additional focusing enabled by additional financing operations and restructuring of ongoing programs.
- ***Good progress in the education and health sectors can be attributed to clear sector goals backed up by well-specified programs, regular monitoring of outcomes, and flexible responses to changing needs.*** In education and health, going forward, it will be important to ensure that the progress made thus far is sustainable with a lower level of donor financing. In other sectors, this points to the importance of confirming and/or supporting similar strategic clarity and careful program design in other sectors of Bank support.
- ***Modest progress on governance and public sector management points to the need for more comprehensive programming and more strategic follow-through on the part of the country team.*** Given the significant emphasis placed on the need for improved governance in the New Growth Model report, it will be important for the Bank and government to agree on an action plan for achieving rapid results in key areas of the governance agenda and on improving monitoring and evaluation capacity.
- ***Slow progress on some indicators across the CAS program points to the importance of defining a strategy’s expected outcomes and measurement indicators realistically, on the basis of ongoing and early-period interventions.*** The strategy’s results framework should focus on results that are receiving attention under programs that are already in place or that will be addressed in interventions that come on stream early in the strategy period, in order to avoid setting expectations that are too high given the lead time needed to bring a project to full operation. The full results expected from later-period projects cannot reasonably be expected to be achieved by the end of the four-year country strategy cycle.
- Given current capacity constraints in Djibouti, together with weaknesses in the collection and management of key national statistics, it will be critical to ***ensure that the results framework is highly simplified, focusing only on key indicators that are clear, measurable, and set up for regular monitoring and evaluation.*** Each outcome should be underpinned by an accurate baseline and a realistic target that takes into account implementation time frames in Djibouti. It would be useful to put in place a mechanism by which the government and the Bank can jointly monitor progress on an annual basis. Preparation of a CPS Progress Report may help the country team evaluate mid-term progress and make needed course corrections to maximize the relevance and effectiveness of interventions. Support for broader monitoring and evaluation capacity will also be important to strengthen the overall information base in the country, as well as institutional and staff capacity for data collection and analysis.

Annex 3, Attachment 1: Summary of CAS Self Evaluation

CAS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)	Status and Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons and Suggestions for the New CAS
Pillar One: Supporting Economic Growth			
<p>Outcome 1.1: Reducing constraints and associated costs to private sector development</p> <p><i>Partially achieved</i></p> <p><i>Though access to electricity improved, progress on CAS outcomes related to business registration and telecommunications was slowed by the fact that support for and measurement of these outcomes were insufficiently integrated into Bank interventions on the ground.</i></p> <p><i>Additional work was completed, through the New Growth Model, to help identify and design further interventions to support economic growth by reducing constraints to private sector development.</i></p>	<ul style="list-style-type: none"> • Access to electricity increased modestly, including in targeted poor areas: achieved • Unplanned electricity outages reduced: not achieved during CAS period, but has since been achieved • Electric utility’s operating costs reduced: not achieved • Electric losses reduced from 21% to 12% (12% in 2011): achieved • Number of days to open a business reduced: not achieved during CAS period, but has since been achieved, dropping from 37 days throughout the CAS period to 17 days in 2013 • Competition in telecommunication increased: not achieved, as required institutional reforms have been identified but not agreed upon • Financial sector assessed in order to address any stability and structural issues: achieved 	<p>Additional financing for Power Access and Diversification Project (in June 2010 and again in June 2012)</p> <p>Trust Funds: Energy sector assessment; Feasibility assessment of solar rural energy; Geothermal power generation program</p> <p>Assessment of customs along Djibouti Ethiopia Corridor; Regulation of private port operators</p> <p>Additional economic and sector work: New Growth Model and Transport and Logistics studies</p>	<p>Several indicators could not be achieved during the CAS period, as there was no related activity in the program (two concern the power utility, one the business environment and one the telecoms sector).</p> <p>There are indicators without baselines or targets (number 2 and 3 for instance), which make it difficult to assess the extent of progress.</p> <p>Not enough emphasis was placed on making the electric utility more efficient through restructuring so as to become more attractive to private investors.</p> <p>New Growth Model and Transport and Logistics studies offer an excellent basis for dialogue on policy reform.</p>

CAS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)	Status and Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons and Suggestions for the New CAS
Pillar 2: Supporting access to basic social services and human development			
<p>Outcome 2.1: Increasing access to quality basic education</p> <p><i>Achieved</i></p> <p><i>Good progress in expanding access and improving quality in the education sector can be attributed to clear sector goals, well-specified programs, regular monitoring of outcomes, and flexible responses to changing needs.</i></p>	<ul style="list-style-type: none"> • Total GER in primary to increase from 68% in 2008 to 75% by 2012 (note: the correct baseline in 2008 should have been 62%, so the proposed 75% in 2012 was over ambitious. The actual increase was from 62% in 2008 to 70% in 2012) and ratio of girls to boys to increase from 0.70 to 0.87 (0.96 in 2012): achieved • Percentage of children completing primary schooling without repeating to increase from 53% to 83% for both boys and girls (75.6% overall and 72.9% for girls): partially achieved • Primary cycle repetition rate to drop from 4% to 2% (grew to 9.8% in 2011 following discontinuation of primary school exit exam): not achieved • Primary cycle dropout rate to drop from 5% to 3% (2.9% in 2011): achieved • 90% of teachers to receive continuing training: achieved • Teacher-parent partnerships introduced in half of schools by 2012: achieved 	<p>Additional financing under EFA-FTI (October 2010) and new project for strengthening institutional capacity and management in the sector (June 2012)</p> <p>TF: EPDF</p>	<p>Good progress achieved in the sector; ensuring that this success is sustainable will be important going forward</p>
<p>Outcome 2.2: Improving access to and quality of health</p>	<ul style="list-style-type: none"> • Reduction of child mortality rate to 65 per 1,000 live births in 2012 (68 in 2012): partially achieved 	<p>Additional financing for health project (May 2009)</p>	<p>CAS outcome indicators should not be set at the level of the MDGs, but</p>

CAS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)	Status and Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons and Suggestions for the New CAS
<p>services</p> <p><i>Achieved</i></p> <p><i>Access to and quality of health services improved over the CAS period, as evidenced by improved health outcomes and improved staffing of health facilities. As in education, good progress in the health sector can be attributed to clear sector goals, well-specified programs, regular monitoring of outcomes, and flexible responses to changing needs.</i></p>	<ul style="list-style-type: none"> • Reduction of maternal mortality rate to 350 per 100,000 live births in 2012 (383 in 2012): partially achieved • HIV prevalence rate among 15-24 year old pregnant women stabilized at 2% (1.4% in 2010): achieved • Improvement of staffing of all health facilities by qualified health workers (at least 1 qualified/trained health personnel in 90% of facilities): achieved • Avian flu outbreaks (if they occur) contained: (no outbreak; not applicable) 	<p>TF: Knowledge and learning grant and Nutrition</p>	<p>closer to the development outcomes of Bank-supported activities.</p> <p>Good progress made in the health sector; ensuring that this success is sustainable will be important going forward</p>

CAS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)	Status and Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons and Suggestions for the New CAS
<p>Outcome 2.3: Strengthening social protection and direct support to the poor</p> <p><i>Not achieved</i></p> <p><i>Progress toward the social protection outcome was slowed by the fact that relevant programs were only approved toward the end of the CAS period; advancements are now being made toward these goals and will be supported and monitored under the next CPS.</i></p>	<ul style="list-style-type: none"> • 8,000 labor-intensive jobs created: <i>not achieved</i>; program is now underway and has been restructured to reflect a more realistic target of 4,000 jobs created; as of December 2013, 1,700 jobs have been created and the target is expected to be achieved in December 2014. • 10% of residents in selected areas benefit from community development sub-projects: <i>not achieved</i> during the CAS period, but has since been achieved • Framework for providing social assistance to the poor developed: <i>achieved</i> • Institutional framework of the social security set up: <i>not achieved</i> • Occurrence of floods in selected areas reduced: no recent flood; <i>not applicable</i> • Agriculture and livestock production in selected areas increased: <i>not achieved</i> due to the PRODERMO program's delayed start (effective January 2012). Since then, there has been some progress on range management through set-aside and resending of 10 units over 4,000 hectares. Progress on livestock has been slower, as it depends on the availability of water from subprojects that are scheduled over the project period up to 2016. 	<p>TF: Employment and Human Capital Social Safety Net (September 2009); and Crisis Response Window SSN project (June 2012)</p> <p>Additional financing for urban project (June 2010)</p> <p>Rural Community Development and Water Mobilization Project (June 2011) and additional financing (June 2012)</p> <p>Natural disaster risk assessment and management; Drought post-disaster needs assessment; Pursuing low regret climate adaptation and disaster risk reduction options.</p>	<p>Some progress was achieved in establishing the project and SSN systems, with expected impact on target indicators.</p> <p>The three TFs for disaster management have been most useful for preparing a mitigation strategy and mobilizing resources from CRW to address the severe effects of the 2011 drought.</p> <p>The lack of progress during the CAS period points to the importance of focusing a strategy's expected outcomes and measurement indicators on results that are receiving attention under ongoing programs or those that will come on stream early in the strategy period; results expected from later-period projects cannot reasonably be expected to be achieved.</p>

CAS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)	Status and Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons and Suggestions for the New CAS
	<ul style="list-style-type: none"> • Use of rainwater/wadis water in small scale agriculture and livestock increased: <i>not achieved</i> due to PRODERMO's delayed start; target values for rehabilitation and creation of new irrigated areas are set for FY2014 and FY2016, respectively. 		
Pillar 3: Supporting governance and public sector management			
<p>Outcome 3.1: Improving expenditure transparency</p> <p><i>Partially achieved</i></p> <p><i>CAS targets on expenditure transparency were achieved, save for the publication of audit reports by government.</i></p>	<ul style="list-style-type: none"> • Public procurement law approved by Parliament: <i>achieved</i> • Audit reports annually produced and publicized by Government: <i>partially achieved</i>; the most recent audit report, produced after the end of the CAS period, is expected to be published at the end of January 2014. 	<p>TF: Strengthening governance and anti-corruption agenda IDF for aid coordination</p> <p>PER (draft in June 2012)</p>	<p>Governance agenda is moving slowly but beginning to gain momentum, owing to a renewed focus on the part of the government.</p> <p>The opening of a Bank office in Djibouti has provided an opportunity for more regular assessment of political</p>

CAS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)	Status and Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons and Suggestions for the New CAS
			economy factors that influence the governance agenda and help identify areas of fruitful engagement.
<p>Outcome 3.2: Improving monitoring and evaluation</p> <p><i>Not achieved</i></p> <p><i>Monitoring and evaluation continues to be problematic due to the limitations in government statistics production and statistical capacity. The government has recently requested World Bank assistance in this area.</i></p>	<ul style="list-style-type: none"> • Basic INDS Monitoring and evaluation system adopted: <i>not achieved due to weak government capacity</i> • Demographic data of the Population Census available: <i>achieved</i> • Regular surveys conducted: <i>partially achieve, such as the EDAM-3 surveyed</i> • National Accounts produced annually: <i>not achieved due to capacity constraints</i> during CAS period, but work is underway through Bank support to strengthen statistical capacity • Poverty indicators updated (if new household survey data available): survey data available for use in updating indicators, but <i>not yet achieved</i>; further results expected in 2014 with the production of updated poverty indicators 	IDF for monitoring and evaluation	<p>Progress in this area is slow, owing in part to the fact that support for M&E improvements was not embedded into Bank-supported interventions beyond the IDF grant. Support under the follow-on CPS will need to be more systematic.</p> <p>Targeted capacity building needs to go hand-in-hand with technical assistance to address deficiencies in statistical capacity.</p>

**Annex 3, Attachment 2: Planned (and Additional) Lending Program and Actual Deliveries
FY2009-FY2012**

CAS PLAN (03/30/2009)			STATUS	
FY	Project	IDA (US\$ mil)	Status	IDA (US\$ mil)
2009	Health Sector (Additional Financing)	7.0	Actual (approved May 2009)	7.00
2010	Energy Access II	6.2	Actual (approved May 2010)	6.20
2011	Water & Small Scale Rural Development	5.0	Actual (Approved June 2011)	5.83
2012	Education & TVET	6.0	Actual (Approved June 2012) for Strengthening Institutional Capacity & Management in Education Sector	6.00
			Urban Poverty Reduction (Additional Financing) (Approved June 2010)	2.90
	Total Planned & Delivered (2009-2012)	24.2		27.93
Additional Deliveries (under the Crisis Response Window (CRW) Fund) During the CAS Period				
FY	Project	CRW (US\$ mil)	Status	CRW (US\$ mil)
2012			Power Access & Improvement (Addt'l Financing)--Approved June 2012	5.20
			Rural Community Dev & Water Mobilization (Addt'l Financing)—Approved June 2012	3.00
			Employment and Human Capital Social Safety Net (Approved June 2012)	5.00
	Total CRW delivered in FY2012			13.20
Total CAS period (FY2009-FY2012)				41.13

Annex 3, Attachment 3a: Planned Trust Funds/IDFs and Actual Deliveries (FY2009-FY2012)

CAS PLAN (03/30/2009)				
FY	Project	US\$ mil	Status	US\$ mil
2009	IDF: Support to Aid Coordination (Recipient-executed)	0.35	Actual (Effective April 2010)	0.42
	EFA-FTI Catalytic Fund Grant (Recipient-executed)	2.00	Actual (Effective Oct 2010))	4.00
2010	GFDRR: Risk Mapping for Djibouti (Recipient-executed)	1.00	Actual (Effective Feb 2011)	0.90
	PPIAF: Solid Waste Collection (Recipient-executed)	0.19	Actual (Effective August 2011)	0.40
	SEETF: Social Safety Net (Recipient-executed)	0.10	Actual JSDF (Effective Sept 2010)	3.64
2011	GPOBA: Potable Water Services	0.10	Not delivered	
Total Trust Funds/IDFs delivered in CAS period (FY09-12)				9.36

Annex 3, Attachment 3b: Planned Non-lending Services and Actual Deliveries (FY2009-FY2012)

CAS PLAN (03/30/2009)		
FY	Economic & Sector Work/Technical Assistance (TA)	Status
2009	FSAP	Actual (FY12)
2010	Qat Awareness	Actual (May 2011)
	PER	Actual (June 2012)
2011	Poverty Assessment	Not delivered
FY	Technical Assistance (TA)	Status
2009	Energy Sector Assessment	Actual (Nov 2009)--Least Cost Electricity Master Plan
2010	Telecommunications and ICT	Not delivered
	Governance and Anti-Corruption	Actual (July 2010)
2011	Support to Sectoral Reforms	Actual (June 2012) New Growth Model and Transport & Logistics
Additional Non-Lending Delivered During the CAS Period		
2010	SUN: Nutrition	Actual (effective July 2009)
	RSRC: Employment for the poor TA	Actual (effective January 2010)
2011	TFESSD: Pursuing Low Regret Climate Adaptation and Disaster Risk Reduction Options	Actual (effective September 2010)
	PPIAF: Regulation of Private Port Operators	Actual (effective March 2011)
	Reproductive Health	Actual (Effective April 2011)
2012	TFF: Assessment of Customs along the Djibouti-Ethiopia	Actual (Effective July 2011)
	GFDRR: Drought Post Disaster Needs Assessment	Actual (effective September 2011)
	PPIAF: Energy Sector Assessment	Actual (Effective December 2011)
	PPIAF: Feasibility Assessment for Solar Rural Energy	Actual (Effective February 2012)
	ESMAP: Geothermal Power Generation	Actual (Effective March 2012)
	HRBF: Knowledge and Learning Grant	Actual (effective March 2012)

Annex 3, Attachment 4: Results of the National Initiative for Social Development
(Initiative Nationale pour le Développement Social, INDS)

1. The government prepared a short note on the implementation of the 2008–2012 INDS. Out of 454 priority actions, 20 percent have been completed, 50 percent are underway, and 30 percent have not yet been started. Significant investments were made in the roads sector, resulting in a 17 percent increase in the length of the network. Urban roads have been expanded. Thanks to investment in telecommunications, Djibouti is now connected with a large number of countries in Eastern and Southern Africa. Electricité de Djibouti invested in new thermal power plants due to increased demand. Interconnection with Ethiopia was completed, and the feasibility of geothermal and solar power is under review by the government.
2. The health sector benefitted from investment in facilities and equipment. The school network was significantly expanded. Regarding housing for lower-income groups, a total of 4,329 lots were developed and 1,403 housing units completed. An environment code was adopted in 2009.
3. A new Constitution was adopted in 2010 to strengthen democracy. The presidential term was reduced to 5 years. Djibouti adhered to the African initiative for peer review. The capacity of control and oversight institutions was reinforced. A new Commercial Code (*Code de Commerce*) was adopted.

Annex 3, Attachment 5: Doing Business in 2009-2014

Doing Business	2009	2010	2011	2012	2013	2014
Overall rank	153	163	158	170	171	160
Starting a business	173	177	175	179	185	127
Construction permits	99	102	125	142	145	157
Employing workers	137	151				
Getting electricity				143	142	144
Registering property	134	140	140	148	148	133
Getting credit	172	177	176	177	180	180
Protecting investors	177	178	179	179	181	182
Paying taxes	61	65	60	70	67	66
Trading across borders	35	34	38	37	41	60
Enforcing contracts	159	161	160	160	161	163
Closing a business	132	135	137			
Resolving bankruptcy				141	142	147

Sources: International Finance Corporation and World Bank. *Doing Business 2009 to Doing Business 2014*.

Annex 3, Attachment 6: Trust Funds (as of June 30, 2012)

Trust Fund Name—Recipient-Executed	Source	Effect.	Closing	Amount
Monitoring and Evaluation System Project	IDF	8/08	2/12	286,330
Strengthening Aid Coordination and Management Capacity	IDF	4/10	4/13	420,570
Natural Disaster Risk Assessment and Monitoring System	GFDRR	2/11	11/12	900,000
Crisis Response: Employment and Human Capital Social Safety Net	JSDF	9/10	12/14	3,640,000
EFA FTI Catalytic Fund Additional Financing	EFAFTI	10/10	9/12	4,000,000
TOTAL				9,246,900
Trust Fund Name—Bank-Executed				
TFF-Assessment of Customs along Djibouti-Ethiopia Corridor	TFF	7/11	3/12	30,000
Private Sector Involvement in Solid Waste Collection # Phase 2	PPIAF	8/11	6/12	75,000
Drought Post Disaster Needs Assessment (GFDRR: Track III TA Core)	GFDRR	9/11	9/12	123,000
Energy Sector Assessment	PPIAF	12/11	10/12	459,275
Feasibility Assessment for Solar Rural Electrification	PPIAF	2/12	10/12	400,600
Geothermal Power Generation Program	ESMAP	3/12	8/12	28,305
Knowledge and Learning Grant	HRBF	3/12	3/13	125,000
EPDF For Djibouti	FTIE	9/08	8/11	344,323
EFA FTI Supervision Costs For Djibouti	EFAFTI	3/09	9/12	281,956
Strengthening the Governance and Anti-Corruption Agenda	GPF	7/09	4/12	220,000
Djibouti Nutrition	SUN	2/10	4/12	76,935
Employment for the poor TA	RSRC	1/10	4/12	174,000
Natural Disaster Risk Assessment and Monitoring System	GFDRR	4/10	6/11	99,825
Pursuing Low Regret Climate Adaptation and Disaster Risk Reduction Options in the Republic of Djibouti	TFESSD	9/10	6/12	200,000
Supervision-Crisis Response: Employment And Human Capital Social Safety Net	JSDF	12/10	12/14	360,000
Regulation of Private Port Operators	PPIAF	3/11	6/12	74,500
TOTAL				3,072,718

Annex 3, Attachment 7: CPPR Key Monitoring Indicators (Nov 2011 – June 2012)

Indicators/Baseline and Targets		Status
1. INDICATOR: Experienced key staff in charge of implementing Bank-financed projects		
Baseline: Weak project implementation capacity.	Date: 11/21/2011	
Target: Strengthened capacity of key project staff (both Bank TTLs and Project implementing staff).	Date: 11/30/2012	ongoing
2. INDICATOR: Dedicated staff in charge of project monitoring & evaluations (M&E)		
Baseline: No dedicated staff to focus on Monitoring and Evaluation.	Date: 11/21/2011	
Target: Every Project Implementation Unit to have an M&E dedicated staff.	Date: 11/30/2012	Not yet accomplished
3. INDICATOR: Strengthened fiduciary experience of staff in charge of project implementation		
Baseline: Difficulty in completing withdrawal applications (WAs); Submission of late Audit Reports; country procurement standards not in line with WB procurement guidelines; and WB not providing adequate fiduciary training to PIU staff.	Date: 11/21/2011	
Target: Adequately trained relevant PIU staff; Acceptable WAs submitted to the World Bank; Audit Reports submitted on time; and All PIUs use acceptable procurement standards that are in line with WB guidelines.	Date: 11/30/2012	Ongoing--relevant training took place in Apr & Jun 2012
4. INDICATOR: Reduced bureaucratic bottlenecks		
Baseline: Delays in Ministry of Finance releasing funds to PIUs for project implementation; National Tender Board (NTB) requiring several different entities to sign a contract; and delays in Bank TTLs to providing pertinent responses to PIUs, in particular no-objections.	Date: 11/21/2011	
Target: Streamlined requirements by NTB for contract signing; timely release of funds by Ministry of Finance for project implementation; and timely response to pertinent queries relating to project implementation and WB TTLs issue no-objections within 72 hours.	Date: 11/21/2012	Partially achieved by March-May 2012—NTB still expected to minimize the delays in contract signing.

Annex 3, Attachment 8: Objectives and Outputs of Non-lending Activities

A. Recipient-Executed Trust Funds

1. **Monitoring and Evaluation Systems Project.** The IDF was signed in August 2008. The purpose of the grant was to help Djibouti set up a Monitoring and Evaluation System for the INDS. The system was initially expected to be established in the Technical Permanent Secretariat in the Prime Minister's office. The Secretariat of State for National Solidarity was created in 2009 and took over responsibility for INDS monitoring and evaluation, which delayed project implementation. IDEA-International, a Canadian consultancy, was recruited to establish and operationalize an M&E system to better assess progress made under the INDS. The contract was signed in May 2011 for a cost of US\$165,000.
2. The consultants prepared three reports, the first one on how to operationalize an M&E system in November 2011. It assessed needs for additional capacities in five ministries and agencies (Ministry of Economy and Finance, Ministry of Education, Ministry of Health, Social Development Agency and Ministry in charge of gender issues and family planning). In December 2011 the consultants issued two reports, one on an M&E plan for INDS, which included a model for a results framework. The last report included a manual of procedures. There is no indication of any follow-up to the consultants' reports.
3. **Strengthening Aid Coordination and Management Capacity.** An IDF grant was signed in April 2010 to strengthen the capacity of institutions in charge of design, management, and monitoring of public investment projects and aid—in particular, the External Financing Department of the Ministry of Economy and Finance and the Public Procurement Agency. A draft assessment report was prepared by a consultant in January 2012. However, little was achieved. Progress was extremely slow due to lack of capacity and shortage of staff in the PIU.
4. **Natural Disaster Risk Assessment and Monitoring System.** A GFDRR grant was signed in February 2011. The objective of the grant is to develop a comprehensive and sustainable system to assess, communicate, and monitor risks associated with natural disasters in Djibouti. This system will enable the identification and quantification of risk and the calculation of potential economic losses, which are essential for decision making and represent a first step in establishing an effective disaster risk management program. The disaster risk management action plan was updated. The meteorological agency is in the process of acquiring five automatic weather stations to systematize data collection and provide reliable hazard information to decision makers. Finally, the World Bank e-learning infrastructure is being transferred to the University of Djibouti to help it become an independent provider of disaster risk management learning.
5. **Crisis Response: Employment and Human Capital Social Safety Net.** The JSDF grant was signed in September 2010. The objective of the grant is to pilot an innovative integrated safety net for the poor and vulnerable households. The safety net combines a workfare program with social assistance for nutrition using a community-driven and participatory approach. Consultants have been recruited to (i) prepare a program of labor-intensive works in urban and rural areas; (ii) train Ministry of Health staff and NGOs who will be responsible for the nutrition component; and (iii) complete data collection for the finalization of the baseline survey.

6. **ETA-FTI Catalytic Fund Additional Financing.** The additional grant was signed in October 2010. The objective of the grant is to: (i) further expand access to basic education, especially in rural areas and for girls; and (ii) enhance the quality of education, especially by increasing teacher training and the availability of textbooks.

B. Bank-Executed Trust Funds

7. **TFF-Assessment of Customs along Djibouti-Ethiopia corridor.** The TFF grant was signed in July 2011. The objective of the grant is to assess the performance of Ethiopian and Djiboutian customs along the trade corridor and recommend how to address identified issues. A consultant report issued in September 2011 identified key issues and provided a sound basis for a better understanding of these issues by the governments and the Bank.
8. **Private Sector Involvement in Solid Waste Management.** The PPIAF grant was signed in August 2011. A first phase was implemented, but given the large amounts of funding programmed by other donors for solid waste management (about EUR 13 million), it was decided after this first phase to refocus the assistance on helping the waste management agency (OVD) to better prepare for these large projects, which will include promotion of small-scale private sector collection and sorting services.
9. **Drought Post Disaster Needs Assessment (PDNA).** The GFDRR grant was signed in September 2011. The objective of the grant is to assist the government in quickly assessing the impacts of drought on the economy while identifying recovery and mitigation needs per sector, to establish the costing of response options in the short and medium term, and to inform the development of the recovery framework. It also aims to provide inputs to the government in designing a drought and risk management strategy for the reduction of present and future hydric deficit periods and their associated and related hazards, including the identification, prioritization, and costing of new emerging activities associated with the recovery efforts proposed after the current dry period. The Djibouti PDNA was validated by the Government of Djibouti in April 2012. The quick completion of the PDNA enabled the mobilization of Crisis Response Window emergency funding of US\$13.2 million for short- to medium-term drought mitigation efforts. This helped contribute additional financing for three projects.
10. **Energy Sector Assessment.** The PPIAF grant was signed in December 2011. The objectives of the grant are to: (i) assess the cost and timing through which Djibouti's existing generating plants can be refurbished or renewed to meet projected demand; (ii) refine the 2009 least cost master plan with the introduction of Djibouti's best investment strategy derived through the build new versus refurbish existing power plant analysis and then identify which of the least cost infrastructure investments can be effectively financed and managed through a PPP; and (iii) review and propose changes to Djibouti's legal and regulatory practices that will be necessary to allow and encourage PPP participation in electric infrastructure projects that have been identified in the refinement of the least cost master plan. Consultants have been recruited and work is underway.
11. **Feasibility Assessment for Solar Rural Electrification.** The PPIAF grant was signed in February 2012. The objective of the grant is to assess the most viable and sustainable rollout option available to electrify 25 villages in both peri-urban and rural areas. Work is underway.

12. **Geothermal Power Generation Program.** The ESMAP grant was signed in March 2012. A Project Appraisal Document was prepared for a Geothermal Power Generation Project. The project was being designed to finance the exploration phase and the tendering process for the development of a 50 MW geothermal power plant in Lake Assal, which would be financed by private investors.
13. **Knowledge and Learning Grant.** The HRBF grant was signed in March 2012. The objectives of the grant are to: (i) create a common knowledge base from which clients, key stakeholders, and task teams can better understand various results-based financing instruments and assess their appropriateness to improve health outcomes in Djibouti; and (ii) provide the necessary tools for designing and implementing a results-based financing health program in Djibouti.
14. **EPDF.** The FTIE grant was signed in September 2008. The objectives of the grant were to: (i) support preparation of a three-year Education Sector Development Plan (based on the 10-year strategy for 2000-2010); (ii) help build capacity to analyze issues related to the education and training sector and develop knowledge and consensus on sector issues and policy priorities among all stakeholders; (iii) develop better monitoring and evaluation systems to provide reliable information to policymakers and strengthen accountability functions; and (iv) strengthen donor partnerships.
15. A number of studies, reports, planning documents, and workshop summaries have been produced during the CAS period, including: (i) a subregional seminar on competency-based approaches in developing textbooks; (ii) technical assistance for the development of a website for the University of Djibouti; (iii) participation of ministry staff in a regional workshop on skills development; (iv) technical assistance for curriculum reform at the secondary level; (v) a national action plan for developing the technical and vocational education sector; (vi) a social assessment of the education sector; and (vii) an assessment of early childhood development.
16. **Strengthening the Governance and Anti-Corruption Agenda.** The GPF grant was signed in July 2009. The objective of the grant is to identify the governance and anticorruption areas that need to be addressed and to formulate concrete actions in close coordination with all stakeholders. A consultant (CERTI) carried out a survey in 2010. In its report of January 2011, the consultant concluded that payment of bribes was used frequently to gain access to services such as electricity, building permits, or import licenses. A majority of households do not trust the justice system. The survey does not provide a solid basis for preparing a governance and anticorruption agenda, although a follow-up workshop on judicial reform has identified priority reform areas, some of which will be addressed under the investment climate and private sector development activities that form part of the Bank's upcoming CPS.
17. **Nutrition.** The SUN grant was signed in February 2010. The objective of the grant is to help the Government of Djibouti to develop effective strategies and action plans for its nutrition program, to incorporate key activities in ongoing projects, and to identify financing gaps. A nutrition strategy was developed and an action plan was prepared and is being implemented.
18. **Employment for the Poor.** The RSRC grant was signed in January 2010. The objective of the grant is to help scale up and improve the design and effectiveness of the Social Development Agency's workfare program through the provision of technical assistance. The work is underway.

19. **Pursuing Low Regret Climate Adaptation and Disaster Risk Reduction Options.** The TFESSD grant was signed in September 2010. The objective of the grant is to reduce the adverse effects of climate variability and change and natural hazards on Djibouti's communities through low-regret actions. The ongoing work aims to: (i) strengthen and systematize meteorological data collection, quality control, and dissemination across various ministries and relevant agencies/academic institutions; (ii) improve contingency planning for dealing with the impact and aftermath of extreme weather events; (iii) develop training seminars and simulations for most vulnerable communities (including role-play exercises to improve preparedness); and (iv) provide continuous support to participating agencies by an international consultant.
20. **Regulation of Private Ports Operators.** The PPIAF grant was signed in March 2011. The objective of the grant is to: (i) develop the government's awareness of issues related to the regulation of private port operators (quality of service, fees, and institutional aspects); and (ii) suggest solutions by helping to design a modern and efficient regulatory system. In the long term, this would help the government strengthen the competitiveness of Djibouti ports, in particular for Ethiopian transit traffic. The consultant diagnosed the current issues, made recommendations, and suggested a detailed action plan to enhance the regulation of the port sector. He presented his draft report during a workshop in Djibouti in April 2012, which was attended by government officials and port authorities, as well as private port operators. The final version of the report was delivered in June 2012.

Annex 4: Selected Donors in Djibouti, by Sector

		Donors																						
		Bilateral *				Multilateral																		
		France	Germany	Japan	USA	EU	IMF	World Bank Group	AfDB	Islamic Dev. Bank	OPEC-OFID	IFAD	UNDP	UNICEF	FAO	UNHCR	IOM	WFP	UNFPA	WHO	UNESCO	UNAIDS	UNIDO	OHCHR
1	Water			X		X			X			X	X	X			X		X	X				
2	Sanitation	X		X		X			X				X	X				X		X	X			
3	Urban Development	X		X				X	X	X														
4	Environment - Climate Change	X				X		X				X		X			X		X	X	X			
5	Disaster Preparedness			X		X		X				X		X			X	X	X	X				
6	Energy	X		X		X		X	X	X		X												
7	Humanitarian Aid			X	X	X		X				X	X	X	X		X			X	X			
8	Agriculture		X	X		X		X			X	X		X			X							
9	Livestock and fisheries			X		X					X			X										
10	Health		X	X	X			X				X	X		X		X	X	X	X	X	X		
11	Education	X	X	X	X			X					X				X		X	X	X			
12	Safety nets							X		X		X	X											
13	Culture and Social Development	X		X																				
14	Children / Youth	X	X	X								X	X		X				X	X				
15	Gender			X				X				X		X					X	X	X			
16	Private Sector	X					X	X		X	X				X						X		X	
17	Commerce						X																	
18	Telecom	X						X																
19	Infrastructure			X		X				X														
20	Transport					X				X														
21	Migration-Asylum															X	X							
22	Justice	X						X				X		X					X	X	X			X
23	Democracy and Governance	X						X	X			X		X					X	X	X			X
24	Macro-economics and planning						X	X				X	X						X	X				
25	Capacity Building	X		X	X	X	X	X	X			X												

* Bilateral includes activities of both the Embassies and the respective development cooperation agencies.

Annex 5: Selected Indicators of Bank Portfolio Performance and Management

Indicator	2011	2012	2013	2014
Portfolio Assessment				
Number of Projects Under Implementation ^a	5	5	7	7
Average Implementation Period (years) ^b	4.7	2.4	2.5	2.8
Percent of Problem Projects by Number ^{a, c}	20.0	20.0	14.3	14.3
Percent of Problem Projects by Amount ^{a, c}	22.9	13.4	28.9	28.9
Percent of Projects at Risk by Number ^{a, d}	60.0	20.0	42.9	42.9
Percent of Projects at Risk by Amount ^{a, d}	79.3	13.4	46.2	46.2
Disbursement Ratio (%) ^e	14.5	23.6	15.7	6.6
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	19	2
Proj Eval by OED by Amt (US\$ millions)	173.8	35.1
% of OED Projects Rated U or HU by Number	47.4	50.0
% of OED Projects Rated U or HU by Amt	27.2	28.5

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 6: Operations Portfolio (IBRD/IDA and Grants)

Closed Projects 20

IBRD/IDA *

Total Disbursed (Active)	16.47
of which has been repaid	0.00
Total Disbursed (Closed)	103.10
of which has been repaid	21.16
Total Disbursed (Active + Closed)	119.57
of which has been repaid	21.16
Total Undisbursed (Active)	39.11
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	39.11

Project ID	Project Name	Last PSR		Fiscal Year	Disbursements ^{a/}			Difference Between Expected and Actual	
		Supervision Rating			IDA	GRANT	Undisb.	Orig.	Frm Rev'd
		Development Objectives	Implementation Progress						
P130328	DJ Crisis Response-SSN project	S	S	2012	5		4.46	0.86	
P127143	DJ Geothermal Power Generation Project	#	#	2013	6		6.02		
P131194	DJ Improving Health Sector Performance DJ-GEF Geothermal Power Generation Prgm	#	#	2013	7		6.65	-0.07	
P127144	DJ-GEF Geothermal Power Generation Prgm	#	#	2013		6.04			
P086379	DJ-Power Access and Diversification Proj	MU	MU	2006	18.2		7.92	-3.56	2.39
P117355	DJ-Rural CDD & Water Mobilization DJ-URBAN POVERTY REDUCTION PROJECT	S	MS	2011	8.83		7.10	1.16	1.16
P088876	DJ-URBAN POVERTY REDUCTION PROJECT	MS	MS	2008	5.9		1.52	-1.35	1.71
P123315	Strengthening Institutional Capacity and	MS	MS	2012	6		5.45	0.37	
Overall Result					56.93	6.04	39.11	-2.60	5.26

Annex 7: Statement of IFC's Held and Disbursed Portfolio³⁰

	2011	2012	2013	2014*
<p><u>Original Commitments (US\$m)</u></p> <p style="padding-left: 40px;">IFC and Participants IFC's Own Accounts only</p>				
<p><u>Original Commitments by Sector (%)- IFC Accounts only</u></p>				
<p><u>Original Commitments by Investment Instrument (%) - IFC Accounts only</u></p>				

* Data as of October 01,2013

³⁰ This table is empty because IFC currently has no investments in Djibouti. As and when such investments are launched, this table will be amended in a CPSPR or in the follow-on CPS.

Annex 8: Djibouti: Leveraging JSDF for Integrated Support of the CPS

I. BACKGROUND

Djibouti has a population of about 864,617 in 2011 and a growth rate of about 4.8 percent in 2012. It is poorly endowed with natural resources and has limited arable land, rainfall and water. With less than 1,000 km² of arable land (0.04 percent of 23,200 km²) and an average annual rainfall of 5.1 inches, the country has a chronic food deficit and is totally dependent on imports to meet its food needs. As a result, Djibouti is highly sensitive to external shocks such as spikes in food and fuel prices and natural disasters such as floods and droughts. Furthermore, the country's economy is dependent on Foreign Direct Investments (FDI), foreign countries' military bases, and port services, which capitalize on the country's strategic location at the southern entrance to the Red Sea. Land-locked Ethiopia is the primary customer of Djibouti's port handling services. Moreover, the port's location and function as a key refueling and transshipment facility for one of the world's busiest shipping lanes, adds to the regional and global strategic importance of this small, arid country.

Djibouti has remained relatively peaceful in recent years, unlike other countries in the Region. There has been no major unrest in 2012, although some public discontent persists, underpinned by widespread poverty and unemployment, pervasive patronage, and perceived corruption.

Identification and provision of sustainable livelihood opportunities in poor communities is critical in a country with extremely high poverty rates and limited resources. Djibouti faces multiple development challenges and the recent economic growth did not have a significant impact on unemployment or poverty. In spite of a 4.8 percent growth rate between 2005 and 2012, unemployment remains high at 48.4% in 2012 (Source: EDAM-3). Unemployment among youth, women and in rural areas is higher than among the adult population and in urban Djibouti. At the same time, women's labor force participation is very low.

Almost 99% of urban dwellers have access to a water source, yet only 63% of urban residents have access to improved sanitation facilities, and many of Djibouti's urban dwellers live in substandard housing. This is exacerbated by a lack of institutional capacity to design community participation programs in service delivery. About 77 percent of Djibouti's residents live in urban areas, with an estimated 567,000 in the City of Djibouti. Over 41.2% of the population in extreme poverty, and national unemployment exceeds 48.4%, with unemployment in some low-income urban areas and amongst youth exceeding 70%³¹. Cities are growing at 1.98% per annum (mainly informally and in high risk exposed areas), yet many urban areas are in poor conditions with a low level of access to infrastructure and social services. The prevalence of informal urban growth is leading to poor health indicators, low levels of educational achievement, high rates of illiteracy, and high unemployment. Without an appropriate response, urban growth is likely to exacerbate effects of poverty and environmental damage (with increased exposure to health hazards).

To realize its potential, Djibouti must address governance issues. Djibouti suffers from a major governance deficit in all dimensions. For example, the Bank's World Governance Indicators score Djibouti poorly on voice and accountability, effectiveness of government and rule of law. Access to information is limited, and there are limitations on freedom of expression and of the media. This governance deficit, coupled with the high electricity cost and lack of appropriate infrastructure, continues to undermine private sector investment and job creation, for example by limiting FDI and local investment. To escape the vicious cycle of poverty and unemployment and to preserve social stability, Djibouti must make a radical break with the current governance model by introducing greater transparency and accountability in the public sector, and improving delivery of public sector services, in order to gradually win back the private sector's trust. The recently-completed Djibouti Vision 2035 strategy aims to address some of these gaps.

³¹ World Bank Databank.

II. World Bank Engagement in Djibouti

The last Country Assistance Strategy covering FY09-12 had three main pillars and proposed \$ 27 million in IDA support (grants). The three pillars were: (i) promote growth by improving the business environment (eliminating constraints and the reducing the cost of factors of production such as electricity, telecoms, and finance); (ii) support access to basic social services (improving access and quality of education and health services, strengthening social protection and direct support to the poorest); and (iii) support better governance and public sector management (through economic policy discussion and TA to strengthen the budgetary process and monitoring and evaluation).

As reported in the CAS Completion Report (CAS CR) for the 2009–2012 strategy (Annex 3), solid progress was achieved in most major programs. Program performance was rated moderately satisfactory, citing notable achievements on the education and health agendas and important steps forward on energy and expenditure transparency. Progress toward targets in telecommunications, business regulation, financial sector reform, social protection, and monitoring and evaluation was slower. In some cases, momentum was slowed by weak implementation capacity, delays in implementing relevant programs, or lack of dedicated operational support. Other areas, such as social protection, are beginning to make headway now that planned programs are finally under implementation. There also is a continuing need to strengthen governance in Djibouti, both in the use of resources and in the delivery of services to the population.

The current IDA portfolio for Djibouti comprises seven projects with a net commitment value of about US\$57 million and undisbursed balance of about US\$40 million. The current portfolio is relatively new and focuses on social safety nets, energy, rural community development, urban poverty reduction, health and education. In terms of Trust Funds, 5 Recipient-Executed Trust Funds (one of which is from JSDF) became effective in FY09-12 for a total of \$9.25 million.

Djibouti became an IDA III country as of July 1, 2012; **therefore IDA financing under the CPS will take the form of credits rather than grants.** Although IDA credit terms still include a 35 percent grant element, the shift away from full grants will negatively impact the already high level of external debt. Indeed, Djibouti did not meet the criteria established in 2004 for debt relief and it did not benefit from either HIPC or the follow-on MDRI. According to the latest IMF DSA Djibouti continues to be at high level of debt distress. Institutional development and capacity building are key aspects to mitigate the effects of this debt distress and improve economic management. Therefore, a key part of the CPS strategy is to link IDA involvement across the two pillars to sustainable institutional development and capacity building.

III. Djibouti Country Partnership Strategy (CPS 2014-2017)

The new IDA terms coupled with the lessons learned in the previous CAS implementation both dictate the need for increased selectivity in the proposed CPS. Therefore, the proposed program: (i) is more strategic and realistic than in the past, focusing on areas where the Bank has a comparative advantage and where there is appetite for reform; (ii) emphasizes strengthening sector regulations as a cross-cutting theme in the two pillars to support private sector development and job creation; and (iii) builds on past successes, in particular on the positive outcomes in the social sectors. In addition, following the opening of a new Bank Field office in Djibouti in September 2012, the new CPS program is guided by close coordination with other development partners on the ground.

The overarching objective of the World Bank Group engagement will be to support the Government's efforts to address governance challenges and impediments to private sector development to foster domestic and foreign investment, accelerate economic growth, and create jobs. The strategy will rest on two pillars which are aligned with the MENA Regional Framework that aims for enhanced shared prosperity and reduced poverty through the drivers of governance, inclusion, jobs, and sustainable growth. These are: (1) reducing vulnerability; and (ii) strengthening the business environment. The IFC will work closely with the Bank on the second pillar. MIGA, following their successful engagement with the Doraleh port, will continue to look for opportunities to engage in Djibouti.

Trust Funds have played an important role in the Bank's program in Djibouti and are fully integrated into the CPS. The team will continue to seek mobilization of trust fund resources to complement the small IDA envelope. The need for these grant resources will be even more critical during the CPS period following the country's transition to IDA credits.

IV. Leveraging financing for maximum impact--using the Japan Social Development Fund (JSDF)

The Japan Social Development Fund (JSDF) is a unique instrument at the World Bank that is designed to provide grants in support of community-driven development and poverty reduction programs that serve to enhance productivity, increase access to social and community services and infrastructure, and improve the living conditions of poor and vulnerable groups in eligible client countries of the World Bank Group.

Since Djibouti is one of the JSDF eligible countries, the CMU is working with the JSDF Secretariat to seek ways of harmonizing the delivery and impact of grant funding in a capacity constrained environment. The Bank's FY14 program for Djibouti will be guided by the 2013-2016 CPS which focuses on enhanced shared prosperity and reduced poverty through the drivers of governance, inclusion, jobs, and sustainable growth. The CPS pillars are: (i) reducing vulnerability; and (ii) strengthening the business environment.

To focus on addressing vulnerabilities in the country at the community level, an integrated package of proposed projects encompassing livelihoods, health sanitation, and service delivery (through the strengthening schemes) is being proposed to the JSDF program by the CMU: Piloting Models of Livelihood Opportunities (\$3 million); Improved Sanitation Pilot (\$3 million); Improved Service Delivery at the Local Level (\$3 million). These proposals are key to achieving the goals as set forth in the CPS for Djibouti and focus on Pillar I as described above. Moreover, they are also focused on improving governance, transparency and accountability through enhanced service delivery mechanisms. These interventions will complement or further inform the Bank's ongoing engagement in safety nets, governance, and urban infrastructure.

Women's issues are cross-cutting theme in all three proposed projects. The disadvantaged status of women is evident in a number of socio-economic indicators in Djibouti. These include low literacy and school enrollment rates, low labor force participation and high unemployment rates, high female mortality due to high fertility, anemia caused by malnutrition, and limited access to health facilities. In addition, the severe drought of the last few years has had a particularly negative implications for women: they are a vulnerable segment of the population given their often disadvantaged status; and the burden of household chores, including fetching water, seeking cooking material, food preparation and caring for children and elderly, lies primarily on women, as primary caregivers. Gender inequalities also translate in terms of access, accessibility, opportunities and power relations. Social and cultural roles burden particularly women limiting their access to productive resources, and inclusion in economic opportunities and decision making bodies. These inequalities are exacerbated upstream by the lack of adequate accessibility to basic social services and downstream by inadequate job skills adapted to market needs. Specifically, women and children are mostly affected by bad hygiene practices in households due to limited access to improved sanitation; this is exacerbated by frequent flooding which pose additional health hazard on houses not equipped with improved sanitation infrastructure. Additionally, the legal system has yet to enable women to exercise and enjoy fully fundamental rights.

The grants are complementary and inter-linked. For example since one of the core functions of the "maisons de la justice" referenced above will be public information, they could target information related to the other Bank programs, where relevant. Improving the delivery of legal information and counseling services will also be crucial for the beneficiaries of the livelihood project, which – among others – supports the development of producer groups in the artisan sector that would be organized with the intention of aggregating different steps of the value chain, including procurement of inputs as well as distribution (bulk purchasing and bulk sales). Access to legal information is a necessity for sustainable livelihood activities. Furthermore, the livelihood project seeks to mobilize community members around activities of joint interest, facilitating peer formation, and providing basic life skills and capacity building, such as basic literacy. The facilitators could provide information on the functions

of the “maisons de la justice” to reduce the barriers youth and women face in accessing such legal services. Both the livelihoods project and the sanitation project will promote human capital development and will benefit from cross-fertilization of ideas, training curricula, and employment/livelihood opportunities.

These projects are very much consistent with our ongoing work in the country. The three proposals are in sectors in which we have had successful engagement with the government. The Bank has ongoing engagement in safety nets, governance, and urban infrastructure. For example, the proposed livelihoods project will go one step further than our existing project and pilot different models of sustainable livelihoods opportunities, tailored to women and youth in urban and rural Djibouti. Further, the sanitation activity will complete ongoing efforts to improve living conditions in urban areas focusing on the interior of households.

These projects will ensure mechanisms of sustainability after closure. In the sanitation project, the fact that communities are co-financing the upgrading of their sanitary infrastructure will increase the ownership and the willingness to sustain investments. Further, the activity will train builders to maintain those assets and potentially create micro-enterprises that will undertake maintenance and rehabilitation works. The livelihood project's sustainability will be enhanced through two separate avenues. First, the community-based group formation and livelihood services, once established, can be sustained without external support because they are managed directly by the community (local facilitator and voluntary participation by participants) and are low-cost. Second, the planned group-based cash transfer is expected to have a catalytic effect for promoting livelihoods of the poor through the national social protection system. If the positive results from other countries can be replicated, the project's institutional architecture can provide a key mechanism for follow-up investments by the national government or other development partners. With regards to the service delivery project, integrating local community members in the implementation of services will reduce costs. Providing enhanced public information and counseling/mediation services at the local level will reduce the number of cases filed in courts, thus reducing MoJ expenses. Together these factors will make services more effective and lower-cost, and thus more manageable for the MoJ.

The donor community is very small in Djibouti and those who are active have relatively small and limited resources. In addition to the UN system, Djibouti benefits from support from the African Development Bank, the Islamic Development Bank, JICA, AFD, USAID, and the EU. While some of these donors participate in these sectors and the Bank coordinates closely with them on a number of projects, the resources are insufficient to tackle the enormous challenges facing Djibouti: poverty, unemployment, drought, lack of natural resources, to name a few. Trust fund resources have been provided by GFDRR, EFA, JSDF, among others.

V. Results

Each project team will actively monitor a set of core indicators and results to be achieved during the life of the projects. At the aggregate level, results to be monitored are:

- Number of beneficiaries that receive training and capacity building
- Increase in the number of days of employment through project interventions
- Increase of income of target beneficiaries
- Number of beneficiaries that are linked with formal financial institutions
- Improved sanitation and health conditions in selected urban areas via replacing traditional pitfalls with sanitary latrines.
- Increase in the integration of residents of poor communities in the design and implementation of services, leading to better quality and more sustainability of services, while empowering local communities.
- Feedback mechanisms related to delivery of key public sector services will allow citizens of poor communities to monitor and evaluate delivery.

Each project team will carry out a mid-term review of the project and a brief summary note will be provided to the JSDF.

VI. Timeline

Subject to Japan’s approval, this integrated intervention will be implemented in 4 years starting in FY14. An impact evaluation will draw lessons from these pilot projects and inform decision-makers on the right course of actions to help resolve Djibouti’s systemic development constraints.

VII. Budget

Piloting Models of Livelihood Opportunities	\$3,000,000
Djibouti Improved Sanitation Pilot	\$3,000,000
Improving Legal Information and Counseling Services at the Local Level	\$3,000,000
Total Budget	\$9,000,000

VIII. Annexes

These 3 concept notes are attached as Annex 1 in this synthesis report.

Annex 2 is the visibility strategy.

Annex 3 is the CAS Completion Report.

ANNEX 8, Attachment 1: Individual Project Proposals

The specific projects are detailed below:

Djibouti: Piloting Models of Livelihood Opportunities:

Identification and provision of sustainable livelihood opportunities in poor communities is critical in a country with extremely high poverty rates and limited resources. Djibouti faces multiple development challenges and the recent economic growth did not have a significant impact on unemployment or poverty. In spite of a 4.8 percent growth rate between 2005 and 2012, unemployment remained high at 48.4% in 2012 (Source: EDAM-3). Unemployment among youth, women and in rural areas is higher than among the adult population and in urban Djibouti. At the same time, women’s labor force participation is very low.

The proposed PDO is to improve the livelihoods for women and youth in poor communities by increasing human and social capital and enhancing financial inclusion. The project will be implemented by the Djibouti Social Development Agency (ADDS).

Two ongoing crisis response operations (pilot financed by JSDF grant and scale-up by IDA funds) seek to provide short-term employment opportunities in poor communities (mainly in urban Djibouti) while at the same time providing a community-based nutrition intervention for pregnant and lactating women and pre-school children. This innovative JSDF-financed pilot project has been recognized for its innovation through a number of awards at the World Bank (e.g. “Knowlympics” silver medal and Vice Presidency award). At the same time, the initial lessons learned from this integrated social safety net are the basis for the proposed “Piloting models of livelihood opportunities” project. For example, experience from the ongoing pilot project shows that the overwhelming majority of women chooses to work if

they are given the opportunity. These women understand that access to sustainable livelihood in poor communities is crucial to avoid irreversible damage due to malnutrition and thus improve the human capital of the next generation (e.g., 33% of children under the age of five are stunted, 31% are underweight). Under the crisis project they are only able to work 50 days, but they are receiving access to a bank account and are accumulating small savings.

The proposed project will go one step further and pilot different models of sustainable livelihoods opportunities, tailored to women and youth in urban and rural Djibouti. The project's target population (youth and women) has not been at the focus of attention in the past but their empowerment and access to income has important implications for the human capital development for the next generation.

The proposed project is innovative in that it marries strategies for human development with targeted interventions for economic empowerment. First, rather than focusing on beneficiaries as individuals, the project adopts group-based livelihood promotion strategies, recognizing the importance of social capital, intra-group solidarity and the complementarity of knowledge and skills within a group as a mechanism for reducing vulnerability and enhancing resilience. Second, the project emphasizes the direct link between basic human and social capital and employment promotion, recognizing that sustainable livelihoods cannot be created unless households also have basic literacy skills and adopt healthy practices in terms of nutrition, healthcare, early child development, etc. Third, the proposed project would pilot a new mechanism to enhance financial inclusion for the people at the bottom-of-the-pyramid without access to conventional microfinance. Finally, the proposed project would be the first in Djibouti to provide support to the artisan sector along the entire value chain, an approach that has proven highly successful in other regions (e.g. South Asia).

The project's geographic scope would include, in an initial phase, three regions in Djibouti, namely the capital city Djibouti-Ville, the northern region of Tadjoura, and the southern region of Dikhil and/or Ali Sabieh. The targeting of these regions is based on the following criteria: a) most concentrated number of the extremely poor; b) a mix of urban, peri-urban, and rural areas; c) existing economic activities and traditional skills; and d) physical accessibility and availability of basic infrastructure in order to facilitate the implementation of the pilot project.

Expected number of beneficiaries: The project will support approximately 6000 direct beneficiaries at the bottom of the pyramid to access sustainable income-generating activities, assuming a total unit cost per beneficiary of US\$500. Beneficiaries will be youth between the ages of 12-29 as well as women.

Key Results/Achievements include:

- 6000 beneficiaries receive training and capacity building (at least 60% female)
- 2000 beneficiaries that have accessed funds through the project and are linked with formal financial institutions (at least 50% female)
- 20% average increase in income of target beneficiaries receiving access to project funds
- 50% increase in sales by targeted producer associations

The grant activities will be designed to support the CPS goals of better service delivery and reduced vulnerability. The project will support service delivery by local governments and the community by providing livelihoods and by expanding key services for human capital development (primarily health and education/training) to the poor and vulnerable groups in Djibouti.

Djibouti Improved Sanitation Pilot:

77 percent of Djibouti's residents live in urban areas, with an estimated 567,000 in the City of Djibouti. Over 41.2% of the population lives in extreme poverty, and national unemployment exceeds 48%, with unemployment in some low-

income urban areas and amongst youth exceeding 70%³². Cities are growing at 1.98% per annum (mainly informally and in high risk exposed areas), yet many urban areas are in poor conditions with a low level of access to infrastructure and social services. The prevalence of informal urban growth is leading to poor health indicators, low levels of educational achievement, high rates of illiteracy, and high unemployment.

Without an appropriate response, urban growth is likely to exacerbate effects of poverty and environmental damage (with increased exposure to health hazards). Almost 99% of urban dwellers have access to a water source, yet only 63% of urban residents have access to improved sanitation facilities, and many of Djibouti's urban dwellers live in substandard housing. This is exacerbated by a lack of institutional capacity to design community participation programs in service delivery.

The World Bank is currently engaged in the urban development agenda in Djibouti via two main set of activities: (i) the First and Second Djibouti Urban Poverty Reduction Project (DUPREP and DUPREP II)³³, designed to address poverty issues in *Quartier 7*, the largest and one of the poorest neighborhoods in the city; and (ii) The National Housing Strategy aiming at improving access to housing – and upgrading household conditions – for the poorest segments of the Djiboutian population.

The PDO of this activity is to improve the access of urban residents to improved sanitation. The project is located selected urban areas of Djibouti, with a initiated pilot to start in Quartier 7 (Q7), one of the poorest neighborhoods in Djibouti ville and the most populated (25000 inhabitants). PDO objectives will be met through (i) Awareness campaigns, and (ii) putting in place a scalable pilot program for access to improve household sanitation in selected urban areas.

Key Results/Achievements include:

- Increasing citizens' awareness with regards to the importance of investing in individual sanitation (building sanitary latrines), through showcasing successful pilots in schools, and health centers among other public locations.
- Improved sanitation and health conditions in selected urban areas via replacing traditional pitfalls with sanitary latrines.
- Reducing the negative environmental impacts of non-sanitary latrines, which contaminate underground water bodies through infiltrations.
- Reduction the cost of upgrading household sanitation due to the pilot activity.
- Developing needed skill-sets and expertise for scaling-up of the activity as well as the development of the related value chain (materials production, design, construction and maintenance...).
- Creation of a revolving fund where reimbursements will help scale-up activities, as well as additional donors/country contributions.
- Creation of short and long term job opportunities.

The proposed activity is consistent with the CPS, particularly the pillar on reducing vulnerability. The project supports Human Development and access to basic services (increasing access to basic urban services and directly supporting the urban poor). The grant activities will be designed to support the goals of better service delivery and reduced vulnerability in the Djibouti Country Partnership Strategy 2014-2017. This will be specifically supported though increased awareness and improved community and household access to proper sanitation, reducing health hazards and engaging the community around improved hygiene practices.

³² World Bank Databank.

³³ The IDA financed operation is one of the constituents of the country's urban poverty reduction program.

Improving Legal Information and Counseling Services at the Local Level

With court facilities located solely in Djibouti Ville, a large percentage of the population is virtually cut-off from services. Even poor people in the capital face obstacles in access services, due primarily to lack of awareness of services, and how to access them, and limited financial ability to pay associated fees. Consistent with global trends, most poor citizens do not necessarily need access to courts to resolve disputes, with most cases being addressed through information and counseling services. Such services, when administered effectively, can reach more beneficiaries than courts proceedings with lesser associated costs. They also can help prevent unnecessary backlogs in courts, reducing the burdens on judges and court administration staff. At present, the Government of Djibouti provides no comprehensive services related to public information and counseling.

The proposed PDO is to improve delivery of legal information and counseling services in poor communities, which currently remain mostly outside the reach of many public sector services. The objective will be achieved through the establishment of pilot ‘maisons de la justice’ located within poor communities (urban, peri-urban and rural) and staffed by government officials and local community members to provide both information and counseling services on key civil matters. Using local community members in the development and delivery of services can aid in improving the quality and sustainability of services, while empowering local communities. This program is linked with the CPS as it seeks to improve overall governance in the public sector, and more specifically enhance justice sector services and the rule of law at the local level. It also focuses on addressing service delivery and poverty in poor and vulnerable communities. This program will also link with the JSDF-funded program ‘Enhancing Delivery of Community-Driven Legal Aid’ in Jordan in order to share knowledge and experience.

The ‘maisons de la justice’ can provide the following services:

- Information and counseling on administrative and civil procedures that correspond to priority services for the poor (access to social benefits, family law, civil registration, access to personal documents, labor and housing issues)
- Information on the provision of key public sector services, allowing poor citizens to track and evaluate extent and quality of service delivery
- Receiving and addressing complaints related to non-delivery of public sector services
- Mediation and negotiation services for civil (non-criminal) disputes
- Collecting and analyzing data on delivery of key public sector services and complaints against public sector agencies, and identifying problematic services, to inform reforms of services and amendment of legislation/regulations

Key Results and Achievements include the following:

- Provision of information and counseling services to members of poor communities. This will allow citizens to resolve disputes and undertake administrative procedures more cheaply and effectively, while reducing the burdens on courts. Based on similar work elsewhere, the number of beneficiaries for counseling could reach 6000 persons and public information to 7500 persons over a three year period.
- Integration of residents of poor communities in the design and implementation of services, leading to better quality and more sustainability of services, while empowering local communities
- Citizens of poor communities will be better informed about the rights and services to which they are entitled, and the mechanisms for exercising these rights and accessing services
- Feedback mechanisms related to delivery of key public sector services will allow citizens of poor communities to monitor and evaluate delivery
- The Ministry of Justice and other public sector entities will have access to better data and analysis on which to advise policy and service delivery reforms

ANNEX 8, Attachment 1: Visibility Strategy

Communication and Visibility Plan for Japan Social Development Fund

The three Djibouti projects³⁴ ensure the visibility of Japan vis-à-vis beneficiaries as well as other donors throughout the life cycle of each project as per agreement. From their inception, these projects showcase donor visibility through print and media campaigns; printing the donor logo on physical interventions and all written materials such as reports, publications, banners, leaflets, brochures and manuals.

Once the proposed projects are approved by the JSDF for funding, a communication and visibility strategy will be formulated in line with the JSDF Policy Document.

These activities are all elaborated below to give a clearer picture on how Japan Social Development Fund's (JSDF) /Japanese government as well as World Bank visibility will be reflected throughout the proposed project. The logo (usually the Japanese national flag) and the JSDF motif will be used, as per the JSDF policy. The projects will make every effort to ensure that:

- General communication activities: The Government of Djibouti and the World Bank will add the statement that *"The grant which financed this (name of activity) was received under the Japan Social Development Fund which is financed by the Government of Japan"* to all its official communications related to the projects being funded.
- Publications, brochures, leaflets, etc: All official written material will include appropriate branding and indicate that the activities in question have received funding from the Government of Japan and are supported by the World Bank
- Training programs, seminars, workshops: Information items used during stakeholders events financed by the JSDF grants will indicate the donor logo, provided it does not interfere with common practice by the government counterparts (to ensure government ownership).
- Press releases/conferences and TV/Radio campaigns: The WB will liaise with the relevant JSDF-officer (and Embassy of Japan or JICA counterpart as needed) and ensure that press releases include that funding was provided by the Government of Japan as well as the amount of the Japanese funding. If press conferences or TV/Radio campaigns are planned, the WB will liaise with the JSDF office Embassy of Japan, or JICA, as appropriate to identify a person who will represent the Government of Japan.
- Supervision missions: Visiting WB missions will inform the Embassy of Japan and JICA of ongoing activities and the progress achieved under the project. Members of the Embassy of Japan and JICA will also be invited to join supervision missions as well as visits of project sites.

³⁴ Piloting Models of Livelihood Opportunities; Improved Sanitation Pilot; and Improved Service Delivery at the Local Level.

DJIBOUTI

- SELECTED CITIES AND TOWNS
- ⊙ REGION CAPITALS
- ⊛ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- REGION BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



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