

Djibouti InfraSAP

First Phase Overview

Djibouti InfraSAP First Phase: How to strengthen infrastructure performance to meet the Vision 2035 goals

1. How Does Infrastructure Contribute to Development?

- a. Macro-economic objectives: jobs, growth, exports
 - How and where are the key sectors of the economy dependent on infrastructure and prejudiced by infrastructure deficiencies?
- b. Policy goals: social, environmental
 - How and where are the country's key policy goals dependent on infrastructure and prejudiced by infrastructure deficiencies?

2. Where Does Infrastructure Performance Fall Short and Why?

- a. Connectivity
 - How well does infrastructure perform in terms of access, quality, efficiency and sustainability?
- b. Finance
 - Is infrastructure appropriately funded?
 - Is public expenditure on infrastructure adequate and efficient?
 - What constrains domestic and international private finance?
- c. Governance
 - Are infrastructure projects adequately planned and procured?
 - Are infrastructure markets and regulations well designed?
 - Are infrastructure SOEs well governed and managed?

3. Covers the ICT, Electricity and Transport Sectors



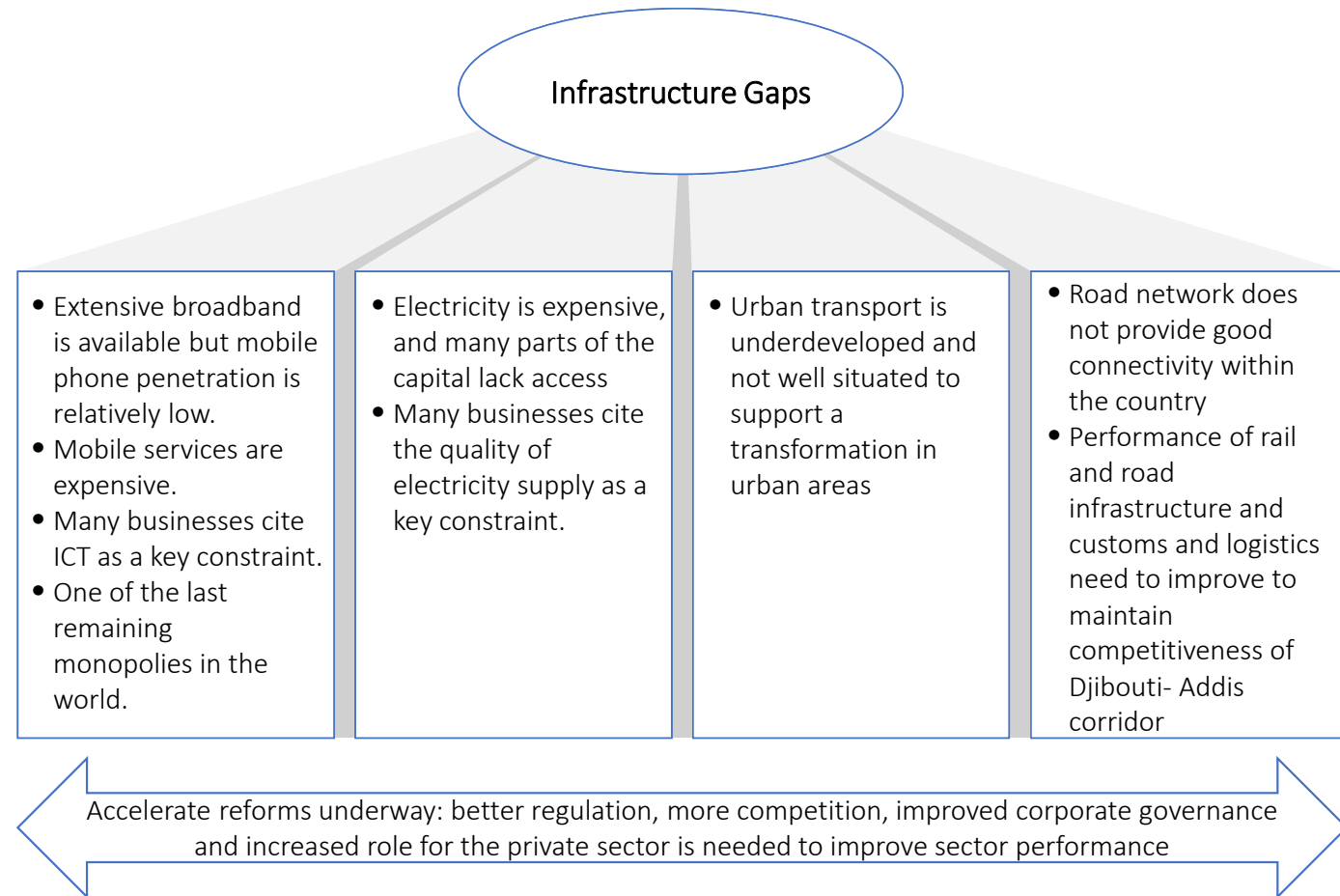
Vision 2035

- “Structural transformation of the economy to make it more diversified and competitive, with an important role of the private sector.
- Triple the income per capita by 2035, through the expansion of national and foreign private investment...and an infrastructure of good quality and at competitive costs.”

Key Messages

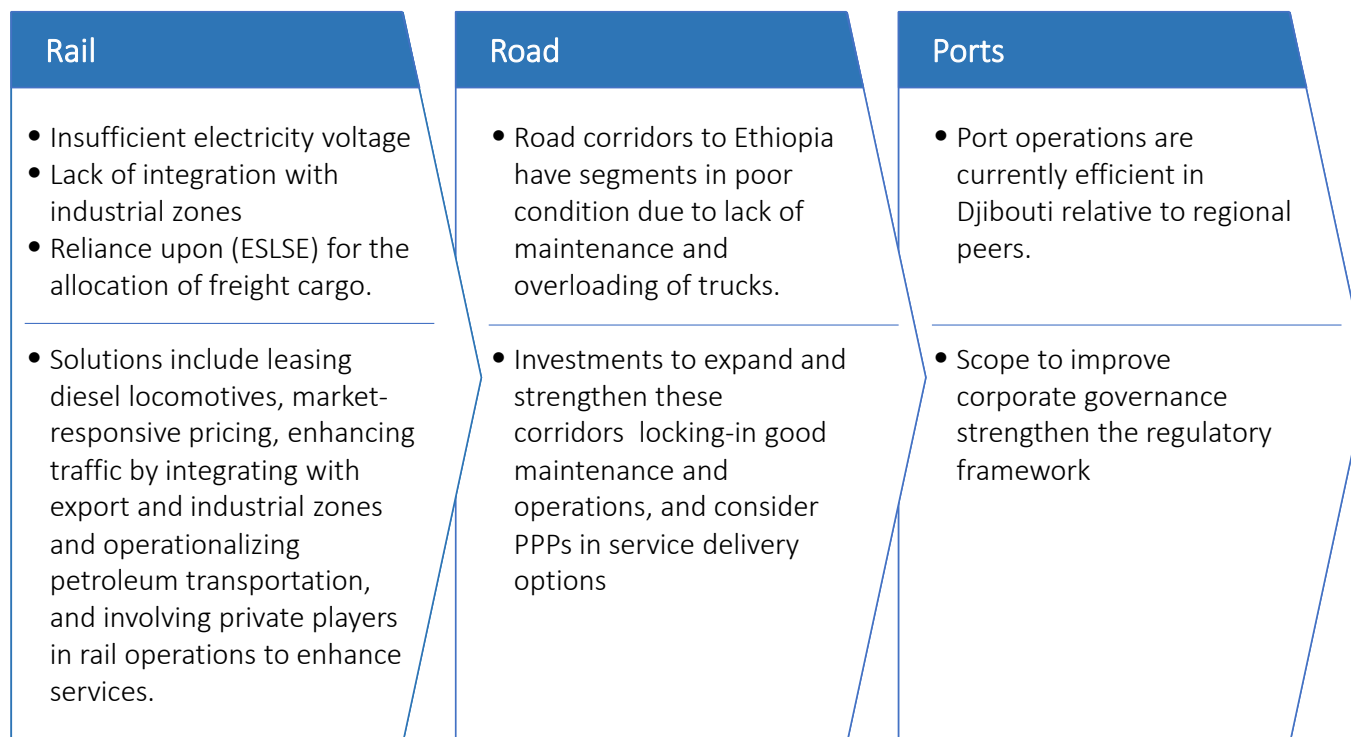
Infrastructure investment has made major contributions to Djibouti's growth, but obstacles remain to generate jobs and private sector development

- Djibouti plays a pivotal role in the development of the Horn of Africa (HoA) region as a **transport corridor and for ICT backbone**.
 - These sectors have **contributed over 25% of annual GDP** and will continue to be drivers of growth.
 - Growth over the last decade has been supported by investments in infrastructure.
- There is a **substantial difference between the performance of this “externally-facing” infrastructure and “internally-facing” infrastructure**, which limits productivity and job growth.
- Reforms initiated e.g. regulator in telecoms, PPP unit – need to be accelerated and deepened.
- Efforts to increase access should look at access to all 3 areas



Maintaining Djibouti's pivotal role in the development of the Horn of Africa

- Djibouti currently has the most efficient port in the region and has better infrastructure linkages. However, given the development of competing ports and gateways, the country will have to maintain its competitive edge as a logistics and digital connectivity hub. This will require addressing inefficiencies in customs and logistics as well as **improving the performance of the expensive investments in transport linkages to Ethiopia.**



Improving governance in markets, sectors and SOEs will be important in strengthening sector performance



The private sector can play a greater role in financing and providing infrastructure

- Djibouti has made **relatively limited use of PPPs so far**, chiefly in ports.
- PPPs can bring benefits through risks allocating risks appropriately to private sector and by opening space for private sector expertise and technological innovation. The **country has strong potential in renewable energy in addition to its strategic location for transport and ICT**.
- A greater role for PPPs will need **three areas to be addressed**:

Identification and development of pilot PPPs for projects

Developing PPP projects where clear benefits from private sector financing and operation exist, with project preparation in line with international good practice, competitive and transparent procurement and structuring in order to provide efficient risk mitigation, including support from IFIs.

Closing of critical sectoral gaps

Principally accelerating the development of regulatory framework and competition in ICT and electricity

Strengthening of cross-cutting framework for PPPs

Demonstrating a clear commitment to PPPs through a PPP policy, addressing gaps in the framework related to preparation and procurement of PPPs, and resourcing the PPP unit.

PILOTS could include:

- (1) **Electricity:** PV solar and geothermal;
- (2) **Roads:** Djibouti-Addis Ababa road corridor through PPP/private participation;
- (3) **ICT:** new private sector entrants in mobile market, investments in fiber network and data centers.

Fonds Souverain de Djibouti (FSD) can play a critical role in the infrastructure agenda

Strengthen SOE corporate governance to improve efficiency and accountability and increase returns to the government.

Catalyze new activities and innovative projects in the infrastructure space, diversifying the economy and encouraging broader private-sector led growth in Djibouti.



Anchor investor in key infrastructure projects, in particular PPPs, to crowd-in foreign investors, while instilling good practices for engagement with the private sector.

Deepen the financial infrastructure of the local economy, helping the growth of the capital market and the emergence of new financial intermediaries by developing and offering financial products that will bring in these new investors.

Global experience with strategic investment funds shows that FSD's long-term performance will be strengthened by a robust governance framework including transparency and disclosure and capital resources in line with the objectives set for the fund.

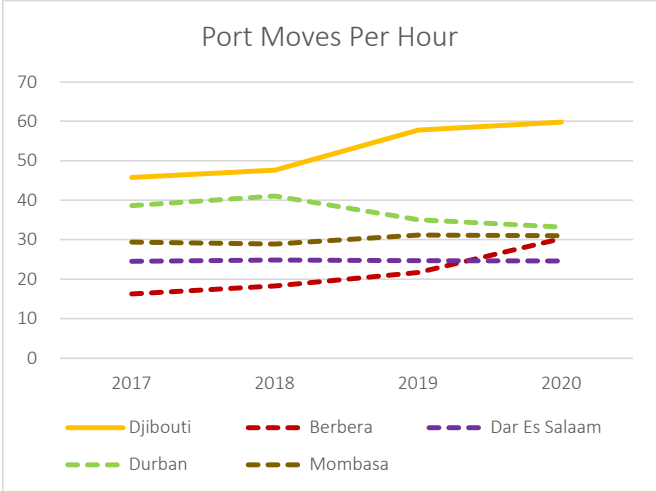
Maintaining Djibouti's pivotal role in the development of the Horn of Africa

Djibouti's infrastructure investments have positioned it as the key route for transport and as the ICT backbone in the Horn of Africa

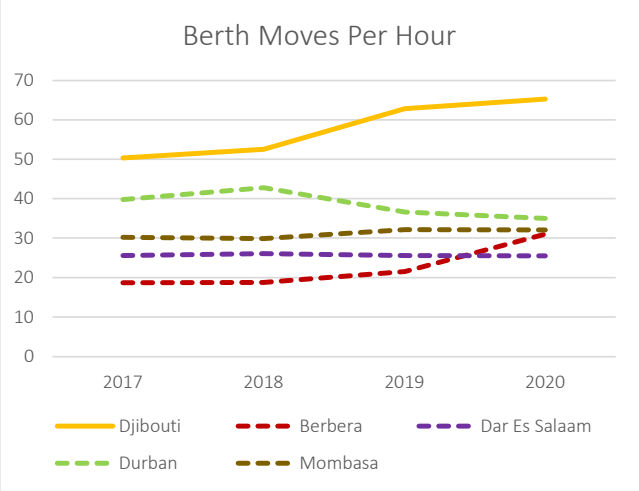
- The country has a pivotal role in the development of the Horn of Africa (HoA) region which is expected to be among the fastest growing economies in Africa both as a transport corridor and for ICT backbone.
- It is also a strategic transit corridor to Central Africa. The transport and telecommunications sectors have contributed over 25% of annual GDP, and Djibouti's Vision 2035 predicts that the transport sector will still contribute 25% of GDP formation in 2035.
- Djibouti has a critical role as a logistic services provider to Ethiopia through the Port of Djibouti, and to a lesser extent, other landlocked East African countries. In 2019 the Port of Djibouti accounted for between 20 and 25 percent of the State's revenues, while supporting 6,500 direct jobs (equivalent to circa 25 percent of the 30,000 private sector jobs in the nation), and 6,000 indirect jobs.
- Given the development of competing ports and gateways, the country will have to maintain its competitive edge as a logistics and digital connectivity hub. This will require addressing inefficiencies in customs and logistics as well as **improving the performance of the expensive investments in transport linkages to Ethiopia.**

Djibouti outperforms regional peers in port performance and productivity, although costs are higher

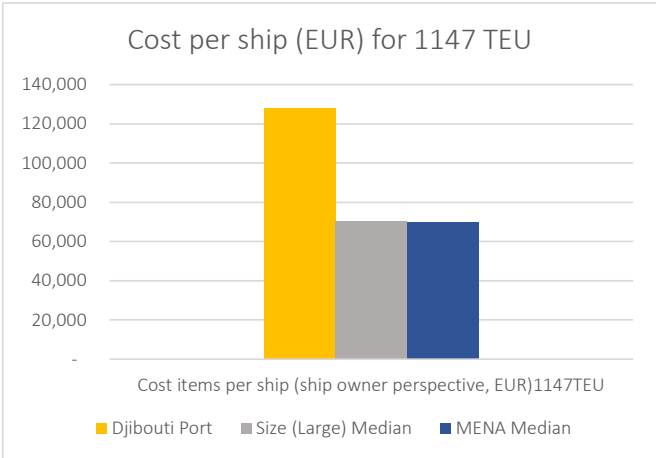
- A recent World Bank report assessing Container Port Performance states that while no ports in SSA rank among the Top 50 container ports, Djibouti ranks the highest at 61.
- In a 2018 study by the World Bank, Mombasa and Djibouti ranked highest in technical efficiency among Eastern and Southern African ports
- At the port-level, shipping costs in Djibouti are relatively higher than the benchmarks possibly due to higher waiting times



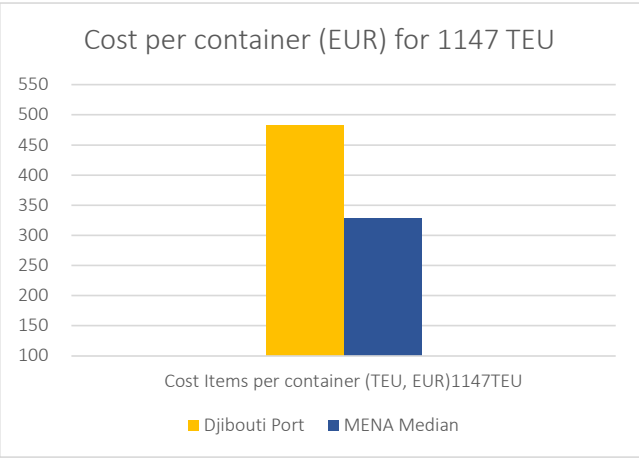
Source: Marine Traffic



Source: Marine Traffic

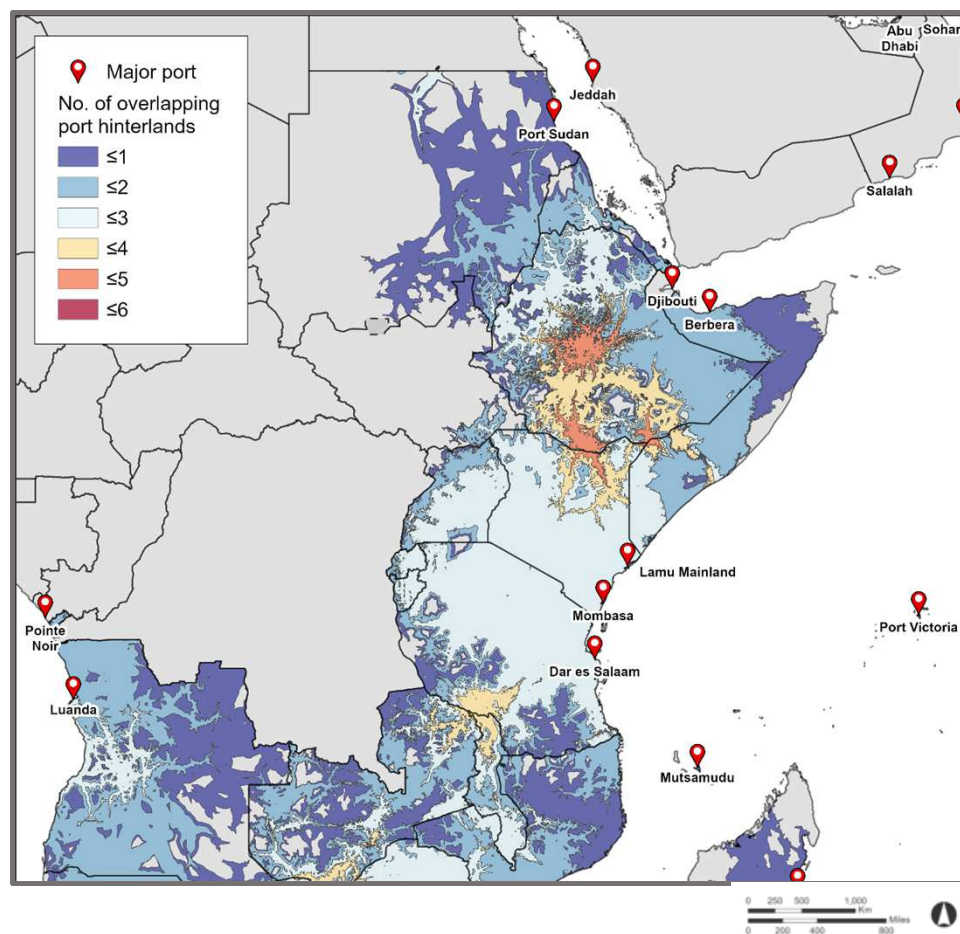


Source: University of Antwerp Chain Cost Model



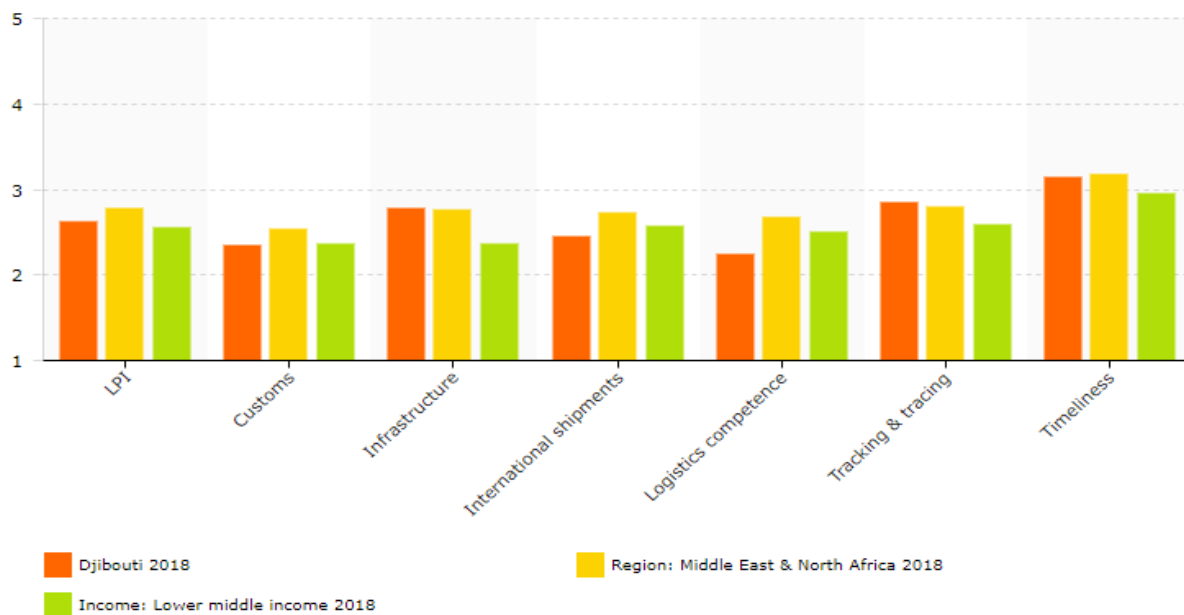
Source: University of Antwerp Chain Cost Model

There are several ports in and around Djibouti that can be potential competitors in the medium to long-term



- Djibouti’s economy is driven by port services in the import of food grain and all industrial products. Seventy percent of the cargo at the port is shipped to or from Ethiopia.
- Sustaining the competitiveness of Djibouti Port as other ports emerge in the region (such as Berbera, Lamu and Assab) is crucial. This requires a **focus on more integrated, efficient and cost-effective hinterland connectivity**.
- In order to maintain Djibouti’s competitive advantage, it is imperative to **improve the performance of transit infrastructure, and of the “soft side” – customs and logistics**.

There is scope to improve in logistics competence and customs to reduce transit costs

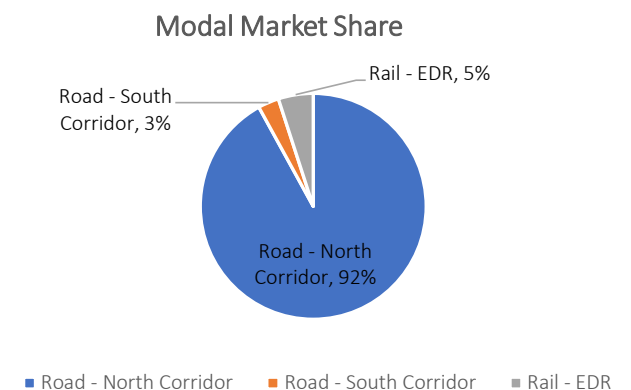


Source: Logistics Performance Index (World Bank)

Indicator	Djibouti	MENA Regional Average	Lower Middle Income Average
LPI (2018) Overall score (1=low to 5=high)	2.64	2.77	2.57

Djibouti Addis Corridor – Even though currently the North Corridor has 92% of modal share, the quality is extremely deficient

- Three main current routes between the Port of Djibouti and Addis Ababa:
 - “North Corridor” (red on map): Djibouti – Galafi border – Semera
 - “South Corridor” (blue on map): Djibouti –Guelileh border–Dewe/Dire Dawa
- Both corridors are characterized by sections with poor road infrastructure, inefficient logistics and transport systems and high costs. South Corridor is currently in better condition than North corridor and offers a slightly shorter route. Security considerations may also be important.
- Despite the existence of USD 20 toll and the institutional reform of the sector that created in 2013 the Road Agency (ADR) and in 2018 Djibouti Ports Corridor Road SA (DPCR) the road network suffers insufficient maintenance. There is currently no axle load control. Therefore, trucks are often overloaded.
- Future investment must lock in maintenance to ensure road remains in good condition. **PPPs are an option to do this.**



Addressing challenges on the Ethiopia Djibouti Railway

- A recent report reflects a significant increase in the revenues of EDR (amounting to US\$86.13 million in 2021, which is a 37.5 percent increase from 2020) which is a positive sign. However, even this **revenue level is insufficient to meet both operational costs and debt service requirements**.
 - Integration with export and industrial zones is low, as the main trunk line does not connect to individual industrial zones, creating significant last-mile shipping and logistics for firms.
 - Most exporters continue to use road transport, despite the higher time and financial cost, due to its greater flexibility and reliability compared to the train's twice-daily schedule.
- **Ethiopian Shipping and Logistics Services Enterprise (ESLSE) determines the proportion of import container traffic that travel by rail and road, while having its own trucking fleet.**
- While safety improvements have been made with no significant accidents recorded in 2021, the speed and service of the railways has been constrained in the past due to **vandalism and theft as well as collisions between trains and livestock**. The recent implementation (on August 25, 2021) of the Regulation on Railway Safety Protection by Ethiopia's Somali Region, may also help alleviate this issue.
- Despite the line's completion in 2016, delays in the construction of the transmission network have led to **problems with power outages and technical issues of over-voltage** that impact the rail being able to run at its operational speed.
- Passenger traffic has been negatively impacted due to **conflicts and security issues between the border of Oromia and Somali regional states**.

Steps to improve rail productivity and utilization

Immediate-short term recommendations

- **Recalibrate the tariff structure in relation to the demand and size of exports of businesses in Ethiopia**, especially for 20ft containers, supported by an appropriate market analysis in order to optimize the tariffs.
- **Use diesel locomotives (preferably leased)** until the power issue is resolved. Dual-mode locomotives (diesel and electric) could also be used between Nagad and the Port of Doraleh to avoid locomotive exchanges in Nagad.
- **Set up a legal concession contract with EDR** that specifies its rights and duties, as well as aspects that are exclusive and non-exclusive. This could include (i) a multi-annual infrastructure operations and maintenance contract, (ii) a three-way passenger service concession with EDR and the Ethiopian Government in which EDR is paid to operate loss making passenger services, and (iii) a non-exclusive freight concession.

Medium-long term recommendations

- **Consider issuing concessions and opening the rail operations to the private sector** for last-mile logistics for firms by integrating with export and industrial zones, leasing of rollingstock as well as developing 'hook and haul' services
- **Strengthen institutional set up with specific focus on safety and security** to enhance the enabling environment for private sector participation in the railways.
- **Ensure knowledge transfer from Chinese O&M company to local staff** before the contract ends in 2023 for an effective and competent handing over
- Increase freight volume by **completing the Awash oil depot link railway connection and unloading facilities**
- Have technical specifications of **future infrastructure projects examined by international railway experts**

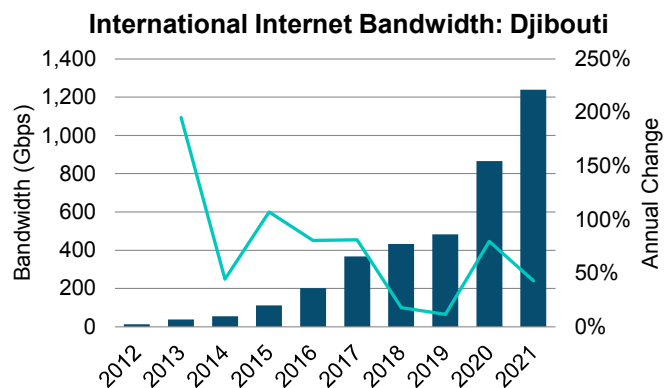
Better infrastructure services would promote job growth and private sector development

ICT – domestic market underperforms relative to potential

Djibouti's digital paradox between the international "Djibouti Connector" and the domestic "Djibouti Connected" markets in the country remain to be fully addressed:

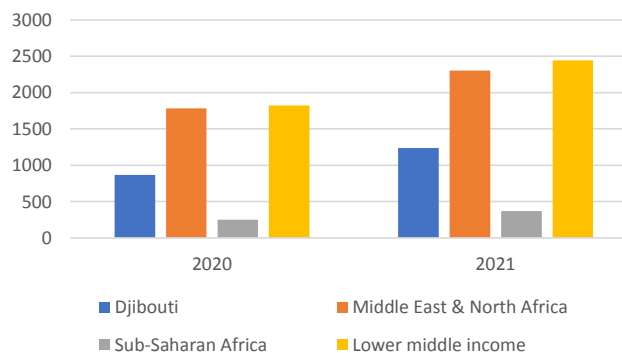
- International market, subject to competition is very advanced: Djibouti is an international hub for submarine cables, and it can rely on a quite advanced IXP and colocation data center.
 - Domestic market development sees **one of the few remaining monopolies in the world**, with high prices for some services, poor quality of service and reduced access.
 - Djibouti's potential is strong given the backbones that run through the country: **the high availability of international bandwidth is not reflected in the local market.**
- **Uptake and Access:**
 - Broadband penetration is limited for both mobile and fixed segments.
 - The country lags behind regional and income benchmarks. 4G coverage is basically absent.
 - Smartphone penetration follows the same trend being very inadequate.
 - Internet usage is low.
 - Mobile tariffs are high, leading to reduced uptake of services.
 - **Reliability:**
 - Fixed download speed is particularly low limiting several activities.

Djibouti has access to high international internet bandwidth owing to its geographic location, but few Djiboutians have high-speed broadband

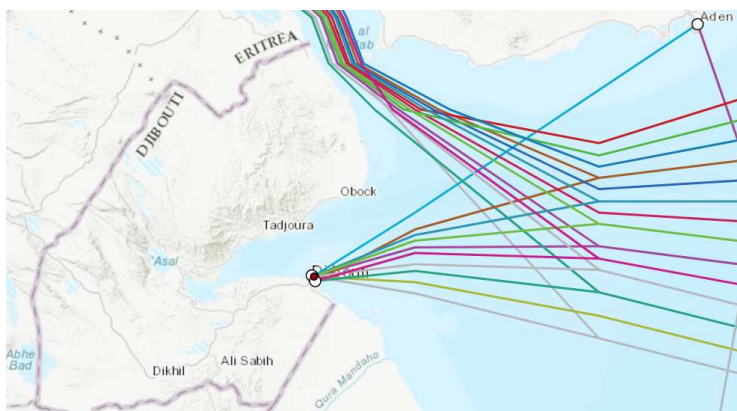


Source: TeleGeography

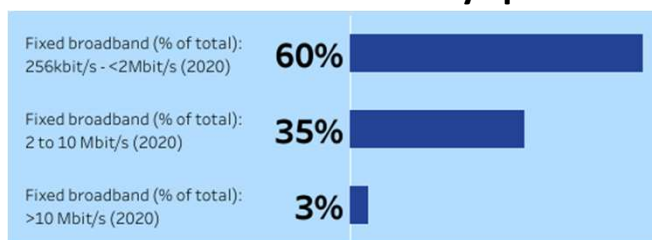
International bandwidth, 2020 & 2021



Djibouti has access to high Internet capacity due to 9 submarine cables landing on its territory via 2 cable landing stations



Access to fixed broadband by speed tiers



Source: ITU

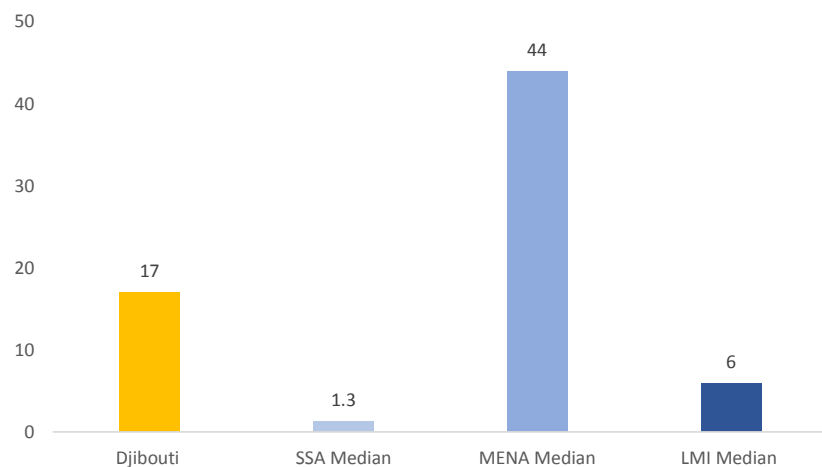
The country's geographical position makes it a strategic spot for submarine cables and a regional connectivity hub.

However, despite the access to such a high bandwidth, less than 3% of Djiboutian users access high-speed fixed broadband at speeds greater than 10 Mbps.

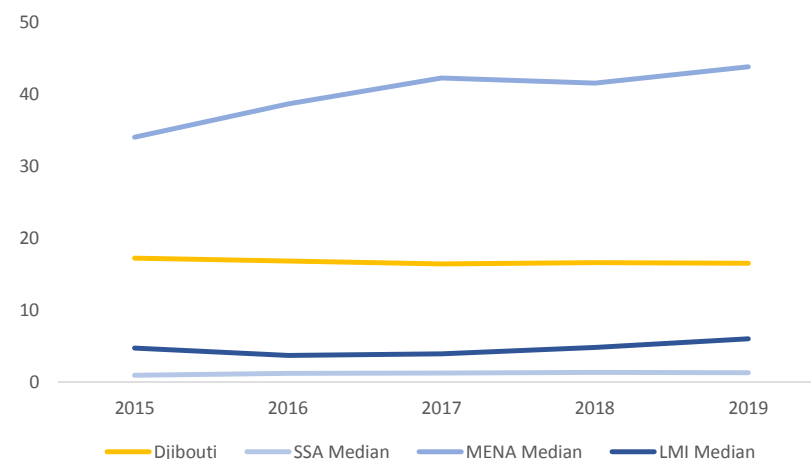
Source: Telegeography

Fixed broadband penetration is low and although above income average, has been stagnant in the last five years

Fixed broadband penetration (% of households, 2019)



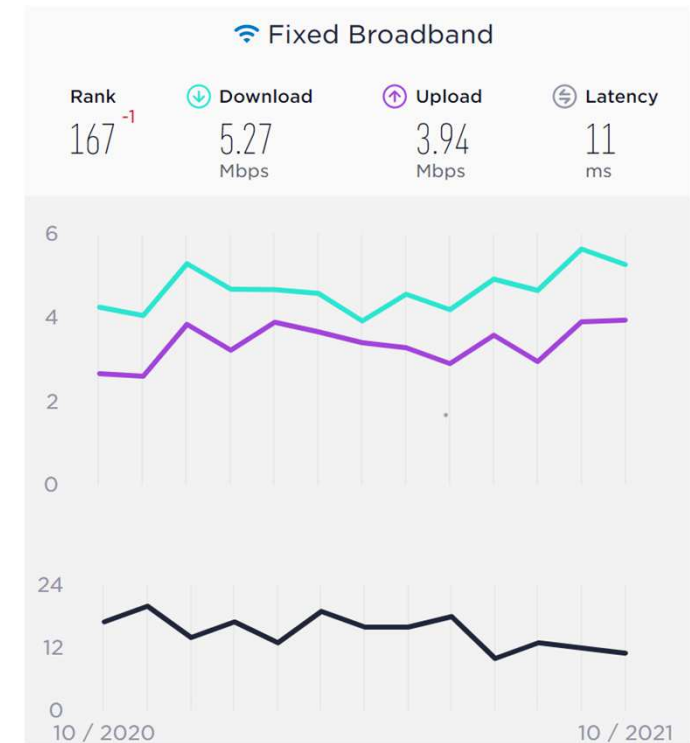
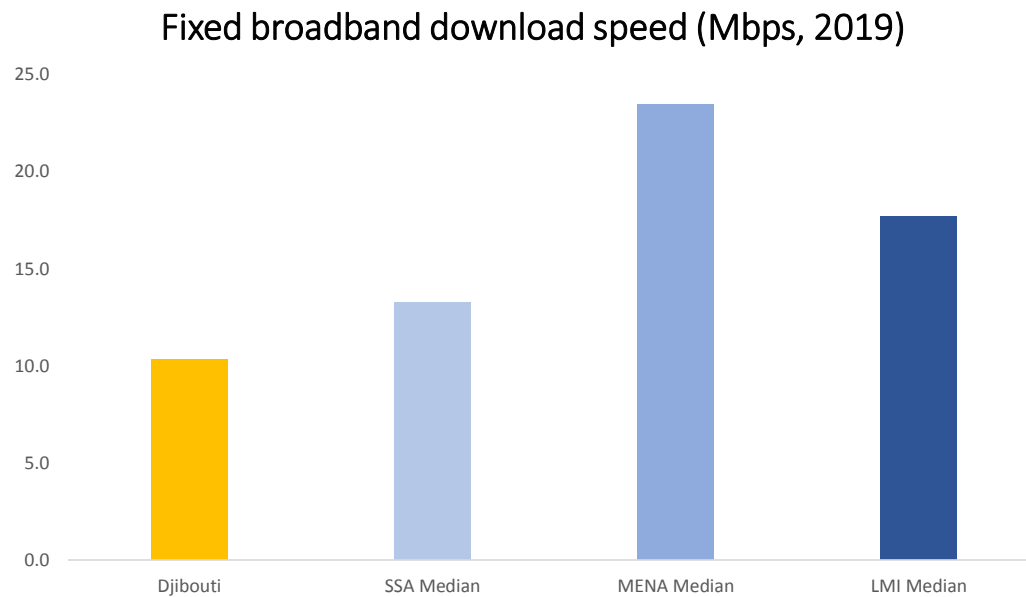
Fixed broadband penetration (% of households, 2015 - 2019)



Djibouti reports a very low fixed broadband household's penetration with a static trend for the last 5 years. The lack of competition and market entry may be a factor in this.

The average speed for fixed internet is particularly low, with the country ranking among the last five countries on the Ookla Global Speedtest Index in 2021

Fixed broadband download speed (Mbps, October 2021)

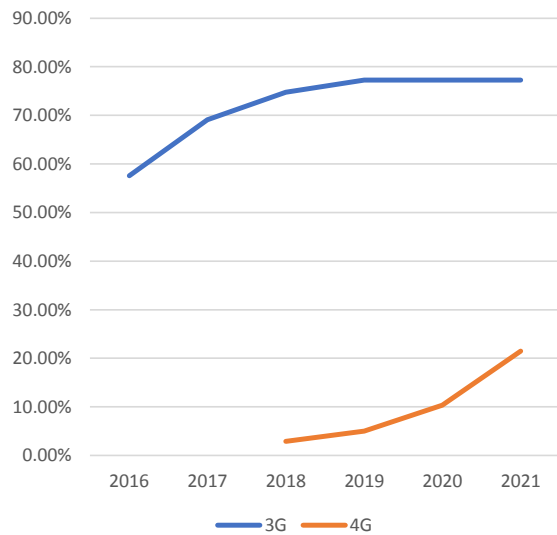


The poor state of digital infrastructure is reflected also on fixed internet speeds, which are below regional and income benchmark and implies a relatively poor quality of service. There is no shortage of international IP capacity/options.

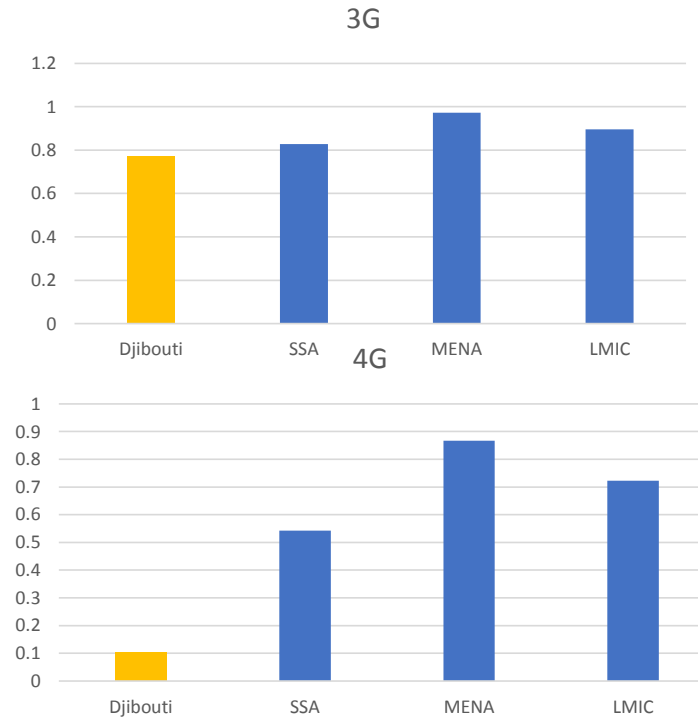
Source : Ookla

Djibouti significantly underperforms in mobile coverage, particularly 4G despite its highly urbanized population. Investments in 4G rollout are projected to double 4G coverage in 2021 from 2020, which would still be significantly below benchmarks

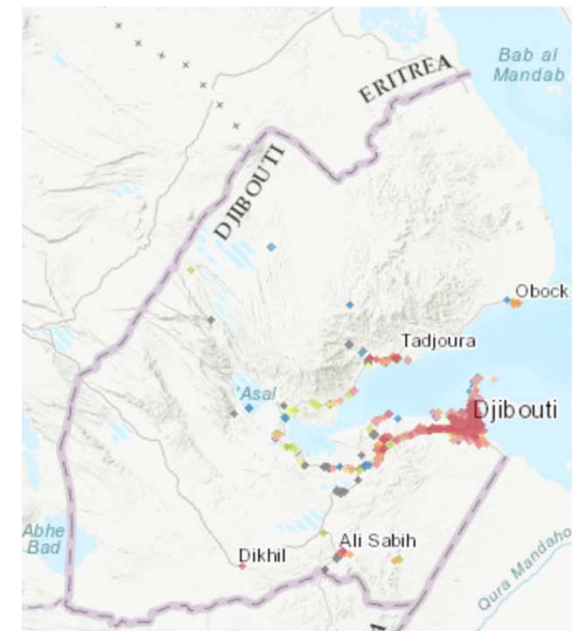
Network coverage (3G and 4G), 2016-2021



3G and 4G Coverage, 2020



Mobile networks coverage, 2021



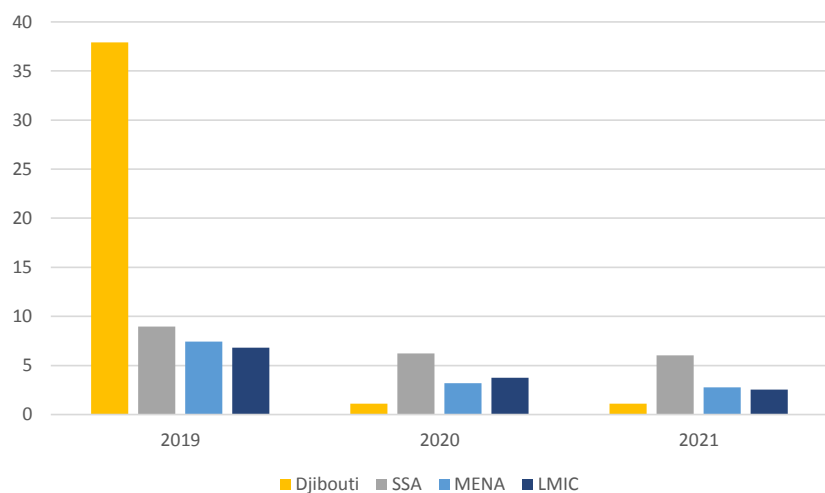
Source: nPerf

Despite having one of the highest proportions of urban population among LMI countries in MENA and SSA, Djibouti's mobile broadband coverage remains below the regional and income average. Smartphone penetration is very limited.

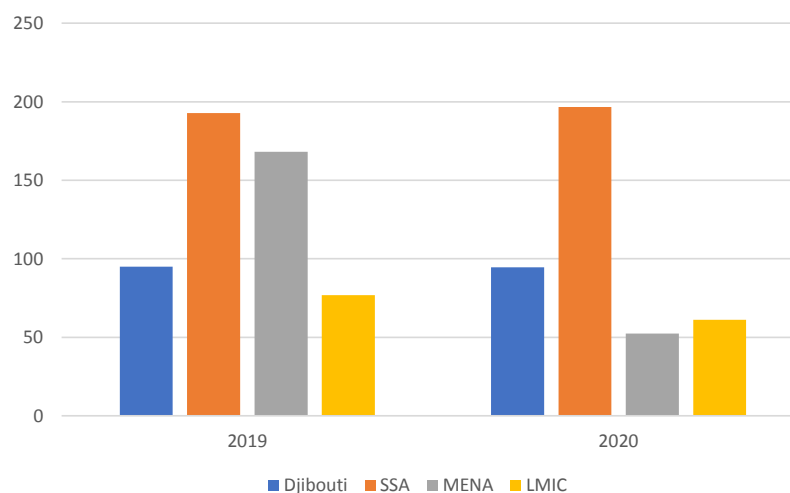
Source : GSMA, Open Signal

While mobile broadband has gotten more affordable recently, fixed broadband remains expensive compared to benchmarks.

Price of Mobile Services (USD, 2021)



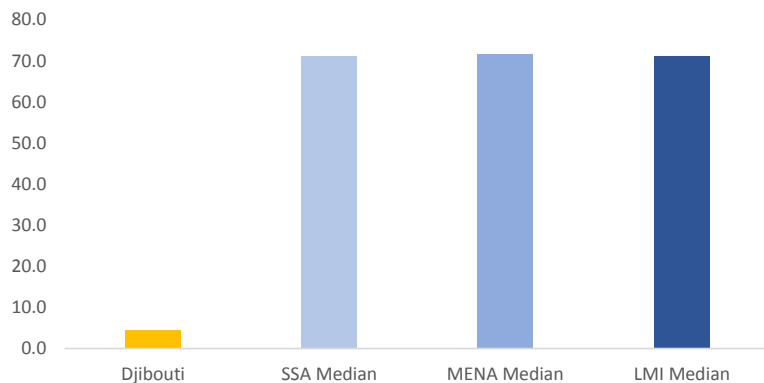
Average monthly fixed broadband (USD, 2020)



Despite Djibouti Telecom's lowering of prices in 2020, fixed broadband prices still exceed both MENA and LMIC benchmarks. The lack of competition doesn't allow users to enjoy the benefits of a relatively developed data infrastructure

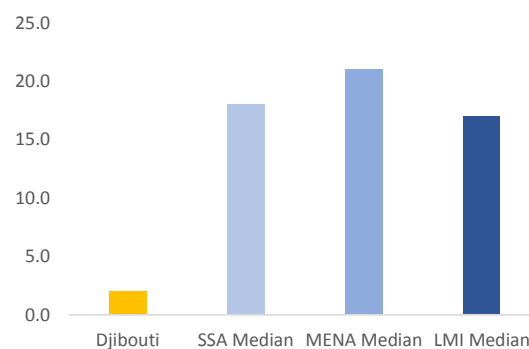
ITU Regulatory Tracker Index reports a low score for Djibouti which is poorly performing in all the categories.

ITU – Aggregated (2018)
(Max score – 100)

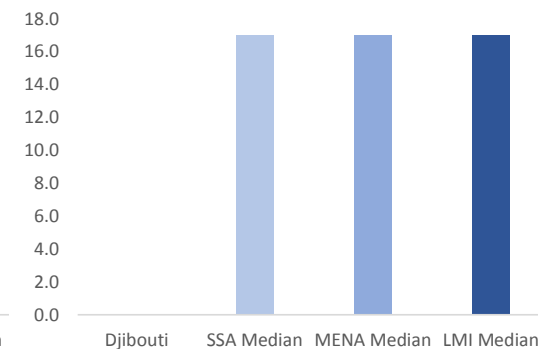


Although the regulator has been established, the framework is still at early stages. Acceleration of reforms should see improvements in performance here.

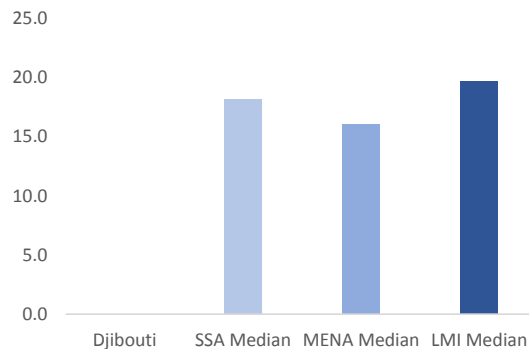
Regulatory Regime
(Max score – 30)



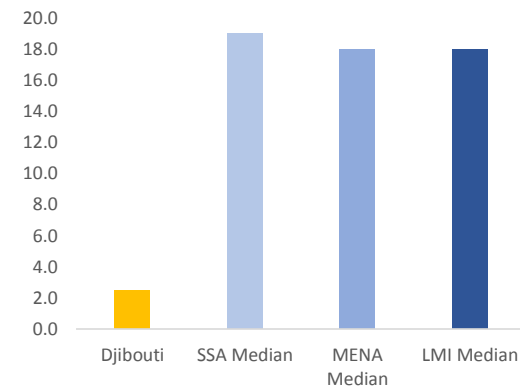
Regulatory Authority
(Max Score – 20)



Competition Framework
(Max score – 28)



Regulatory Mandate
(Max score – 22)



SOURCE: ITU

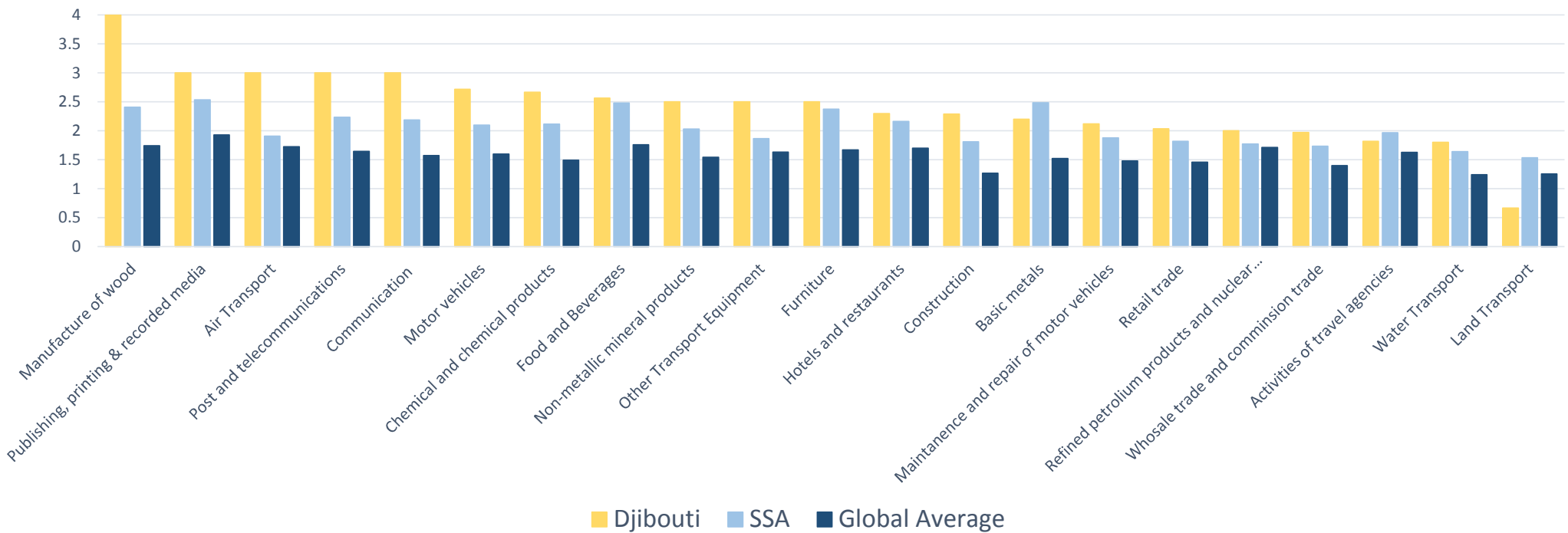
Electricity

- **Access and Pricing:**
 - Many firms regard electricity as a constraint to their businesses
 - Electricity tariffs are high – lack of information on the finances of EDD makes it hard to unpack the cause of this.
 - The cost of getting electricity in Djibouti is higher than benchmarks.
 - High population density should make increasing access easier – but many households in the capital city lack electricity.
- **Reliability:**
 - Data suggests network is quite unreliable and duration of outages is relatively long.

Majority of firms in Djibouti consider electricity a major constraint

- 47% of the firms in services and manufacturing reported electricity as a major constraint (WBES, 2013)

How much of an obstacle: electricity to operations

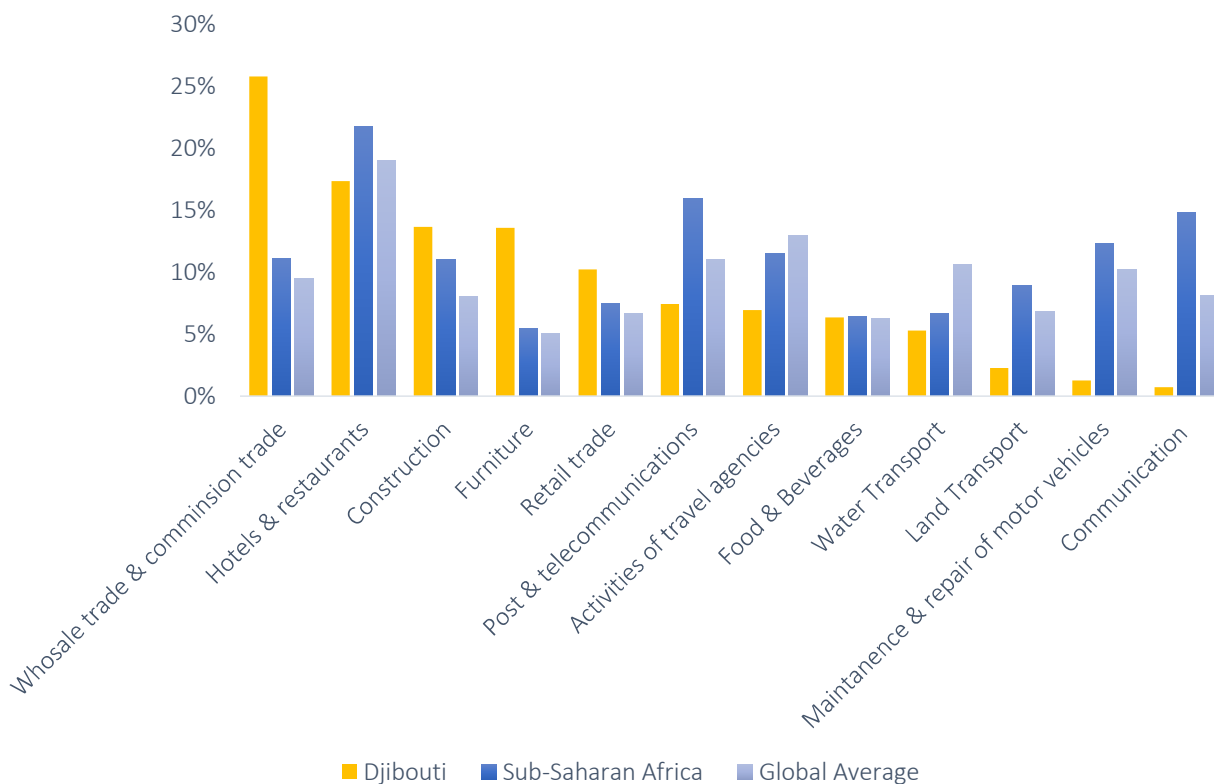


Source: WBES

Note: 0 = no obstacle, 1= minor 2= moderate 3= major 4= very severe

High electricity tariffs are a cause of concern for several firms even as the lowest residential tariffs are also quite high

Electricity cost in total production cost

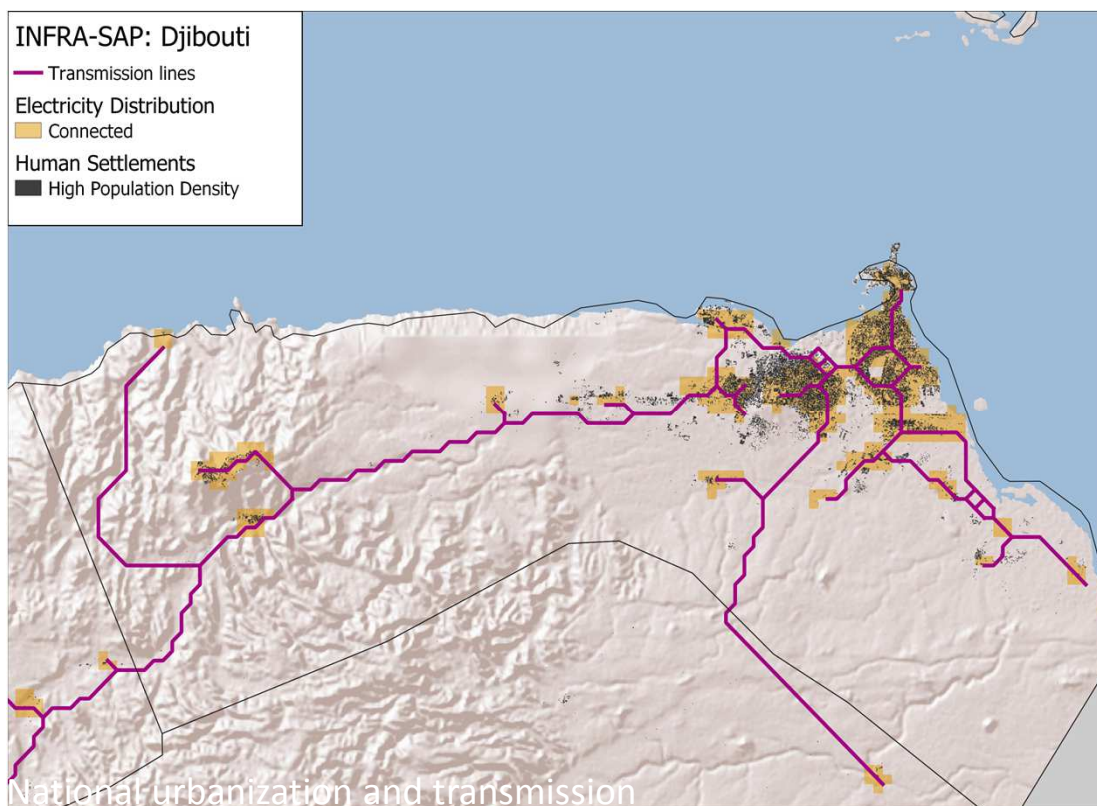


■ Djibouti ■ Sub-Saharan Africa ■ Global Average

Source: InfraSAP2.0 Dashboard based on World Bank Enterprise surveys from 2013-2019

- Average residential tariffs range from 31 cents/kwh to 15 cents/kwh for the lowest consumption level
- As comparison the average regional residential tariffs are about 10 cents/kwh and 9 cents/kwh for low- and middle-income group countries (Source EMIS)
- Industrial tariffs are extremely high at 31 cents/kwh while commercial tariffs are at 25 cents/kwh

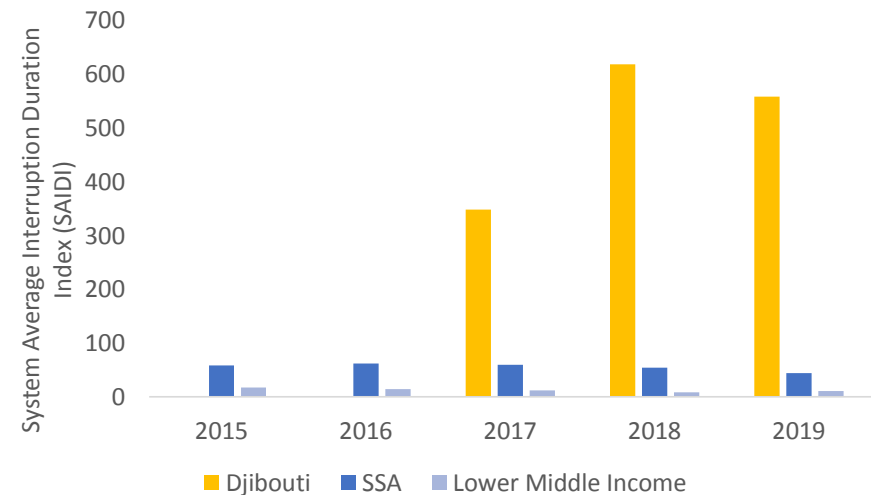
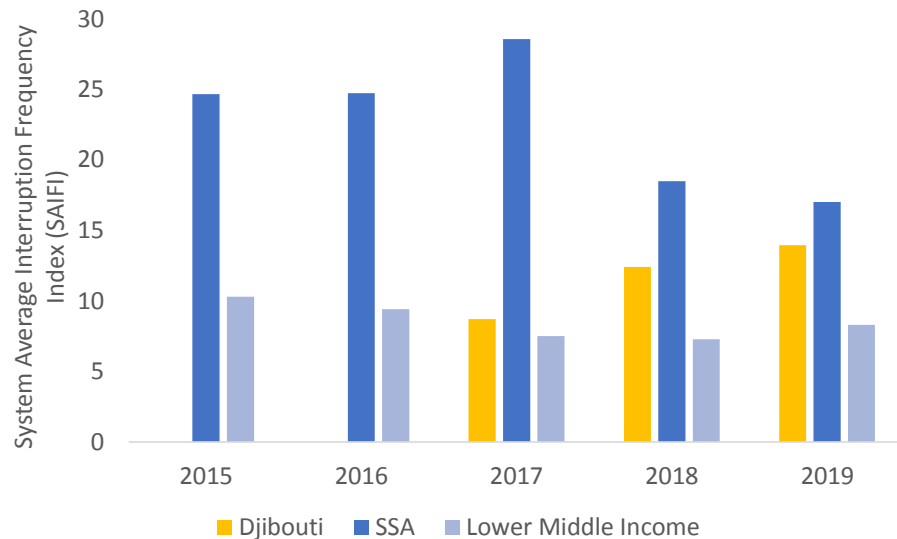
Access is relatively low given the density of population



Djibouti city: Transmission and distribution coverage

- About 70 percent of the population is urban but not everyone has access – there are significant areas without electricity supply in the capital.
- Rural access is challenging given very small clusters spread out across the country
- Programs to electricity slums can contribute to increasing access, although presently limited in scale.

Lack of quality standards and monitoring makes electricity supply highly unreliable compared to regional or income comparators



- While the frequency of outages is lower than the regional average the duration of these outages is much higher
- Lack of quality standards contributes to reliability crisis
- EDD does not have a quality-of-service agreement with the government

Roads

Accessibility and Connectivity

- **North-western part of the country is relatively isolated** with limited access to roads, main domestic cities and main international gateways, and will benefit little from ongoing regional transport corridors.

Road Infrastructure

- **The road transport network is under-developed**
 - Outside the capital, transportation is limited, and road infrastructure is often not well maintained

Externalities

- **There are large transport negative externalities** such as poor road safety and high pollution linked to transport

Urban Transport

- There is **large reliance on walking and public transit**
- **The quality of the informal transport sector is limited**
- **Transport costs for the poorest are unaffordable**

Current urban transport solutions will not provide adequate mobility going forward

As cities are growing and urbans get richer, they will rely more and more on cars, with the prospect of congestion and pollution if the quality of public transit is not good enough.

- Large reliance on walking and public transit
 - 50% of the population travels by foot
 - Only 3% of Djiboutian owns a car
 - Most urban residents live within a short walk of a public transport route, and these operate throughout the day and allow relatively short travel times
- Limited quality of the informal transport sector
 - High prices
 - Transport services are mainly provided by informal operators, driving aging and poorly maintained buses

Unaffordability of transport costs for the poorest

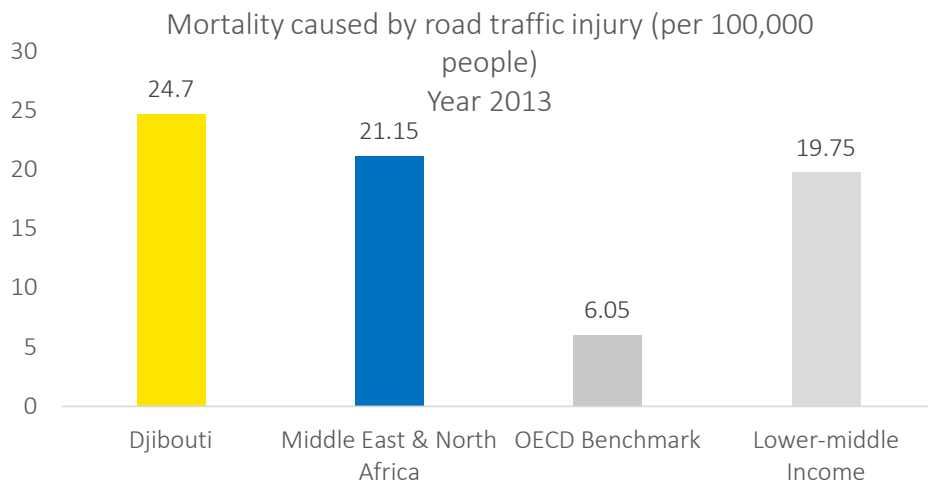
- Relatively high travel costs: over 15% of total per-capita consumption



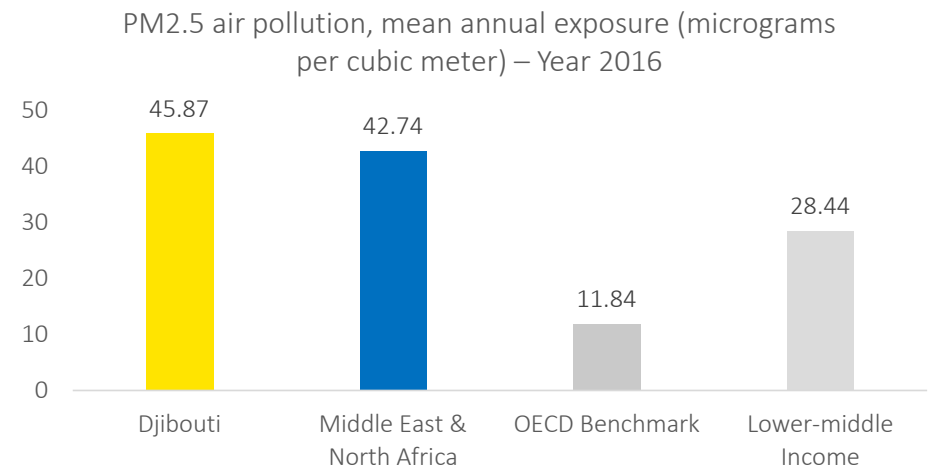
Source: WB report on urban transport in Djibouti

Pollution and road safety are significant problems in the roads sector

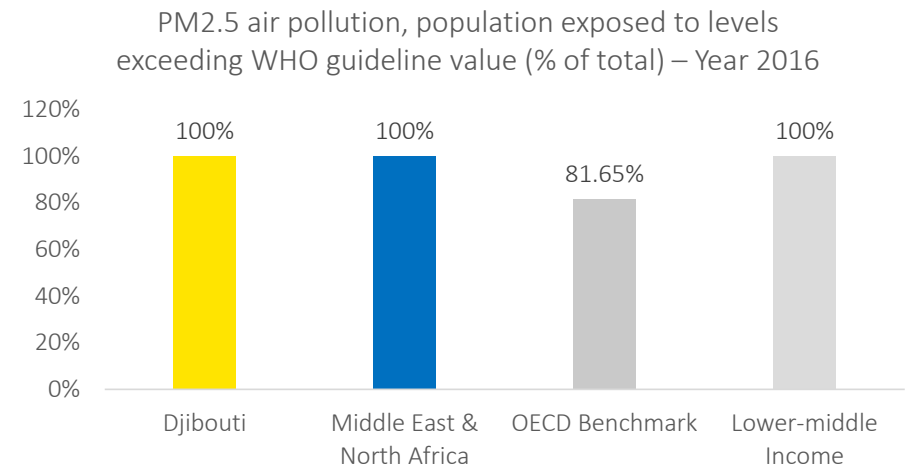
- Relatively high exposure to local pollution: 100% of population exposed to levels exceeding WHO guidelines for PM2.5 air pollution
- Relatively high road safety problem: 25 per 100,000 people



Source: WHO



Source: Sustainable Mobility for All (SuM4All)



Source: Sustainable Mobility for All (SuM4All)

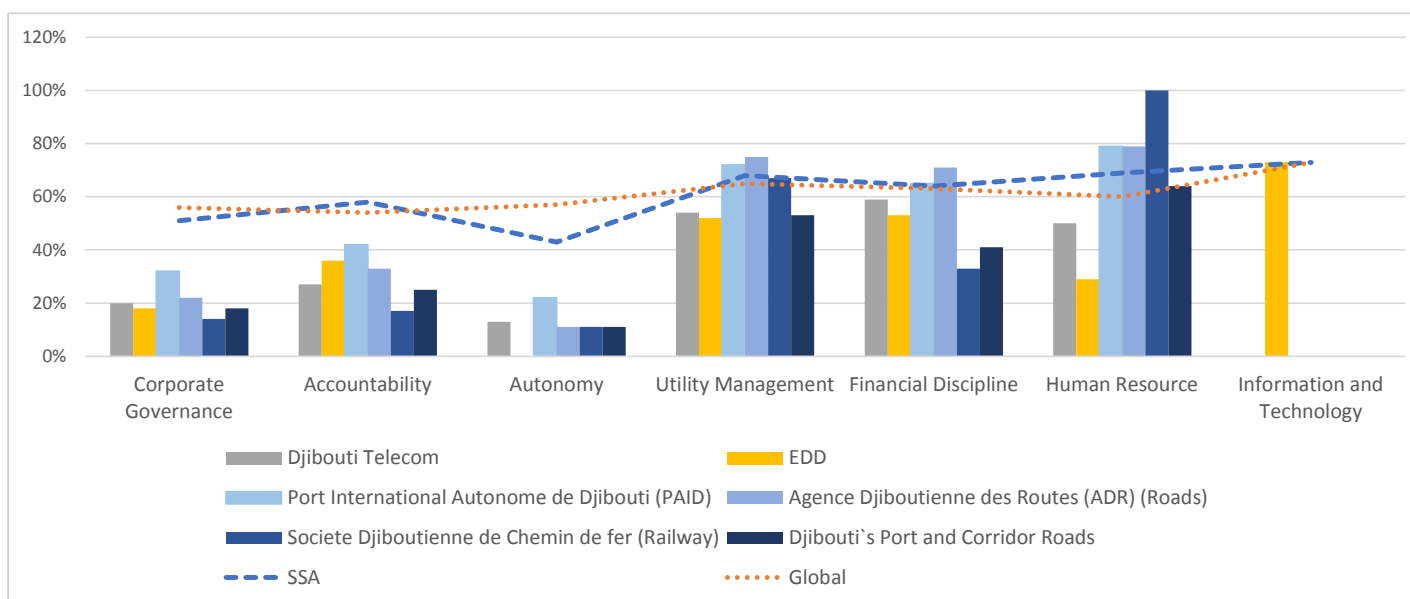
Improving sector governance will improve performance

Improving governance to improve performance – key messages

- **Regulation** of the telecoms and electricity sector needs to be developed – regulator has been formally created and DG appointed, a positive step, but needs key appointments and staffing.
- **Market structure** - Considerable scope for introducing competition in telecoms: the country is one of the last remaining monopolies. Djibouti Telecom now on a path to increased private participation.
- **SOE governance** - Benchmarking the major infrastructure SOEs against global good practice shows some strengths but substantial areas for improvement in corporate governance. **FSD can play an important role in addressing these areas for the SOEs that it owns/will own.**
- **Public investment management** - There is also scope for improving approaches to public investment in infrastructure, particularly in preparation and contract management.

Djibouti's Infrastructure SOEs are below peers in quality of corporate governance

Indicator	Global	SSA	Djibouti					
			Djibouti Telecom	EDD	Port International Autonome de Djibouti (PAID)	Agence Djiboutienne des Routes (ADR)	Societe Djiboutienne de Chemin de fer	Djibouti's Port and Corridor Roads
Corporate Governance	56%	51%	20%	18%	32%	22%	14%	18%
• Accountability	54%	58%	27%	36%	42%	33%	17%	25%
• Autonomy	57%	43%	13%	0%	22%	11%	11%	11%
Utility Management	65%	68%	54%	52%	72%	75%	67%	53%
• Financial Discipline	63%	64%	59%	53%	65%	71%	33%	41%
• Human Resource	60%	69%	50%	29%	79%	79%	100%	64%
• Information and Technology	73%	73%	..	73%



Djibouti Telecom has scope for improving corporate governance

Corporate Governance Practice	Djibouti Telecom
Board members are selected competitively	X
Is there An Audit Committee of the Board	X
Board members can take major capital decisions	X
Board can approve raising capital through debt	X
Utility has credit rating	X
Financial accounts are disclosed	X
Annual performance review of employees	X
Good employee performance is rewarded bonuses	X
Public advertisement of positions	X

Source: InfraSAP2.0 Dashboard based on Utility Governance Index for RPSR project

As does EDD

Corporate Governance Practice	Global Average (% of utilities who answer 'yes')	EDD
Board members are selected competitively	30	x
Board members can take major capital decisions	79	x
Board can approve raising capital through debt	61	x
Utility has credit rating	36	x
Utility pays dividends	47	x
Utility required to meet financial targets	59	x
Utility has internal audit function	94	x
Financial accounts are disclosed	70	x
Annual performance review of employees	85	x
Good employee performance is rewarded bonuses	76	x
Public advertisement of positions	61	x

Source: InfraSAP2.0 Dashboard based on Utility Governance Index for RPSR project

- EDD officially the sole player in the sector, has not been corporatized
- Analysis shows a lack of autonomy as well as low accountability when compared to over 40 utilities globally as well as Djibouti's telecom utility
- However, EDD has incorporated several IT solutions to increase operational efficiency reflected in its high IT score

Fonds Souverain de Djibouti (FSD) – Establishment, Objectives and Assets

Establishment of the FSD

- The Republic of Djibouti announced the creation of the Sovereign Fund of Djibouti (FSD) following the law of March 29, 2020 and the implementing decrees promulgated on June 24, 2020.
- It is created in the form of a **public limited company under private law**, subject to the provisions of the General Tax Code, of which **the State is and will remain the sole shareholder**.
- Advised by financial solution and advisory firm, [Southbridge](#), and law firm, [Willkie Farr and Gallagher LLP](#).
- It is **placed under the direct supervision of the Presidency of the Republic of Djibouti**.

FSD Objectives:

The FSD is aimed at being a **national intergenerational investment and savings fund** investing in projects having a positive impact on the economy and on the long-term management of financial reserves for future generations.

- Primary **target is the Republic of Djibouti and countries with an economic link with it**, in particular the Horn of Africa region.
- Focus on investing and co-investing in **key sectors of the economy such as telecoms, new technologies, energy, infrastructure, logistics, agriculture and fisheries**.
- Priority is to **support sustainable growth and the implementation of the energy transition**.

Fund's Initial Endowment and Assets:

The Fund will be **endowed at its creation with 30 billion Djiboutian francs** and will 'pool' the assets of certain national strategic companies in order to be able to mobilize additional resources from external partners in order to create a leverage effect. It **targets bringing in \$1.5bn over a 10-year period**.

The following assets are transferred by law to the endowment of the Fund:

- 40% of the shares of **Great Horn Investment Holdings**
- All of the shares of **Djibouti Télécom**
- All of the shares of the management company of the **Jetée du Terminal Pétrolier de Doraleh**
- All of the shares in the capital of the national company to become **Electricity of Djibouti**.

The Fund will be responsible for maximizing the management and strategy of these companies, increasing their competitiveness, and effectively representing the State as a shareholder.

Fund's Recurring Income Flows:

The **Fund relies on a "public savings" mechanism**, using recurring income flows from the republic's strategic activities to allocate them to long-term wealth creation.

In this context, the law provides for recurrent and stable resources:

- Endowment of **20% of revenues from military cooperation contracts** received by the State.
- Endowment resulting from **withdrawals made within the framework of free zones**. Endowment resulting from the **variable royalty due under the development agreement relating to the construction and operation of the Ethiopia-Djibouti gas pipeline**.
- Endowment from **the market remuneration provided for in the management mandate contract between the FSD and the National Social Security Fund**.
- Endowment equal to the **market remuneration provided for in any public asset management mandate contract concluded between the FSD and the State** for the previous year.
- Eventually, the **income and capital gains generated by its holdings and investments**.

Global lessons for FSD: critical factors that drive the success of SIFs

- SIFs are **complex entities because they sit between providers of public and private capital**, and can exhibit properties of SWFs, State Owned Enterprises (SOEs), and private capital funds

PRIORITIES

- One of the central features of the public capital SIF – its **alignment with national priorities** – may also lead to operational complexity for the fund manager as national priorities change during the life cycle of the SIF.

POLITICAL COMMITMENT

- To be able to develop its capacity and implement a long-term mandate, **SIFs needs enduring and broad-based political commitment that spans electoral cycles**: the absence of such support can jeopardize the longevity and effectiveness of the fund

CAPITAL COMMITMENT

- A successful SIF is one that has deployed **a substantial amount of capital that is indeed additional**, realizes the stated target financial returns, fulfills the policy objective and crowds in commercial capital.

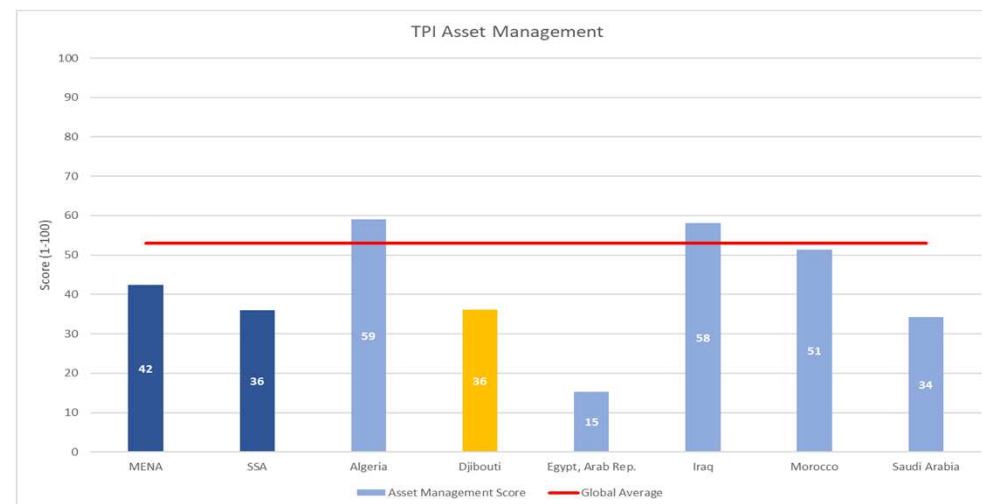
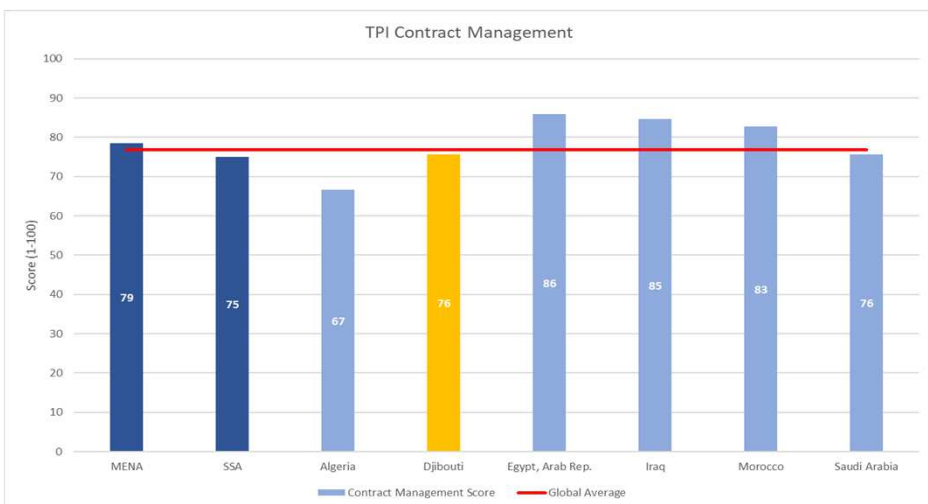
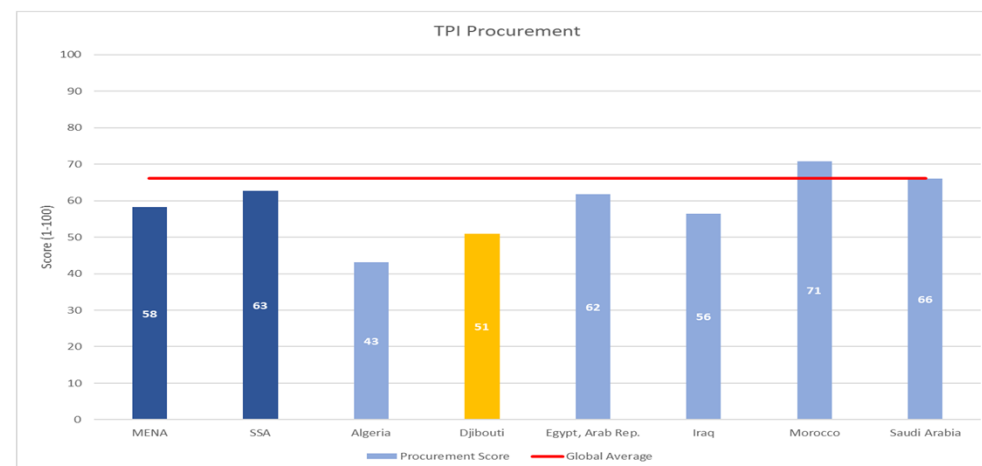
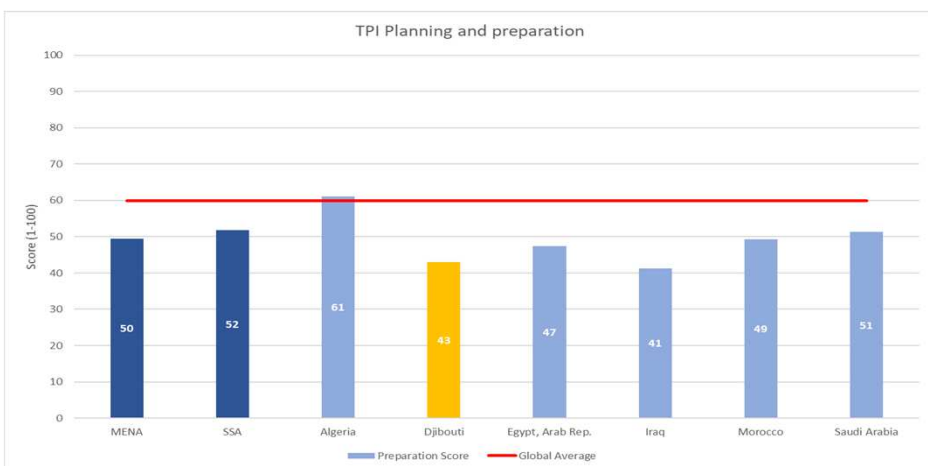
GOVERNANCE

- The **quality of a SIF's governance is arguably the most important determinant of its success**. A robust governance framework bolsters a SIFs' legitimacy and is a pre-requisite to effective long-term performance.

TRANSPARENCY AND DISCLOSURE

- **Transparency and disclosure** are twin guiding principles which allow the SIF and its governing bodies to be held to account whilst the fund invests public resources in pursuit of a stated mandate.
- Best practice dictates that the SIF is **audited by an independent, well-reputed firm under the supervision of the board's audit committee**, although public capital SIFs are sometimes audited by the state comptroller and auditor general.

Djibouti's regulatory framework for public investment could be substantially improved for planning/preparation and asset management.



Source: Benchmarking Infrastructure Development 2020.

Djibouti's regulatory framework for public investment is ranks lower compared to that of peer economies and could be substantially improved for planning/preparation and asset management.

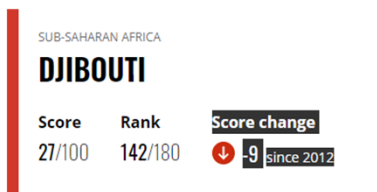
- Law No. 53/AN/09/ 6th of July 01, 2009, establishing the New Public Procurement Code is the main legal instrument in Djibouti regarding **Traditional Public Investment** (conventionally procured projects) along with its associated regulations (including standard documents)

Areas where improvements can be made are:

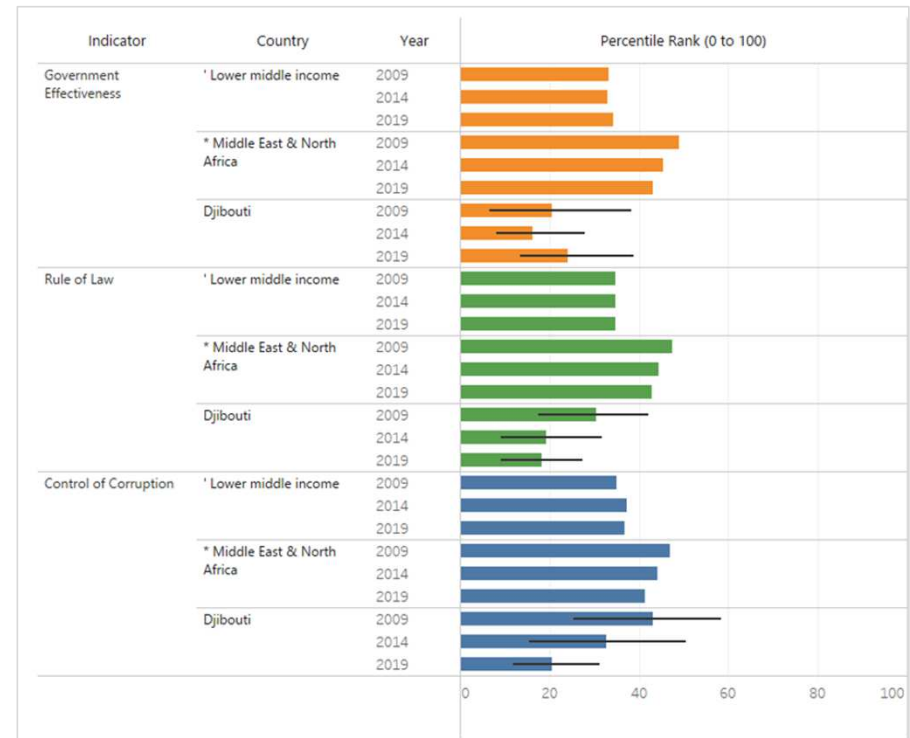
- **Planning and preparation:** The Accelerated Growth and Employment Promotion Strategy (SCAPE) is the first five-year planning cycle for the yeas 2015-2019 of the “Djibouti 2035” Vision approved by law N 58/AN/14/7 and key strategic planning instrument. However, neither assessment of project feasibility (except environmental) nor transparency is standardized, making Djibouti perform worse than peers.
- The 2010 applicable framework could be modernized as lack of online disclosure requirement and e- procurement system and non regulation of a standstill period among other details lags Djibouti regulatory quality on **TPI procurement**.
- There is good coverage of regulatory good practice for **contract management** but the monitoring and evaluation system of TPI contracts could be reinforced.
- Lack of transparent access to asset databases and maintenance plans impact **the asset management** score in Djibouti

Some governance indicators are moving in the wrong direction

- Rule of Law and Control of Corruption are overall governance indicators (part of the Worldwide Governance Indicators - WGI) that reflect integrity: **Djibouti indicators of integrity are below both regional and income peers and more importantly have substantially worsened in the last two waves of WGI.**
- Additionally, although slightly better and not in a downward trend, government effectiveness that may also have an impact on infrastructure development is also below both income peers and substantially below regional peers.
- There is not data available for Djibouti on the Open Budget Index of transparency, but **Transparency International Anti Corruption Perception Index aligns with this trend**



Source: Transparency International. Corruption Perception Index 2020



Color by
■ Control of Corruption
■ Government Effectiveness
■ Rule of Law

Source: Worldwide Governance Indicators

**The private sector can play a bigger role in meeting
infrastructure needs**

Djibouti has seen relatively limited use of PPPs

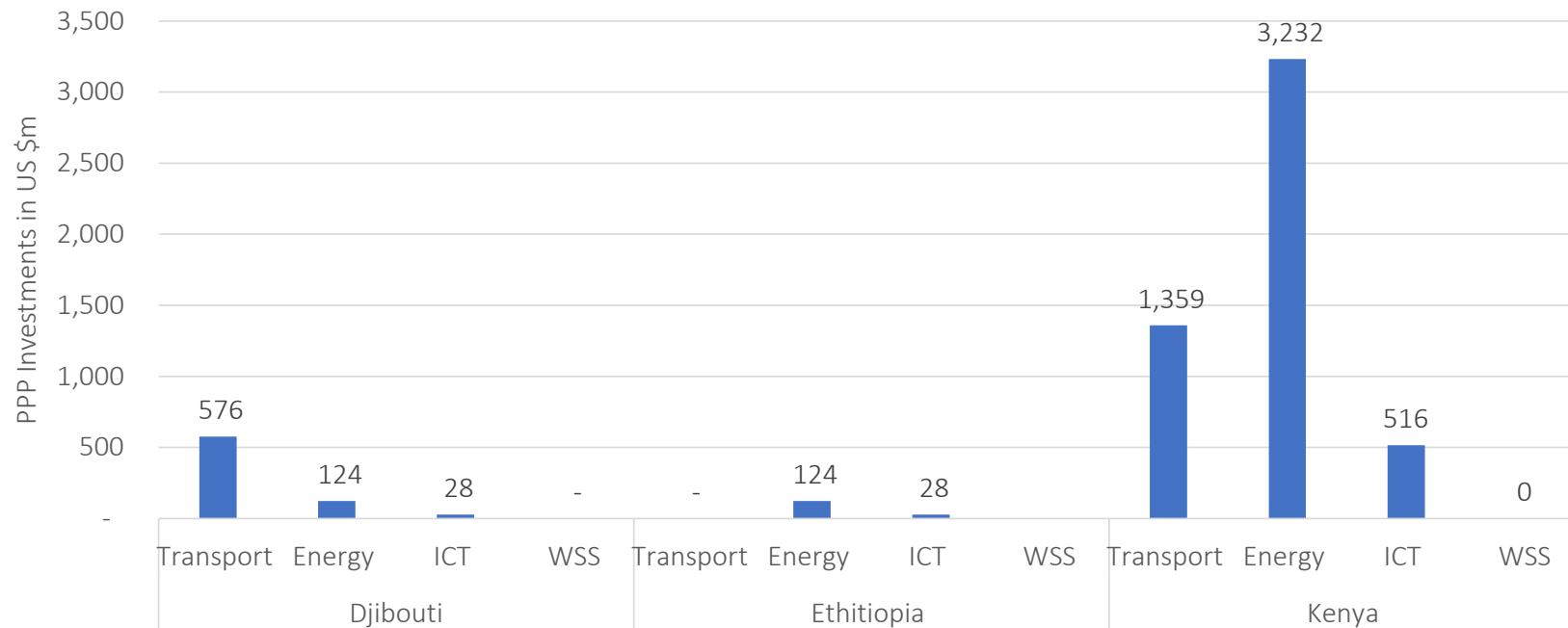
- Djibouti has a total of US\$728 million IN investment commitments in 6 projects to date, heavily concentrated in the ports sector (79% of totals). The government recently terminated the contract at Doraleh.
- There have only been two projects since 2016, although the government is developing a pipeline.
- The majority of projects have been unsolicited proposals.

Financial closure year	Project name	Subsector	Percent Private	Total Investment \$mn	Unsolicited Proposal
2000	Djibouti Port	Ports	100	50	Yes
2002	Djibouti International Airport	Airports	N/A	N/A	Yes
2004	Horizon Djibouti Terminals Limited	Ports	100	130	Yes
2007	Doraleh Container Terminal	Ports	100	396	Yes
2016	DARE submarine broadband cable	ICT	N/A	28	No
2020	Ghoubet Wind Farm	Electricity	90	123.5	No

The Lake Assal IPP Geothermal Project expected to add 50MW-100MW geothermal capacity in the Fiale Caldera in the Lake Assal region of Djibouti is scheduled to reach financial close in FY22.

Source: World Bank Data Bank, PPI Database

Djibouti has attracted more PPI than Ethiopia but less than the regional leader, Kenya

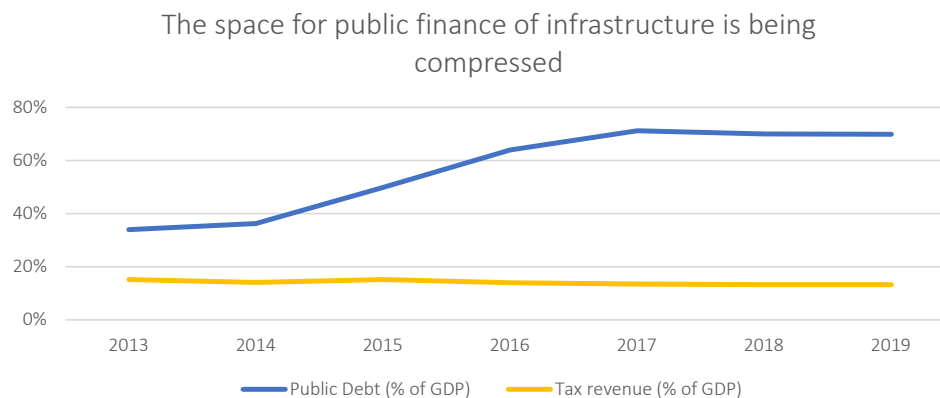


Country	PPI US\$m
Djibouti	728
Ethiopia	152
Kenya	5,108

Source: World Bank Data Bank, PPI Database

Djibouti Vision 2035 envisages an enhanced role for private investment in infrastructure

- PPPs can bring benefits through shifting risks appropriately to private sector and by opening space for private sector expertise and technological innovation.
- Vision 2035 identifies:
 - ICT: Modernization of telecommunications sector with openness to the market which will allow the reduction of costs and the improvement of the quality of the service.
 - Energy: principal areas for the private sector are renewable energy generation, including wind, solar and geothermal.
 - Transport: logistics zone, PPPs for the road corridors, airports and rail



A greater role for PPPs will need three areas to be addressed

1. Identification and development of pilot PPPs for projects where clear benefits from private sector financing and operation, with project preparation in line with international good practice and competitive and transparent procurement.
2. Addressing critical sectoral gaps, principally accelerating the development of regulatory framework and competition in ICT and electricity.
3. Strengthen cross-cutting framework for PPPs to support pilot projects and sectoral policies and institutions.

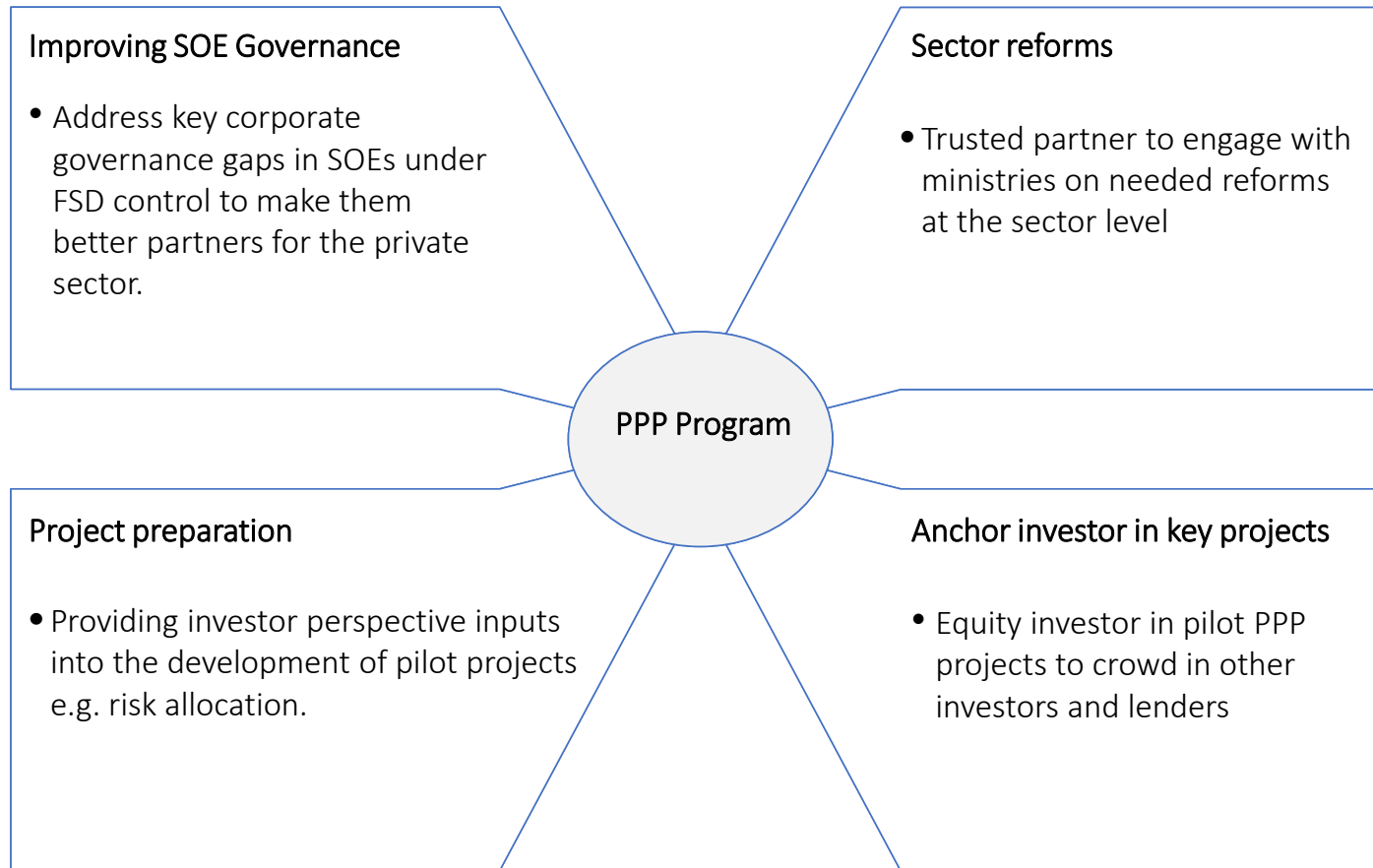
Taking forward PPP pilots needs an understanding of investor's perceptions of risks

- **Political commitment to PPPs:** Government does not have a clear and visible policy around PPPs to provide a signal to investors on their commitment to this approach and to key projects where this will be used. This plus limited experience on PPPs may increase perceptions of risk for some investors.
- **Transferability risk** could be an issue with some investors and may need addressing in contracts. **Convertibility risk** likely to be less of an issue.
- **Expropriation/early termination risk** is likely to be a concern, driven by:
 - The Government's unilateral termination of the DP World Doraleh container terminal concession
 - The Government not following the London Court of International Arbitration rulings with respect to the legal dispute with DP World.
 - The creation of a law allowing Government to unilaterally terminate a contract, if the contract is detrimental to the fundamental interests of the country (Loi N° 202/AN/17/7^{ème})

Piloting a PPP program

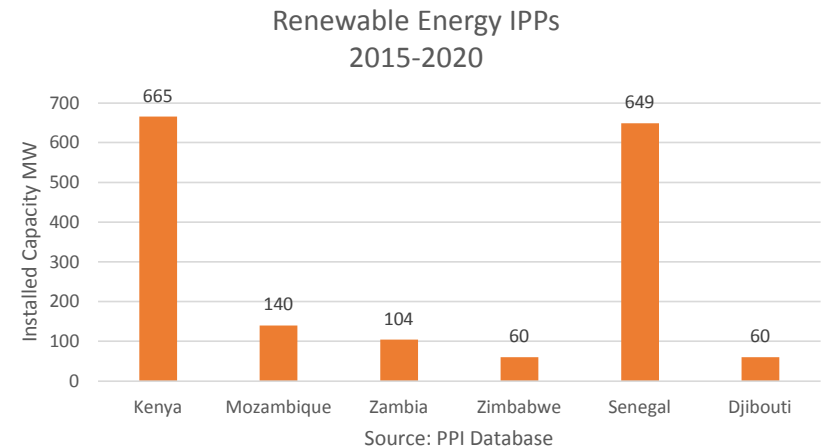
- Establish and take forward early-mover projects to pilot approaches and establish government commitment:
 - **Electricity:** PV solar and geothermal.
 - **Roads:** Djibouti-Addis Ababa road corridor. A PPP arrangement can lock in maintenance required to keep this strategic asset in good condition. *Private sector interest likely to be greater in contract that bundles investment as well as long-term O&M.* Options are:
 - DBOM (Design, Build, Operate and Maintain): private partner implements rehab/construction with public funds and has a performance-based O&M contract.
 - DBFO (Design, Build, Finance, Operate) and BOT (Build Operate Transfer) where private sector provides (some/all) financing and is remunerated either via tolls or government payments.
 - Ability of private sector to control overloading and to collect tolls is important.
 - **ICT:** new private sector entrants in mobile market, investments in fiber network and data centers.
- **Project preparation in line with international good practices:**
 - Transparent, competitive process involving internationally recognized advisors to provide confidence that the Government is well informed with regards to what they could obtain as part of an agreement.
 - Sufficient resources for project preparation and due diligence – consider establishing a project preparation fund. Project preparation costs often in excess of 5% of total project cost.
 - Project roadshows to demonstrate commitment to project.
 - Where required, risk mitigation from IFIs addressing key risks (off-taker, change in law and early termination etc.).

FSD can play an important role in moving forward the PPP program



Djibouti has to date done less renewable capacity through the private sector than many of its peers

- Djibouti has significant renewable energy potential and aims to be 100% renewable by 2035. Ghoubet Wind Farm, 60MW has achieved financial close and will be ready by 2022. Grand Bara Solar PV, 25MW project is being developed. The country has significant geothermal potential as well.
- Current oil-based generation costs EDD 9.1 cents per kWh, well above renewable costs.
- Potential for export as well as fully meeting domestic needs.



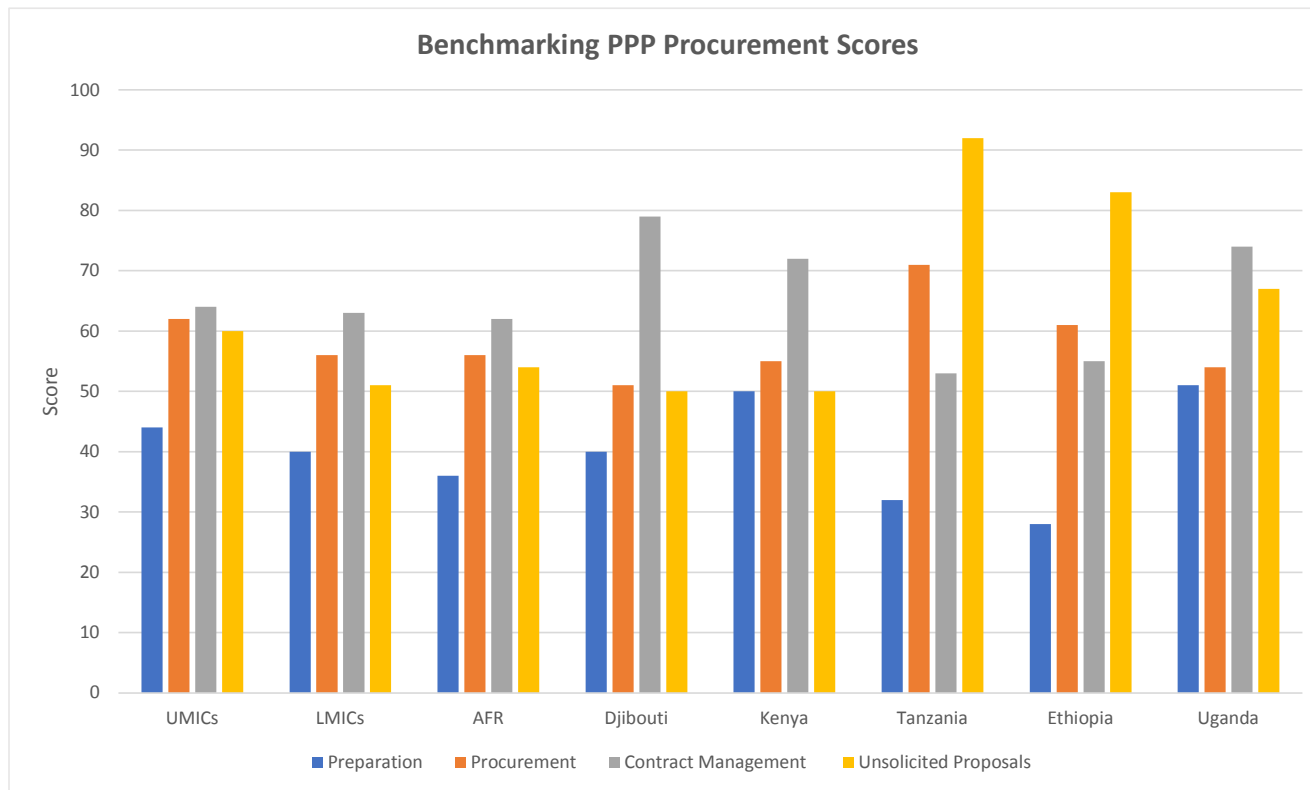
The private sector is the best option for developing, financing and operating renewable energy generation but this will need appropriate risk allocation/sharing to deal with:

- Costs of exploration for geothermal
- Off-taker risk with EDD
- Other risks as noted earlier e.g. change in law and early termination.

Roads: improving the corridor to Addis

- As noted above the road corridor to Ethiopia is in poor condition, both the North and South routes. Lack of regular maintenance, combined with overloaded trucks, have led to poor road conditions in stretches which increase transit times and costs.
- Future investment in the road corridors requires a long-term commitment to efficient maintenance and operation of the road to ensure good returns on the investment and good services to maintain Djibouti's competitive position.
- Involving the private sector through a PPP can help lock in this. Options are currently being studied by the WB, including performance-based road maintenance as well as approaches that bundle design, construction, operations and maintenance.
- Key issues include the risks noted earlier as well as the payment mechanism for the private party, control of the private sector over the road including over-loaded trucks.

The PPP framework in Djibouti follows good practices to some degree but there are areas for improvement



- PPPs in Djibouti are governed by Law No. 2017-186 of 29 May 2017 on public-private partnerships, and its implementing decrees .
- This created the PPP Regulation Commission and the PPP Unit, but both need to be resourced and staffed.
- Compared to income and regional peers, Djibouti has scope for improvement in the **preparation** of PPPs and in particular the **procurement** of PPPs.
- The framework for **PPP contract management** provides good adherence to internationally recognized good practice, but practices related to **USPs** can be strengthened.
- In general practices around **transparency and disclosure of information** could be strengthened

Source: *Benchmarking Infrastructure Development 2020*. Scores measure the framework itself in terms of adherence to global good practices – the actual application of this is not scored

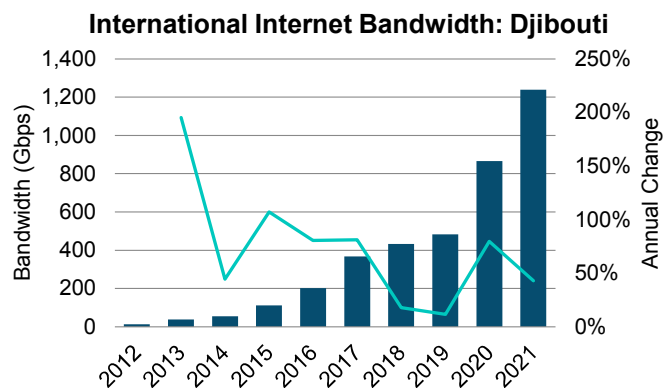
Areas where the PPP Framework can be strengthened to reach global good practice

- **Management of Fiscal Risks:** MOF does not approve project before procurement process launched, PPP liabilities not reported, nor budgeted for, not included in Accounts.
- **Some important assessments not required as part of PPP project preparation** including Risk Assessment, Financial Viability/Bankability, Procurement Strategy, Market Sounding. Standard methodologies not developed for any assessments where such assessments are required including Comparative Assessment against other procurement options, Fiscal Affordability, Socio-economic Analysis.
- **Procurement:** In practice, PPPs have been direct negotiations or unsolicited projects => greater focus on competitive and transparent procurement of PPPs.
- **Contract management:** The framework provides good adherence to internationally recognized good practice, but further development may be required regarding monitoring and evaluation and disclosure.
- **Unsolicited projects:** Competitive procurement process not required following receipt of a USP
- **Policy on PPPs** to signal commitment towards PPPs and the approach the government will take in developing and implementing them.
- **Strengthen capacities in and resources for** PPP unit and in the Ministry of Finance to improve oversight of fiscal costs and affordability of PPPs as well as contract management capacities in agencies undertaking pilot PPPs.

Annexes

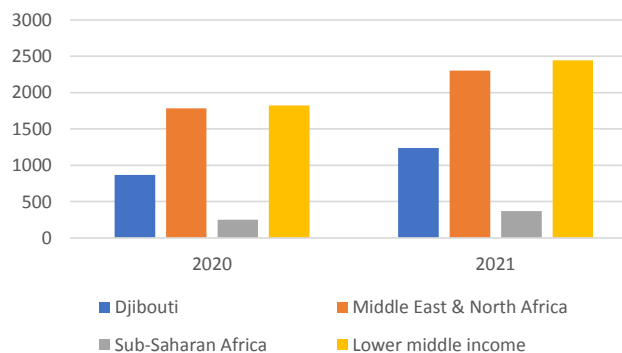
Annex 1. ICT

Djibouti has access to high international internet bandwidth owing to its geographic location, but few Djiboutians have high-speed broadband



Source: TeleGeography

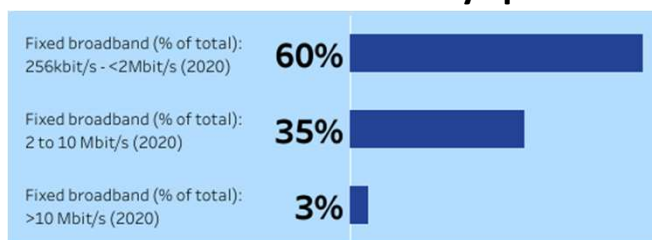
International bandwidth, 2020 & 2021



Djibouti has access to high Internet capacity due to 9 submarine cables landing on its territory via 2 cable landing stations

The country's geographical position makes it a strategic spot for submarine cables and a regional connectivity hub.

Access to fixed broadband by speed tiers



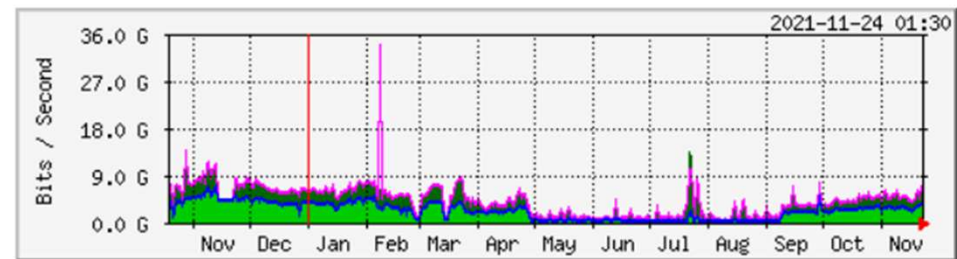
Source: ITU

However, despite the access to such a high bandwidth, less than 3% of Djiboutian users access high-speed fixed broadband at speeds greater than 10 Mbps.

Djibouti has an IXP oriented to international players and a Tier-3 Data Center

- The country also has invested in excellent data infrastructure – in the form of an IXP co-located within a data center. In 2013, the government invested in the Djibouti Data Centre (DCC), a Tier III data center facility in Djibouti-City, which serves as a meeting point for submarine cable systems. A second facility is planned for operation in early 2022, through a partnership between TO7 Networks and Wingu Africa
- This data center complements the Djibouti Internet Exchange (DjIX), which see an average traffic of 2 Gbps (y-o-y)
- The Djibouti Internet Exchange has 16 diverse members, including large regional players such as MTN and Telkom SA, and international content delivery network providers such as Cloudflare
- Currently, the IXP caters primarily to international players, and domestic competitors must purchase IP transit from Djibouti Telecom, a concern for sector competition

Year Graph

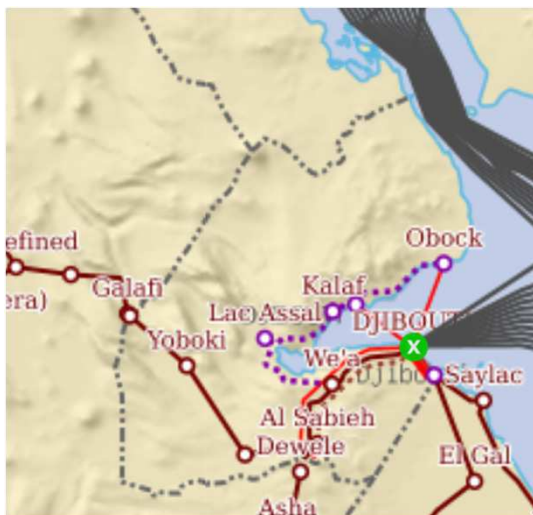


	Max	Average	Current
In	13.591 Gbits	1.898 Gbits	3.623 Gbits
Out	33.482 Gbits	1.896 Gbits	3.627 Gbits

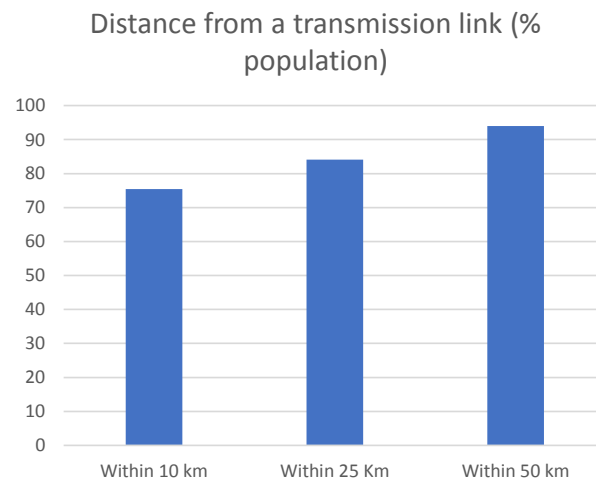
Traffic passing through DjIX; 2021

Djibouti's middle-mile infrastructure is relatively underdeveloped within the country, except for links to neighbors in the Horn of Africa

- While Djibouti has some middle-mile infrastructure, the backbone primarily serves to transit international traffic to neighboring countries in the Horn of Africa. The only provider within the country is Djibouti Telecom, which has a monopoly on the first, middle, and last mile of Internet connectivity in the country.
- Djibouti Telecom focuses most of its investment on purchasing international capacity, while investments to expand and upgrade the national backbone have remained limited due to the absence of competition. While Djibouti Telecom has been investing in extending coverage, built and operational networks over the last five years have not expanded sufficiently to improve quality and reach.
- While Afrifiber has received a license to lay out more of the backbone (in dotted lines on the right graph), these links are not yet operational

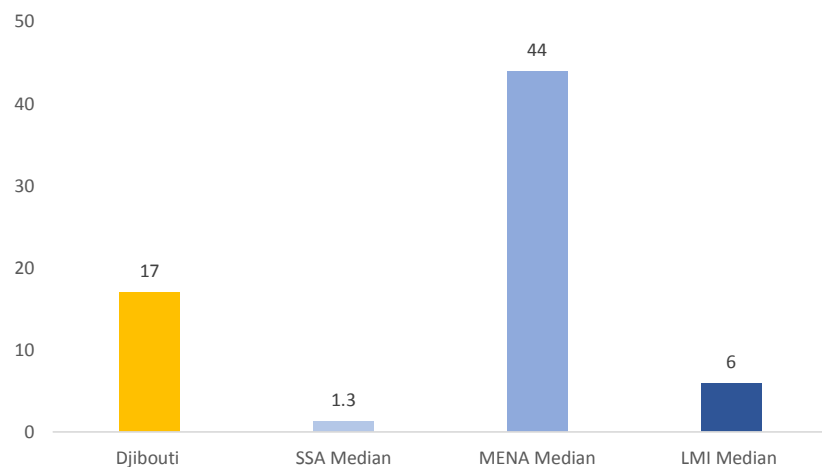


Djibouti's middle mile network and covered population (%)
ITU Transmission Maps

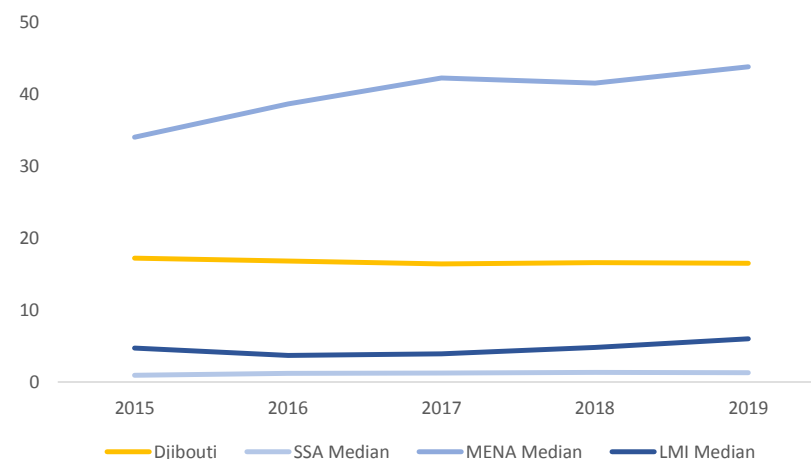


Fixed broadband penetration is low and although above income average, has been stagnant in the last five years

Fixed broadband penetration (% of households, 2019)



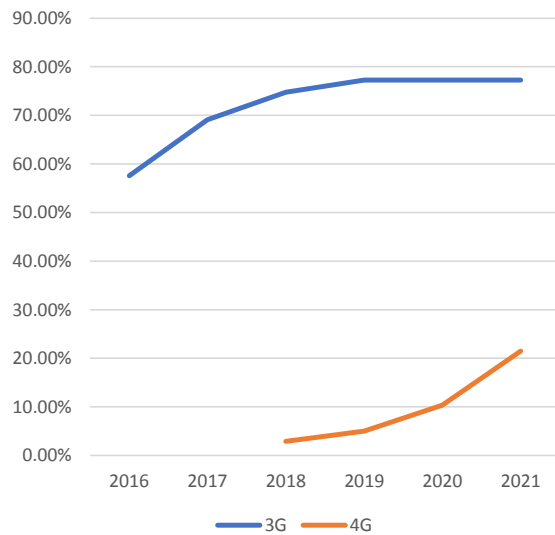
Fixed broadband penetration (% of households, 2015 - 2019)



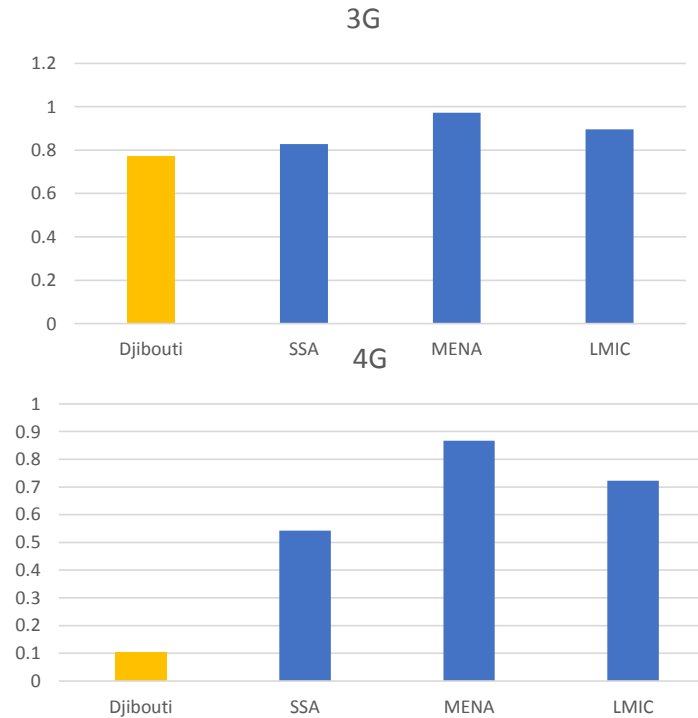
Djibouti reports a very low fixed broadband household's penetration with a static trend for the last 5 years. The lack of competition and market entry may be a factor in this.

Djibouti significantly underperforms in mobile coverage, particularly 4G despite its highly urbanized population. Investments in 4G rollout are projected to double 4G coverage in 2021 from 2020, which would still be significantly below benchmarks

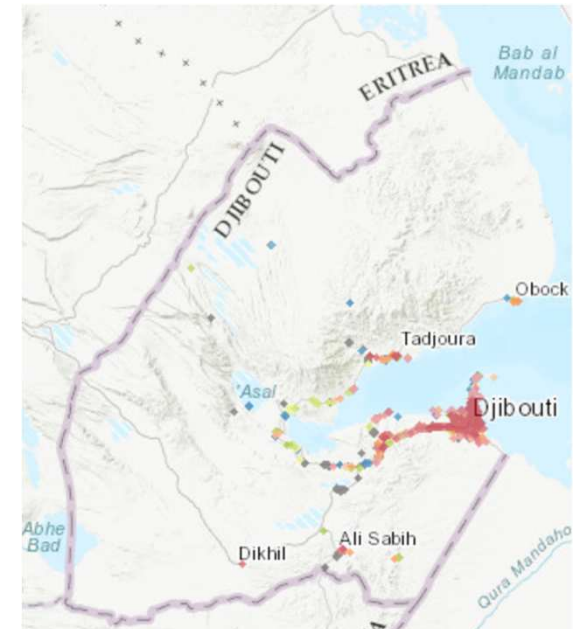
Network coverage (3G and 4G), 2016-2021



3G and 4G Coverage, 2020



Mobile networks coverage, 2021

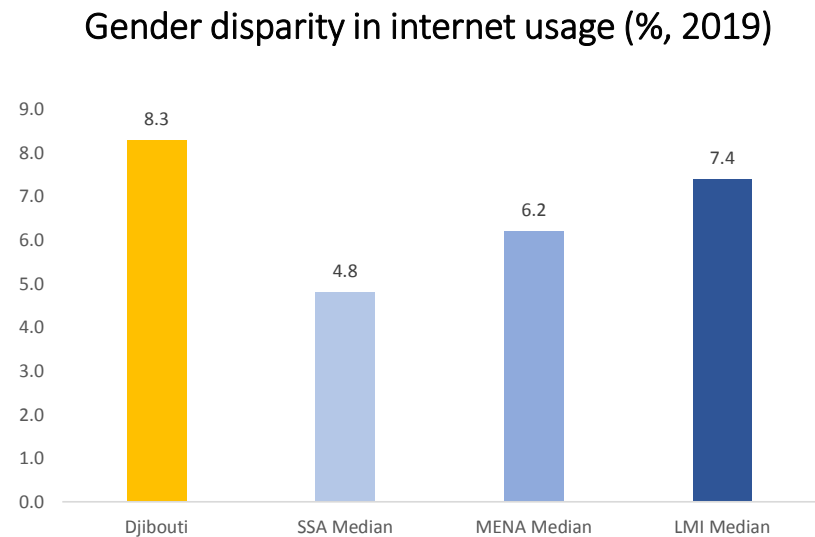
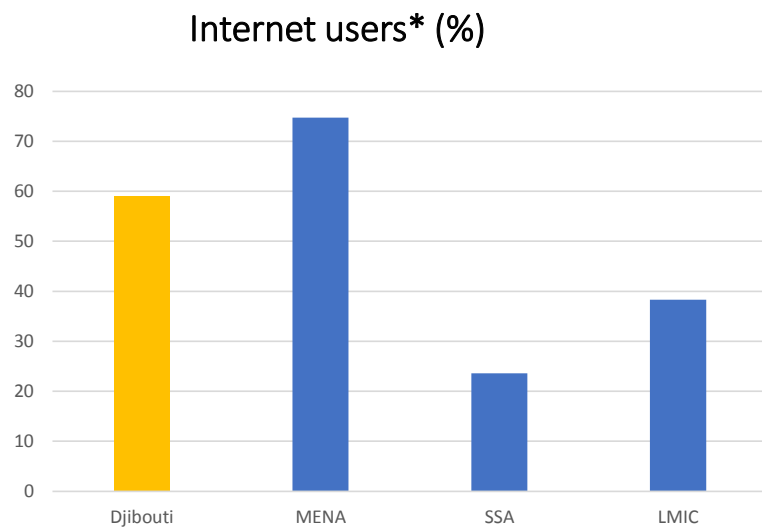


Source: nPerf

Despite having one of the highest proportions of urban population among LMI countries in MENA and SSA, Djibouti's mobile broadband coverage remains below the regional and income average.

Source : GSMA, Open Signal

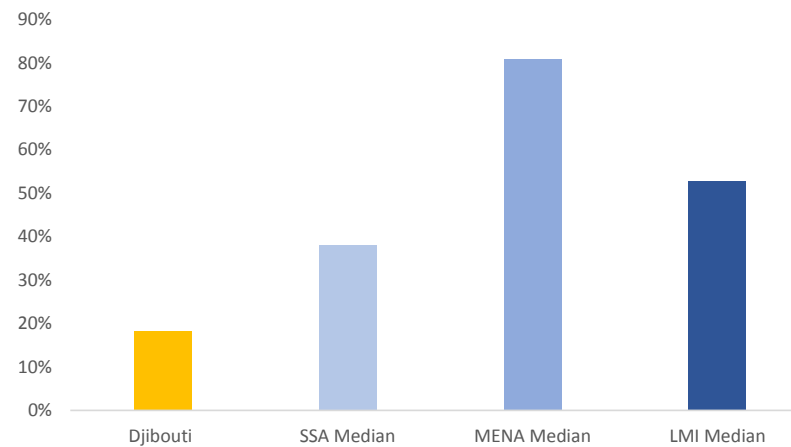
There is differing information on internet access. Gender gap is higher than benchmarks, with women more disadvantaged than men in internet use



- A survey run by Djibouti Telecom and the local Statistical Department (DISED) estimates internet users around 55%. However, according to EDAM4, telecom consumers are roughly 21%.
- Gender gap is higher than benchmarks with male internet users being 8.3% more than female internet users.

Smartphone penetration is extremely limited

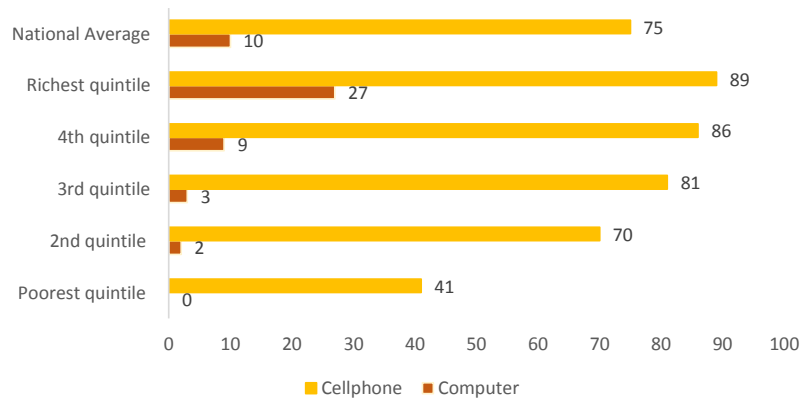
Smartphone penetration (% , 2019)



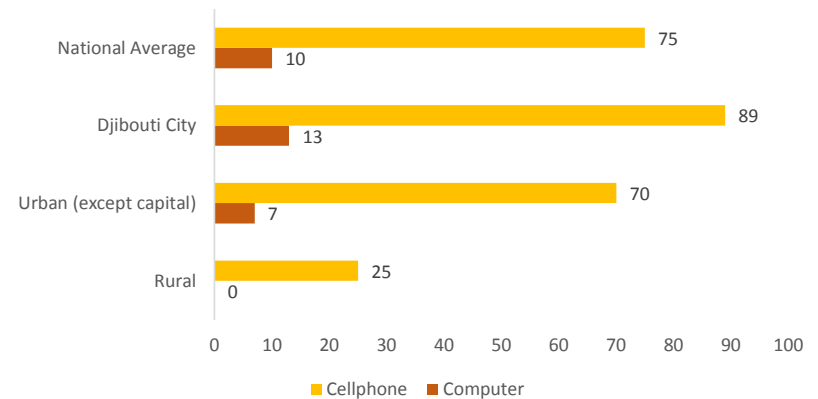
Although the mobile phone penetration is somewhat higher at 75%, smartphone penetration was very low in 2019; less than 20%, compared to all relevant benchmarks

There is a clear gap in digital device ownership by income and location

Digital device ownership gap by quintile (% , 2017)



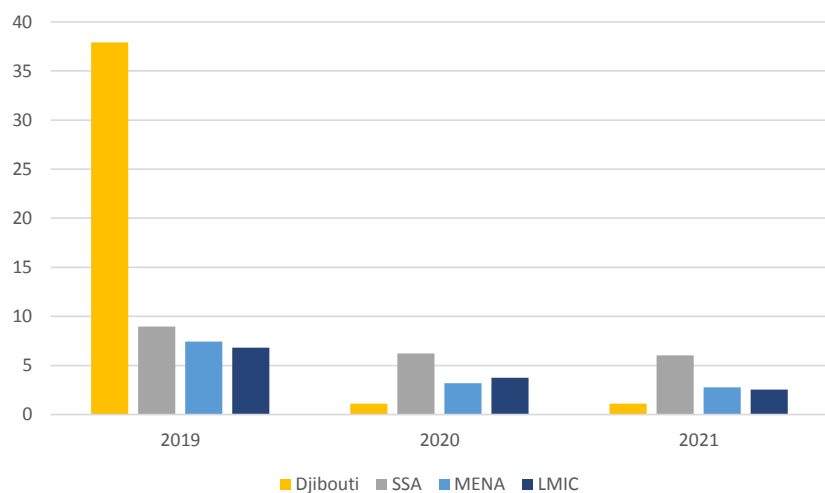
Digital device ownership gap by areas (% , 2017)



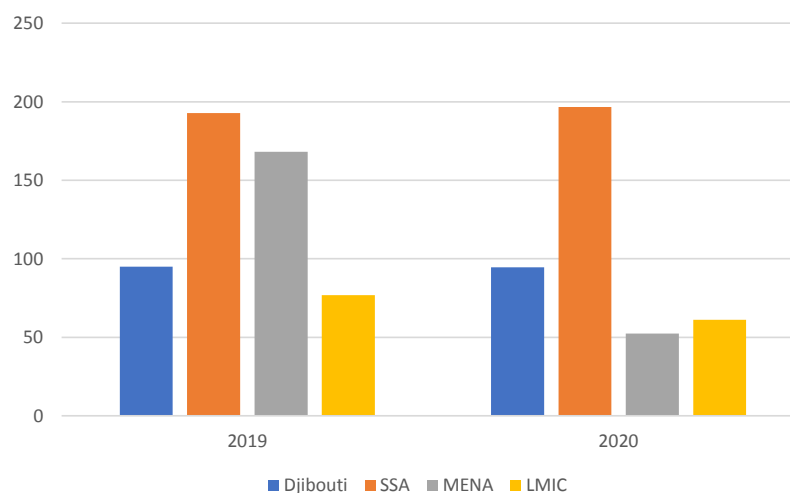
Data from the WB household survey EDAM4 shows how rural areas and the poorest quintile of the population lag in terms of digital devices ownership. There are also data discrepancies in the overall usage of ICT services.

While mobile broadband has gotten more affordable recently, fixed broadband remains very expensive compared to benchmarks.

Price of Mobile Services (USD, 2021)



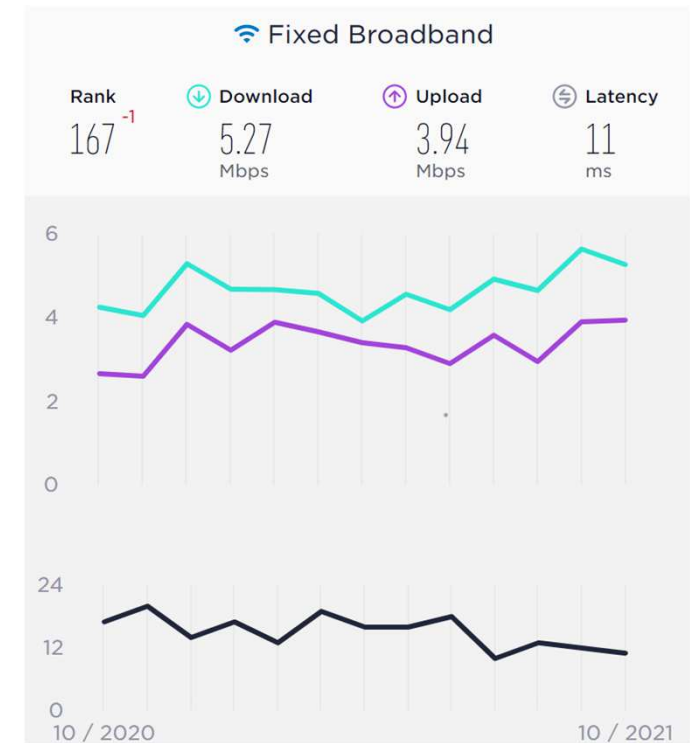
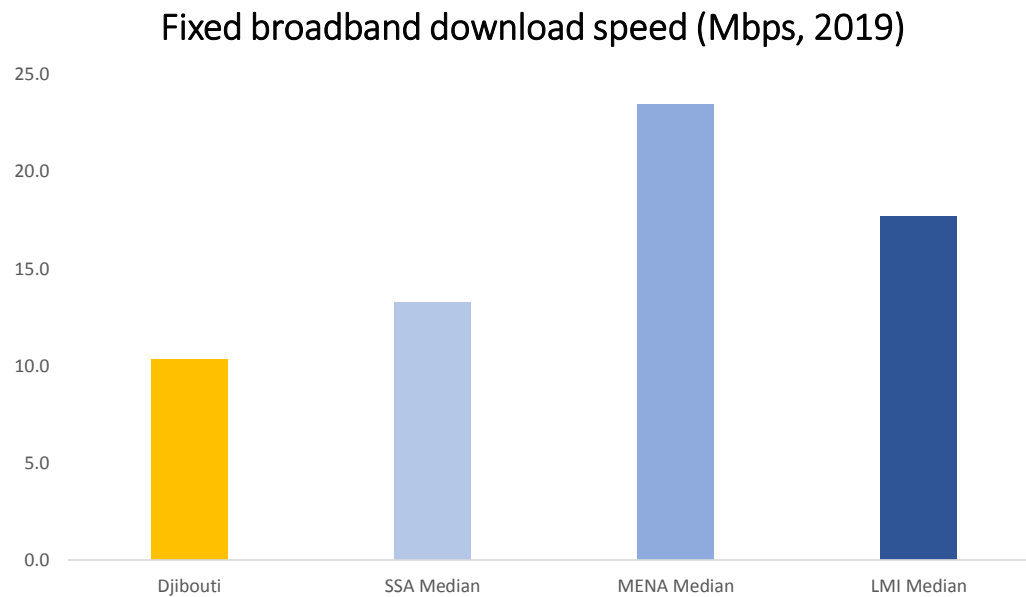
Average monthly fixed broadband (USD, 2020)



Despite Djibouti Telecom's lowering of prices in 2020, fixed broadband prices still exceed both MENA and LMIC benchmarks. The lack of competition doesn't allow users to enjoy the benefits of a relatively developed data infrastructure

The average speed for fixed internet is particularly low, with the country ranking among the last five countries on the Ookla Global Speedtest Index in 2021

Fixed broadband download speed (Mbps, October 2021)

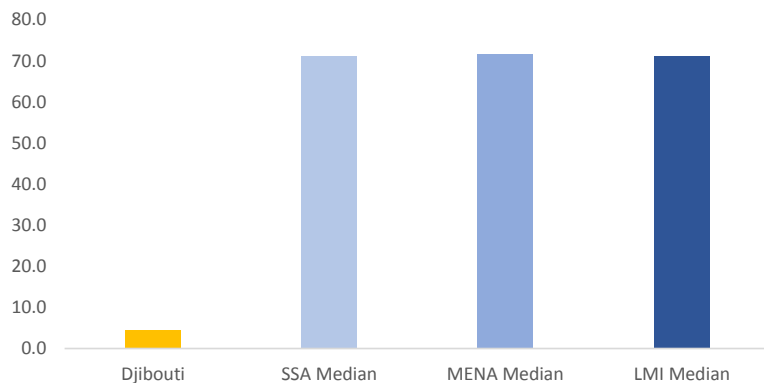


The poor state of digital infrastructure is reflected also on fixed internet speeds, which are below regional and income benchmark and implies a relatively poor quality of service. There is no shortage of international IP capacity/options.

Source : Ookla

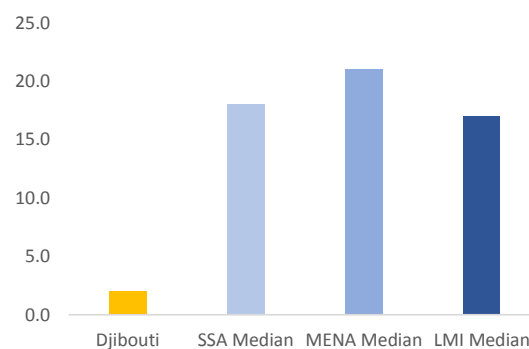
ITU Regulatory Tracker Index reports a low score for Djibouti which is poorly performing in all the categories.

ITU – Aggregated (2018)
(Max score – 100)

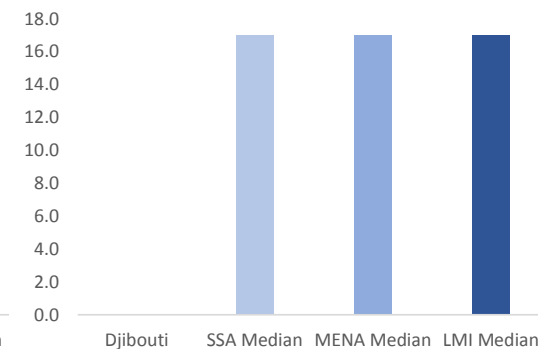


Although the regulator has been established, the framework is still at early stages. Acceleration of reforms should see improvements in performance here.

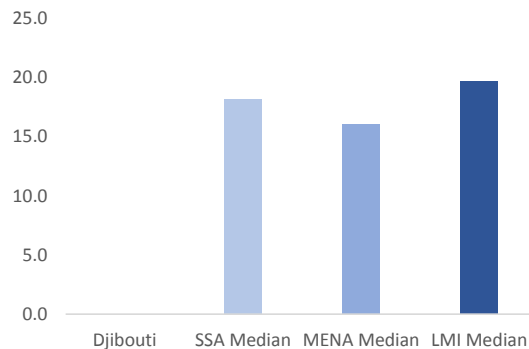
Regulatory Regime
(Max score – 30)



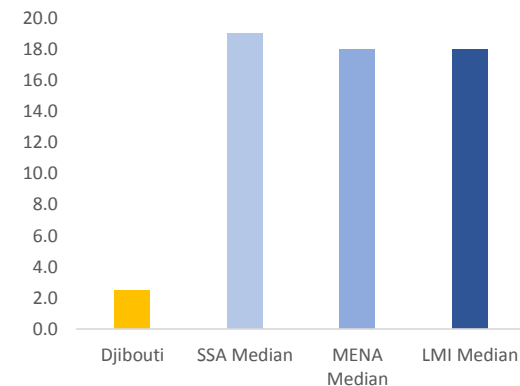
Regulatory Authority
(Max Score – 20)



Competition Framework
(Max score – 28)

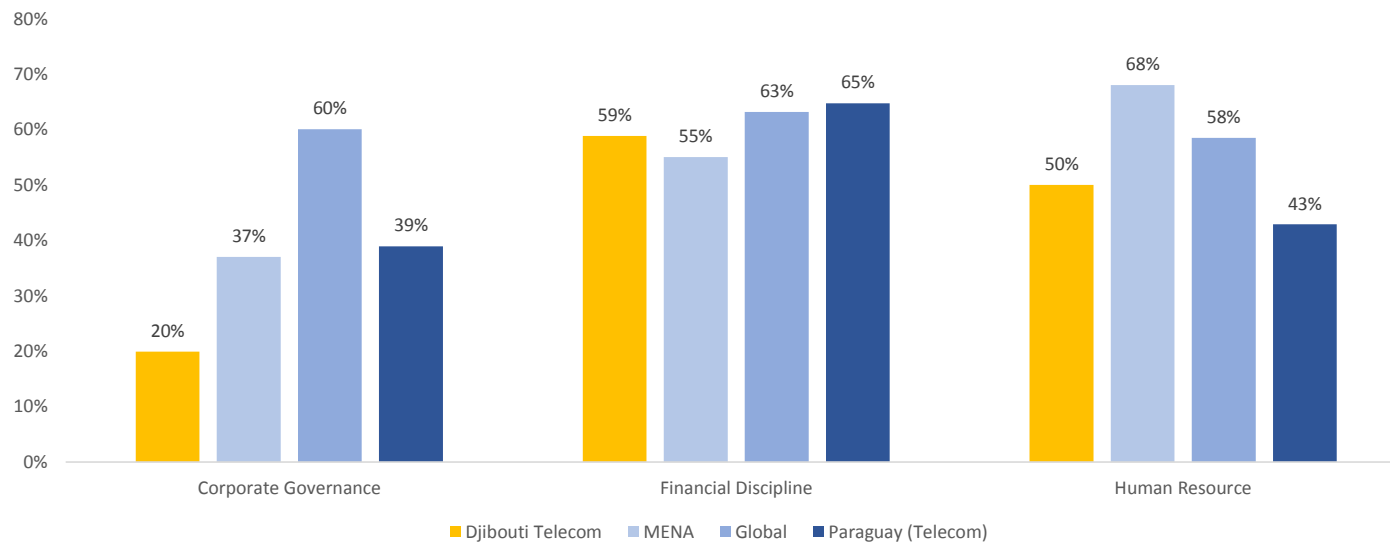


Regulatory Mandate
(Max score – 22)



SOURCE: ITU

Djibouti Telecom has considerable room for improvement on governance



Djibouti Telecom's performance, relative to global benchmarks, is best for financial discipline and worst on corporate governance. Some key areas for improvement are: Publishing financial accounts; Board has limited autonomy e.g. in setting strategy, performance objectives etc; Board lacks important sub-committees e.g. Audit Committee. The proposed transfer of some of the shares to the private sector would be expected to lead to a significant improvement in governance and efficiency. FSD can also act to improve corporate governance as the current shareholder.

Areas for improvement in corporate governance at Djibouti Telecom

Corporate Governance Practice	Djibouti Telecom
Board members are selected competitively	X
Is there An Audit Committee of the Board	X
Board members can take major capital decisions	X
Board can approve raising capital through debt	X
Utility has credit rating	X
Financial accounts are disclosed	X
Annual performance review of employees	X
Good employee performance is rewarded bonuses	X
Public advertisement of positions	X

Djibouti needs to adopt digital legislation and further develop a nascent mobile money ecosystem

- Under the responsibility of the newly created Ministry of Digital Development and Innovation a Digital Code “Code du Numérique” is developing the long-awaited essential legislation that include several laws covering electronic communications, innovation, cybersecurity, e-commerce, data protection, consumer protection and encryption.
- The mobile money service has only recently been introduced in mid-2020, more than a decade after other African economies, such as Kenya and Tanzania

Phase 1 final messages for Djibouti

Djibouti's digital paradox between the international "Djibouti Connector" and the domestic "Djibouti Connected" markets in the country remain to be fully addressed:

International Markets:

- The International connectivity market is very advanced, with connectivity to Europe, Asia, and sub-Saharan Africa via 9 submarine cables with more planned in the next five years.
- Djibouti's geographical position enables it to function as an international hub for submarine cables;
- The country has a Tier 3 Data Center and a well-functioning IXP

National Markets:

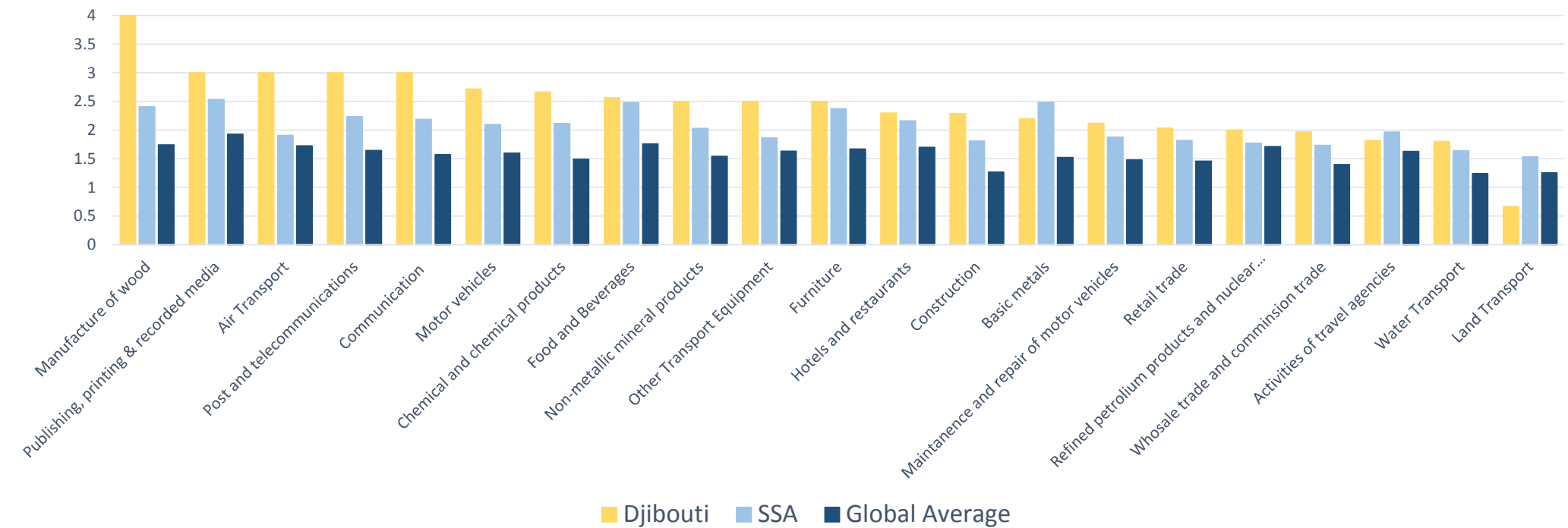
- Domestic connectivity remain to be improved in terms of coverage, affordability, quality of service, and usage divides due to income, location, and gender.
 - Broadband penetration is limited for both mobile and fixed segments, with the country lagging behind on all the regional and income benchmarks.
 - 4G coverage is only now picking up, with projections suggesting it may reach 20% by end-2021
 - Smartphone and Internet usage remain low.
- **Governance:**
 - Nascent regulatory framework needs to be urgently developed; introduction of competition will also be critical
 - SOE survey reports the need to improve performance for Djibouti Telecom on corporate governance.

Annex 2. Electricity

Majority of firms in Djibouti consider electricity a major constraint

- 47% of the firms in services and manufacturing reported electricity as a major constraint (WBES, 2013)

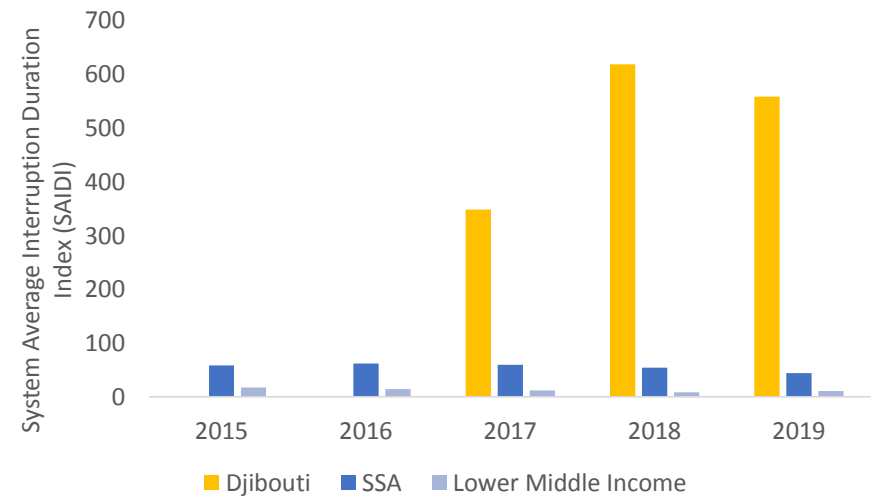
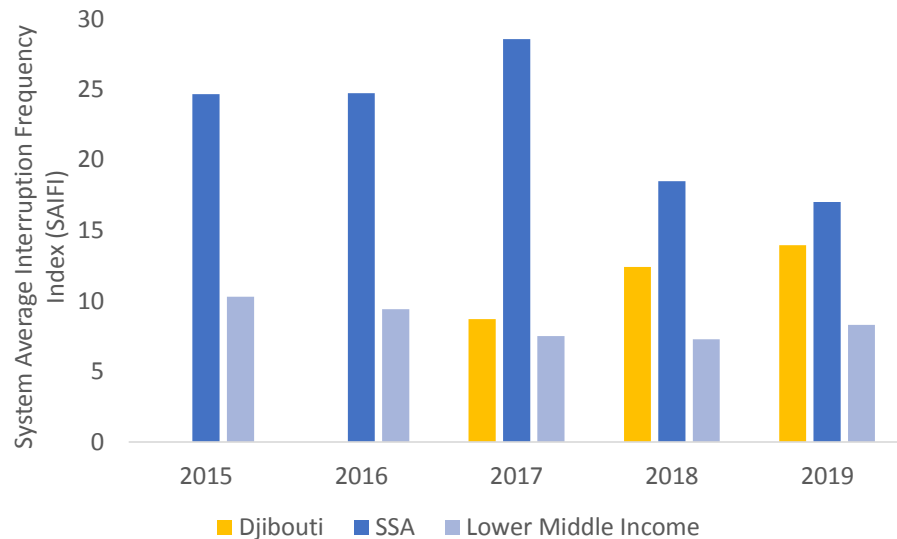
How much of an obstacle: electricity to operations



Source: WBES

Note: 0 = no obstacle, 1= minor 2= moderate 3= major 4= very severe

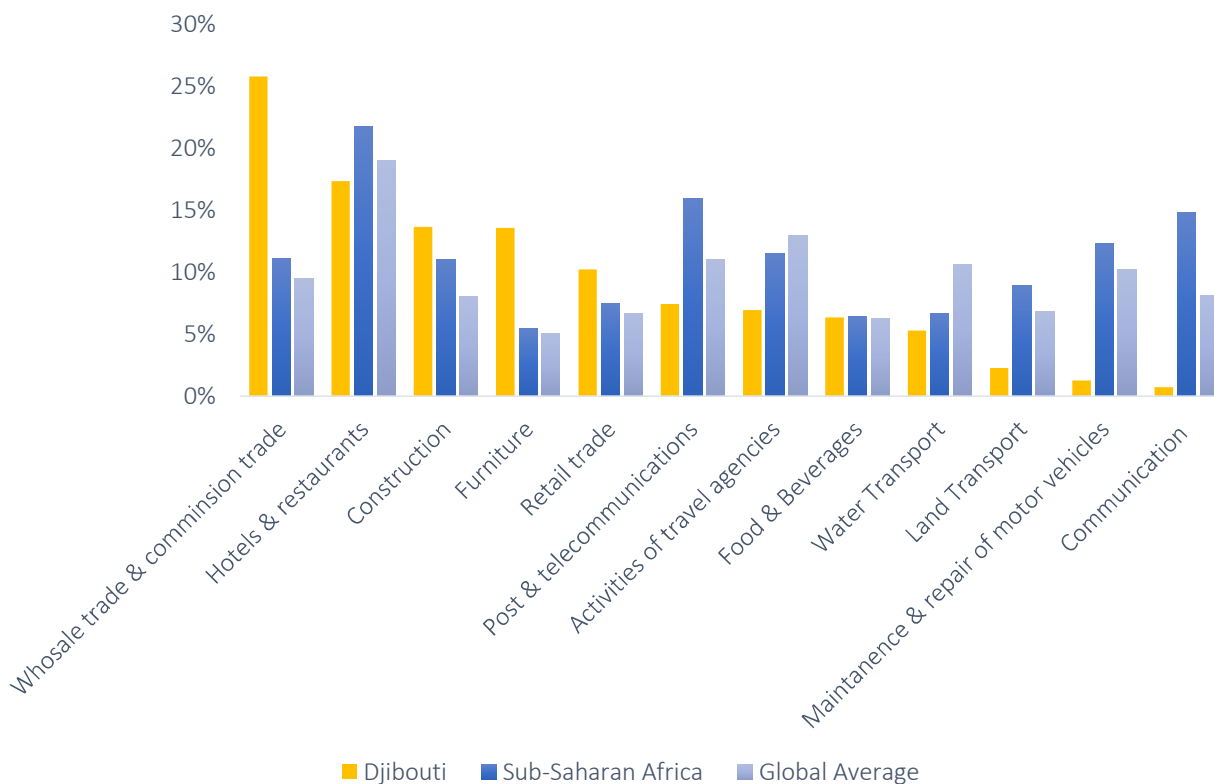
Lack of quality standards and monitoring makes electricity supply highly unreliable compared to regional or income comparators



- While the frequency of outages is lower than the regional average the duration of these outages is much higher
- Lack of quality standards contributes to reliability crisis
- EDD does not have a quality-of-service agreement with the government

High electricity tariffs are a cause of concern for several firms even as the lowest residential tariffs are also quite high

Electricity cost in total production cost

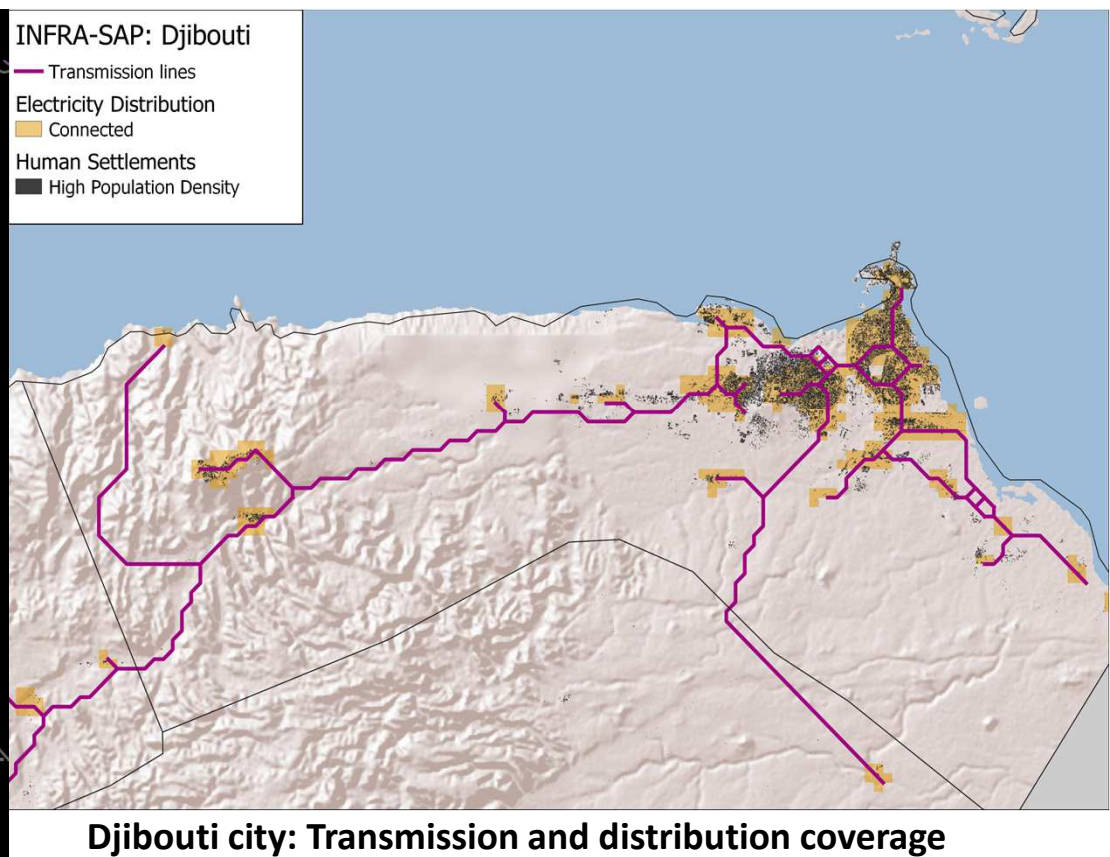
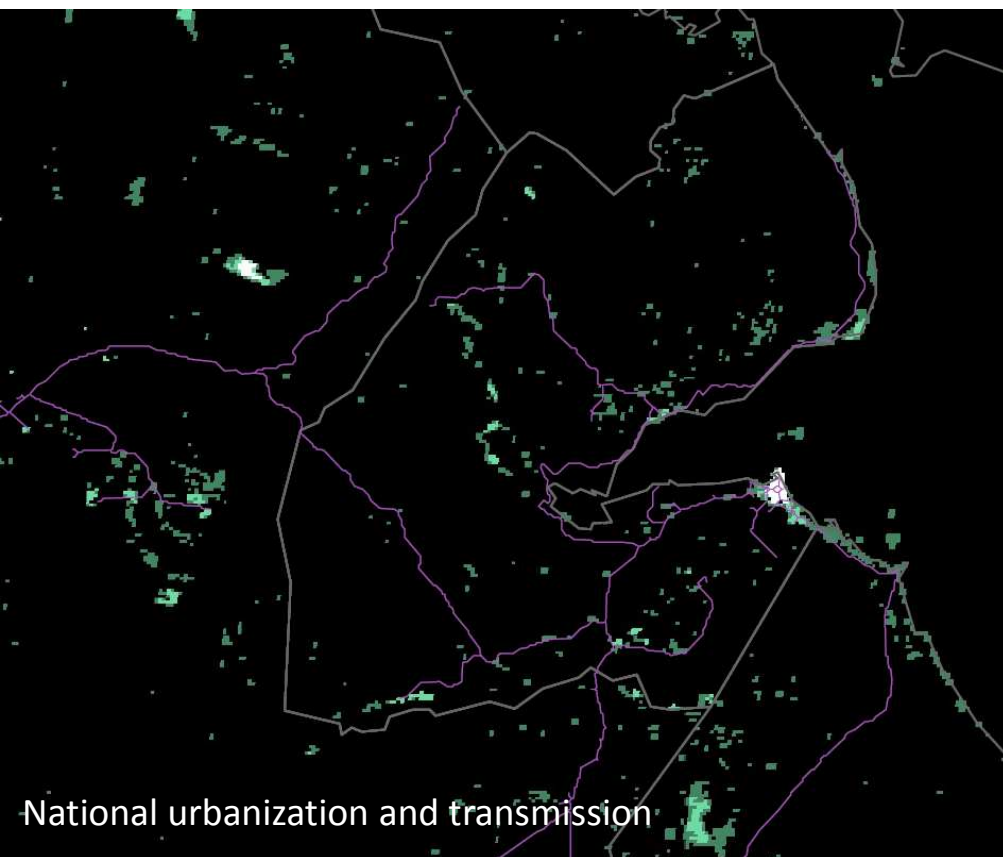


■ Djibouti ■ Sub-Saharan Africa ■ Global Average

Source: InfraSAP2.0 Dashboard based on World Bank Enterprise surveys from 2013-2019

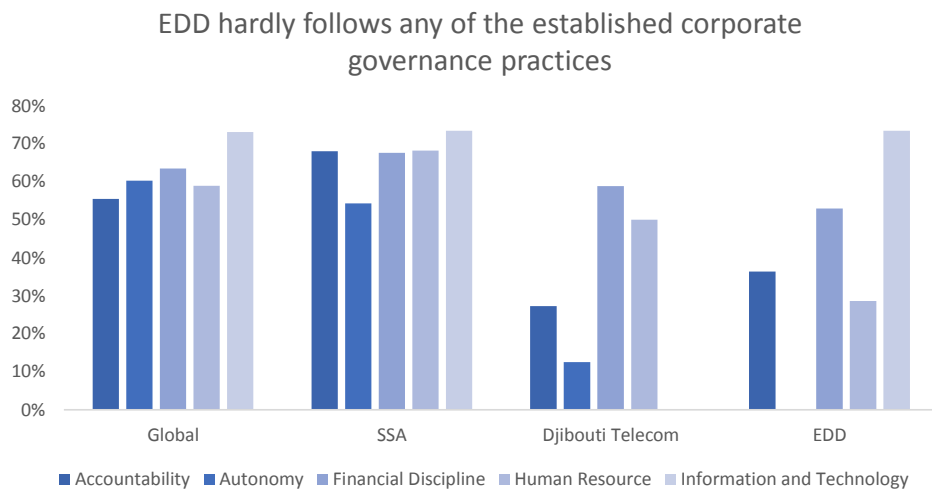
- Average residential tariffs range from 31 cents/kwh to 15 cents/kwh for the lowest consumption level
- As comparison the average regional residential tariffs are about 10 cents/kwh and 9 cents/kwh for low- and middle-income group countries (Source EMIS)
- Industrial tariffs are extremely high at 31 cents/kwh while commercial tariffs are at 25 cents/kwh

Increasing access will require both grid based and off grid solutions



- About 70 percent of the population is urban but not everyone has access
- Rural access is challenging given very small clusters spread out across the country

EDD scores poorly on accountability and autonomy as compared to regional or global comparators, but fairs well on IT and financial discipline



- EDD officially the sole player in the sector, has not been corporatized
- Analysis shows a complete lack of autonomy as well as low accountability when compared to over 40 utilities globally as well as Djibouti's telecom utility
- However, EDD has incorporated several IT solutions to increase operational efficiency reflected in its high IT score

On some critical governance practices EDD comes up short

Corporate Governance Practice	Global Average (% of utilities who answer 'yes')	EDD
Board members are selected competitively	30	X
Board members can take major capital decisions	79	X
Board can approve raising capital through debt	61	X
Utility has credit rating	36	X
Utility pays dividends	47	X
Utility required to meet financial targets	59	X
Utility has internal audit function	94	X
Financial accounts are disclosed	70	X
Annual performance review of employees	85	X
Good employee performance is rewarded bonuses	76	X
Public advertisement of positions	61	X

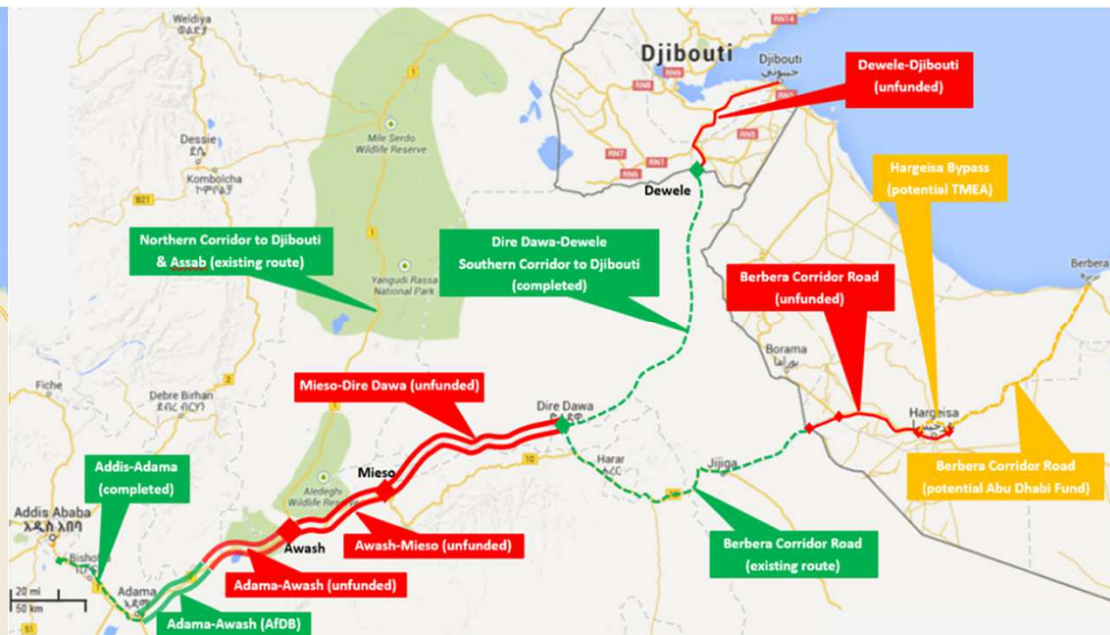
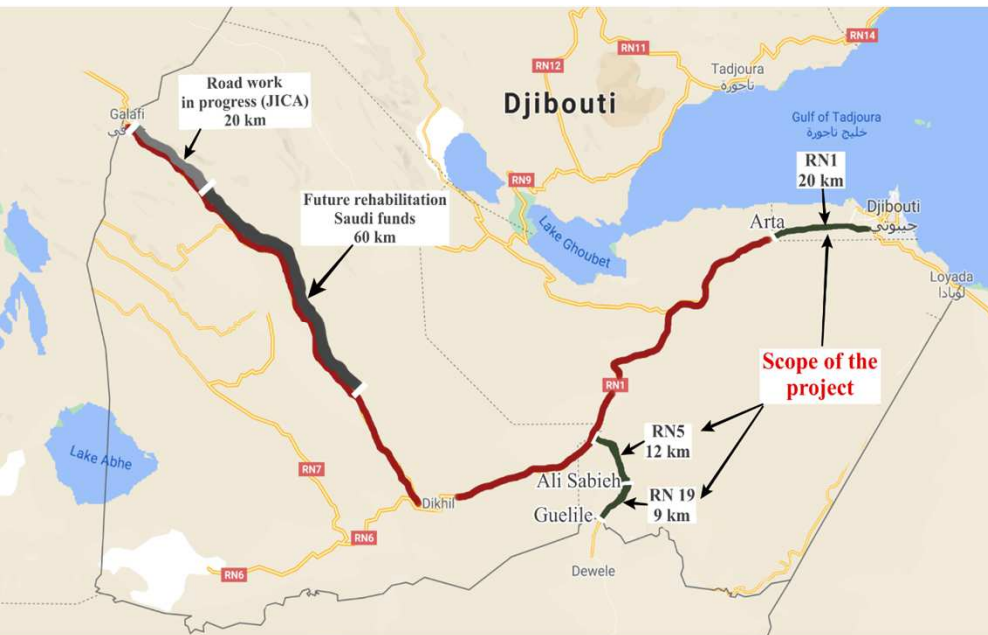
Phase 1 Final Messages for Djibouti

1. **Pricing:** Electricity tariffs are high despite manageable costs and therefore, further investigation is needed to understand how the situation can be improved.
2. **Access:** Access needs to be extended, in both urban and rural areas.
3. **Reliability:** Drivers of the low reliability of electricity need to be examined and addressed. For instance, is it related to bad network, inadequate supply or non-availability of fuel?
4. **Governance:** EDD has corporate governance deficiency and transparency is a major issue across the sector.
5. **Rising Demand:** Demand is expected to rise substantially, and the country will need to exploit its renewables potential to meet the demand.
6. **Investments:** Private sector potential is high in renewables but will need risk mitigation from the government and IFIs.
7. **Data:** Lack of recent data is a major issue in analyzing the sector performance and therefore, data transparency needs to be enhanced.

Annex 3. Transport

Djibouti – Addis Corridor – 1 (WB documents)

- Djibouti – Addis Ababa transport and logistics corridors can be transformed into economic corridors by easing transport of goods and people and providing incentives to stakeholders to trade and engage in various economic activities along the corridors.
- The road corridor represents the majority of transit to Ethiopia; however it suffers from sections in urgent need of rehabilitation which compromises the fluidity of trade between the two countries, creates delays and impacts the overall performance of the corridor. Several factors impact negatively the efficiency of this road corridor: Infrastructure deficiencies, road safety and lack of appropriate maintenance of the infrastructure despite the existence of a toll.
- The expected results of the Djibouti – Addis Road Corridor Project are the improvement of transport and transit services, the reduction of the general costs of transport, the improvement of road safety along the corridor, and reinforce the strategic position of Djibouti as a regional logistic hub.



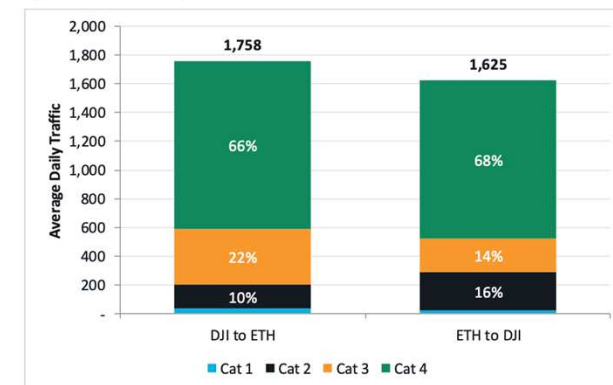
Djibouti – Addis Corridor – 2 (WB documents)

- Three main current routes between the Port of Djibouti and Addis Ababa:
 - The “North Corridor” (red on the map): Djibouti – Galafi border – Semera
 - The “South Corridor” (blue on the map): Djibouti – Guelileh border – Dewele and Dire Dawa
 - The railway between Djibouti and Addis Ababa
- The North Corridor is slightly cheaper than the South Corridor, but worse road condition
- Traffic on the corridor is mainly focused on freight transport. On RN1, commercial vehicles (Cat 3 and 4 on the graph) make up 88% of the traffic, and heavy vehicles make up two thirds of the total traffic.



Source: Steer cartography based on OpenStreetMap data

Figure 2.3: Directional profile of ADT on RN1

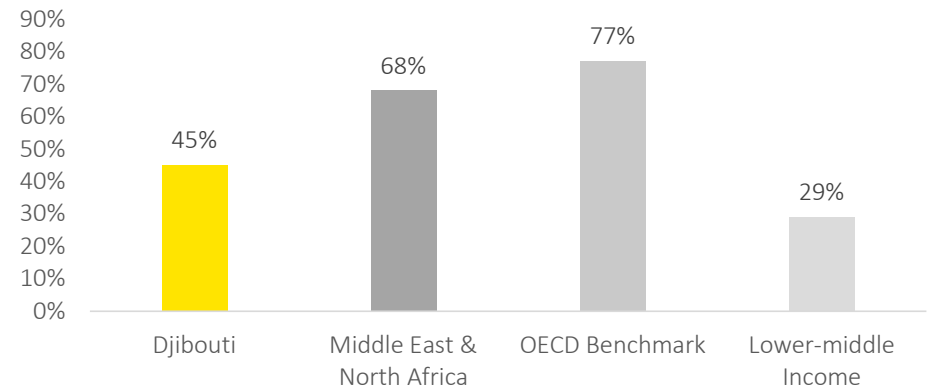


Source: Steer analysis of 2017 data from traffic report sent by DPCR

M8: Underdeveloped road transport network

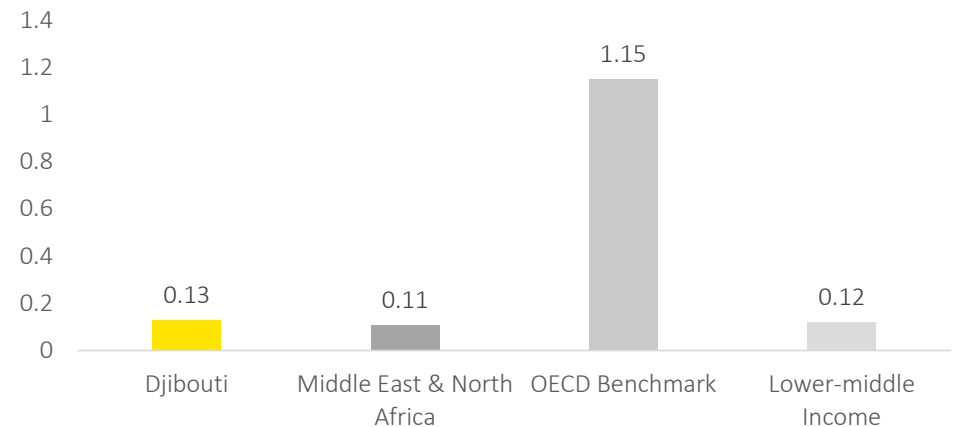
- Relatively low levels of road paving (45%), compared to Middle East & North Africa (68%)
- Road network density is low (0.13), as Middle East & North Africa

Percentage of total road network that is paved (%) Year 2000



Source: IRF World Road Statistics

Road network density over the surface (km/km²) Year 2000



Source: IRF World Road Statistics

M9: Tensions to be expected in urban transport

As cities are growing and urbans get richer, they will rely more and more on cars, with the prospect of congestion, pollution if the quality of public transit is not good enough.

- Large reliance on walking and public transit
 - 50% of the population travels by foot
 - Only 3% of Djiboutian owns a car
 - Most urban residents live within a short walk of a public transport route, and these operate throughout the day and allow relatively short travel times
- Limited quality of the informal transport sector
 - High prices
 - Transport services are mainly provided by informal operators, driving aging and poorly maintained buses

Unaffordability of transport costs for the poorest

- Relatively high travel costs: over 15% of total per-capita consumption



Source: WB report on urban transport in Djibouti

Phase 1 Final Messages for Djibouti

Accessibility and Connectivity

- **North western part of the country is relatively isolated** with limited access to roads, main domestic cities and main international gateways, and will benefit little from ongoing regional transport corridors.
- **Connectivity to regional hubs (primarily Addis Ababa) remains limited.** New regional road corridors aim at improving connectivity with Ethiopia.

Road Infrastructure

- **The road transport network is under-developed**
 - Outside the capital, transportation is limited, and road infrastructure is often not well maintained

Externalities

- **There are large transport negative externalities** such as poor road safety and high pollution linked to transport

Urban Transport

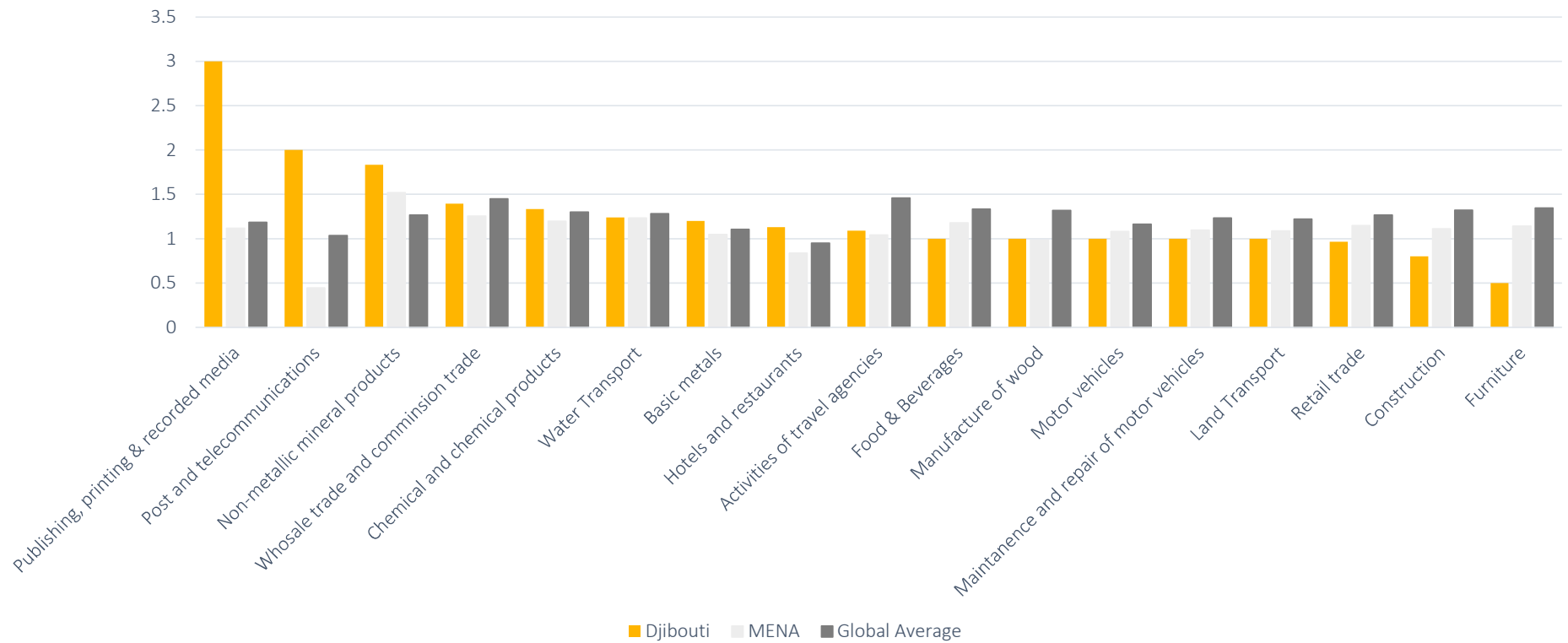
- There is **large reliance on walking and public transit**
- The **quality of the informal transport sector is limited**
- **Transport costs for the poorest are unaffordable**

Transport Services

- The **quality of transport services remains an issue for firms**

Firms in some key economic industries in Djibouti consider transport a moderate constraint

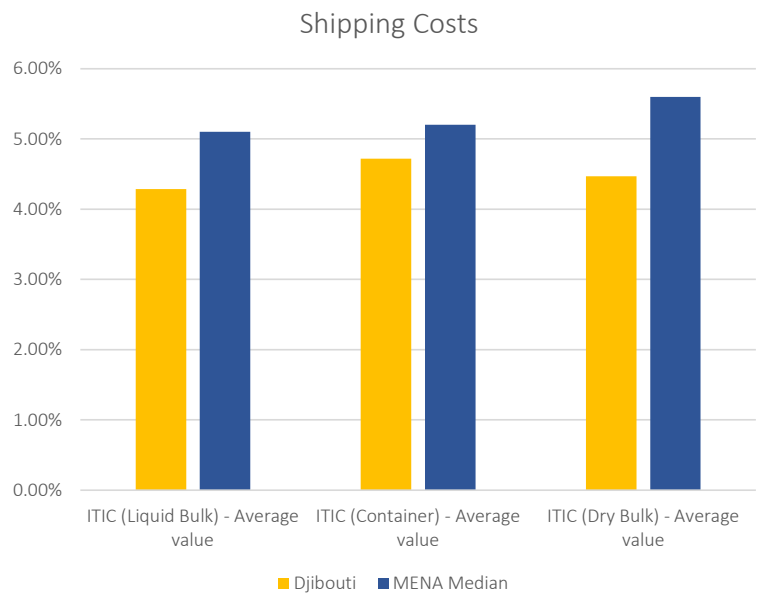
How much of an obstacle: transportation to operations



Source: WBES

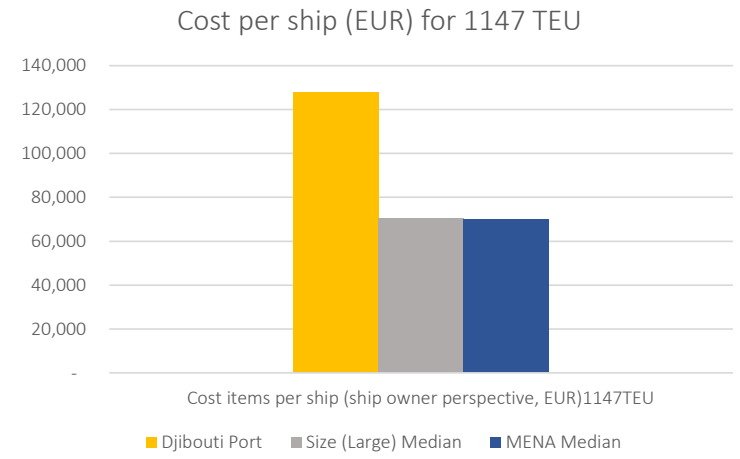
Note: 0 = no obstacle, 1= minor 2= moderate 3= major 4= very severe

At the port-level, shipping costs in Djibouti are relatively higher than the benchmarks possibly due to higher waiting times

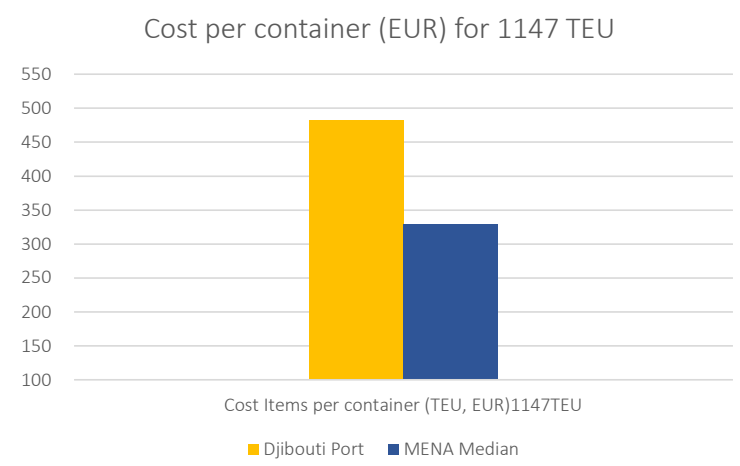


Note: ITIC is a ratio representing what the proportion of transportation and insurance costs are from the total value of goods in the CIF from customs declarations.

Source: OECD

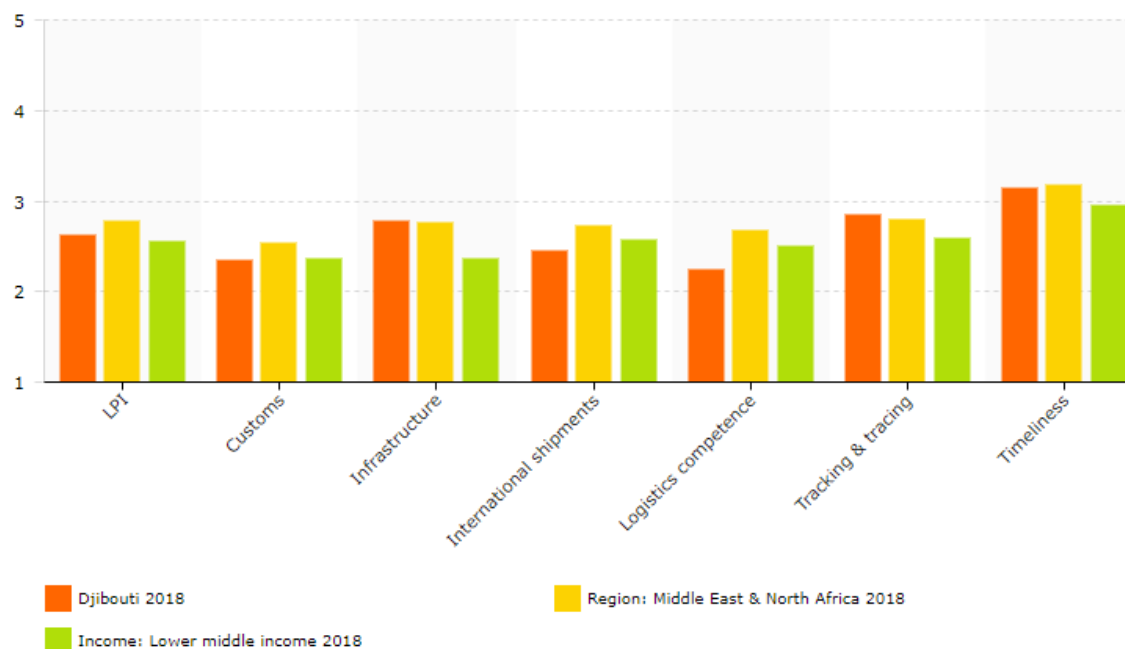


Source: University of Antwerp Chain Cost Model



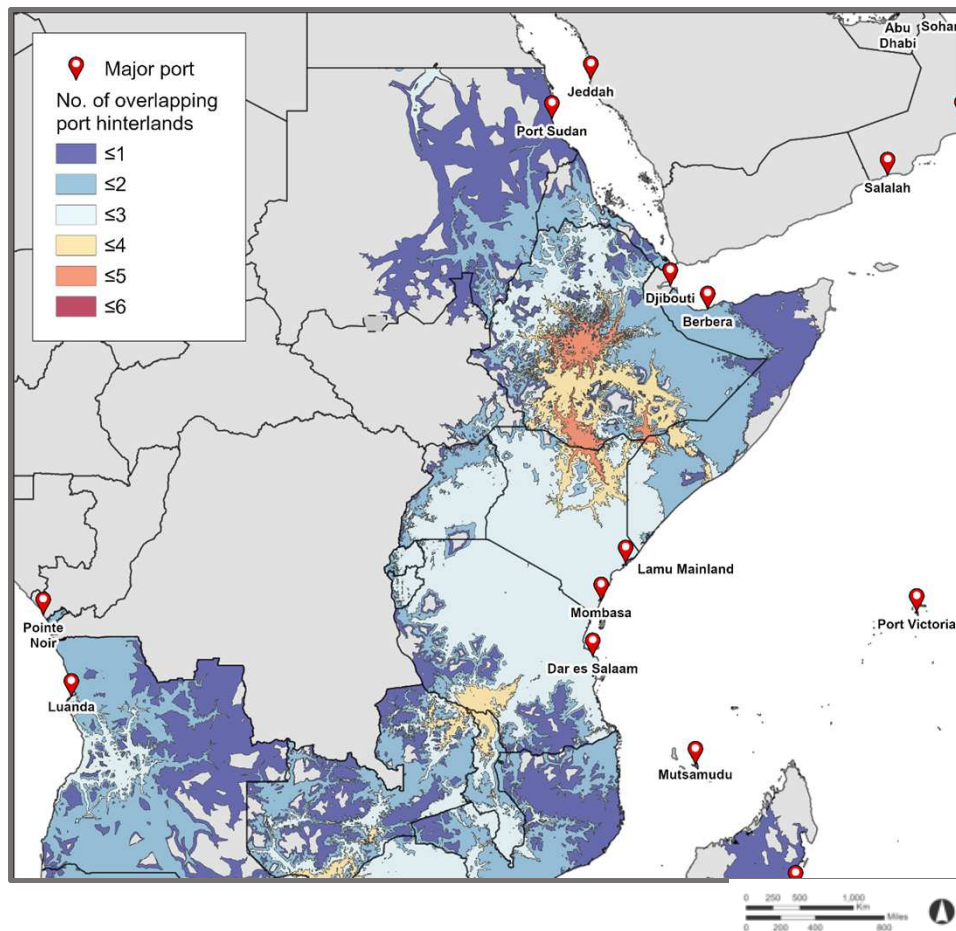
Source: University of Antwerp Chain Cost Model

Logistics Performance Index (LPI) results show that Djibouti needs to particularly improve in logistics competence and customs



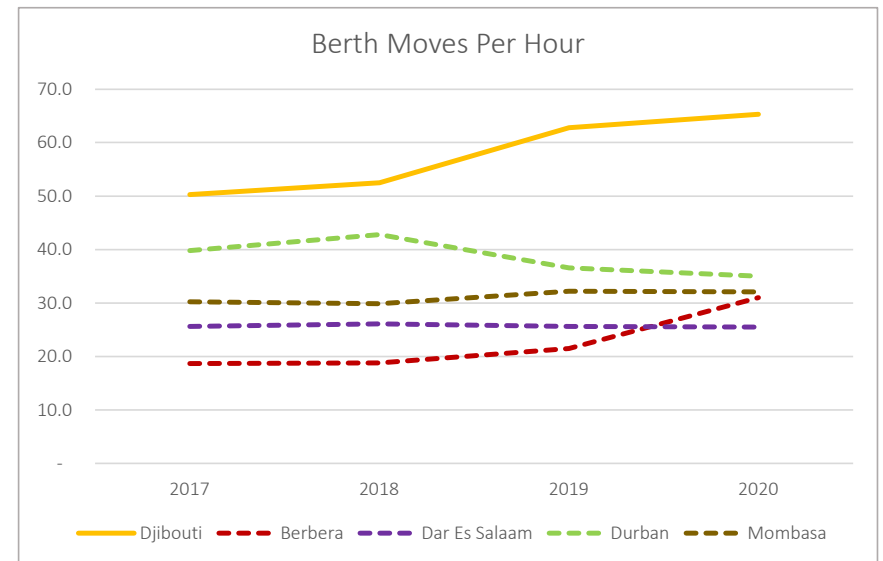
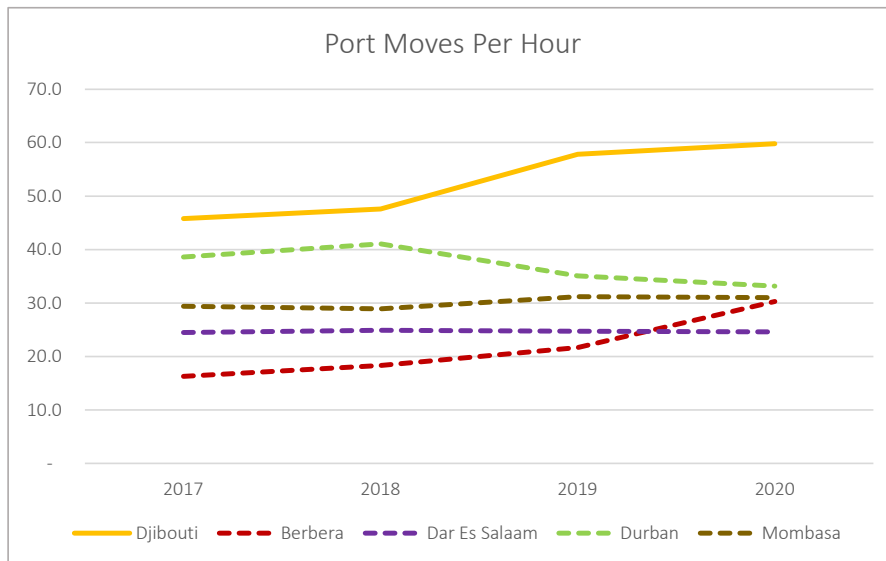
Indicator	Djibouti	MENA Regional Average	Lower Middle Income Average
LPI (2018) Overall score (1=low to 5=high)	2.64	2.77	2.57

There are several ports in and around Djibouti that can be potential competitors as well as comparators, since as shown in the graph below hinterlands between ports can overlap.



- The ongoing Berbera port development in Somaliland could pose a potential threat to Djibouti's trade with Ethiopia in the long-term, so relying only on trade with Ethiopia as the main driver of growth will soon face some limits.
- The development of the Lamu Port and associated road infrastructure under the LAPSSET project is also expected to capture cargo for Southern Ethiopia through the South Sudan and Ethiopia Transport corridor.

However, in terms of port performance and efficiency, Djibouti outperforms the peers. Measures of Port and Berth Productivity show that overall Djibouti Port is in fact, unlike most others, reflecting an upward trend.

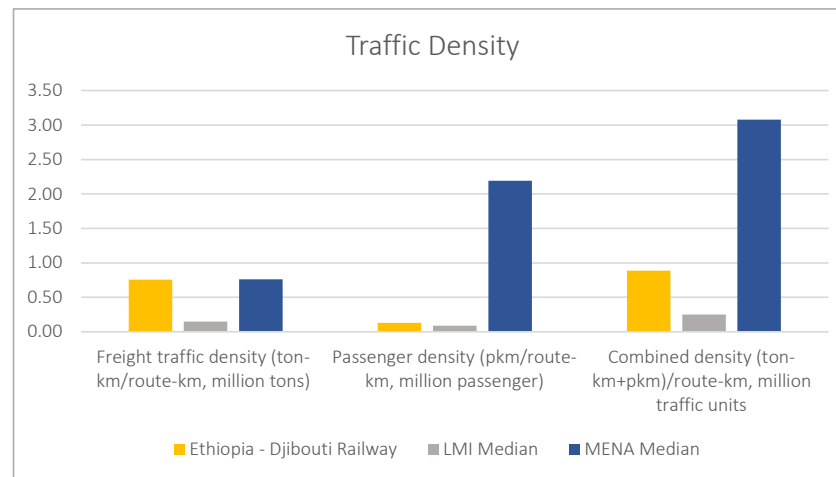
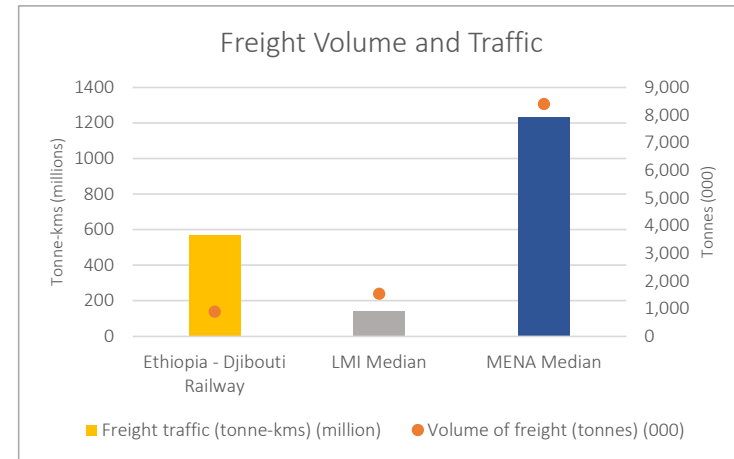
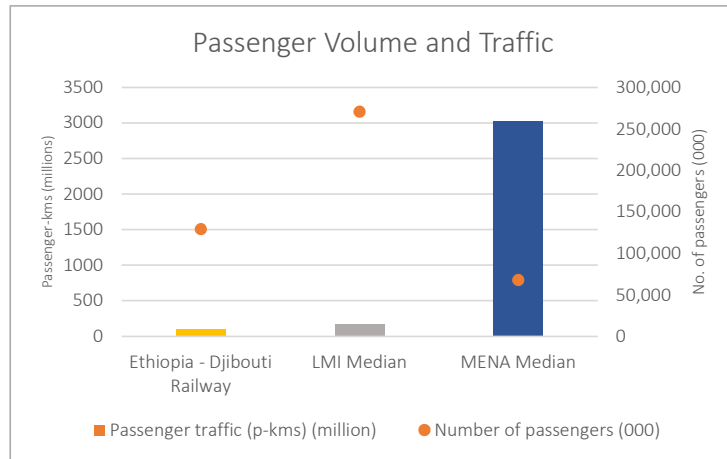


- In a forthcoming World Bank report, assessing Container Port Performance states that while no ports in SSA rank among the Top 50 container ports, Djibouti ranks the highest at 61.
- Even in a 2018 study by the World Bank, Mombasa and Djibouti ranked highest in technical efficiency among Eastern and Southern African ports

Phase 1 Final Messages for Djibouti

- Djibouti's economy is driven by port services in the import of food grain and all industrial products. Seventy percent of the cargo at the port is shipped to or from Ethiopia. Therefore, sustaining the competitiveness of Djibouti Port as other ports emerge in the region (such as Berbera, Lamu and Assab) is crucial. This requires a focus on more integrated, efficient and cost-effective hinterland connectivity.
- Djibouti is a front runner Africa region on port performance (productivity and technical efficiency).
- Therefore, in the short-term, the upcoming Berbera port is unlikely to affect traffic and volume of trade at Djibouti. But overtime as connectivity develops and given the fact that Ethiopia has invested in it, Djibouti must make sure that the rail and road logistics to Ethiopia, including border compliance time and cost, are improved in order to retain its competitiveness
- Results also show higher than average waiting time of vessels which is reflective of port congestion, which should be addressed. This is often translated into high shipping costs which can be detrimental to its competitiveness in the long term.
- To encourage private sector investments in the sub-sector, the Government needs to develop a national policy and guidelines on the type, size, or nature of private-sector participation envisioned in the port sector.

Traffic density shows that the railway line is lightly-used which can be indicative of low profitability



Notes: LMI refers to Lower-Middle Income countries
 MENA refers to Middle East and North African countries

Reported lower than expected utilization of the railway

- A recent report reflects a significant increase in the revenues of EDR (amounting to US\$86.13 million in 2021, which is a 37.5 percent increase from 2020) which is a positive sign. However, even this revenue level is insufficient to meet both operational costs and debt service requirements. The service and operational speed of the railway has been constrained due to insufficient power supply, collisions with livestock and informal crossings. In 2021, improvements in safety has been reported by the EDR.
- In 2021, it was reported that 449 passenger trains and 1469 freight trains operated on the line, which could be estimated as 2.5 train pairs per day which is a marked improvement from 2018 when only one commercial train pair per day operated on the line. The break-even point is estimated as four train pairs/day.
- During the railway's first year of operations, 90% of trains from Ethiopia arrived empty at a container terminal in Djibouti, only to collect imports from a nearby loading point to Modjo (90 km south of Addis Ababa)
- Rail rates are not yet competitive with trucks when it comes to 20ft containers.
- Lastly, multimodal traffic from Djibouti is controlled by Ethiopian Shipping Logistics Services Enterprise (ESLSE), a government agency that determines the proportion of import container traffic that travel by rail and road, and which has its own trucking fleet that it is expanding.
- Low utilization led to the current low profitability of the project and the terms of the loan have resulted in a debt burden that Djibouti is finding it difficult to meet, hence they requested to renegotiate the terms in the very year (2019) when the loan repayment was due to begin.

Existing challenges

- The **revenue levels, even with the recent 37.5% increase in 2021, are currently insufficient to meet the high burden of financing charges and operating costs**, so high level of debt cannot be serviced from operating cash flows
- In December 2020, Ethiopian Railway Corporation (ERC) reported that the railway line has **suffered increased journey times** (from 12 hours to 16, along with serious reductions in average train speeds, from 80 to 50km/h) **and reduced revenues** (around \$US 2.95m during the first quarter of the current fiscal year), **following criminal damage to infrastructure due to vandalism and theft on the railways**.
- Despite the line's completion in 2016, delays in the construction of the transmission network held up the railway's commission, and **problems with power outages and technical issues of over-voltage have continue to plague the line in the first year of operation**.
- The decision to not erect fencing along rural tracts of the railway (both for cost-saving purposes and a concern to not divide pastoral communities) has led to the regular phenomenon of **collisions between the train and livestock, resulting in conflicts overcompensation**. Improvements have reportedly been made in 2021 with no significant incidents having occurred. The recent implementation (on August 25, 2021) of the Regulation on Railway Safety Protection by Ethiopia's Somali Region, may potentially help.
- The **number of passengers has also declined due to conflicts and security issues** between the border of Oromia and Somali regional states that involved blockades leading to several instances of disruption to service.
- Integration with export and industrial zones is low, as the main trunk line does not connect to individual industrial zones, creating significant last-mile shipping and logistics for firms. **Most exporters continue to use road transport, despite the higher time and financial cost, due to its greater flexibility and reliability compared to the train's twice-daily schedule**. This is exacerbated by the **reliance upon Ethiopian Shipping and Logistics Services Enterprise (ESLSE) for the allocation of freight cargo**.
- Other challenges include - **lack of a sound legal system for railways, frequent power failure; insufficient facilities or equipment for the railway; limited funding for the sustainability of the railway; lack of clear understanding of the benefits of the railway; slow policy decisions on the management of finished linkage lines and the construction of the newly-planned one**.

Phase 1 Final Messages for Djibouti

Given that the port and transit cargo operations are essential sources of income and employment for the country, having a better and more competitive railway service that supports these sectors is critical.

Immediate-short term recommendations

- EDR has a standard rate for 40ft containers and not for the 20ft containers, which has made it less competitive in pricing when compared to trucks. Therefore, it may be worth **recalibrating the tariff structure in relation to the demand and size of exports of businesses in Ethiopia**. This action could be supported by an appropriate market analysis in order to optimize the tariffs.
- The Government of Djibouti should consider establishing **formal contractual relationship with EDR** for the following:
 - **A multi-annual infrastructure operations and maintenance contract**, which would be an exclusive contract with EDR and pay against KPIs for the condition and operation of the infrastructure.
 - **A three-way passenger service concession** with EDR and the Ethiopian Government, in which EDR is paid to operate loss making passenger services against KPIs for the service.
 - **A non-exclusive freight concession**, in which the government gives EDR the right to operate freight service over the Addis – Djibouti line against payment of access fees (set at a level that EDR freight business is profitable, but government gets paid something that it can put against the costs of the infrastructure contract and/or debt).

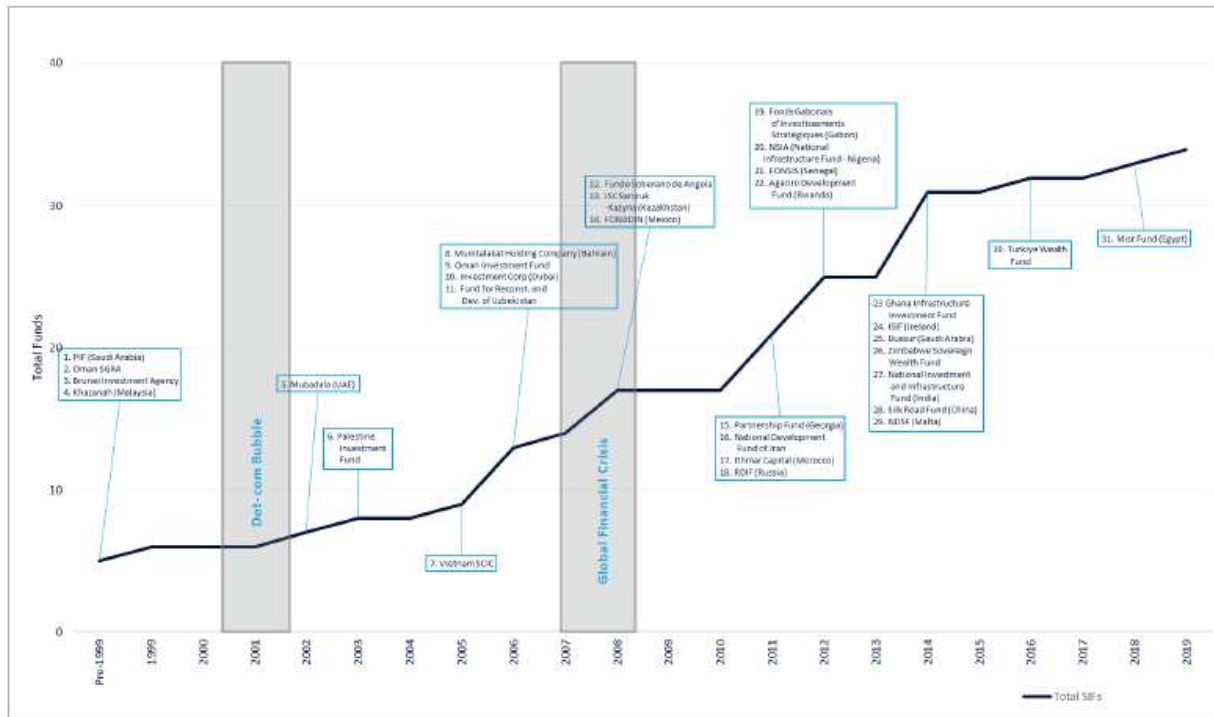
Phase 1 Final Messages for Djibouti

Medium-long term recommendations

- The Addis-Djibouti line is currently being operated with a mix of local (Ethiopian and Djiboutian) staff and Chinese staff provided under a management contract that covers operation of the railway and training of local staff, which ends in 2023. Therefore, there should be strong push from the Government to **ensure all trainings are completed within the contractual deadline to ensure that local staff are able to competently take over the operations and maintenance.**
- Ethiopia annually purchases more than 3 billion dollars worth of fuel from abroad. However, EDR is not fully operational in transporting petroleum as the line remained unconnected to any depots in the country. Therefore, the **Awash oil depot link railway connection and unloading facilities project could provide a good opportunity for EDR to increase freight volumes and use its idle tank wagons,** resulting in higher revenue generation. On Dec 31, 2020, CCECC signed a contract with ERC to design and construct the Awash Oil Depot Link Connection and Unloading facilities, which is a significant step towards enhancing the traffic volumes on the EDR.
- Private sector participation (PSP) should be considered in improving **last-mile logistics for firms by integrating with export and industrial zones, leasing of rollingstock as well as developing ‘hook and haul’ services while working on strengthening the institutional set up (including safety and security)** in order to develop PSP enabling environment and capacity for a mature rail sector.
- **Future infrastructure projects should have technical specifications examined by international railway experts to advise on how to best operationalize the track design.** At present, the single-track design with long blocks (up to 70.4 km) in one direction limits the capacity of the line.

Annex 4. Best Practices for Strategic Investment Funds

Since 2000, about 30 SIFs have been formed at the national level, typically to boost economic growth through infrastructure or SME investment



Pre-global financial crisis, there were already a few SIFs in existence, such as Malaysia's Khazanah, Abu Dhabi's Mubadala or Saudi Arabia's Public Investment Fund (PIF). But in the years immediately post financial crisis, about 15 of them came up in countries ranging from Senegal and Nigeria to India and Ireland

Strategic Investment Funds (SIFs) are publicly-sponsored commercial investment funds that combine financial performance objectives with development objectives.

- **Strategic Investment Funds (SIFs)** are special purpose investment vehicles backed by governments or other public institutions that seek to invest in, and mobilize commercial capital to, sectors and regions where private investors would otherwise not invest or invest to a limited extent
- SIFs exhibit all the following six characteristics. They:
 - a. *Are initiated by, and fully or partly capitalized, by one or more governments, or by quasi sovereign entities (e.g., government-owned global or regional development finance institutions);*
 - b. *Invest primarily in unlisted assets -- either domestically or thematically -- to achieve financial returns as well as the fulfillment of a policy objective (“double bottom line”)*
 - c. *Aim to mobilize commercial co-investment at the fund and/or project level;*
 - d. *Provide long-term patient capital, primarily as equity, but also quasi-equity and debt;*
 - e. *Operate as professional fund managers on behalf of their investors, targeting commercial financial returns;*
 - f. *Are established as pools of assets (or funds) through a variety of legal structures, such as investment company, trust, statutory corporation or a limited partnership.*
- SIFs may be set up to exclusively enact a SIF mandate, or be part of a larger SWF or public policy purpose.
- Both the funding sources and management models of SIFs can be either solely public or public-private.
 - **Public Capital SIFs:** SIFs that are fully capitalized by a government or other public entity, such as a multilateral development bank (MDB) or development finance institution (DFI). Within this category, public capital SIFs that are wholly capitalized and managed by a single government are sometimes referred to as “sovereign development funds.”
 - **Mixed Capital SIFs:** SIFs initiated and funded by a public entity but also including investment by commercial entities.
- The double bottom line mandate of the SIF seeks to match the government’s policy objective with the need to attract private capital.

Rationale for setting up of SIFs

- **Additionality** – is the cornerstone to justifying a SIF’s establishment
 - It refers to the extent to which a SIF’s intervention can address market or government failures –
 - SIFs must invest only when there is a confirmed financing gap and must seek to provide non-financial value that facilitates private investment
 - a. *Financial additionality*: providing new sources of finance; a diversity of instruments; or mobilizing additional financing; OR
 - b. *Non-financial additionality*: mitigating risk; triggering regulatory change; setting higher ESG standards; capacity building; building an investor base; or demonstration effect.
- **Crowding-in commercial capital**
 - SIFs are set up precisely to stimulate commercial investment in underserved sectors.
- **Macroeconomic Implications**
 - Public capital SIFs, like SWFs, are part of the overall balance sheet of the government, and therefore **SIF activities must maintain coherence with the overall fiscal policy of the government.**
 - Particularly for public capital SIFs, **the government must have capable fiscal management to efficiently oversee a SIF’s activities and liabilities.**

Santiago Principles and Macroeconomic implications of SWFs/Public Capital SIFs

- GAAP 3. Where the SWF’s activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.
- GAAP 4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF’s general approach to funding, withdrawal, and spending operations.
- GAAP 4.1. The source of SWF funding should be publicly disclosed.
- GAAP 4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

Critical factors that drive the success of Strategic Investment Funds (SIFs)

PRIORITIES

- One of the central features of the public capital SIF – its **alignment with national priorities** – may also lead to operational complexity for the fund manager as national priorities change during the life cycle of the SIF.

POLITICAL COMMITMENT

- To be able to develop its capacity and implement a long-term mandate, **SIFs needs enduring and broad-based political commitment that spans electoral cycles**: the absence of such support can jeopardize the longevity and effectiveness of the fund

CAPITAL COMMITMENT

- A successful SIF is one that has deployed **a substantial amount of capital that is indeed additional**, realizes the stated target financial returns, fulfills the policy objective and crowds in commercial capital.

GOVERNANCE

- The **quality of a SIF's governance is arguably the most important determinant of its success**. A robust governance framework bolsters a SIFs' legitimacy and is a pre-requisite to effective long-term performance.

TRANSPARENCY AND DISCLOSURE

- **Transparency and disclosure** are twin guiding principles which allow the SIF and its governing bodies to be held to account whilst the fund invests public resources in pursuit of a stated mandate.
- Best practice dictates that the SIF is **audited by an independent, well-reputed firm under the supervision of the board's audit committee**, although public capital SIFs are sometimes audited by the state comptroller and auditor general.

In order to prosper in global markets, SIFs must have a robust governance framework that can meet the expectations of foreign due diligence.

- If a fund is to originate deals locally and bring in co-investors (via. syndication), it has to be able to prove it is accountable and reliable.
- SIFs need to adopt universally accepted procedures, such as reporting and accounting, and provide this information to an independent Board and the co-investment community.
- The sponsor should consider the following **key governance principles**, which offer a mechanism to effectively characterize the rationale and stated purpose of the institution

Measurement

- SDFs should have a summary, or headline, rate of return target.
- This will provide stakeholders an expected long-term performance benchmark for which to hold management accountable

Coherence

- Recognizing that the rate of return target typically stands for a set of development objectives, these objectives should cohere with one another such that there is no conflict between objectives.

Oversight

- The sponsor should seek to imbue the SDF with world-class governance.
- In general, we know that effective boards of directors are relatively small (7–9 members) and combine representatives from the sponsor and the executive directors of the institution with a group of independent directors whose expertise and relevance is unquestioned.

Delegation

- There should be a clear separation of powers between the board and management team, which necessarily must come with formally delegated powers to the senior executives for framing and implementation of investment.

Accountability

- Boards should be accountable to their government sponsor in accordance with the SDFs' mandate, just as senior executives should be accountable to their boards of directors.
- With accountability comes transparency, and with transparency comes legitimacy

Commerciality

- The purpose of setting up an investment vehicle outside of traditional government agencies is to create a credible third-party investor.
- The idea is to bring market discipline to sectors that may have never had it.
- The new vehicle should thus have a well-defined, commercial orientation that can guide management and decision-making, as well as help other investors understand and appreciate its mission.

SIFs rely upon the integrity of their management systems to realize long-term goals.

- **Policies of Management** refers to how an SIF realizes its goals and objectives in the context of the earlier mentioned governance principles

Marketability

- SIFs are best when their interventions attempt to accelerate the activity of private agents in incomplete or undeveloped parts of a market or, additionally, catalyze completely new private agent activity through partnerships that are aligned with their goals and objectives.

Positioning

- The test of an effective SIF is whether it can retain some control over the opportunity it was responsible for catalyzing.

Capabilities

- Performance is predicated on unrivaled expertise and knowledge of domestic and regional markets. Therefore, best-in-class SIFs need investment teams of the highest possible quality with unambiguous track records of excellence.
- They must match capabilities and resources to the nature and scope of its investment strategy. Overreach introduces risks that are neither easily identified nor controlled.

Phasing

- SIFs operate (almost by definition) in immature and private markets.
- The lack of liquidity demands a rigorous process for monitoring and assessing performance at each phase of investment

Risk

- SIFs face idiosyncratic, project-specific risks rather than market risks.
- Thus, SIFs need to go far beyond traditional risk models, including scenario planning, agent-based models and other qualitative methods.

Translation

- In instances where foreign investors and local government priorities conflict, SIFs can serve as points of contact between international investors and local policy-makers to lock-in deals or better navigate trickier transactions.

Investment and Risk, Transparency and Disclosure Frameworks of SIFs

	INVESTMENT POLICY	INVESTMENT STRATEGY	RISK MANAGEMENT FRAMEWORK	TRANSPARENCY & DISCLOSURE FRAMEWORK
RESPONSIBLE PARTY	Constructed by the SIF owner or (by delegation) the board.	Established through an iterative process between the sponsor or board and the manager.	The SIF's top decision-making body – the public sponsor or its delegate, the board -- is usually responsible for articulating the fund's risk appetite, approving its risk management framework, and overseeing the management and monitoring of risks.	Emanates chiefly from the specific legal framework within which the fund is created and managed and informed by global standards such as the Santiago principles
KEY FEATURES OF THE FRAMEWORKS	(i) Focus on both financial and economic returns;	(i) Ability to invest in any capital instrument, subject to investment being able to attract commercial returns and exhibiting additionality;	(i) Clarifies risk appetite;	(i) Main features of the fund, including clarity on the mandate; ownership structure; legal basis; governance architecture and policies adopted by the SIF, including the remuneration structure of its governing bodies;
	(ii) Alignment with public sponsor's overall vision for socioeconomic development;	(ii) Focus on co-investment and minority investment strategies to facilitate capital mobilization and avoid crowding out private capital.	(ii) Identifies and measures risks;	(ii) List of investments and fund performance with respect to both financial and economic returns;
	(iii) Focus on privately traded investments;		(iii) Establishes a governance structure for risk management.	(iii) Audited financial statements for the fund.
	(iv) Public sponsor's ability to retain discretion over aspects of the investment policy, for national interest or to reflect changing economic conditions;			
	(v) A responsible investment approach.			

Key elements for improving SOE corporate governance (2/2)

Professionalizing SOE boards by:

- Developing a structured and transparent process for board nominations.
- Defining the respective roles of the state, as owner, of boards, and of management and empowering boards with core responsibilities such as strategy setting, choosing and overseeing the chief executive officer (CEO), and managing risks.
- Enhancing board professionalism through the separation of chair and CEO, development of board committees, and the like.
- Putting in place board remuneration and evaluation policies and practices.
- Providing training to members of boards of directors.

Enhancing transparency and disclosure:

- Applying private sector principles and international standards to SOEs.
- Improving SOE reporting and disclosure.
- Strengthening the control environment.
- Carrying out independent external audits.

Protecting shareholder rights in mixed-ownership companies by:

- Overseeing minority government stakes.
- Promoting shareholder participation and equitable treatment of shareholders.
- Encouraging participation in shareholders' meetings.
- Ensuring representation of minority shareholders on SOE boards.
- Protecting against abusive related-party transactions.

Key elements for improving SOE corporate governance (1/2)

Establishing a sound legal and regulatory framework for corporate governance by:

- Bringing SOEs under company law and applying other laws and regulations to SOEs to create a level playing field.
- Listing them on the stock markets to create capital market discipline.
- Developing modern SOE laws and regulations.
- Uniting SOEs under a national code of corporate governance or creating a specific SOE code to codify good practices.

Creating proper ownership arrangements for effective state oversight and enhanced accountability by:

- Identifying and separating the state's ownership functions from its policy-making and regulatory functions.
- Developing appropriate arrangements for carrying out ownership functions.
- Creating safeguards against government interventions.
- Centralizing the state's ownership functions to bring focus, consistency, and good practices to the SOE sector.

Developing a sound performance-monitoring system by:

- Defining SOE mandates, strategies, and objectives.
- Developing key performance indicators and targets, both financial and nonfinancial.
- Establishing performance agreements between SOE owners and SOE boards.
- Measuring and evaluating performance with the goal of holding SOEs accountable for results and ensuring good performance.

Promoting financial and fiscal discipline by:

- Reducing preferential access to direct and indirect public financing.
- Identifying, computing, and financing the true cost of public service obligations.
- Monitoring and managing the fiscal burden and potential fiscal risk of SOEs