

**Document of
The World Bank Group**

FOR OFFICIAL USE ONLY

Report No. 147787-DJ

**INTERNATIONAL DEVELOPMENT ASSOCIATION
AND INTERNATIONAL FINANCE CORPORATION
AND MULTILATERAL INVESTMENT GUARANTEE AGENCY
COUNTRY PARTNERSHIP FRAMEWORK
FOR
THE REPUBLIC OF DJIBOUTI
FOR THE PERIOD FY22–FY26**

August 24, 2021

**Djibouti, Egypt, and Yemen Country Management Unit
Middle East and North Africa Region
The International Finance Corporation
The Multilateral Investment Guarantee Agency**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank Group authorization.

The date of the last Country Partnership Strategy was March 13, 2014 (Report No. 83874-DJ)

CURRENCY EQUIVALENTS

Exchange Rate Effective as of July 1, 2021

Currency Unit = Djiboutian Franc (DJF)

US\$1 = DJF 177.72

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFD	<i>Agence Française de Développement</i> (French Development Agency)	HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
AfDB	African Development Bank	HoA	Horn of Africa
ASA	Advisory Services and Analytics	ICI	Institutions-Connectivity-Inclusion
CCD	Chamber of Commerce of Djibouti	ICT	Information and Communications Technology
CLR	Completion and Learning Review	IDA	International Development Association
CO2e	Carbon Dioxide Equivalent	IEG	Independent Evaluation Group
COMESA	Common Market for Eastern and Southern Africa	IFAD	International Fund for Agricultural Development
COVID	Coronavirus Disease	IFID	<i>Institut de Financement du Développement du Maghreb Arabe</i> (Arab Maghreb Development Finance Institute)
CPF	Country Partnership Framework	IFC	International Finance Corporation
CPS	Country Partnership Strategy	IMF	International Monetary Fund
DCT	Doraleh Container Terminal	INF	Infrastructure
DJF	Djiboutian Francs	InfraSap	Infrastructure Sector Assessment Program
DPF	Development Policy Financing	IPP	Independent Power Producer
DPW	Dubai Port World	IsDB	Islamic Development Bank
DRDIP	Development Response to Displacement Impacts in the Horn of Africa Project	ISUP	Integrated Slum Upgrading Project
DSA	Debt Sustainability Analysis	JICA	Japan International Cooperation Agency
EDAM	<i>Enquête Djiboutienne Auprès des Ménages</i> (Djibouti Household Survey)	km	Kilometer
EFI	Equitable Growth, Finance, and Institutions	Kv	Kilovolt
EMSP	Economic Management and Statistics Development for Policy Making Project	kWh	kilowatt-hour
EU	European Union	MENA	Middle East and North Africa
FAO	Food and Agriculture Organization	MFD	Mobilizing Finance for Development
FY	Fiscal Year	MIGA	Multilateral Investment Guarantee Agency
GB	Gigabyte	MoE	Ministry of Education
GDP	Gross Domestic Product	MSMEs	Micro, Small, and Medium Enterprises
GEF	Global Environment Facility	MW	Megawatt
GoPro	Governance for Private Sector Development and Finance Project	OPEC	Organization of the Petroleum Exporting Countries
HD	Human Development		

PAMP	Public Administration Modernization Project	UNICEF	United Nations Children's Fund
PBA	Performance-Based Allocation	USAID	United States Agency for International Development
PCM	Private Capital Mobilization	US\$	United States Dollar
PFM	Public Financial Management	WASH	Water, Sanitation, and Hygiene
PITCH	Integrated Cash Transfer and Human Capital Project	WB	World Bank
PIU	Project Implementation Unit	WBG	World Bank Group
PLR	Performance and Learning Report		
PPA	Performance and Policy Action		
PPG	Public and Publicly Guaranteed		
PPP	Public-Private Partnership		
PREPUD	Urban Poverty Reduction Project		
PRODERMO	Rural Community Development and Water Mobilization Project		
PSD	Private Sector Diagnostic		
RETF	Recipient-Executed Trust Fund		
RN	<i>Route Nationale</i> (National Route)		
SCD	Systematic Country Diagnostic		
SD	Sustainable Development		
SDG	Sustainable Development Goal		
SDFP	Sustainable Development Finance Policy		
SDR	Special Drawing Rights		
SMEs	Small and Medium Enterprises		
SOEs	State-Owned Enterprises		
SWYEP	Support for Women and Youth Entrepreneurship Project		
TA	Technical Assistance		
UN	United Nations		
UNHCR	United Nations High Commissioner for Refugees		

	IDA	IFC	MIGA
Vice President:	Ferid Belhaj	Sergio Pimenta	Ethiopis Tafara
Director:	Marina Wes	Jumoke Jagun-Dokunmu	Merli Baroudi
Task Team Leader:	Boubacar-Sid Barry	Cheick-Oumar Sylla	Mena Cammett

Contents

1. INTRODUCTION	1
2. COUNTRY CONTEXT AND DEVELOPMENT AGENDA	2
2.1 Social and political context	2
2.2 Recent economic developments	3
2.3 Poverty profile	6
2.4 Main development challenges.....	7
2.4.1 Enabling environment for business and investment.....	7
2.4.2 Human capital and workforce skills	8
2.4.3 Governance effectiveness and capacity	10
2.4.4 Climate change.....	10
2.4.5 Digital transformation.....	11
3. WBG PARTNERSHIP FRAMEWORK.....	11
3.1 Government program to address COVID-19 and medium-term strategy.....	11
3.2 WBG Country Partnership Framework	12
3.2.1 Main findings of the Systematic Country Diagnostic.....	12
3.2.2 Lessons learned from the Completion and Learning Review of the FY14–FY18 Country Partnership Strategy	13
3.2.3 WBG objectives	14
3.2.4 Selectivity	14
3.2.5 SCD–CPF alignment.....	15
3.2.6 Evolution of the WBG program.....	15
3.3 Objectives supported by the WBG program.....	16
3.4 Implementing the CPF.....	26
3.4.1 Financial envelope and instruments.....	26
3.4.2 Procurement	27
3.4.3 Financial management.....	27
3.4.4 Donor coordination and partnerships	28
3.4.5 Monitoring and evaluation	28
4. MANAGING RISKS TO THE CPF PROGRAM.....	28
Annexes.....	31
Annex 1: Results Framework	31
Annex 2: Completion and Learning Review	42
Annex 3: Operations Portfolio (IBRD/IDA and Grants)	63
Annex 4: Statement of IFC's Held and Disbursed Portfolio	64
Annex 5: MIGA's Guarantee Portfolio	64
Annex 6: Donor Coordination and Partnerships.....	65
Annex 7: WBG Consultations during CPF Preparation	68

Tables

Table 1: Baseline Macroeconomic Framework, 2015–25 (in % of GDP unless otherwise indicated)	3
Table 2: Summary of Main SCD Findings	13
Table 3: Indicative WB Lending Program, FY22–23 (US\$ millions) ^{1/}	25
Table 4: Indicative Selected WB Non-Lending Program, FY22–23	25
Table 5: Potential IFC Investment Program, FY22–FY23.....	26

Table 6: Risk Category and Rating.....	28
--	----

Figures

Figure 1: Real GDP Growth, Fiscal, and Current Account Balances	4
Figure 2: Comparative Factor Costs and the Business Environment in Djibouti	8

Boxes

Box 1: Djibouti's DSA.....	6
----------------------------	---

1. INTRODUCTION

- 1. This Country Partnership Framework (CPF) of the World Bank Group (WBG) for the Republic of Djibouti covers the period from FY22 to FY26.** It was prepared in a global and national context marked by the COVID-19 pandemic. It will support the government's overarching Vision 2035 and the priorities of the new national strategy, Djibouti Institutions-Connectivity-Inclusion (ICI) for 2020–24. The WBG program will remain flexible and adaptable to events in a region experiencing volatility, including in Ethiopia, Djibouti's largest trading partner, and Yemen, located only 28 kilometers across the Gulf of Aden.
- 2. The CPF's overarching objective is to support Djibouti's goal of reducing poverty through broad-based and inclusive private sector-led growth.** The CPF will address the country's immediate needs in the context of COVID-19 as well as selective medium- to long-term development opportunities to support post-pandemic reforms and create the right environment for inclusive and job creating growth. It will leverage the WBG's ongoing engagement in human capital development, governance, and institution building while expanding support to much needed infrastructure to enhance regional integration and boost productivity and job creation. Mitigating the health, social, and economic impact of the COVID-19 pandemic will be the main guiding principle in the short to medium term. The CPF has two focus areas: (1) promoting inclusive private sector-led growth job creation and human capital; and (2) strengthening the role and capacity of the state. It will build on the foundation of three cross-cutting themes: fostering digital transformation, strengthening transparency to support good governance, and promoting gender parity. In line with the requirements of OP/BP 4.20 on gender assessment, this CPF draws on the gender analyses of the Djibouti Systematic Country Diagnostic and 2019 Djibouti Poverty and Equity Assessment.
- 3. Capitalizing on Djibouti's unique position at the crossroads of continents, advancing regional integration will be core to the new CPF.** Djibouti is a highly urbanized country. About 85 percent of the population lives in urban centers in Djibouti City. Poverty affects about one sixth of Djiboutians and is more pronounced among rural populations due to recurring drought affecting the Horn of Africa (HoA) region and the lack of reliable access to water. The WBG will strengthen Djibouti's resilience to shocks by leveraging the country's critical role in promoting regional integration in the HoA as well as global connectivity by serving as a major digital and maritime transit route linking Africa, the Middle East, Asia, Europe, and North America. The CPF will seek to strengthen Djibouti's ancestral economic ties with the Middle East by reinforcing regional and economic integration with Yemen.
- 4. The CPF draws on the analysis of the Systematic Country Diagnostic (SCD)¹.** The Systematic Country Diagnostic found that the main challenge for Djibouti will be to achieve inclusive and sustainable private sector-led growth beyond the existing transit trade model. The SCD argued that transforming the country's economy would require tackling constraints in three interrelated areas: (1) the enabling environment for business and investment; (2) human capital and workforce skills; and (3) governance effectiveness, including the capacity to enforce the rule of law. These efforts need to go hand in hand with creating an environment conducive to private sector-led, inclusive, and sustainable growth. In parallel, efforts will be required to build human capital, improve governance effectiveness, and mitigate the impact of climate change, especially on the poorest and most vulnerable. The COVID-19 pandemic has exacerbated the need to address some of these underlying structural challenges.
- 5. The CPF is strongly aligned with key WBG strategies.** These strategies include *Forward Look: A Vision for the World Bank Group in 2030*, the WBG's expanded regional strategy for the Middle East and North Africa (MENA), the Sub-Saharan Africa strategy of the International Finance Corporation (IFC), and

¹ Although the SCD was prepared in 2017-2018, the structural issues and recommendations it raised are still relevant to Djibouti's development agenda in 2021.

the Multilateral Investment Guarantee Agency (MIGA) Business Strategy and Outlook FY21–FY23, which emphasizes support for International Development Association (IDA) countries and projects with climate benefits. Building on key corporate priorities such as Mobilizing Finance for Development (MFD) and Private Capital Mobilization (PCM), this CPF will support critical structural reforms to boost productivity and encourage private investment in Djibouti with IFC and MIGA support. The CPF will support priority areas in line with the WBG Gender Strategy (FY16–23) and Climate Change Action Plans (2021–2025), and regional action plans. It will emulate the expanded MENA strategy's transformation agenda by: (i) restoring trust by promoting transparency, tech-enabled service delivery, and debt management; (ii) protecting human capital by supporting modern education, health, and social protection systems; (iii) supporting jobs and transformation to enhance private sector competitiveness, digital potential, and regional cooperation; (iv) advancing gender equity by promoting inclusive economies with fewer barriers to women's empowerment; (v) addressing fragility by reinforcing recovery and reconstruction as well as supporting refugees and host communities; and (vi) enabling green growth by combatting climate change and promoting resilient, inclusive, and sustainable growth.

2. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Social and political context

6. **Djibouti has made efforts in recent years to build peace and political stability, but institutional and governance challenges remain.** The country gained independence in 1977 as a republic. The executive branch is led by a president elected for a five-year term in a multiparty system. Legislative power is vested in the National Assembly (NA), consisting of 65 members who are also elected for five-year terms. More political space is granted to women with the election of 25 percent of women to the NA in 2018 compared to 10 percent for previous legislatures and an increase of the number of women ministers in government from 3 to 6. Modern institutions have been established, but governance and institutional capacity will need to be strengthened. On April 9, 2021, President Ismail Omar Guelleh was reelected for a consecutive fifth term in office.

7. **The peace and stability of the country in an unstable region has impacted Djibouti economically and drawn many refugees from neighboring countries.** In response to unrest in neighboring countries,² many refugees have settled permanently in the country since the 1990s. According to the United Nations High Commissioner for Refugees (UNHCR), as of January 31, 2021, Djibouti is home to 32,140 registered refugees and asylum seekers (about 3 percent of the population). They come mostly from Somalia, Ethiopia, Yemen, and Eritrea. While registered in the Ali-Addeh and Hol Hol refugee camps in the south of the country, and in Obock in the north in the Yemeni refugee camp, they are highly present in urban centers of the country. In addition, the government has recorded around 150,000 people having similar characteristics with refugees, though not registered as such with the UNHCR. In line with the Global Compact on Refugees, Djibouti has been providing adequate protection to refugees for the last 40 years and enacted a National Refugee Law in 2017. Refugee support has included: (a) institutional and legislative strengthening; (b) improving access to basic services, particularly education and health; and (c) promoting social protection and economic prosperity. The protracted stay of these refugees and the consequent economic costs are putting pressure on public finances and service delivery systems in education, health, and social safety nets.

² Djibouti is surrounded by situations of heightened fragility. To the west there is Ethiopia currently experiencing political unrest in its Tigray region. This unrest is spilling over to Djibouti through ethnic ties with the Somali region of Ethiopia. To the north there is Eritrea, which signed a peace agreement with Ethiopia in 2018 after decades of conflict. To the east, it is separated from war-torn Yemen by the Gulf of Aden. To the south, it is bordered by Somalia, another fragile nation.

2.2 Recent economic developments

8. **Economic performance was strong prior to the pandemic.** During 2015–19, Djibouti's average real growth in gross domestic product (GDP) reached 7.2 percent per year, driven by growth in transportation, logistics, telecom, and banking services in response to an economic boom in neighboring Ethiopia. The average inflation rate was kept under control at 1.4 percent. The overall fiscal deficit (on a commitment basis) declined significantly from 15.4 percent of GDP in 2015 to 0.5 percent, on average, in 2019, driven by a reduction in spending from 41.9 percent of GDP to 25.3 percent of GDP as railway and water pipeline projects taper off (Table 1). Yet tax revenues have also decreased, from 14.4 percent of GDP in 2015 to 13.7 percent in 2019, due mainly to the existence of special tax regimes and exemptions, including for free trade zones and military bases. The overall current account balance (excluding the free zones) reached a surplus of 3.2 percent of GDP, on average, in reaction to an acceleration of trade with Ethiopia.

Table 1: Baseline Macroeconomic Framework, 2015–25 (in % of GDP unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
National accounts											
Population (in million)	0.914	0.929	0.944	0.959	0.974	0.988	1.002	1.016	1.030	1.043	1.056
Nominal GDP (in million of USD)	2430.3	2603.6	2751.5	3012.8	3324.6	3384.4	3685.5	3949.4	4247.2	4565.7	4908.2
Nominal GDP per capita (in USD)	2659.0	2802.2	2914.4	3141.9	3414.9	3425.5	3678.1	3887.2	4123.5	4377.5	4647.9
Real GDP per capita growth rate (in %)	5.9	4.9	3.7	6.7	6.1	-1.0	4.0	4.5	4.8	4.7	4.7
Real GDP growth rate (in %)	7.7	6.7	5.4	8.4	7.8	0.5	5.5	6.0	6.2	6.2	6.2
Free Zone	12.7	3.1	9.2	6.4	9.9	11.8	8.0	8.0	8.0	8.0	8.0
Non Free Zone	6.5	7.5	4.5	8.9	7.3	-0.2	4.9	5.5	5.7	5.7	5.7
Annual average inflation (%)	0.9	2.5	0.6	-0.1	3.3	1.8	2.0	2.0	2.0	2.0	2.0
Central Government											
Rvenues and grants	26.5	26.7	25.8	25.4	24.8	21.2	20.0	20.0	20.0	20.7	21.0
o.w: Tax revenues	14.4	15.3	14.7	14.1	13.7	10.9	11.7	11.6	11.6	12.5	12.8
o.w: Grants	4.9	3.4	2.0	3.6	3.7	2.8	1.7	1.9	1.8	1.4	1.3
Expenditure	41.9	35.5	30.7	28.1	25.3	22.9	21.9	21.6	21.4	21.9	21.5
o.w: Current expenditures	16.3	19.5	19.3	18.5	17.3	16.8	15.7	15.3	14.6	14.9	14.9
o.w: Capital expenditures	25.7	16.0	11.5	9.6	8.0	6.1	6.2	6.3	6.8	7.0	6.6
Overall fisc. Bal. (com. Basis)	-15.4	-8.8	-5.0	-2.8	-0.5	-1.7	-1.9	-1.7	-1.4	-1.2	-0.5
o.w: Over. Fisc. Bal. (excl. large projects)	-0.4	-0.8	-1.1	-1.5	-0.5	-1.7	-2.0	-1.2	-1.0	-1.2	-0.5
Primary fiscal balance	-15.0	-8.0	-3.9	-1.6	0.8	-0.4	-0.4	-0.1	-0.1	0.0	1.5
Change in arrears	0.0	0.0	0.0	0.4	0.5	-0.3	0.0	0.0	0.0	0.0	-0.1
Overall balance (cash basis)	-15.4	-8.8	-5.0	-2.4	0.0	-2.0	-1.9	-1.7	-1.4	-1.2	-0.6
Financing	15.9	9.1	5.8	3.8	1.7	2.1	2.0	1.5	1.5	1.2	0.6
o.w: External financing	15.9	9.0	5.7	3.2	1.9	3.0	2.4	1.9	1.9	1.6	1.9
External sector											
Overall cur.Ac.bal. (incl. cur of tranf.)	29.4	-1.0	-4.8	14.2	14.9	18.2	-1.7	-0.9	4.5	4.6	4.6
o.w. Over. Cur. Ac. Bal. (excl. free zones)	11.0	-2.3	20.3	-1.1	-11.9	-5.0	-2.2	-0.5	0.9	1.2	1.5
Gross off. Res. (months of imports)	4.0	3.5	7.8	3.3	3.7	4.6	4.1	4.0	4.0	4.0	4.0
Real eff. Ex rate (% ch., incr=appr)	1.3	-4.3	5.0	5.3	8.1	-8.4	-15.8	-3.9	-2.6
Public&publ.guar. Debt.	50.1	64.3	71.6	69.9	66.9	70.0	67.7	64.5	62.1	60.6	57.8

Source: WBG and Government of Djibouti staff estimates and projections.

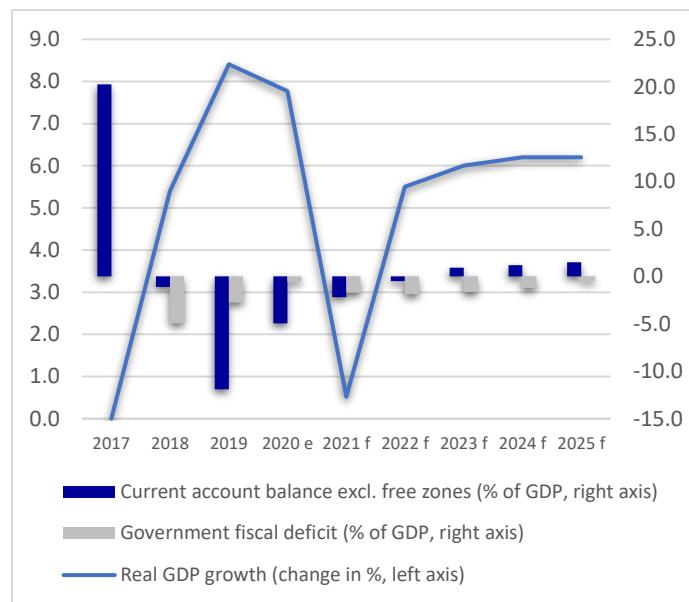
9. **During the same period, official reserves were maintained at 4.5 months of imports per year, on average, and the real effective exchange rate appreciated by a yearly average of 3.1 percent.** The currency board arrangement remained an effective nominal anchor and will continue to play a critical role in providing predictability and confidence in foreign exchange transactions as the country pursues the implementation of its logistics hub strategy. A strong increase in formal job creation was observed, at an average yearly rate of 10 percent during 2014–18 (about 12 percent without the public administration). However, the official rate of unemployment plus underemployment remained high at 47 percent in 2017, and the labor participation rate remained stubbornly low at 42 percent of the working-age population.

Only a third of working-age women were included in the labor force in 2017 (63 percent in the informal private sector and 33 percent in the public administration).^{3,4}

10. The pandemic had a devastating impact on the economy in 2020, but the government's proactive response helped to limit the negative impact on human lives and economic growth through 2021. The country went through two waves of COVID-19 in 2020 and 2021. About 11,698 people (about 12 people per 1,000) were infected by the virus by August 23, 2021, with 157 registered deaths. At the onset of the pandemic, the government implemented a seven-week general lockdown from March 27 to May 17, 2020, with land and air border closures through July 17, 2020. Subsequently, a rigorous testing, contact tracing, and health care effort was carried out, enabling the testing, treatment, and vaccination⁵ of 203,299, 11,531, and 35,218 people, respectively, by August 23, 2021.

11. In this context, real GDP is estimated to have grown by only 0.5 percent in 2020 (Figure 1). Inflation remained low at 1.8 percent due to weak demand linked to the pandemic. On the fiscal front, despite delayed tax collection to ease the financial pressure on micro, small and medium enterprises (MSMEs), the overall fiscal deficit remained relatively low at 1.7 percent of GDP following efforts to limit expenditures to essential COVID-19 outlays. On the external front, the current account deficit (excluding free zones) improved to 5 percent of GDP, and gross official reserves recovered slightly to 4.6 months of imports, while currency board coverage stood at 105 percent, well above the required minimum. The banking sector remained stable and liquid, with a solvency ratio of 14.2 percent in the last quarter of the year. The ratio of non-performing loans to bank loans improved slightly to about 16 percent in early 2020, highlighting underlying vulnerabilities.

Figure 1: Real GDP Growth, Fiscal, and Current Account Balances



12. The private sector has been hit hard by the pandemic. The number of jobs lost temporarily to the pandemic is estimated by the government to be in the range of 15,000 to 30,000. IFC's 2020 Private Sector Diagnostic reported from World Bank-financed survey data that 78 percent of the firms surveyed felt an immediate effect because of the pandemic, with 55 percent experiencing a drop in sales of over 50 percent. Around 65 percent of formal businesses reported a loss in sales of at least 50 percent, in contrast to only 37 percent of informal businesses. Commercial difficulties for the former arose mostly in response to the cancellation or reduction of orders and reservations, while the latter have been affected primarily by business instability. The effect of the pandemic on formal firms is likely to last longer, as they have limited capacity for business

³ Linking different macroeconomic variables and country characteristics, the International Labor Organization estimates Djibouti's unemployment rate at 6 percent. This provides a good estimate of the underemployment rate, or rate of precariousness faced by jobholders, at around 41 percent.

⁴ The definition of employment in official statistics appears to focus on formal jobs. Indeed, the number of employed people reported in the 2017 Household Survey (roughly 80,000) is close to the number of formally employed people reported to the social security agency and thus covered by the official pension system.

⁵ During March–May 2021, Djibouti received 329,000 doses of vaccine (24,000 of AstraZeneca from the COVAX initiative, 300,000 of Sinovac from China, and 5,000 of Sputnik V from Russia). Vaccination uptake has been slow, however, due to hesitancy among the population.

continuity planning. Around 72 percent of businesses in Djibouti have no views on recovery strategies or policies that could be implemented. Around 20 percent would choose not to pay taxes. A consensus has seemed to emerge among firms (82 percent in total, including 97 percent of informal firms) on the need for the government to set up an emergency fund for struggling businesses in response to the crisis.

13. The medium-term economic outlook remains positive despite downside uncertainties, including the country's high vulnerability to exogenous global health, economic, regional unrest, and climatic shocks. Real GDP growth is projected to rebound to 5.5 percent in 2021 and 6.2 percent over 2022–25, and inflation is expected to stabilize at around 2 percent, on average, during 2020–25. The fiscal deficit is projected to remain low, at 2.1 percent of GDP in 2021 and 1.4 percent of GDP over 2022–25, thanks to projected uptake in trade after the pandemic and the resolution of the ongoing unrest in Ethiopia. On the external front, re-export activities and demand for logistics services are expected to grow, together with international trade in Ethiopia and global transshipment, leading to an improvement in the current account balance from a deficit of 1.7 percent of GDP in 2021 to an average of 3.2 percent during 2022–25. The heavy dependence of domestic growth in Djibouti on developments in the Ethiopian market in the current context of unrest is the most important risk to the economic outlook. The risks to the outlook are high given the potential for COVID-19 relapse (due to possible emergence of new variants), price hikes on imported food and fuel, and vulnerability to external and climate shocks, such as desert locust infestation, cyclones, and floods.

14. Transparent management of public debt to enhance debt sustainability remains the principal challenge to macroeconomic stability. The strong transit trade-driven growth of recent years was supported by publicly financed infrastructure investment, leading to a rise in public debt. Starting from a nearly nonexistent infrastructure base with a low GDP base, public investment in infrastructure guided a significant expansion in transportation and logistics services, ICT, housing, electricity, and water, together with a modest upgrading of road infrastructure. Three major loans from China—supporting the railway and water pipeline from Ethiopia, and the multipurpose port—played a major role in financing this growth dynamic. As a result, the public debt ratio nearly doubled over seven years, from 35 percent of GDP in 2013 to 66 percent in 2019, and nominal debt increased from US\$714 million to US\$2,253 million during the same period. In this context, the Debt Sustainability Analysis (DSA), updated in 2020, established that Djibouti was in high risk of debt distress (Box 1). Since the last DSA, the government has taken steps, despite the challenges posed by the global pandemic, to signal commitment to implementing reforms to enhance debt sustainability (paragraph 15). Moreover, efforts are underway to privatize key state-owned enterprises (SOEs) starting with telecom sector and the head of the Independent Multisector Regulator was appointed to regulate the activities of the main SOEs in telecom, and power. The government also adopted a charter on the governance of SOEs and is preparing a draft law on the privatization of SOEs to be submitted to parliament.

15. As an IDA recipient, Djibouti agreed to the Sustainable Development Finance Policy (SDFP) Performance and Policy Actions (PPAs) in FY21, but overall performance was unsatisfactory. As a small state, Djibouti committed to implementing two PPAs. PPA#1 related to the commitment to adopt a zero non-concessional borrowing ceiling on new external public and publicly guaranteed (PPG) debt in FY21. Of the eight loans for which the government signed financing agreements in FY21, five had a grant element ratio in the range of 40 to 67 percent, well above the 35 percent minimum required. The ratios for the remaining three loans ranged from 29.7 to 30 percent. For these reasons, PPA#1 was assessed as not met. PPA#2 related to the operationalization of the National Debt Committee to improve public debt management and transparency by: (i) publishing the key terms of all PPG loans and restructuring of loans, including all SOEs; and (ii) approving all new PPG loans before their signature. New loans were reported by the government after approval and were published in the Official Gazette after ratification. However, key financing terms were not systematically published. As a result, PPA#2 was assessed as partially met.

As such, Djibouti is required to implement three PPAs for FY22. The proposed PPAs were agreed with the government for implementation in FY22. Consistent with SDFP guidelines, the proposed FY22 PPAs for Djibouti are informed by the unsatisfactory implementation of the FY21 PPAs. Specifically, the PPAs on the quarterly publication of loan terms will be repeated as well as the non-concessional borrowing limit since Djibouti remains at high risk of debt distress. Because the two FY21 PPAs were either not met or partially met, a third PPA is added for FY22, which will bring two key non-budgetary borrowing entities as members of the national public debt committee whose favorable opinion is required prior to the approval of all new public loans, guarantees and collaterals by the Council of Ministers. The Government is committed to implementing the proposed FY22 PPAs. Continued dialogue and capacity building will be necessary to further internalize the PPAs within the government. As part of the CPF program, the World Bank will provide support through the activities described in detail under CPF Objective 4 below. The implementation of the PPAs will be supported by the IDA-funded Economic Management and Statistics Development for Policy Making Project.

Box 1: Djibouti's DSA

The updated joint DSA, prepared by the International Monetary Fund (IMF) and World Bank in 2020 at the time of the IMF's Rapid Credit Facility, concluded that Djibouti was at high risk of debt distress. This reflects the fact that the present value of the external debt-to-GDP ratio is expected to breach its threshold during 2020–26, and the debt service-to-revenue ratio is expected to increase and stay largely above its threshold from 2022 on. However, the authorities are expected to be able to service their debt under current terms. Debt is therefore assessed as sustainable.

Compared to the 2019 DSA, the update points to a deterioration in debt indicators, reflecting the impact of the COVID-19 pandemic on macroeconomic prospects. The DSA takes into consideration the understanding reached with Exim Bank of China in 2019 to restructure the railway loan and accumulated arrears. It hinges upon the implementation of a range of fiscal and debt management reforms, including efforts to address and prevent the recurrence of external arrears and to rapidly ramp up operations of several key projects to generate the revenues needed for debt service. A combination of policies is needed to reduce the pace of borrowing and prioritize concessional financing and foreign direct investment, together with reforms to strengthen the fiscal framework, public investment management, oversight of SOEs, and debt management capacity. The government is committed to promptly resolving its outstanding external arrears, which are assessed to be below the *de minimis* threshold of 1 percent of GDP.

Source: Joint IMF-WB DSA; May 4, 2020.

2.3 Poverty profile

16. **Poverty affects one out of six people and is subject to some spatial disparities.** According to the 2019 Poverty Assessment, using data from the 2017 Household Survey,⁶ 17 percent of the population lived in extreme poverty, with less than US\$1.90 per day (in 2011 purchasing power parity terms). The regional distribution shows extreme poverty at 10 percent in Djibouti City, 23 percent in Ali Sabieh, 28 percent in Arta, 35 percent in Obock, 51 percent in Dikhil, and 61 percent in Tadjourah. Djibouti is highly urbanized, and extreme poverty is concentrated mainly in Djibouti City's Balbala slums, where migrants and displaced people live.

17. **Although inequality has been on a decreasing trend over the past five years, it remains high, underscoring the fact that growth has not been inclusive.** Djibouti's Gini coefficient was estimated at

⁶ Enquête Djiboutienne Auprès des Ménages / Indicateurs Sociaux (EDAM4-IS).

0.451 in 2012, decreasing to 0.416 in 2017.⁷ The country ranked 71st out of 95 countries with information available on the Gini coefficient in 2015. It is notable that, compared to Djibouti City, the rest of the country faces higher levels of inequality due to marked differences in welfare levels among the main cities and rural areas. In Tadjourah, for example, where extreme poverty is highest, households in the 90th percentile enjoy levels of consumption 8.2 times higher than those in the 10th percentile. With the COVID-19 pandemic, Djibouti's extreme poverty rate is estimated to have increased to 23–30 percent in 2020 (versus 15 percent in 2019) as households felt the effects of the pandemic through job loss, price shocks, and other factors.

2.4 Main development challenges

2.4.1 Enabling environment for business and investment

18. Private sector competitiveness is hindered by the high costs of electricity and telecom services, and by an unattractive business environment, underscoring the need for policy and institutional reforms in these areas. The electricity tariff remains high for businesses, at US\$0.26 per kilowatt-hour (kWh) in 2020—over seven times the cost of electricity in neighboring Ethiopia and well above the cost in the Sub-Saharan Africa and MENA regions (Figure 2a). The high price reflects a costly generation mix, aging and inefficient generation and distribution infrastructure, large technical and commercial losses, high overhead costs, and taxes paid on energy imported from Ethiopia. Similarly, fixed, and mobile telecom services provided by the state-owned monopoly (Djibouti Telecom) are characterized by high prices, low coverage, and poor services, despite Djibouti's unique international connectivity. The price of mobile services, at US\$21.2 per megabit per month (at end-2020), is three times higher than in Ethiopia, and Djibouti ranks 8th lowest out of 155 countries on mobile penetration. Efforts to enhance the governance and management of the national operators and to seek efficiency gains are important to encourage private investment, lower costs, and improve service quality.

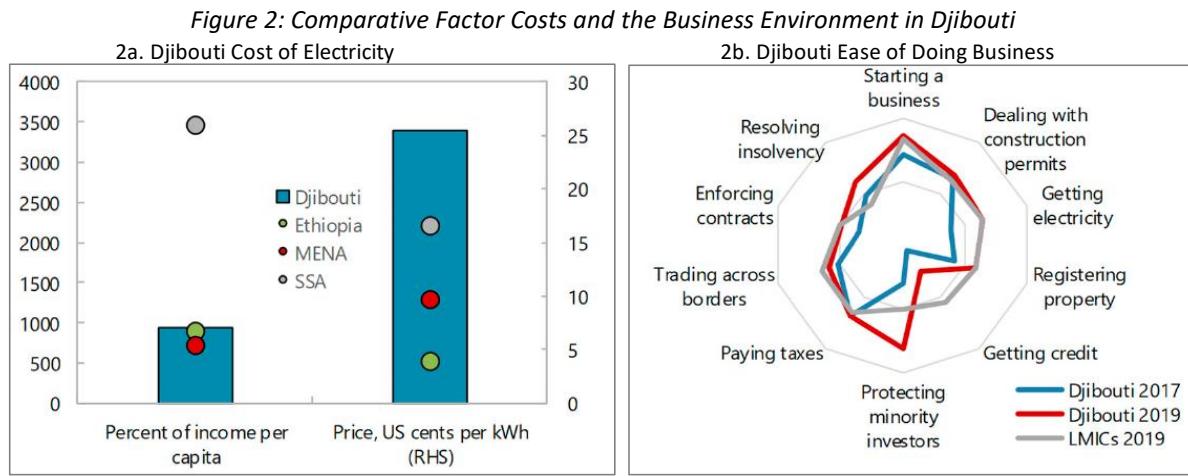
19. The telecom sector remains uncompetitive and would benefit significantly from the entry of the private sector to boost innovation and efficiency. Djibouti Telecom is one of the last telecom monopolies in the world exclusively providing both fixed and mobile services. As a result, the country has one of the lowest rates of 4G mobile broadband coverage in Africa and MENA. Fostering competition in the sector, with structured participation of the private sector in the development of requisite infrastructure, would improve the delivery, efficiency, innovation, and affordability of telecom services. Recent studies have shown that the entry of one additional competitor in the market could lead to a price reduction of between 13 and 22 percent in Djibouti. The country has taken the first step by licensing a newly established internet service provider (AfriFibre) to construct a fiber-optic network. It has established the Sovereign Fund of Djibouti with majority shareholding in key SOEs (the Ports Authority, Djibouti Telecom, and Electricity of Djibouti). A new Ministry of Digital Economy and Innovation has been created to lead the digital transformation agenda. Furthermore, on July 11, 2021, the government announced that it would open up the capital of Djibouti Telecom to a minority private shareholder as a strategic partner. While this is a step in the right direction, full liberalization of the sector will be needed to reap the maximum benefits of digital transformation. The materialization of Ethiopia's plans to diversify its access to Red Sea ports through the Berbera port in Somaliland⁸ and eventually the Massawa port in Eritrea would have dramatic impacts on Djibouti's economy. This provides further impetus for Djibouti to speed

⁷ The most recent available data on the Gini coefficient are from 2017. The Gini coefficient is a measure of inequality, ranging from 0 (perfect equality) to 1 (perfect inequality).

⁸ In June 2021, the Government of Somaliland, and Dubai Ports World (DPW) inaugurated a new container terminal at Berbera Port thereby increasing the port's annual handling capacity from 150,000 to 500,000 TEU (twenty-foot equivalent unit). Djibouti's Doraleh Container Terminal has an annual handling capacity of 220,000 TEU.

its plans for digital transformation by opening up its telecom sector to diversify the economy from the port sector and promote economic transformation and job creation.

20. The overall business environment needs further improvement to unlock private initiatives. Djibouti has made a considerable effort, with WBG support, to ease its investment climate in recent years (Figure 2b). This commitment was reflected in Djibouti's position among the ten most improved economies in *Doing Business 2019*, on which it ranked 99th of 190 countries on overall ease of doing business (subsequently dropping to 112th in *Doing Business 2020*)⁹. However, the number of steps required for starting a business is still large relative to other countries in the region, and Djibouti ranks 123rd of 190 economies on the ease of starting a business in *Doing Business 2020*. Efforts in this area will need to be sustained.



Source: IMF Article IV (2019)

21. There is also a need to strengthen public–private dialogue and address structural constraints to private sector development. This dialogue is limited due, in part, to the scarcity and low capacity of professional organizations in the private sector. This situation has exacerbated the sentiment among firms that they were excluded from growth opportunities in recent years, including in logistics and construction. The Private Sector Diagnostic (PSD) led by IFC stressed the need to strengthen the governance and capacity of the Chamber of Commerce of Djibouti (CCD) around sector-specific chapters for better public–private sector dialogue and more professionalized organization of sectors. It called for ensuring private sector access to business opportunities and for revitalizing the High National Council for Public–Private Dialogue. The PSD posits that addressing the constraints to private sector development at the national and sectoral levels will be a critical element in creating a diversified and competitive economy for inclusive and sustainable growth and job creation, which will in turn require enhancing governance, and skills development.

2.4.2 Human capital and workforce skills

22. Health outcomes have improved in recent years, but some underlying challenges have been exacerbated by the pandemic. Stunting in children is a major concern, at 20.9 percent in 2019 (down from 29.7 percent in 2013), with no difference in incidence between girls and boys. The lack of access to basic water, sanitation, and hygiene (WASH) services is another concern. Only 47 percent of the rural

⁹ The main reasons behind the decrease compared to the previously published ranking (99) are: methodology refinements (+21, a positive number indicates a fall in ranking) and data revisions (+1).

population has access to basic drinking water (versus 83 percent in urban areas), and only 19 percent has access to safely managed sanitation (versus 41 percent in urban areas). Only 23 percent of pregnant women receive four or more antenatal care visits, and only 54 percent receive any form of postnatal care. Reducing gender gaps is critical. WASH access is low in health centers¹⁰ and schools (68 percent of schools have access to basic drinking water, 62 percent to basic sanitation, and 58 percent to basic hygiene facilities). The country lacks adequate health services, infectious disease surveillance capacity, qualified health care workers, and drugs and equipment. In the context of COVID-19, the government has articulated three strategic priorities for the National Health Development Plan. These include expanding the quality of care in all regions, strengthening health financing, and reducing the prevalence of diseases.

23. Educational outcomes are improving, albeit from a low base. About 21 percent of the population between the ages of 15 and 24 had no primary education in 2017, compared to 43 percent ten years earlier and 63 percent 20 years ago. Between 2005 and 2017, gross enrollment rates increased from 51 percent to 81 percent at the primary level, from 33 percent to 60 percent in lower secondary, and from 15 percent to 44 percent in upper secondary education. Of those enrolled, however, only 80 percent of boys and 71 percent of girls reach the final grade of primary school. The primary-to-secondary transition rate is similarly low, at 77 percent for boys and 75 percent for girls. The gross primary enrollment rates are about 60 percent for girls and 68 percent for boys, with girls less likely to progress to higher levels and continue their studies. Strikingly, the number of students in higher education soared from just 461 in 2000 to 10,241 in 2018, a more than twentyfold increase in less than 20 years. The expected number of years of schooling doubled between 2000 and 2017 to 8.8 years, on average—higher than the comparative figure of 8.5 years in Ethiopia, but lower than Senegal’s 9.7 years and Rwanda’s 11.2 years. With the general lockdown imposed in response to the COVID-19 outbreak, the government has developed a distance learning program to ensure continuity of learning for its student population of over 66,000. The program was delivered through multiple channels aimed at reaching urban and rural students with limited internet access (televised courses for all grades; radio programs; e-learning platforms for secondary students and pre-service teacher training; and booklets and paper materials aimed a marginalized areas and refugees). This effort will need to be sustained.

24. Closing the gender gap in female literacy would unlock untapped potential in the economy. Female literacy currently stands at 39.5 percent, compared to 60.1 percent for men. In terms of quality, learning outcomes are modest, and there is evidence that basic competences are not attained in early years. To improve access, the government’s national education sector plan for 2017–20 has set a target of enrolling 600 new students over the next three years through three priority actions: reducing class size, eliminating double shifting, and achieving universal primary education.

25. There is a critical need to fill the skills gap on the supply side of the labor market to enhance the employability and productivity of the workforce. Djibouti’s high rates of return to schooling, estimated at 11.5 percent in 2012, suggest that human capital deficits constrain growth. Employment does not necessarily provide a pathway out of poverty. Informality and low productivity are prevalent. Highly skilled workers are concentrated in the public sector, and low-skilled workers are overrepresented in the formal private sector, while the informal private sector is a large employer of people who have limited education. The SCD identified major skills gaps in the key sectors where Djibouti has potential for private sector growth. These include logistics, hospitality and tourism, housing and construction, agriculture and fisheries, and health services (only 2.2 skilled physicians per 10,000 people in 2014, compared to an average of 79.8 in lower-middle-income countries). While the training sector does not have systemic

¹⁰ No specific data are currently available, but anecdotal evidence abounds.

barriers that prevent women from participating in technical education and vocational training programs, the number of women in non-traditional programs and courses continues to be small.

26. **It is equally important to fill the entrepreneurial skills gap on the demand side of the labor market, particularly for women.** Entrepreneurs often lack an understanding of basic online procurement processes, as well as the skills and capacity needed to meet contracting requirements in dealing with clients, including military bases, embassies, and firms operating in the free zone. Women entrepreneurs, in particular, face a unique challenge in this area due to unequal opportunities and lack of managerial skills. According to Women, Business, and the Law data for 2021, Djibouti does not currently have gender-equitable laws in terms of asset ownership, due to inequality in inheritance rights between males and females (both surviving spouses and children) and legal restrictions on women's employment in certain occupations as in most MENA countries. These will need to be addressed to offer women-owned businesses a level playing field in growing and creating jobs.

2.4.3 Governance effectiveness and capacity

27. **Strengthening institutions and the investment climate will require enhancing governance and transparency.** Djibouti's ranking on Transparency International's Corruption Perceptions Index has remained relatively steady in recent years (at 126th out of 180 countries in 2019, down slightly from 122nd in 2017). Djibouti ranked 28th among 54 African countries on absence of corruption in the public sector in the 2018 Ibrahim Index of African Governance. The 2018 Worldwide Governance Indicators for Djibouti point to weak institutions that are unable to uphold the rule of law, posing significant challenges to government activity. The country ranked in the bottom third of 214 countries regarding control of corruption, a significant drop from its position above the 50th percentile in 2008. On voice and accountability, the country ranks in the bottom 10 percent, reflecting limited interaction with businesses in the policy-making process. Dialogue is further limited by the scarcity and low capacity of professional organizations.

28. **There is a need to strengthen the governance and capacity of sector-specific chapters of the Chamber of Commerce of Djibouti, and the dialogue between the public and private sector needs to be revitalized.** The National Anticorruption Commission established five years ago has aggressively implemented asset declaration legislation with a high compliance rate. All government members, together with most high officials in public institutions and SOEs, are mandated to declare their assets. Furthermore, increased citizen participation in public affairs through social media platforms has opened to the door to increased scrutiny of public officials, enhancing transparency and dampening corruption.

29. **The supreme audit institutions—the Court of Accounts and the General Inspection Office—continue to be effective in exerting oversight and control over the executive.** The impact of the Court of Accounts has been particularly positive in helping to strengthen the probity of public accounting. For three years in a row, the Court of Accounts has produced and published on its website, annual reports that include findings and recommendations from audits of SOEs, the treasury, internal controls, and budget execution. These reports have pointed to significant failures and lack of accountability, which are being addressed by the government. Making these reports publicly available is a significant step toward improving governance, transparency, contestability, and citizen engagement in Djibouti.

2.4.4 Climate change

30. **Djibouti's high vulnerability to climate change is a major risk to poor people, particularly in rural areas.** Djibouti is ranked among the world's most at-risk countries, with respect to both direct exposure to climate change and its effects on disease. The rise of the sea level is expected to affect coastline inhabitants (over 80 percent of the population). Moreover, the risk of saltwater intrusion into the coastal aquifer represents a significant threat to the country's already declining water quality thereby

exacerbating the phenomenon of coastal erosion affecting economic infrastructure and coastal marine ecosystems.

31. **Djibouti has incorporated climate action in its development objectives in line with its Paris climate commitments and the WBG's Climate Change Action Plan for FY21–FY25.** The government recognizes the global public goods dimension of climate mitigation and adaptation. To achieve its ambition of becoming a showcase for sustainable development along the Red Sea, Djibouti is developing several initiatives, including: national strategies for a green economy and biodiversity; introduction of a conditional target to reforest 1,000 hectares in its agroforestry system; and rehabilitation of mangroves and coral reefs to enhance their role as a coastal shield against the tides and erosion. In addition to their beneficial impact on climate change, these initiatives will contribute to generating additional revenue for the population through the development of ecotourism activities. Adverse climate events in the region have exacerbated the influx of regional refugees into Djibouti, placing additional strain on the country's fragile livelihoods, already-stretched public services, and limited job opportunities.

32. **Private sector solutions are needed to address climate change.** The PSD argued that Djibouti's success in mobilizing the required financing for climate mitigation and adaptation programs hinges upon seeking adaptation projects that are well positioned for private investment. Equally important is integrating climate change with the broader development agenda to improve preparedness going forward, with the private sector taking the lead in many areas. In this regard, the PSD has identified a few private sector solutions to enhance Djibouti's resilience to climate change, including identifying and quantifying risks, reducing risk, and transferring risk.

2.4.5 Digital transformation

33. **As discussed above, Djibouti has great potential to leverage digital technologies to unlock new pathways for inclusive growth, but has so far failed to do so.** As a landing site for eight major submarine fiber optic cables, Djibouti has a unique opportunity to transform its economy to support more innovative and sustainable growth. Only 1 percent of the population used fixed internet in 2020, and the digital gap remains large. Among the richest 20 percent of the population, 89 percent of households own at least one mobile phone, compared to 41 percent among the bottom 20 percent. The price of mobile internet remains high and more than 40 times higher than the average in Sub-Saharan Africa and 69 percent higher than in MENA. The cost of prepaid mobile broadband for low consumption of data represents over 12 percent of per capita gross national income. As a result, Djibouti ranks 158th of 175 countries in the ICT Development Index published by the International Telecommunications Union. Mobile money services are just beginning to emerge. MSMEs are not using digital financial services, however, preferring cash transactions instead.

3. WBG PARTNERSHIP FRAMEWORK

3.1 Government program to address COVID-19 and medium-term strategy

34. **The government revised its medium-term development strategy with a view to addressing the COVID-19 outbreak and planning for post-pandemic recovery.** This CPF is fully aligned with this strategy and proposes a selective country engagement approach to support the government's second strategy dubbed Djibouti ICI for 2020–24. This strategy constitutes the second phase of the country's operationalization of Djibouti Vision 2035, following the first strategy for 2015–2019. The COVID-19 response under the strategy builds on a transitional Pact for National Solidarity to respond to the pandemic. The pact proposed immediate actions to strengthen the health system, protect poor and vulnerable people affected by the pandemic, and safeguard the economy. The government's new strategy will supplement these actions to support post-pandemic recovery by: (i) reinforcing social and economic inclusion; (ii) implementing structural reforms to enhance connectivity and leverage regional integration

in logistics, water, energy, telecom/ICT, and transport; and (iii) strengthening public institutions to improve service delivery and macroeconomic stability. The CPF is also aligned with the three pillars of HoA regional priorities: (1) developing regional infrastructure; (2) enhancing sustainable trade, growth, and job creation; and (3) building resilience and human capital.

3.2 WBG Country Partnership Framework

3.2.1 Main findings of the Systematic Country Diagnostic

35. **The SCD identified five main constraints and areas for policy action (Table 2).** It advocated that, because of Djibouti's climatic conditions and water scarcity, environmentally sustainable policies will need to be put in place in both urban and rural areas while pursing these actions.

- **Reduce production costs for firms:** The SCD recommended that Djibouti undertake policy and institutional reforms and investments in basic infrastructure services, such as ICT, electricity, and WASH (including redefining the strategic positioning of Djibouti Telecom, improving the financial viability and reducing losses of the water utility, strengthening the operation and financial viability of utility SOEs, and liberalizing Djibouti Telecom).
- **Boost the human capital development and employment prospects of children and youth:** The SCD recommended reforms in the delivery of health and nutrition services, education, and training.
- **Support job creation:** The SCD recommended a set of private sector-enabling policies to improve access to finance, introduce competition, promote access to export markets, and implement tax system reform.
- **Develop equitable and efficient transfer programs for poor and pastoralist households:** The SCD recommended support for an investment program to build children's human capital, especially for girls, through social safety net programs (cash transfers or in-kind assistance) for poor people.
- **Implement cross-cutting governance effectiveness reforms:** The SCD recommended enhancing transparency and accountability to help improve access to services for both businesses and households by investing in the development of data systems to monitor progress, making informed and transparent policy choices, and enhancing public administration capacity.

Table 2: Summary of Main SCD Findings

Policy Priorities Across Business Environment, Human Capital, and Governance			
Policy and institutional reforms and investments in Infrastructure to improve access and costs	Public services delivery reform	Create enabling conditions for a productive and dynamic private sector	Transfer programs for poor and pastoralist households
1. Electricity 2. ICT 3. Water, Sanitation, and Hygiene	1. Training for employment and entrepreneurship 2. Health and nutrition systems reform 3. Comprehensive education system reform (ECD to tertiary)	1. Tax system reform 2. Access to finance 3. Competition policy 4. Greater regional integration (COMESA)	1. Social safety nets; cash or in-kind transfers with incentives for girls' education 2. Measures to manage food security 3. Measures to promote adaptation to climate change among pastoralists and consider other measures to support income generation among this group
Governance Effectiveness (Cross-Cutting)			
1. Transparency/ accountability through data and citizen's engagement 2. Public administration capacity and efficiency			

3.2.2 Lessons learned from the Completion and Learning Review of the FY14–FY18 Country Partnership Strategy

36. **The CPF builds on program design and implementation lessons distilled in the Completion and Learning Review (CLR) for the previous Country Partnership Strategy (CPS).** The CLR concluded that the CPS for FY14–FY18 exhibited “moderately satisfactory” progress overall, although it pointed out that results were mixed and failed to achieve transformational impact (Annex 2). While notable results were achieved in social safety nets, urban and rural infrastructure, and energy, the CLR found that governance issues and a disconnect between project objectives and activities impeded progress on the investment climate and disaster risk management operations. One area in which the strategy fell short was in prioritization. The program, supported by IDA and trust funds, was spread too thinly across a relatively large number of tasks. The CLR contends that a sharper focus on fewer areas with deeper engagement, together with more robust attention to institution building, may have yielded more consistent and transformational results. Finally, the CLR suggested a greater emphasis on improving the policy environment and building institutions for policy making.

37. **The WBG’s Independent Evaluation Group (IEG) conducted a review of the CLR, which pointed out the crucial need for selectivity and a stronger alignment between outcome indicators, planned interventions, and intended outcomes.** The IEG review echoed the CLR’s ratings, citing a “moderately satisfactory” development outcome and “good” WBG performance, although it offered more modest ratings of progress toward several individual objectives of the previous CPS. IEG stressed two main lessons on which to build in designing the follow-on CPF. First, the IEG review pointed out that increasing selectivity would be critical to ensure realism and greater impact in a small country program like Djibouti’s. Although the CPS sought to be selective, the IEG review suggested that it may have been spread across too many sectors and tasks given the comparatively small size of the portfolio financed by IDA and trust funds, complemented by advisory services and analytics (ASA). Second, the IEG review emphasized the importance of strong alignment between interventions, indicators, and outcomes to ensure a clear intervention logic and allow for meaningful results monitoring. In the private sector interventions of the

CPS, for example, a disconnect between the breadth of project activities and limited CPS outcome indicators did not enable an adequate appraisal of the extent to which the CPS had achieved its broader objectives in this sector.

38. **Four key lessons learned during the CPS period have been embedded in the design of the proposed CPF program.** First, *institution building* will be integrated systematically into WBG interventions to support country systems and ensure sustainability. Going forward, CPF implementation will work toward increased reliance on national systems as they are being built. Second, the program will strive for greater effectiveness with a view to achieving a more *transformational impact*, including through support for policy reforms. The WBG will aim to avoid fragmentation, promote consolidation, and provide integrated solutions through operations that bridge multiple WBG global practices for consolidation and greater impact. Third, the WBG program will aim at *greater flexibility* for quicker adjustments to shocks and unforeseen situations, including addressing needs related to COVID-19 vaccination, locust infestations, and flooding. Fourth, the WBG will rely on ongoing efforts to enhance mechanisms for *voice and accountability* and broaden support to build reform coalitions through stakeholder engagement, including support to the citizen outreach efforts of the National Anticorruption Commission and the Court of Accounts.

39. **In preparing this CPF, the WBG held consultations with key stakeholders in Djibouti, including the government, parliament, private sector, and civil society.** Stakeholders encouraged the WBG to play a leading role in supporting the structural reform agenda and helping the country mitigate the challenges posed by the protracted presence of refugees. They underlined the importance of enhancing service delivery and reducing the cost of services, particularly in the telecom/ICT and energy sectors, but also in health and education, public administration, justice, land administration, and the business environment (Annex 7).

3.2.3 WBG objectives

40. **The overarching objective of this CPF is to support Djibouti's goal of reducing poverty through broad-based and inclusive private sector-led growth.** In alignment with the Djibouti ICI strategy derived from the government's Vision 2035 and the SCD, the proposed CPF program is designed around two focus areas: (1) promoting inclusive private sector-led growth, job creation, and human capital; and (2) strengthening the role and capacity of the state. The new portfolio will focus on fewer areas with deeper engagement, with robust attention to institution building and governance. The overall program will build on three cross-cutting themes: fostering digital transformation, promoting gender parity, and strengthening transparency to support good governance. The CPF's approach to COVID-19 recovery will be guided by the principles of saving lives, scaling up impact, and getting back on track, as outlined in the WBG COVID-19 Crisis Response Approach Paper.

3.2.4 Selectivity

41. **Building on the CLR findings and the IEG review, the WBG envisages a more selective approach** to ensure realism and greater impact. This approach relies on three selectivity filters for selecting the interventions to be supported by the WBG. First, the program will ensure *alignment with government priorities*, as expressed in Vision 2035 and Djibouti ICI for 2020–24 (paragraph 34), and climate commitments under Djibouti's Nationally Determined Contribution to the Paris Agreement on climate change. Second, interventions will prioritize *alignment with the findings of the SCD* (paragraph 35). Finally, the program will reflect the *WBG's comparative advantage* in Djibouti, based on experience to date and lessons learned from the previous strategy, while aligning with the WBG's COVID-19 Crisis Response Approach Paper. The WBG is also investing decisively in enhanced development partner cooperation which will allow for stronger leveraging and complementary engagement. The WBG program will

incorporate analytical work, technical assistance (TA), lending, and private sector-focused instruments to implement best practices and innovative solutions with emphasis on capacity and instruction building across the portfolio. Based on these criteria, the WBG will exercise greater focus and selectivity given the small state context, including limited IDA resources and national implementation capacity.

3.2.5 SCD–CPF alignment

42. **The SCD and CPF priorities are fully aligned.** The WBG will support the following four objectives under the two proposed focus area presented in Section 3.3 to: (i) stimulate entrepreneurship and promote SME development during and after COVID-19; (ii) help reduce the cost of doing business and develop productive skills, while enhancing resilience to climate change; (iii) strengthen basic service delivery to improve access, quality, and inclusion, while enhancing resilience to climate change and natural disasters; and (iv) strengthen economic institutions, public financial management (PFM) systems, and debt transparency and management. These are all aligned with the SCD recommendations.

3.2.6 Evolution of the WBG program

43. **The choice of CPF focus areas is guided by the need for the WBG to complement and sustain the results of the previous CPS, while engaging selectively in Djibouti.** The focus areas are informed by the selectivity filters (paragraph 41).

- The WBG will support efforts to reduce the cost of doing business to enhance job creation (focus area 1), as in the previous CPS. It will support transformative interventions to strengthen regional HoA infrastructure (the southern road corridor and electric interconnection with Ethiopia) and digital infrastructure to improve the operating environment for the private sector and to boost productivity in the economy, in line with the SCD and government priorities. To engage in a complementary and selective manner, the WBG will work with development partners on the ground to support the HoA regional integration priorities (paragraph 34), which have a transformational potential for national and regional growth. The WBG will support the rehabilitation of the southern HoA road corridor while partners (African Development Bank, EU, Arab Funds, Japan) will finance construction works on the northern HoA corridor. Both corridors are essential in linking Djibouti to Ethiopia and other HoA countries. Similarly, the WBG and the African Development Bank (AfDB) will support a regional project for the construction of the HoA power interconnection line between Djibouti and Ethiopia. The WBG will support the regional project on the Djiboutian side while the AfDB will finance it on the Ethiopian side. The southern corridor, less prone to interruptions due to unrest, is particularly important for preserving trade; the northern corridor was temporarily closed to traffic by protestors in the Somali region of Ethiopia in July 2021.
- The WBG will consolidate and sustain Djibouti's efforts to strengthen institutions (focus area 2), as re-emphasized in the SCD and government priorities. The WBG's strategic engagement in this area under the previous CPS has contributed to strengthening service delivery through the expansion of safety net programs, development of urban and rural infrastructure (including among refugee populations), access to short-term employment opportunities, improved education and maternal and child health care services, access to basic infrastructure in rural areas, and government efforts to strengthen capacity in the public administration, including SOE governance and debt management.

3.3 Objectives supported by the WBG program

Focus Area 1: Promoting inclusive private sector-led growth, job creation, and human capital

44. This focus area will support efforts to improve access to finance and reduce the high cost of inputs (including electricity, ICT, transport, and lack of skilled labor) for MSMEs, while enhancing climate resilience and exploiting opportunities for regional integration. The two objectives under this focus area will promote inclusive private sector-led growth and job creation. The World Bank (WB) and IFC will explore opportunities to support MSMEs in key sectors affected by COVID-19 by helping them access advisory and financing services. The WBG will also support reforms and climate-resilient investments to reduce costs and improve the quality of energy and telecom/ICT services, and to build the productive skills needed to stimulate entrepreneurship and SME development for post-pandemic recovery. IFC's Financial Institutions Group has developed a roadmap outlining short- and medium-term engagements to address the shortfall in SME lending (trade finance, risk mitigation, and potential engagement in leasing). MIGA will work to support downstream private investment projects, building on the upstream efforts of the WB and IFC. IDA Private Sector Window (PSW) will continue to play an important role in mobilizing financing for private sector development.

Objective 1: Stimulate entrepreneurship and promote SME development during and after COVID-19

45. The WBG will support the government's COVID-19 recovery efforts, with particular attention to supporting MSMEs. This objective focuses on both pandemic crisis-related and longer-term structural measures which will include helping those affected by the pandemic to access financing to kick-start their business activities. IFC recently approved a trade finance operation with the East Africa Bank and will explore similar potential deals in FY22 with other banks in Djibouti. This support will help local banks strengthen their risk, trade, and credit management framework and capacities in line with international best practices. It will enable them to achieve sustainable growth to support Djiboutian MSMEs during pandemic recovery. These efforts will leverage the ongoing activities under the IDA-funded Support for Women and Youth Entrepreneurship Project (SWYEP) to help businesses mobilize commercial financing through a government partial credit guarantee fund.

46. The WBG will support reforms to establish a government relief fund for formal and informal MSMEs affected by the pandemic in the form of capital injection or financial subsidy. The WBG will support MSMEs to access guarantee and de-risking instruments, including through IDA PSW. These actions are particularly opportune given that no other development partner is supporting this type of intervention. IFC's and MIGA's prospective interventions will complement and leverage activities under the ongoing IDA-funded Governance for Private Sector Development and Finance (GoPro) Project and the SWYEP to support MSMEs, including women-owned businesses. Under a planned Business Park Development Project, the WB will collaborate with the European Union (EU) to provide smart options for MSMEs to consider when leasing much-needed office space. The project is expected to provide added economic stimulus for private developers to create retail and housing facilities near the business park.

47. The WBG will seek to support government efforts to promote private sector development in tourism, housing, and agribusiness, while continuing its engagement in Djibouti's energy and infrastructure sectors. In tourism, IFC approved an investment in Onomo Hotels in FY21 to support job creation in the country. This project was also funded from the IDA Private Sector Window, approved by the IDA Board. In housing, it plans to support a pilot PPP operation to help attract prospective housing developers to invest in Djibouti. In parallel, the WB, in collaboration with IFC's Financial Institutions Group, will intervene upstream through a planned Affordable Housing Project in FY22 to support supply-side interventions (MENA Urban Global Practice) and demand-side actions (MENA Finance Global Practice). On the supply side, WB engagement will build on the ongoing IDA-funded slums upgrading project in social housing to develop the entire housing value chain. On the demand side, the WB will support local financial

institutions to provide longer-maturity mortgage instruments. Other bilateral partners intervening in social housing are China, Saudi Arabia, Kuwait, and the Arab Funds. The WBG will focus on the affordable housing segment, which is currently not covered by any other partner.

48. In *agriculture*, the WB is considering an Integrated Rural and Agribusiness Development Project in FY23 to support the production and commercialization of high-value agri-food value chains (particularly livestock, fisheries, and vegetables) to foster regional trade, job, and income generation, and thereby provide long-term solutions to Djibouti's food insecurity concerns. The livestock sector has significant potential for increased value addition and could meet growing national demand while allowing for import substitution. Djibouti has already laid the foundation to satisfy growing international demand for livestock products (from Gulf countries in particular) given its state-of-the-art port infrastructure and regional cattle export center, together with monitoring, sanitary, and veterinary standards. These actions will leverage interventions from the AfDB, the EU, the Arab Maghreb Development Finance Institute (IFID), Saudi Arabia, and the United Nations (UN). With planned interventions in livestock and fisheries, the WB will be the only partner in that sector. MIGA will explore opportunities to support foreign direct investors in housing and agribusiness, including with de-risking tools from the MIGA Guarantee Facility of IDA Private Sector Window. MIGA is also seeking opportunities to support relevant PPPs and other bankable projects, with a focus on SMEs, including in renewable energy.

49. **IFC will explore opportunities to support business environment reforms and offer advisory services to the government and businesses in the form of training, advice, dialogue, and problem solving, alongside the WB.** This will include partnerships with the Chamber of Commerce of Djibouti to provide support for improving the country's investment climate and strengthening the skills of business owners who are members of the CCD. This support will contribute to strengthening the WBG's partnership with the business community in Djibouti and to supporting the CCD in helping its members to identify new business opportunities and partnerships, with potential support from IFC and MIGA. This type of support will allow business owners to access information from the CCD on government initiatives to help develop the private sector (such as legislative changes, tenders, and new procedures for business registration). It will assist CCD representatives in working with the government to identify priority reform areas to improve Djibouti's investment climate and make it easier to do business in the country.

50. IFC will also offer to: (i) help national and local governments to improve the investment climate, strengthen basic infrastructure, and raise social and environmental standards; (ii) help investment clients sharpen their competitive edge, improve corporate governance, and become more sustainable; (iii) assist SMEs—including in agribusiness, construction, logistics, tourism, and health—to strengthen their business, managerial, and production skills so that they can develop bankable business plans for financing; and (iv) work closely with its clients and partners worldwide through the IFC SME Linkages Team to expand their local supply and distribution chains in order to create more opportunities for SMEs and MSMEs and to assist in sustainable community development efforts.

51. **IFC will explore setting up a Multi-donor Initiative to address key reforms needed to enable private sector development.** These efforts will complement ongoing work under the IDA-funded GoPro project to help improve business standards, create an attractive business environment, and remove legal and technical obstacles that hamper entrepreneurship and private sector growth. IFC actions will leverage the IDA-funded SWYEP, which is providing business training to young men and women entrepreneurs. WBG interventions are expected to contribute to improving the business community's access to new business opportunities, including through greater participation in public tenders. The WBG support will leverage the actions of other partners supporting private sector development, including the Japan International Cooperation Agency (JICA), the United States Agency for International Development (USAID), the EU, the Islamic Development Bank (IsDB), and the UN.

52. **MIGA will continue to build on its engagement in Djibouti, seeking opportunities to mobilize foreign direct investment into the country by using its political risk insurance products.** MIGA will pursue opportunities to facilitate investments in energy, infrastructure, and other sectors highlighted in the CPF, where there is demand among private investors for MIGA's products to manage country risks. MIGA will also seek to support PPPs and other bankable projects using the MIGA Guarantee Facility of IDA Private Sector Window. Finally, MIGA's engagement in Djibouti will be strengthened by collaboration with the WB and IFC under the One WBG approach, as well as other key partners, including the IsDB's Islamic Corporation for the Insurance of Investment and Export Credit.

53. **The CPF outlines key expected results under the first objective.** During the CPF timeframe, 2,300 entrepreneurs (of which 50 percent women) are expected to receive financing during and after the pandemic to kick-start their business. An additional 2 new formal MSMEs per 1,000 population are expected to be created and nurtured to be sustainable and create jobs for youth. These results would contribute to the Sustainable Development Goals (SDGs), including SDG 5 on achieving gender equality and empowering all women and girls and SDG 8 on promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

Objective 2: Help reduce the cost of doing business and develop productive skills, while enhancing resilience to climate change

54. **The WBG will promote sustainable job creation by supporting reforms and investments to improve telecom/ICT, energy, and transport services for businesses.** This work aligns with the third pillar of the WBG's COVID-19 Crisis Response Approach Paper. The high cost of utility services is among the key factors hindering SME growth and transition into sustainable, job-creating companies. In telecom/ICT, the ongoing Infrastructure Sector Assessment Program (InfraSap) and the planned Djibouti Digital Foundations Project in FY22 will provide support to strengthening the regulatory role of the state by helping the government establish and operationalize an independent regulator for the telecom/ICT and energy sectors and to regulate their operation and pricing mechanisms. The project will help to develop the digital jobs ecosystem and skills and introduce market competition, thereby helping to improve the quality and reduce the cost of utility services for individuals and businesses. It is also expected to help mobilize private capital and, therefore, contribute to the WBG's PCM agenda.

55. **While telecom/ICT reforms have seen slow progress in recent years, ongoing reform dynamics in Ethiopia and other HoA countries have presented major incentives and opportunities for Djibouti to open the sector and improve intra-regional connectivity.** WBG support will help to introduce the licensing of at least one new private sector operator, a critical step toward successful liberalization of the telecom/ICT sector. The WBG will engage to support the government's ongoing efforts to privatize Djibouti Telecom, as well as Djibouti Telecom's strategic positioning to adapt to new competition dynamics in the market. In energy, the WB will offer to help the government prepare a cost-of-service analysis, including on renewables, to allow the establishment of a transparent price-setting mechanism upon which the regulator can rely. IFC and MIGA will support the further development of Independent Power Producers (IPPs) in Djibouti.

56. **The WBG will support Djibouti's interconnection of ICT, electric, and transport infrastructure with Ethiopia and the broader HoA region to strengthen Djibouti's regional connectivity and help fulfill its aspiration to become a regional hub.** This will be achieved through support for: (i) telecom/ICT (through the planned Regional Tier 4 Data Center Project in FY23) to set up a single regional data market in the HoA region by supporting safe and cost-effective storage and exchange of data as a means to help establish data infrastructure (carrier neutral) at landing stations with national data centers in Ethiopia, Somalia, and Eritrea and thus to support redundancy; (ii) electricity (through the planned Ethiopia HoA Power Interconnection Project in FY22) to build a second 230 kV high-voltage power line in partnership

with the AfDB¹¹ to help secure power supply from Ethiopia and stabilize Djibouti's electrical grid and to enable the connection of future domestic IPPs' energy generation from wind (58.9 MW from Ghoubet wind farm, under construction and benefitting from MIGA investment guarantees), geothermal (30 MW from *Fialé*), and solar (25 MW from Grand Bara) sources; and (iii) road transport (through the planned Djibouti–Addis regional HoA Southern Road Corridor Project via Dewele, Ethiopia, in FY22) to support the expansion by 18 kilometers of Route Nationale (RN) 1 and the rehabilitation of 21 kilometers of RN5 and RN19. In telecom, WBG-supported TA, reforms, and infrastructure financing will be particularly relevant given that no other partners are involved in this type of support. In energy, the WBG will leverage interventions from the AfDB, IsDB, French Development Agency (AFD), JICA, USAID, and the Arab Funds. Under the road project, the WB will endeavor to leverage support from JICA, the EU, and Arab Funds. It will leverage private investment and PCM to the extent possible, particularly in ensuring sustainable maintenance of the corridor. In addition to creating direct jobs in construction phase, the above infrastructure operations will reduce operating costs for the private sector to create jobs.

57. WBG support to regional electric and road connectivity will help Djibouti's climate adaptation efforts. Through planned support to the HoA power interconnector and corridor, and the Ghoubet wind farm, the WBG will support Djibouti's national priorities on climate change mitigation and adaptation to harness renewable energy potential and build resilience.¹² Through the above operations, the WBG will seek to address key climate-related challenges and opportunities to support Djibouti in achieving national climate targets and priorities outlined in its Nationally Determined Contribution. The FY21 pipeline for Djibouti comprised 27 percent climate finance (as of January 2021), compared to 18 percent for FY20. The additional generation capacity from IPPs in renewable energy is expected to increase climate co-benefits to at least 30 percent by FY23 and will support the expansion of the sector, the creation of jobs, and an increase in reliable access to power. WB efforts will be informed by the planned Djibouti Country Climate and Development Report in FY23 and will contribute to increasing climate co-benefits while ensuring sustainable supply and efficient management of electricity.

58. The WB is supporting the development of logistics skills in tertiary education, one of the priority areas of the Djibouti ICI strategy and National Employment Policy. The ongoing Regional Africa Center of Excellence Project will continue to support the University of Djibouti in establishing a center of excellence in logistics and transport to align skills supply with private sector demand in the booming logistics sector. This work will be underpinned by capacity building activities for the Ministry of Higher Education and the University of Djibouti in good governance practices and transparent management of public resources to alleviate corruption and maximize development impact. Through the ongoing Skills for Employment and Inclusion ASA, and the planned Human Capital Review, the WBG will initiate knowledge activities in both vocational training and tertiary education. This effort will draw on MFD/PCM approaches to involve the private sector in the design, financing, implementation, and quality assurance of education programs. The WB and IFC will explore ways to increase the production of advanced digital skills, in partnership with the private sector. These types of interventions in innovation and research and development are not supported by any other partners.

59. The WB will support market-responsive vocational training to strengthen productive skills and access to jobs, including for women and youth, to adapt to the evolving needs of the economy during post-COVID recovery. Two key gender-sensitive operations are planned in support of this objective. First, the planned Djibouti Digital Foundation Project in FY22 will help build basic digital skills for young men

¹¹ The WBG is expected to support the construction of the power line section on Djiboutian territory, while the AfDB plans to support the section on the Ethiopian side.

¹² Djibouti ranks 117th out of 181 countries on the Notre Dame Global Adaptation Initiative Index, which summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.

and women and enhance their access to employment. Second, the planned Djibouti Skills Development for Employment Project in FY22 will help foster a more responsive skills development sector that addresses current and emerging labor market needs, while simultaneously supporting needed entrepreneurial skills in a country where formal job growth is low. The project will focus on supporting desired job market outcomes for Djiboutian workers, in both the informal and formal sectors, by improving the quality of skills development programs provided through both the public and private sectors. The project is expected to support activities in the following sectors: transport and logistics, construction and related trades, ICT, energy, and selected services. Opportunities in the tourism, nursing and midwifery, agriculture, livestock, and fisheries sectors will also be explored during consultations with the government, private sector, and other development partners. The ongoing SWYEP, complemented by additional resources from the Women Entrepreneurs Finance Initiative, will continue to help build the capacity of women and young entrepreneurs, including through the Mahatma Gandhi Center of Leadership and Excellence, a south-south cooperation initiative between India and Djibouti. WBG interventions to promote employment are closely coordinated with other partners and will leverage the engagement of the USAID, the EU, and JICA.

60. **The CPF outlines key expected results under the second objective.** During the CPF timeframe, WBG interventions are expected to contribute to increasing the power transmission capacity of Djibouti from 80 to 280 MW, with a greater contribution from renewables for higher climate co-benefits. They will also support the introduction of three licenses and authorizations for providers of telecommunication infrastructure and services to be issued by the Independent Multisector Regulator of Djibouti. Finally, they would allow 1,500 youth (of which 500 women) to graduate from market-oriented vocational programs in tourism, ICT, logistics, and construction to meet private sector demand. These results are expected to contribute to SDG 5 on achieving gender equality and empowering all women and girls; SDG 7 on ensuring access to affordable, reliable, sustainable, and modern energy for all; SDG 8 on promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all; and SDG 9 on building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation.

Focus Area 2: Strengthening the role and capacity of the state

61. **This focus area will support the government's efforts to strengthen basic service delivery (in health, education, WASH, and social inclusion) and the capacity of public institutions, while enhancing climate resilience.** In line with the IDA19 theme on governance and institutions, the two objectives under the second focus area aim to enhance public service delivery, strengthen economic institutions, and improve public debt transparency and management during and after the pandemic. The WBG will contribute to improving basic water, health and education services, social protection, and social housing services. It will provide support to structurally address revenue mobilization and the efficiency of public expenditure by strengthening PFM—in budget planning, implementation, reporting, monitoring, and evaluation—to modernize the civil service and improve public service delivery. It will also strengthen debt management through capacity building, including in statistics for enhanced policy making.

Objective 3: Strengthen basic service delivery to improve access, quality, and inclusion, while enhancing resilience to climate change and natural disasters

62. **The WBG has helped strengthen health, social protection, and disaster response services during the triple crises posed by the pandemic, locust infestations, and flooding.** To accomplish this, the WBG's program and portfolio have been reprioritized to support the government's efforts to address urgent needs. The WB supported the government's COVID-19 emergency response plan by swiftly preparing a US\$5 million emergency response operation, approved by the IDA Executive Board on April 2, 2020, as part of a global response package of US\$14 billion. The project helped the government: (i) implement

effective detection, prevention, and control measures across the country; (ii) strengthen essential health care service delivery by establishing and equipping quarantine sites and treatment centers to more effectively manage COVID-19 cases, and by building laboratory capacity; (iii) train health personnel in infection prevention and control; (iv) support behavior change communication, including around social distancing and proper handwashing; and (v) promote community engagement through existing community institutions and women's organizations in the most vulnerable areas to raise awareness of barriers to action against the spread of the coronavirus. The Contingent Emergency Response Component of the ongoing IDA-funded Towards Zero Stunting Project for US\$8 million was activated to supplement COVID-19 response efforts to save lives, as well as efforts under the regional Locust Response Project to address the locust crisis. Moreover, the ongoing Integrated Cash Transfer and Human Capital Project (PITCH) was restructured to redirect US\$5 million—before topping it up with US\$15 million in additional financing—to support populations affected by the pandemic in rural and urban areas. Similarly, additional financing for the Integrated Slum Upgrading Project (ISUP) helped to address the urgent needs of populations affected by flooding in the Balbala slums, including refugees.

63. **The WB will stand ready to support COVID-19 vaccine financing when there is a need.** The WB will stand ready to support vaccine mobilization and distribution, including survey/communication efforts on social media to reduce vaccine hesitancy. This course of action is in line with the first and second pillars of WBG's COVID-19 Crisis Response Approach Paper: saving lives and protecting poor and vulnerable people.

64. **Beyond the pandemic's emergency efforts, the WBG will continue to support Djibouti in expanding access to good-quality health, education, water, and social protection services for greater inclusion.** In basic health, the WB will continue to support the government's Towards Zero Stunting Program, with a focus on the critical 1,000-day window from conception to two years of age, when the effects of stunting become largely irreversible. The ongoing IDA-funded Towards Zero Stunting Project will spearhead service delivery innovations, such as interactive technologies and integrated information systems for prompt identification of children who are at risk of stunting. The operation will contribute to better maternal and child health outcomes by supporting nutrition interventions for women of reproductive age, including pregnant and lactating women and adolescent girls. The IDA-funded Improving Health Sector Performance Project—the first results-based financing project of its kind in MENA, which closed at end-FY21—helped improve the quantity and quality of maternal, child health, and nutrition services, particularly at the primary and secondary levels of care. To sustain these results, the WB will explore the possibility of leveraging the IDA Host Communities and Refugees Window to support a planned Health Systems Strengthening and Human Capital Development Project in FY22 to benefit host communities and refugees. In addition to improving the supply side of basic health services, the WBG will aim to increase demand for basic health services and nutrition among poor households and to foster the broader adoption of beneficial behaviors.

65. In basic education, the ongoing Expanding Opportunities for Learning Project will help improve access to good-quality basic education by improving student retention, reinforcing learning assessments and teachers' skills, and strengthening management systems at the central and school levels. WBG interventions will leverage those of other partners on the ground, including AfDB, USAID, and JICA (health) and IsDB, AFD, and JICA (education).

66. In WASH, the WB will support water resource investments, both for drinking water and for agriculture and food security, through the planned borderland Regional HoA Groundwater for Resilience Project in FY23. This intervention will target the hotspots of extreme poverty and stunting in rural areas. Efforts to maximize water security and climate resilience will focus on: (i) institutional strengthening to better manage information, maintain and operate water resource systems, and provide rural services; (ii)

groundwater exploration and aquifer characterization, especially in the Afar Rift transboundary aquifer underlying Dikhil and Tadjourah, as well as the borderlands with Somalia; and (iii) groundwater resource development for human supply and agropastoral perimeters in these areas, together with water harvesting investments in the mountainous areas of Tadjourah, where rainfall is more abundant. Managing runoff and natural groundwater storage with a basin-wide vision will mitigate the impacts of floods and droughts and build climate resilience. Water sector investments for WASH services and food security will contribute to reducing caseloads in health centers and mitigate stunting. WBG interventions in WASH will leverage those of AfDB, EU, IFID, China, Turkey, Saudi Arabia, and Arab Funds.

67. In the area of *inclusion*, the ongoing ISUP will continue to support the government's comprehensive response to the expansion of urban slums under the national Zero Slum Program. This 15-year program aims to upgrade all 13 slums in Djibouti City, to develop a land market for low-income groups to prevent the further development of slums, and to strengthen the construction of low-income and affordable housing. The WB will continue to strengthen government social protection systems through the ongoing Development Response to Displacement Impacts in the Horn of Africa Project (DRDIP) to improve livelihoods for host communities and refugees in Djibouti. The PITCH project will continue to support the government's National Social Registry, which is expected to cover most poor and vulnerable households in the country (including refugees and people affected by disability). This will include using digital technologies to improve the efficiency of selected public services and enable effective targeting of multiple social programs, such as subsidized health insurance, cash transfers, food security programs, and disaster assistance, thereby reducing program fragmentation and overlap. The registry will benefit current and future social safety programs, including those of the UN and other bilateral and multilateral partners. Under this CPF, additional financing operations approved in FY21 for ISUP and PITCH will help buttress social protection and inclusion for poor and vulnerable households, including among refugees and host communities during post-pandemic recovery.

68. **The WBG will leverage the IDA19 Host Communities and Refugees and Regional Windows to mobilize additional IDA financing in support of private sector-led productive activities for host communities and refugees as well as regional activities.** This will be particularly relevant in the northern region of Obock to support artisanal fishing and trading activities led by Yemeni refugees, which can be scaled up to benefit refugees and host communities. Given the significant potential of fisheries, the WBG will explore the possibility of supporting a regional HoA-MENA-Africa fisheries project between Djibouti, Somalia, and Yemen to strengthen livelihoods and promote productive inclusion in the Red Sea region, with participation from the private sector. Investments in water resources will target vulnerable rural populations, including nomadic pastoralist communities in the borderlands with Ethiopia and Somalia. In the outer years of the CPF, pending resource availability, the WB will explore the possibility of supporting greater inclusion of rural pastoralist populations using an HoA-wide approach through a De-Risking, Inclusion, and Value Enhancement of Pastoral Economies Project and a Regional Integration for Sustainable Energy Supply Project. WBG support to the inclusion agenda will help leverage interventions from the EU (social protection), AfDB (disaster preparedness), and JICA and UNHCR (refugees).

69. **Through the above interventions, the WB will ensure that appropriate actions are taken to build communities' climate change resilience and disaster preparedness.** To enhance resilience to climate impacts, the WBG will include planning for contingency support to rehabilitate schools and hospitals and help affected populations in the event of locust, flooding, and other climate-related shocks. Activities will more generally support further mainstreaming of climate resilience into national policy and planning processes and disaster risk reduction and preparedness. WASH interventions will take the form of climate-resilient investments focusing on water security through the integrated management of surface and groundwater, mitigating the impacts of floods and droughts. The ongoing regional Locust Response

Project is contributing to the Government of Djibouti's efforts to mount a timely response to locust invasions.

70. **The CPF outlines key expected results under the third objective.** During the CPF period, nine additional designated laboratories equipped with COVID-19 and other infectious disease diagnostic equipment, test kits, and reagents will be put in place and can serve in the event of future disease outbreaks. The proportion of women who attended at least two antenatal care visits during their most recent pregnancy is expected to increase from 23 to 50 percent. Among teachers in basic education (preschool and primary), 75 percent are expected to acquire improved teaching skills. An additional 9,000 extreme poor households (60 percent of which are female-headed) are expected to benefit from cash transfer programs. An additional 36,000 people would access electricity services in the Balbala slums. Finally, an additional 30,000 people (of which 15,000 would be women), including pastoralists, are expected to gain improved access to water services in Dikhil, Tadjourah, and the Somalia borderland. These results are expected to contribute to SDG 1 on ending poverty, SDG 2 on ending hunger, SDG 3 on ensuring healthy lives, SDG 4 on quality education, SDG 5 on achieving gender equality, SDG 6 on clean water and sanitation, SDG 10 on reducing inequality, SDG 11 on sustainable cities and communities, and SDG 13 on climate action.¹³

Objective 4: Strengthen economic institutions, public financial management systems, and debt transparency and management

71. **The WBG will support strengthening public institutions and building capacity.** WBG interventions will help alleviate corruption and strengthen governance effectiveness, as advocated in the fourth pillar of the WBG's COVID-19 Crisis Response Approach Paper on strengthening policies, institutions, and investments for rebuilding better. Activities under this objective will be supported mainly by the ongoing IDA-funded Public Administration Modernization Project (PAMP) and Economic Management and Statistics Development for Policy Making Project (EMSP). Recognizing the need to adapt the program in response to circumstances on the ground and government priorities, a programmatic development policy financing (DPF) could be one mechanism for advancing a critical and feasible reform agenda as capacity improves and a track record on debt transparency and sustainability is built. It would buttress the government's ongoing effort to enhance transparent management of SOEs' debt and debt sustainability and improve competitiveness given the role of SOEs in backbone service provision. As with all DPFs, there would be prerequisites in terms of the reform progress and an adequate macroeconomic framework, including compliance with FY22 PPAs.

72. **Under the PAMP, the WB is helping to introduce results-based approaches to enable better service delivery during and after COVID-19 and to promote contestability, transparency, accountability, and efficiency in the public sector.** These efforts will include a focus on selected revenue administration services, with a view to achieving a 25 percent increase in registered and active taxpayers across various existing revenue instruments. The WB is helping to promote transparency and combat corruption through the modernization of public procurement by establishing a web portal for full rollout of e-government approaches, including e-procurement services. The PAMP will help introduce a medium-term expenditure framework and strengthen internal control and monitoring and budget execution reporting to alleviate corruption.

73. **The EMSP supports macroeconomic forecasting, budget planning, and monitoring, as well as statistics development, to enable the introduction of results-based approaches in Djibouti.** A possible DPF could support reform efforts to monitor SOEs' financial situation, audit them, mainstream the use of

¹³ See <https://sdgs.un.org/goals> for more detailed descriptions of each SDG.

performance contracts, restructure SOEs, and put in place a competition policy to provide a level playing field and avoid crowding out the private sector. Given the prominent role played by SOEs in the Djiboutian economy, strengthening their capacity for governance and oversight will reduce costs, improve the quality of public services, and control the accumulation of debt, which is incurred mainly by large SOEs. WBG support to institutions will leverage the activities of the EU, USAID, and AFD in justice, democracy, and good governance.

74. The WBG will support the government in strengthening the management of public debt, reflecting challenges identified in the first year of PPA implementation. Strengthening the governance and oversight of SOEs, as underscored above, is key to improving the return on public investments and controlling public debt accumulation, as well as contingent liabilities. The WB will support the government in designing a debt strategy that limits public guarantees and sets up a requirement for SOEs to obtain formal government authorization to contract debt without a guarantee. This effort will be combined with TA to the National Public Debt Committee to strengthen its role as an advisory board to the Cabinet Council on debt issues. Technical support will be provided to the Debt Department of the Ministry of Budget and the Department for External Financing of the Ministry of Finance to improve debt management and reporting by enhancing transparency and reducing debt vulnerability risks. During CPF implementation, the WB will continue to support the government in implementing and monitoring the G20-sponsored Debt Service Suspension Initiative, in collaboration with the IMF.

75. In light of the challenge with the PPA on a non-concessional debt limit, WBG will provide customized support during the CPF period. The WBG will help the government implement the IDA19 Program of Creditor Outreach to re-energize outreach to creditors, including non-Paris Club and private creditors, to promote dialogue on debt transparency, information sharing, dialogue, and coordination. This will include coordination with other multilateral development banks to promote the transparency of public debt in Djibouti and voluntary publication of loans, terms, and conditions by creditors, in line with IDA's disclosure practices, to help mitigate debt-related risks. Finally, in the context of the IMF–WB Multi-Pronged Approach, the WBG will work with the IMF to provide enhanced and targeted capacity building support in debt management and reporting. The WBG and IMF are the only partners supporting debt management and transparency in Djibouti. Together with IFC, the WB will explore potential avenues to provide TA to the newly established Sovereign Fund of Djibouti (SFD) to enhance best practices and ensure that the fund is leveraged to channel financing to priority areas and thus steer the economy toward an inclusive private sector-led growth model. Support to FSD will be conditional on clarity regarding its governance arrangements.

76. WBG interventions in PFM will be buttressed by a robust ASA and TA program focusing on good governance, gender, climate change, and combatting illicit financial transactions. WB-supported ASA will help assess tax administration and public financial management needs to help design and implement effective reforms in these areas. This ASA includes the 2019 Tax Administrations Diagnosis Tool, the 2020 Methodology for Assessing Procurement Systems, the planned Public Expenditure and Financial Accountability assessment, the planned Public Expenditure Review, and Country Economic Memorandum. The Public Expenditure Review will be particularly useful in reviewing government tax expenditures, as well as direct and indirect subsidies to housing and land schemes, with a view to better targeting poor people in need of subsidies and improving cost recovery from the non-poor. A combined poverty and gender assessment is proposed to update poverty analyses, examine factors hindering women's full participation in the labor market, and seek ways to increase their access to formal jobs. In addition, gender targets will be set for training activities at all levels to ensure equitable opportunities for girls and boys. Moreover, the Public Expenditure Review and Country Economic Memorandum will explore policy measures to improve protection against climate impacts as well as monitoring and evaluation of potential

contingent liabilities due to natural disasters. In that context, the WB will partner with the Climate Action Peer Exchange initiative and the Coalition of Finance Ministers for Climate Action to help raise awareness on climate change among finance ministries and strengthen climate risk-informed fiscal policies in Djibouti. The preparation of a CCDR will also be prioritized for Djibouti early during the CPF period. These efforts will create more systematic economy-wide synergies with the implementation of the country's Nationally Determined Contribution. The ongoing WB TA on anti-money laundering and combating the financing of terrorism will help to understand and address the underlying drivers of these concerns in Djibouti.

77. The CPF outlines key expected results under the fourth objective. During the CPF timeframe, ten government systems will be connected to the state's interoperable platform. Moreover, the WBG is expected to support implementation of performance contracts and regular auditing of financial accounts in at least three large SOEs during the CPF period. These results are expected to contribute to SDG 16 on promoting peaceful and inclusive societies for sustainable development, providing access to justice for all, and building effective, accountable, and inclusive institutions at all levels.

Table 3: Indicative WB Lending Program, FY22–23 (US\$ millions)^{1/}

Projects	FY22	FY23
Indicative Lending (1+2+3+4)	63^{2/}	50
1. Equitable Growth, Finance, and Institutions (EFI)		30
Business Park Development ^{P3/}	[4 ^{4/}]	
Programmatic DPF ^{P4/}		30[5 ^{3/}]
2. Sustainable Development (SD)	10	10
Affordable Housing ^{P3/}	10	
Integrated Rural and Agribusiness Development ^{P3/}		10
3. Human Development (HD)	20	
Skills Development for Employment Project ^{P3/}	10[5 ^{3/}]	
Health Systems Strengthening and Human Capital Development Project	10[5 ^{3/}]	
4. Infrastructure (INF)	33	10
Digital Foundations ^{6/}	10	
Regional HoA Djibouti–Addis Southern Road Corridor (US\$70 million)	14[56 ^{5/}]	
Regional HoA Djibouti–Ethiopia Power Line (US\$45 million)	9[36 ^{5/}]	
Regional HoA Tier 4 Data Center (US\$20 million)		4 [16 ^{5/}]
Regional HoA Groundwater for Resilience (US\$30 million)		6 [24 ^{5/}]

Notes: ^{1/} Lending for FY24–FY26 will be programmed following the PLR, based on implementation progress and financing needs. ^{2/} The total includes only performance-based allocation (PBA) resources; figures in square brackets are not included in the total: ^{3/} Refugee window; ^{4/} Trust funds; ^{5/} Regional window resources]. ^{6/} PCM-tagged project. P1/, P2/, P3/, P4/ Pillars of the WBG COVID-19 Crisis Response Approach Paper.

Table 4: Indicative Selected WB Non-Lending Program, FY22–23

ASA	FY22	FY23
Programmatic TA for Multisector Regulator	✓	✓
Human Capital Review	✓	✓
Poverty and Gender Assessment	✓	
Sustainable Solutions for Rural Development	✓	
Public Expenditure Review	✓	✓
InfraSap	✓	
Public Expenditure and Financial Accountability	✓	
Country Economic Memorandum		✓
Country Climate and Development Report		✓

Table 5: Potential IFC Investment Program, FY22–FY23

Potential Projects	FY22	FY23
a. Infrastructure and Natural Resources		
Power: Renewable Energy	✓	✓
Transport and Logistics	✓	✓
Telecom		✓
b. Financial Institutions Group		
Affordable Housing	✓	
Trade Finance/Banks	✓	✓
c. Manufacturing and Services		
Commercial Real Estate	✓	
d. Agribusiness		
Agribusiness	✓	✓

3.4 Implementing the CPF

3.4.1 Financial envelope and instruments

78. **The CPF will span two IDA cycles—IDA19 (FY21–FY22) and IDA20 (FY23–FY25)—and will be implemented jointly by the WB, IFC, and MIGA.** Under IDA18, Djibouti received financing of SDR62 million (about US\$86.9 million), a threefold increase over its IDA17 allocation. The indicative IDA19 performance-based allocation (PBA) for FY21–FY22 is expected to be in the range of SDR 67.3 million (approximately US\$90–95 million), complemented by significant regional IDA resources estimated at US\$92 million in FY22 alone (Table 4).¹⁴ Of Djibouti’s PBA amount, SDR 25.5 million (approximately US\$35.3 million) was allocated to FY21 and SDR 41.7 million (approximately US\$57.6 million) to FY22. In FY21, only SDR11.4 million (about US\$15.8 million) has been committed. The remaining IDA19 balance of SDR 53.2 million (approximately US\$73.5 million) could be used upon satisfactory implementation of the SDFP PPAs for FY21. During IDA19, implementation of Djibouti’s PPAs for FY21 has been assessed as unsatisfactory, so 20 percent of the FY22 PBA has been set aside. This leaves an adjusted IDA19 allocation of about SDR 44.8 million (in the range of US\$60–65 million) available for programming in FY22 (Table 3).¹⁵ A Performance and Learning Review (PLR) will be conducted in FY24 to assess progress and realign the program with potential shifts in policy, reprioritization, and lessons learned during implementation. Insights gained during the PLR process will help to determine the lending program for the remainder of the IDA20 cycle.

79. **The CPF will build on the current WBG lending and non-lending program.** As of end-June 2021, the active portfolio was composed of 13 operations (10 national and three regional), for a net committed amount of US\$233 million, of which US\$167 million remained undisbursed due to a relatively young portfolio with an average project age of about three years; the disbursement rate increased significantly in FY21. The program focuses on social safety nets, urban poverty reduction, health, education, private sector development, energy, and governance and public administration modernization. The portfolio places an emphasis on advisory work (Table 4); supporting women, youth, refugees, and host communities; and promoting climate change adaptation. The CPF will leverage these interventions and support regional road and power infrastructure to enhance regional integration and boost productivity and job creation in Djibouti. In FY21, IFC approved its first two investment operations in Djibouti, totaling US\$13.7 million (East Africa Bank finance for US\$5 million and Onomo Hotels for US\$8.7 million; see Annex 4). IFC will actively seek to invest in the sectors identified in this CPF (Table 5) to create markets and

¹⁴ IDA volumes are indicative. Actual PBA allocations will be determined annually and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country’s performance rating, per-capita gross national income, and population; (iv) implementation of IDA’s SDFP PPAs; and (v) the performance and other allocation parameters for other IDA borrowers.

¹⁵ As a small state requiring PPAs, IDA’s rules allow Djibouti to frontload up to 50 percent of its second-year PBA in the first year of the IDA19 cycle only after demonstrating satisfactory progress on PPA implementation.

mobilize private investment in challenging contexts. MIGA has two active operations in Djibouti: US\$24.3 million in guarantees issued in FY18 to support the Mezz Tower and Djibouti International Business Centre commercial real estate project in Djibouti City, and US\$91.6 million in guarantees issued in FY20 in support of the Ghoubet wind farm, the first utility-scale wind project and first IPP in Djibouti (Annex 5).

80. **Efforts are being made to improve portfolio performance and quality.** The overall performance of the WB's portfolio is satisfactory, and there are no problem projects. The October 2020 Country Performance Portfolio Review identified key measures to improve portfolio quality and performance, including simplifying the administrative procedures required to authorize disbursements from three signatures to one and strengthening the capacity of implementing agencies. Disbursements accounted for 31 percent of the portfolio in FY21 and are picking up gradually with effective implementation of new operations.

81. **The CPF proposes a mix of different WBG instruments to support reforms and strengthen institutions In line with lessons learned and SCD recommendations.** Investment operations are supporting institution building (e.g., the Economic Management and Statistics Development for Policy Making Project), and capacity building activities are being embedded in all new investment operations. Intensive dialogue in FY21 around implementation of the PPAs and Debt Service Suspension Initiative has elevated the priority given by the government to building capacity in debt management and infrastructure governance, and investment project financing with a major debt strategy and management component is already under implementation. This dialogue will continue in FY22 potentially setting the stage for a programmatic DPF beginning in FY23—if the momentum around debt dialogue is maintained and FY22 PPAs are met. As the government embarks on new reforms (for example, in telecom), a DPF could be a suitable instrument for supporting upstream reforms. This type of support can help realize the productivity benefits of infrastructure and unlock key reforms in the private and social sectors.

3.4.2 Procurement

82. **The Djiboutian authorities have taken significant steps to address weaknesses in public procurement, but some priorities still need to be addressed.** In 2009, a new procurement law (*Nouveau Code des Marchés Publics*) was enacted to simplify and clarify the legal and regulatory framework. While some progress has been made toward aligning the legal framework for public procurement with international best practices, significant vulnerabilities persist in two main areas. First, the concentration of control, regulatory, and execution functions at the procurement agency (*Commission nationale des marchés publics*) hampers transparency and poses significant risks to the legal framework. International best practice requires separating these functions to avoid conflicts of interest, including in addressing procurement-related complaints. Second, civil society is not included in regulatory functions (for example, as members of committees handling procurement complaints), as would be called for under best practices. The WB-supported Methodology for Assessing Procurement Systems assessment, finalized in 2020, identified weaknesses to address in future reforms to strengthen and modernize the public procurement system.

3.4.3 Financial management

83. **Internal and external control rules and procedures are functional but need to be strengthened.** Internal control rules and procedures incorporate a comprehensive set of controls, but full compliance remains uneven. The internal audit function is developing but continues to face challenges, including insufficient resources and capacity, limited application of international standards and good-practice methodologies, and limited coordination with other ministries and the Court of Accounts, although there have been efforts toward the establishment of a coordination committee. The satisfactory performance of the independent Court of Accounts in providing external oversight would continue to receive support.

Annual budget reports are prepared within six months of the end of the fiscal year, and the budget execution law is approved by parliament before adoption of the next year's budget. Since 2001, public accounts have been audited annually by the Court of Accounts, although with some delays. The Court of Accounts continues to receive substantial assistance from the WB and other donors to improve its capacity.

3.4.4 Donor coordination and partnerships

84. **The WBG will collaborate with the IMF and multilateral and bilateral development partners in implementing the CPF and supporting a country platform approach.** The WB is working closely with development partners, exploiting synergies, and scaling up and advancing many sectoral engagements. (Annex 6). In the health sector, the WB is working with the World Health Organization, the United Nations Development Programme, and Gavi Vaccine Alliance, on addressing key challenges in health service delivery, including responses to COVID-19. In education, the WB is collaborating, through a combined IDA and Global Partnership for Education program, with a group of partners, including UNICEF, USAID, AFD, and JICA, to expand learning opportunities for children. The WB is working closely with the EU to support entrepreneurship ecosystems for youth and women in business. The WB, Energy Sector Management Assistance Program, Global Environment Facility (GEF), the AfDB, Organization of the Petroleum Exporting Countries (OPEC), and AFD have partnered to prove the commercial viability of geothermal energy at *Fialé*, near Lac Assal. The WB is working in close collaboration with the AfDB and EU to support the HoA Initiative, promoting integration and cooperation among neighboring countries of the region. Finally, the WB is working with UNHCR to ensure alignment on the refugee agenda. Moreover, these partnerships allow the Bank to focus on those areas in line with its comparative advantage while simultaneously maintaining some degree of selectivity in the program.

3.4.5 Monitoring and evaluation

85. **The WBG will continue to support the government's efforts to build monitoring and oversight capacity and strengthen citizen engagement.** The WBG is providing the National Statistical Agency with dedicated capacity building and TA for data management and policy making on national accounts and various surveys. In all operations, citizen engagement will be supported. The education and health projects will use third-party verification and citizen report cards to support their results-based approach. As part of the planned EMSP, the WBG will support Djibouti's third population and habitat census, which is critical for upgrading the quality of official statistics. Progress toward the achievement of CPF objectives will be monitored closely to highlight any needed course corrections and allow timely adaptation of activities and approaches in line with the results framework (Annex 1).

4. MANAGING RISKS TO THE CPF PROGRAM

Table 6: Risk Category and Rating

Risk category	Risk rating
1. Political and governance	M
2. Macroeconomic	S
3. Sector strategies and policies	S
4. Technical design of project and program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	S
7. Environmental and social	S
8. Stakeholders	M
9. Other	L
Overall	S

Note: H = High, S= Substantial, M = moderate, and L = low.

86. **The overall risk rating for implementing the CPF is substantial.** The details of the risk category rating are presented below (Table 6).

87. **Political and governance risks are rated moderate due to concerns with the political in the aftermath of the 2021 election.** An erosion of public trust in state institutions could undermine the government's ability to implement its Vision 2035, which would in turn affect implementation of the CPF. While the 2021 presidential election was organized peacefully, political risks linked to the transition process leading to local and parliamentary elections in two years could distract government focus from the development agenda and affect CPF implementation. These risks will be mitigated, to the extent possible, through continued policy dialogue and a systematic reliance on citizen engagement interventions. Vision 2035 currently benefits from a strong and broad consensus among stakeholders inside and outside the state and is likely to remain the backbone of the social contract beyond the next presidential elections. Regional instability and ongoing unrest in Ethiopia are another source of political risks to CPF implementation. To mitigate these, the CPF program will remain flexible to adapt to the situation as it evolves.

88. **Macroeconomic risks are rated substantial due to high public sector debt and weaknesses in debt transparency.** This could affect the adequacy of the macroeconomic framework and the implementation timeline for the programmatic DPF. The government has been tackling the debt burden based on an assessment of immediate debt service needs relative to the performance of the underlying project. This approach led to an initial focus on the financing of the Addis Ababa to Djibouti railway. This loan has been restructured, and a tripartite committee (Ethiopia, Djibouti, China) will closely monitor the performance of the project. The overall debt risk could be mitigated as part of the continuous policy dialogue around the implementation of the IDA SDFP's PPAs during the CPF timeframe. The loan-by-loan approach could be institutionalized in part through the operationalization of the recently created debt control unit within the Ministry of Finance and the implementation of the PPAs. The Debt Service Suspension Initiative and the SDFP have provided the space to take a more comprehensive approach to debt management and sustainability.

89. **There are substantial risks related to sector strategies and policies.** Implementation of the CPF will depend on structural reforms in energy and telecom/ICT to improve access to and the quality and affordability of services. Moreover, there are risks associated with the Sovereign Fund of Djibouti's ability to improve the management and governance of SOEs in the energy and telecom/ICT sectors. The government's commitment to reform and ongoing policy dialogue with the WBG and other development partners on comprehensive reform programs to introduce competition in the telecom sector and restructure Djibouti Electricity will help in mitigating these risks. It is important to note that attracting private sector investment in these two sectors may become costlier, as potential investors may face a higher guarantee premium with changing perceptions of expropriation risks associated with the Doraleh Container Terminal (DCT)'s dispute with Dubai Ports World (DPW).¹⁶ The country's renewed commitment to complying with international rules, marked by its recent adhesion to the WBG's International Centre for Settlement of Investment Disputes, will help mitigate this risk.

¹⁶ The DCT Company was initially a bilaterally negotiated joint venture between Djibouti and DPW, selected by the government as a strategic partner. The concession agreement was signed by the two partners and ratified by parliament in 2006 for a period of 30 years. Djibouti owned 66.7 percent and DPW 33.3 percent of the asset. Because DCT's initial investment was mainly debt-financed, Djibouti also bore 66.7 percent of the risk. The loan was paid back in full by June 2017. After a few years of operation, conflicting interests began to emerge between the two partners, putting the long-term partnership at risk. Talks held since 2012 to renegotiate the contract and come to a satisfactory settlement of the dispute were unsuccessful, following DPW's refusal to reopen discussions on the contract. In 2018, the government issued a decree to end the agreement on the grounds that significant imbalances in the initial agreement, as well as severe irregularities, threaten sovereignty and the national interest. In 2020, the International Arbitration Tribunal in London ruled in favor of DPW and ordered Djibouti to restore rights and benefits in accordance with the 2006 compensation agreement within two months or pay damages. In parallel, negotiations between the two parties are reportedly being conducted.

90. **There are substantial risks related to low institutional capacity for implementation and sustainability.** Low capacity and a lack of adequate coordination across Djibouti's public sector entities could lead to stalling or to incoherent public policies, which could constitute a risk to CPF implementation. To mitigate this risk, the WBG will work upstream with the highest level of government, building on good-practice examples, such as *Doing Business* reforms and the Country Policy and Institutional Assessment framework, which have horizontal coordination mechanisms. The government has created an Economic Board within the president's office to foster coordination and monitoring. The WBG will support the Economic Board and the Prime Ministerial Delivery Unit to become operational and more effective.

91. **Fiduciary risks are rated substantial.** The fiduciary environment in Djibouti is weak. Most of the institutions established to ensure oversight of governance functions—such as the State Inspector General, the Court of Accounts, the National Anticorruption Commission, and the judiciary—lack adequate funding. Internal control mechanisms within the government can be weak, and there is limited participation of non-state actors. The ongoing PAMP and Governance TA to strengthen procurement and auditing (through support to the Court of Accounts) will help to mitigate some of the fiduciary risks that may arise during the CPF implementation period.

92. **Environmental and social risks are rated substantial.** Djibouti ranks 141st out of 181 countries with respect to its vulnerability to climate change and its lack of readiness to address and adapt to these vulnerabilities. Environmental and social risks will be partially mitigated through the achievements made with WBG support under the recently closed Rural Community Development and Water Mobilization Project (PRODERMO), which substantially improved water supply in rural areas. Social protection and cash transfer actions under the ongoing PITCH project will help pastoralist households cope with the effects of drought. To mitigate risks from floods and manage flood hazards, disaster risk management, an early warning system, and emergency preparedness plans are being established, with WBG support from the ongoing Hydromet TA and the TA on strengthening national response capacity.

Annexes

Annex 1: Results Framework

Some indicators are tagged to the cross-cutting themes of digital transformation (d), gender parity (g), and transparency for good governance (t), as well as to key corporate priorities such as MFD and PCM (m) and climate change adaptation (c). They are presented in ***bold italics***.

Focus Area 1: Promoting inclusive private sector-led growth, job creation, and human capital

As a small transit trade economy, Djibouti's high infrastructure investment by SOEs over the last decade spurred strong and sustained economic growth at an average rate of 8 percent per year. This growth has failed to be inclusive, however, and the private sector has not contributed to it. The private sector is embryonic and constrained by high costs of doing business and low human capital. A more dynamic private sector, with skilled labor, will be critical to driving the country's transition toward a private sector-led, sustainable, and inclusive growth model.

This focus area will support entrepreneurship and SMEs to help promote inclusive growth and job creation. This is articulated around two objectives:

- Stimulate entrepreneurship and promote SME development during and after COVID-19; and
- Help reduce the cost of doing business and develop productive skills, while enhancing resilience to climate change.

The two objectives of focus area 1 will address digital transformation, gender parity, and transparency for good governance, as well as the WBG corporate priorities of MFD and PCM and climate change adaptation, thus helping to catalyze the right environment for the private sector to create jobs in an inclusive (benefiting all segments, including women) and sustainable (ensuring resilience to climate impacts) manner. The WB, IFC, and MIGA will continue to collaborate on potential investment opportunities to leverage the MFD/PCM, while emphasizing women's economic empowerment and gender equity, where applicable, through the above objectives.

Link between Focus Area and WBG Corporate Goals: The SCD recommended four priority areas in connection with this focus area: (i) policy and institutional reforms and investments in infrastructure (electricity, ICT, and WASH) to improve access and costs; (ii) public service delivery reform (training for employment and entrepreneurship); (iii) creation of enabling conditions for a productive and dynamic private sector (tax reform, access to finance, competition policy, and greater regional integration); and (iv) cross-cutting governance effectiveness actions (transparency/accountability through data and citizen's engagement). The CPF will support the SCD priorities to promote inclusive private sector-led growth and job creation and strengthen the state's capacity to deliver public services and create a level playing field for the private sector to thrive.

Country Development Goals: In connection with this focus area, the government's development program, as laid out in the Djibouti ICI strategy, aims to implement structural reforms to enhance connectivity and leverage regional integration in logistics, water, energy, telecom/ICT, and transport. CPF interventions under this focus area will contribute toward the government's efforts to achieve the goals of the following SDGs:
SDG 4: "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all"

SDG 5: "Achieve gender equality and empower all women and girls"

SDG 7: "Ensure access to affordable, reliable, sustainable and modern energy for all"

SDG 8: "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"

SDG 9: "Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation"

Objective 1: Stimulate entrepreneurship and promote SME development during and after COVID-19

Intervention Logic

Even before the COVID-19 pandemic, Djibouti's private sector was weak, with a significant lack of entrepreneurial skills and limited access to financial services, despite a relatively liquid financial market. This situation has been exacerbated by COVID-19, which prompted a seven-month general lockdown in 2020, leading real GDP to contract by 1 percent by year-end. In Djibouti, banks have a high perception of risk regarding lending to SMEs due to the lack of collateral and the informal nature of many businesses. Before the pandemic, the government made efforts to improve MSMEs' access to finance through a partial credit guarantee fund, but financing opportunities remain limited for many SMEs. Moreover, Djibouti was among the ten most improved economies in *Doing Business 2019*, ranking 99th of 190 countries on overall ease of doing business (subsequently dropping to 112th in *Doing Business 2020*). However, the number of steps required to start a business remains high relative to other countries in the region, and Djibouti ranks 123rd of 190 economies on the ease of starting a business. Consequently, many sectors with growth potential—including logistics, construction, and agribusiness—are unable to produce and sustain job-creating SMEs and MSMEs. Reversing this trend will require helping SMEs to access sustainable sources of financing during the recovery from COVID-19, and further improving the investment climate.

WBG Interventions

The WBG will assist the government's COVID-19 recovery efforts in support of SMEs/MSMEs to help them access financing (including through the IFC trade finance facility, WB-supported partial guarantee fund, and IDA Private Sector Window guarantee and de-risking instruments). The WBG will seek to support government efforts to promote private sector development in housing (affordable housing support by IFC and WB), tourism (IFC ongoing and potential support), and agribusiness (IFC and WB). IFC will explore opportunities to support business environment reforms and offer advisory services to the government and businesses in the form of training, advice, dialogue, and problem solving (advisory support to the CCD and business owners), alongside the WB (ongoing support to business training for young men and women entrepreneurs).

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1.1: <i>Entrepreneurs receiving financing during and after the COVID-19 crisis (m) (g)</i></p> <p>Baseline (2021): 0</p> <p>Target (2026): 2,300 (of which 50% women and 90% youth)</p>	<p>Milestone 1.1.1: <i>Local banks providing trade finance services to MSMEs impacted by COVID-19 (m)</i></p> <p>Baseline (2021): 0</p> <p>Target (2024): ≥1</p>	<p>Ongoing Lending /Guarantees</p> <p>IFC</p> <ul style="list-style-type: none">▪ Trade Finance line with East Africa Bank, FY21▪ Investment in Onomo Hotels, FY21 <p>MIGA</p>

<p>Indicator 1.2: <i>New formal MSMEs created and sustained per 1,000 inhabitants (g)</i></p> <p>Baseline (2021): 3 (women-owned: 0) Target (2026): 5 (women-owned: 2)</p>	<p>Milestone 1.1.2: <i>Commercial financing mobilized for MSMEs through the WB-supported partial credit guarantee fund (g)</i> Baseline (2021): \$0 (of which women: \$0) Target (2024): US\$ 1.5 million (of which women: \$0.5 million)</p> <p>Milestone 1.1.2: Number of guarantee funds to support SME finance Baseline (2020): 0 Target (2024): ≥1</p> <p>Milestone 1.2.1: <i>Number of entrepreneurs receiving training completion certificates under SWYEP (g)</i> Baseline (2021): 0 Target (2024): 3,000 (of which 50% women and 90% youth)</p> <p>Milestone 1.2.2: <i>Number of new firms registered per year (g)</i> Baseline (2020): 700 (led by women: 140) Target (2024): 900 (led by women: 360)</p>	<ul style="list-style-type: none"> ▪ Mezz Tower and Djibouti International Business Centre Commercial Real Estate Project (MIGA), FY18 <p>EFI</p> <ul style="list-style-type: none"> ▪ GoPro Project (WB), FY14 ▪ SWYEP (WB), FY18 <p>Pipeline</p> <p>IFC</p> <ul style="list-style-type: none"> ▪ Trade Finance Lines (potentially IFC), FY22 ▪ Affordable Housing PPP Project (potentially IFC), FY22 <p>EFI</p> <ul style="list-style-type: none"> ▪ Business Park Development Project (WB), FY22 ▪ Affordable Housing Project (WB), FY22 <p>SD</p> <ul style="list-style-type: none"> ▪ Integrated Rural and Agribusiness Development (WB), FY23 <p>Ongoing ASA</p> <ul style="list-style-type: none"> ▪ SME Finance and Financial Inclusion TA (WB), FY21 ▪ Integrated Rural and Agribusiness Development TA (WB), FY21 <p>Planned ASA</p> <ul style="list-style-type: none"> ▪ Potential IFC Advisory Services, FY22
---	--	--

Objective 2: Help reduce the cost of doing business and develop productive skills, while enhancing resilience to climate change

Intervention Logic

Djibouti's SME ecosystem confronts key binding constraints: (i) high cost and low quality of inputs, with the cost of electricity reaching 31 cents per KWh per month (due mainly to uneven seasonal power supply from Ethiopia, internal inefficiencies in the electricity utility, and aging and inefficient backup power generation facilities running on high-cost imported heavy fuel) and internet connections costing, on average, US\$21.2 per megabyte per month; and (iii) inadequate manpower and productive skills. The government wants to encourage more private solutions in key sectors, such as logistics, agribusiness, and construction; this will require implementing reforms and investment programs to improve utility services and carrying out market-oriented education and vocational training programs to generate the productive skills needed by private businesses to carry out their activities.

WBG Interventions

The CPF will promote sustainable job creation by supporting reforms and investments to improve telecom/ICT, energy, and transport services for businesses. In telecom/ICT, advisory (ongoing InfraSap) and investment (planned Djibouti Digital Foundations Project in FY22) activities will work to strengthen the regulatory role of the state in these sectors, including with regard to the pricing of services. The project will help develop the digital jobs ecosystem and skills and introduce market competition, thereby helping to improve the quality and reduce the cost of utility services for individuals and businesses. It is expected to help mobilize private capital and thus contribute to the WBG's PCM agenda. The CPF will support Djibouti's interconnection of ICT, electric, and transport infrastructure with Ethiopia and the broader HoA region to strengthen Djibouti's connectivity and help fulfill its aspiration to become a regional hub. This will be achieved through support: (i) in telecom/ICT (Regional Tier 4 Data Center Project in FY23) to set up a single regional data market in the HoA region by supporting safe and cost-effective storing and exchange of data to help establish data infrastructure (carrier neutral) at landing stations with national data centers in Ethiopia, Somalia, and Eritrea, and thus to support redundancy; (ii) in electricity (planned Ethiopia HoA Power Interconnection Project in FY22) to build a second 230 kV high-voltage power line in partnership with the AfDB to help secure power supply from Ethiopia and stabilize Djibouti's electrical grid to connect future additional domestic IPP energy generation from wind (58.9 MW from the Ghoubet wind farm, under construction and benefitting from a MIGA guarantee), geothermal (30 MW from Fialé, supported by WB ASA), and solar (25 MW from Grand Bara, no planned WBG intervention) sources; and (iii) in road transport (planned Djibouti–Addis regional HoA Southern Road Corridor Project via Dewele in FY22) to support the expansion by 18 kilometers on RN 1 and the rehabilitation of 21 kilometers of RN5 and RN19. Through the road project, the WB will endeavor to leverage private investment and PCM to the extent possible, particularly in ensuring sustainable maintenance of the corridor. CPF support to regional electric and road connectivity will contribute to Djibouti's national climate change priorities on mitigation and adaptation to harness renewable energy potential and build resilience to climate change. Finally, the WB will support market-responsive vocational training (planned Djibouti Skills Development for Employment Project in FY22) to strengthen productive skills and access to jobs, including for women, to adapt to the evolving needs of the economy during post-COVID recovery.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 2.1: <i>Increased electricity transmission capacity (Export/Import in MW) (c)(m)</i> Baseline (2021): 80 MW Target (2026): 280 MW</p>	<p>Milestone 2.1.1: <i>Renewable energy supply is increased with additional MW capacity provided by the Ghoubet wind farm (c)(m)</i> Baseline (2021): 0 Target (2024): 30 MW</p> <p>Milestone 2.1.2: <i>Climate co-benefits are increased (c)(m)</i> Baseline (2021): 18% Target (2024): ≥30%</p>	<p><u>Ongoing Lending/Guarantees</u> HD <ul style="list-style-type: none"> ▪ Africa Center of Excellence (WB), FY20 INF <ul style="list-style-type: none"> ▪ Sustainable Electrification Project (WB), FY17 ▪ Ghoubet Wind Project Guarantees (MIGA), FY20 <p><u>Pipeline</u> HD <ul style="list-style-type: none"> ▪ Djibouti Skills Development for Employment Project (WB), FY22 INF <ul style="list-style-type: none"> ▪ Djibouti Digital Foundations Project (WB), FY22 ▪ Regional HoA Power Interconnection line (WB), FY22 ▪ Regional Djibouti–Addis HoA Southern Road Corridor (WB), FY22 ▪ Regional HoA Tier 4 Data Center Project (WBG), FY23 <p><u>Ongoing ASA</u> <ul style="list-style-type: none"> ▪ Urban Transport Technical Assistance (WB), FY20 ▪ Skills for Employment and Inclusion (WB), FY21 <p><u>Planned ASA</u> <ul style="list-style-type: none"> ▪ InfraSap (WB), FY22 ▪ Country Climate and Development Report (WBG), FY23 </p> </p></p></p>
<p>Indicator 2.2: <i>Number of licenses and authorizations for providers of telecommunication infrastructure and services issued by the Independent Multisector Regulator (d)</i> Baseline (2020) 0 Target (2026): 3</p>	<p>Milestone 2.2.1: <i>Independent Multisector Regulator for telecom/ICT and electricity is fully operational (t)</i> Baseline (2021): No Target (2024): Yes</p>	
<p>Indicator 2.3: <i>Number of youth (secondary and tertiary students) graduating from market-oriented vocational programs in tourism, ICT, logistics, and construction to meet the demand of private sector (g) (d)</i> Baseline (2020): 0 (women: 0) Target (2026): 1,500 (women: 500)</p>	<p>Milestone 2.3.1: <i>Share of students/trainees who graduated from programs designed and implemented with the private sector (g)</i> Baseline (2021): 0% (women: 0%) Target (2024): 50% (of which women 25%)</p>	

Focus Area 2: Strengthening the role and capacity of the state

Djibouti's main challenges stem from weak capacity within the public administration to provide good-quality, low-cost services, as well as to uphold the rule of law and ensure a level of transparency that enhances accountability. Moreover, SOEs play a prominent role in the economy, but there is a need to strengthen their governance and oversight to reduce costs, improve the quality of public services, and control the accumulation of debt, which is incurred mainly by large infrastructure SOEs.

This focus area will support the government's efforts to strengthen basic service delivery (in health, education, WASH, and social inclusion) and the capacity of public institutions, while enhancing climate resilience. This is articulated around two objectives:

- Strengthen basic service delivery to improve access, quality, and inclusion, while enhancing climate resilience; and
- Strengthen economic institutions, public financial management systems, and debt transparency and management.

The above objectives will complement focus area 1 by improving the investment climate and creating an environment conducive to private sector growth and job creation. Across these two objectives, an emphasis will be placed on digital transformation, gender parity, transparency, good governance, and climate adaptation to strengthen the capacity of public institutions to effectively deliver public services and manage public finances.

Link between Focus Area and WBG Corporate Goals: The SCD recommended four priority areas in connection with this focus area: (i) policy and institutional reforms and investments in infrastructure (electricity, ICT, and WASH) to improve access and costs; (ii) public service delivery reform (health and nutrition systems reform and comprehensive education system reform); (iii) transfer programs for poor and pastoralist households (social safety nets, cash or in-kind transfers with incentives for girls' education, measures to manage food security, and measures to promote adaptation to climate change among pastoralists and consider other measures to support income generation among this group); and (v) cross-cutting governance effectiveness actions (transparency/accountability through data and citizen engagement).

Country Development Goals: The government's program under this focus area aims to: (i) reinforce social and economic inclusion; and (ii) strengthen public institutions to improve service delivery and macroeconomic stability. CPF interventions under this focus area will contribute toward the government's efforts to achieve the following SDGs:

SDG 1: "End poverty in all its forms everywhere"

SDG 2: "End hunger, achieve food security and improved nutrition and promote sustainable agriculture"

SDG 3: "Ensure healthy lives and promote well-being for all at all ages"

SDG 4: "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all"

SDG 5: "Achieve gender equality and empower all women and girls"

SDG 6: "Ensure availability and sustainable management of water and sanitation for all"

SDG 10: "Reduce inequality within and among countries"

SDG 11: "Make cities and human settlements inclusive, safe, resilient and sustainable"

SDG 13: "Take urgent action to combat climate change and its impacts"

SDG 16: "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels"

Objective 3: Strengthen basic service delivery to improve access, quality, and inclusion, while enhancing resilience to climate change and natural disasters

Intervention Logic

In basic health, childhood stunting or chronic undernutrition are among the main challenges in Djibouti. While the rate of stunting among children under five decreased from 29.7 percent to 20.9 percent between 2013 and 2019, it affects an estimated 33,000 children per year in the country. Another challenge is infant and maternal health. The percentage of births attended by skilled health staff stands at 94 percent at the national level and 89 percent in Tadjourah, the country's poorest region. In this context, national infant mortality and maternal mortality ratios remain high at 65 per 1,000 live births and 229 per 100,000 live births, respectively. In the context of COVID-19, the country faces significant challenges in health service delivery. Infectious disease surveillance capacity is weak, including for coronavirus and malaria, and there is a lack of qualified health care workers, drugs, and equipment.

In basic education, Djibouti has made an effort to improve access, including during the COVID-19 crisis, but equity in access to services and the quality of services for all remain of significant concern, notably for households living in slums, refugees and the displaced, and nomadic groups.

In WASH, access to services remains weak, with only 47 percent of the population in rural areas having access to basic drinking water compared to 83 percent in urban areas. Only 19 percent of rural residents have access to safely managed sanitation compared to 41 percent in urban centers. Only 68 percent of schools have access to basic drinking water, 62 percent to basic sanitation, and 58 percent to basic hygiene facilities. In Djibouti City, only 44 percent of the population has a direct water connection (just 15 percent in the Balbala slums) and fewer than 60 percent have legal electric connections.

Inclusion remains a challenge, despite strong economic growth in recent years. The government has developed a comprehensive 15-year national Zero Slum Program, which aims to upgrade all 13 slums of the capital city to provide affordable and low-income housing. The government has developed a National Social Protection Strategy for 2018–22, including the deployment of a social registry used for implementing a national cash transfer program.

WBG Interventions

The CPF helped strengthen health, social protection, and disaster response services during the triple crises of the COVID-19 pandemic, locust infestations, and flooding. The WB's program and portfolio were reprioritized to support the government's efforts to address urgent needs from the pandemic and the locust crisis (ongoing Emergency COVID-19 Response Project, restructuring of PITCH, and activation of the Contingent Emergency Response Component under the Towards Zero Stunting Project) and the flooding crisis (additional financing for the ISUP). This course of action is in line with the first and second pillars of the WBG's COVID-19 Crisis Response Approach Paper: saving lives and protecting poor and vulnerable people. Beyond

emergency pandemic response efforts, the CPF will continue to support Djibouti in expanding access to good-quality health (ongoing Towards Zero Stunting Project and potential Health Systems Strengthening and Human Capital Development Project); education (ongoing Expanding Opportunities for Learning project); water (planned Regional HoA Groundwater for Resilience Project); and social protection services for greater inclusion (ongoing PITCH and ongoing DRDIP). Through these interventions, the WB will ensure that appropriate actions are taken to build communities' resilience to climate change and disaster preparedness.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Indicator 3.1: Number of designated laboratories with COVID-19 and other infectious disease diagnostic equipment, test kits, and reagents that can serve for other disease outbreaks in the future Baseline (2021): 1 Target (2026): 10	Milestone 3.1.1: Number of health staff trained in infection prevention and control per Ministry of Health-approved protocols Baseline (2021): 50 Target (2024): 2,000 Milestone 3.1.2: Share of acute health care facilities with triage capacity Baseline (2021): 0 Target (2024): 75%	<u>Ongoing Lending</u> HD <ul style="list-style-type: none">▪ Emergency COVID-19 Response Project (WB), FY20▪ Expanding Opportunities for Learning (WB), FY20▪ Integrated Cash Transfer and Human Capital Project (WB), FY19 and FY21▪ Towards Zero Stunting in Djibouti (FY19) SD <ul style="list-style-type: none">▪ Enhancing Preparedness and Capacity for Locust Response Project (FY20)▪ Integrated Slum Upgrading Project (WB), FY19 and FY21▪ Development Response to Displacement Impacts in the HoA Project (WB), FY16 and FY20 INF <ul style="list-style-type: none">▪ Sustainable Electrification Program (WB), FY18
Indicator 3.2: <i>Share of women who attended at least two antenatal care visits during their most recent pregnancy (g)</i> Baseline (2021): 23% Target (2026): 50%	Milestone 3.2.1: <i>Number of women and children who have received basic nutrition services (g)</i> Baseline (2021): 214,900 Target (2024): 277,450 Milestone 3.2.2: <i>Number of women referred by community health workers and registered at the health facility within four months of pregnancy (g)</i> Baseline (2021): 0 Target (2024): 2,000	 Pipeline SD <ul style="list-style-type: none">▪ Regional HoA Groundwater for Resilience Project (WB), FY23
Indicator 3.3: Share of teachers in basic education (preschool and primary) demonstrating improved teaching skills Baseline (2021): 0	Milestone 3.3.1: Share of rural primary schools in the country that have adequate facilities, including water point, latrines, electrical or solar power source	

<p>Target (2026): 75%</p>	<p>Baseline (2021): 47% Target (2024): 68.5%</p> <p>Milestone 3.3.2: Distance education and learning (online courses and/or education by TV/radio or other) is in place to ensure continuity of service for all students, including refugees, in the event of an epidemic crisis or flooding disaster Baseline (2020): No Target (2024): Yes (refugees: Yes)</p>	<p>HD</p> <ul style="list-style-type: none"> ▪ Health Systems Strengthening and Human Capital Development Project (WB), FY22 <p>Ongoing ASA</p> <ul style="list-style-type: none"> ▪ Strengthening Djibouti's National Response Capacity to Natural Hazards ▪ Sustainable Solutions for Rural Population (WB), FY21 ▪ Human Capital Review (WB), FY21
<p>Indicator 3.4: Number of extreme poor households benefitting from cash transfer programs (g)</p> <p>Baseline (2021): 3,000 Target (2026): 12,000 (60% of which are female-headed households)</p>	<p>Milestone 3.4.1: Share of households below the poverty line in rural areas benefitting from cash transfer programs Baseline (2021): 0% Target (2024): 80%</p> <p>Milestone 3.4.2: Number of locust-affected households who are direct recipients of social safety net benefits (g) Baseline (2021): 0 Target (2024): 2,000 (50% of which are female-headed households)</p>	<p>Planned ASA</p> <ul style="list-style-type: none"> ▪ Poverty and Gender Assessment (WB), FY22 ▪ Health Financing Strategy (WB), FY22 ▪ TA for Digitization of the Health Sector (WB), FY22 ▪ Resilient City Initiative (WB), FY22 ▪ Human Capital Review (WB), FY22 and FY23
<p>Indicator 3.5: Number of people accessing electricity in Balbala slums (g)</p> <p>Baseline (2021): 26,000 Target (2026): 62,000</p>	<p>Milestone 3.5.1: Kilometers of roads constructed in Balbala slums Baseline (2020): 0 km Target (2024): 10 km</p> <p>Milestone 3.5.2: Number of poor neighborhoods restructured in Balbala slums Baseline (2020): 0</p>	

<p>Indicator 3.6: <i>Number of people, including pastoralists, with improved access to water in Dikhil, Tadjourah, and Somalia borderland regions highly prone to climate impact (g)</i></p> <p>Baseline (2021): 60,000 (of which 30,000 women) Target (2026): 90,000 (of which 45,000 women)</p>	<p>Target (2024): 3</p> <p>Milestone 3.6.1: Groundwater database established Baseline (2021): No Target (2024): Yes</p> <p>Milestone 3.6.2: Cubic meters of additional groundwater yield developed Baseline (2021): 0 Target (2024): 2,400 m³/day</p>	
--	--	--

Objective 4: Strengthen economic institutions, public financial management systems, and debt transparency and management

Intervention Logic

As in most small states, the public sector in Djibouti plays a large role in the economy. Improved governance is thus an important factor in restoring confidence in public institutions. Governance-based constraints in Djibouti include weak capacity in public administration and lack of accountability and transparency, including in managing public debt, incurred largely by SOEs. In this context, it is imperative to improve public financial management, strengthen the governance and oversight of SOEs, and reinforce the capacity to transparently manage public debt.

WBG Interventions

The CPF will support action to strengthen public institutions. It will help alleviate corruption and strengthen governance effectiveness, as advocated in the fourth pillar of the WBG's COVID-19 Crisis Response Approach Paper, to strengthen public institutions, including SOEs, and investments for rebuilding better. Activities under the second focus area of the CPF will be supported mainly by the ongoing PAMP and EMSP, supplemented by the programmatic DPF, starting in FY23.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 4.1: <i>Number of government systems connected to the state's interoperable platform (d)(t)</i></p> <p>Baseline (2021): 0 Target (2026): 10</p>	<p>Milestone 4.1.1: Number of ministries equipped to work remotely Baseline (2021): 0 Target (2024): 12 (50% of total)</p>	<p><u>Ongoing Lending</u> EFI</p> <ul style="list-style-type: none"> ▪ Economic Management and Statistics Development for Policy Making (WB), FY20 ▪ Public Administration Modernization Project (WB), FY18

<p>Indicator 4.2: <i>Number of SOEs implementing performance contracts and regular auditing of financial accounts (t)</i></p> <p>Baseline (2020): 0</p> <p>Target (2026): ≥3</p>	<p>Milestone 4.2.1: <i>Number of SOEs reporting and auditing accounts on time, and implementing performance contracts (t)</i></p> <p>Baseline (2020): 0</p> <p>Target (2024): 3</p> <p>Milestone 4.2.2: <i>Medium-term strategy for debt management adopted and operationalized by the government based on the Debt Sustainability Analysis (t)</i></p> <p>Baseline (2021): No</p> <p>Target (2024): Yes</p>	<p><u>Pipeline</u></p> <p>EFI</p> <ul style="list-style-type: none"> ▪ Programmatic DPF (WB), FY23-25 <p>Ongoing ASA</p> <ul style="list-style-type: none"> ▪ Methodology for Assessing Procurement Systems II ▪ Tax Administration Diagnostic Assessment Tool <p>Planned ASA</p> <ul style="list-style-type: none"> ▪ Public Expenditure and Financial Accountability Assessment (WB), FY22 ▪ Djibouti Public Expenditure Review (WB), FY22 ▪ Country Economic Memorandum, FY23
---	--	--

Annex 2: Completion and Learning Review

1. INTRODUCTION

1. **This Completion and Learning Review (CLR) is a self-evaluation by the World Bank Group (WBG) of the joint Djibouti Country Partnership Strategy (CPS) and the Performance and Learning Review (PLR) for FY14–FY19.** This CLR: (i) evaluates CPS performance in achieving WBG expected outcomes as defined in the PLR; (ii) assesses WBG performance in the design and implementation of the program; (iii) discusses program alignment with the WBG’s strategic goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner; and (iv) draws lessons to inform the scope and structure of the new Country Partnership Framework (CPF) under preparation.

2. **The first joint IDA–IFC–MIGA CPS for FY14–17 for Djibouti was discussed by the Board of Directors in March 2014.** The CPS rested on two pillars—reducing vulnerability and strengthening the business environment—and focused on institutional strengthening and gender as cross-cutting themes. The CPS emphasized that Djibouti is a small state in a region confronting fragility.

3. **This CLR assesses progress made during the CPS/PLR timeframe against the outcomes laid out in the PLR results framework.** A joint PLR was presented to the Board in May 2016, extending the end of the CPS period from FY17 to FY18 to allow enough time to incorporate upcoming household-level poverty statistics into country plans and programs. The PLR updated the original CPS pillars and objectives. The first pillar remained the same. The second pillar was redefined as strengthening public and private sector capacity for service delivery. The new CPF for FY22–26 is expected to be presented to the Board in FY22. The CLR therefore assesses progress through FY19.

4. **Overall progress in CPS objectives is rated *moderately satisfactory*.** Table P1 outlines the major findings of the review of outcome ratings. Each objective corresponds to the objective area in the CPS/PLR. The first pillar, reducing vulnerability, showed significant progress in achieving results and is rated mostly achieved. The second pillar, strengthening public and private sector capacity for service delivery, showed good progress and is rated mostly achieved. A detailed analysis of achievement by objective can be found in Attachment 1.

5. **Overall WBG performance in designing and implementing its strategy is rated *good*.** On the design side, the program of lending and non-lending activities supported by the WBG was relevant and aligned with the government’s strategy, Vision 2035. The CPS correctly identified risks, namely capacity constraints and governance challenges. Overall, implementation was appropriate. Notably, the WBG’s increased field-based presence during the CPS period helped to provide much-needed implementation support to the government.

6. **In terms of efficacy, WBG support has yielded uneven results during the CPS period.** While notable results were achieved in social safety nets, urban and rural infrastructure, and energy, the outcome on improved assessment of disaster risks and vulnerability was not achieved. The WBG’s collaboration with other donors was generally good. One area in which the CPS fell short is prioritization. The small program financed by IDA and trust funds was spread across a relatively large number of tasks. Greater focus on fewer areas, with deeper engagement, and on institution building would help achieve more consistent results going forward.

7. **The PLR supported a mid-course adjustment, which included responding to the growing refugee crisis in the country and scaling back work in areas where policy dialogue with the government lagged.** The program outlined in the PLR effectively consolidated the WBG’s overall engagement into a smaller

number of sectors. It also narrowed the scope of the program somewhat (for example, by scaling back involvement in telecom reform and disaster risk assessment).

8. **CPS preparation coincided with the opening of the WBG office in Djibouti.** The office grew substantially during the CPS period, adding more field-based staff to support portfolio management and policy dialogue. This was a crucial development for the country, as it allowed for closer follow-up and proactive management of the portfolio. This improved the WBG's relationship with the client, enabling a more proactive response to country challenges. As a result, the portfolio performed well during this period.

2. PROGRESS TOWARD DEVELOPMENT OUTCOMES

9. **The overall rating of *moderately satisfactory* reflects strong performance in most sectors, with five of seven objectives rated “achieved or mostly achieved.”** A detailed discussion of progress achieved toward the objectives is presented in this section.

10. **Pillar 1: Reducing Vulnerability.** This pillar is rated *mostly achieved*. The WBG program made strides in reducing vulnerability through expansion of the safety net program, development of urban and rural infrastructure (including among refugee populations), and capacity building in the Ministry of Education (MoE). Targets on improving maternal and child health were mostly achieved. The program was unsuccessful in implementing a comprehensive approach to disaster risk assessment. While progress was uneven in some areas, the WBG program delivered the overall results as intended, especially in social safety nets, education, and basic infrastructure.

11. **The outcome of improved institutional capacity to reach the poorest and most vulnerable and increase their access to short-term employment opportunities was achieved.** The WBG had a long and successful engagement in this sector through a series of social safety net projects financed by IDA and a Japan Social Development Fund grant focusing on youth employment, buttressed by analytical and advisory services (ASA). The IDA-funded Integrated Safety Net for Poor and Vulnerable Project, a scale-up of the pilot operation, was approved in 2012. All outcome targets and milestones in this sector were achieved. As of June 30, 2018, the labor-intensive public works under the project reached over 6,500 beneficiaries for a total of 538,450 person-hours worked, surpassing the target of 400,000. The target on female employment was achieved. About 90 percent of project beneficiaries are women. Notably, the project supported the development of a social registry that will be used by multiple programs and stakeholders, creating a database containing information on the socioeconomic/demographic characteristics of the population to help target resources to the most vulnerable. The social registry will spearhead, and eventually feed into, a national identification system.

Table P1: Summary of Ratings Based on the Updated CPS Results Framework

Pillar 1: Reducing Vulnerability	MA
1.1 Improved institutional capacity to reach the poorest and most vulnerable and increase their access to short-term employment opportunities	A
1.1.1 Employment in labor intensive community works and services increased	A
1.1.2 Female employment in labor intensive community works and services increased	A
1.2 Strengthened management of the education system	A
1.2.1 Annual education statistical reports produced with key national indicators, including gender disaggregated data, to support education management	A
1.3 Improved utilization of maternal and child health care services and communicable disease control programs	MA
1.3.1 Share of women giving birth in a facility assisted by qualified personnel in rural areas	A
1.3.2 Share of children fully immunized before their first birthday	A
1.3.3 Share of HIV-positive pregnant women receiving antiretroviral therapy according to protocol	PA
1.4 Increased access to basic infrastructure in disadvantaged rural and urban areas	MA
1.4.1 Number of rural households with more secure access to drinking water within a reasonable travel time in project areas	A
1.4.2 Share of income-generating activities for women financed by the PRODERMO project	A
1.4.3 Number of people within 150m of rehabilitated and new urban roads, drains, and street lighting	MA
1.4.4 Share of subproject beneficiaries who have increased access to services and are women	A
1.4.5 Beneficiaries of DRDIP with access to social and economic services and infrastructure	MA
1.5 Improved assessment of natural disaster risk and vulnerability	NA
1.5.1 Implementation of Comprehensive Approach to Risk Assessment in Djibouti	NA
Pillar 2: Strengthening public and private sector capacity for service delivery	MA
2.1 Improved access to affordable electricity	A
2.1.1 People provided with access to electricity by household connections	A
2.2 Improved services for the private sector	PA
2.2.1 Business start-up procedures streamlined	MA
2.2.2 Issuance of construction permits streamlined	MA
2.2.3 Publication of commercial and civil court cases on Ministry of Justice website expanded	NA

Note: A = achieved; MA = mostly achieved; PA = partially achieved; NA = not achieved.

12. The outcome on strengthened management of the education system was achieved. WBG engagement in this area started slowly, but picked up speed. Key interventions include the IDA-funded Strengthening Institutional Capacity and Management Project and the Global Partnership for Education-financed Education Access and Quality Project. The education outcome indicator, as defined, was narrow in scope, focusing on capacity building at the ministerial level, which was targeted by IDA-supported activities. This outcome is rated fully achieved. The IDA-funded project benefited from an institutional audit carried out before project implementation started. The MoE has regularly produced a statistical yearbook providing updated education indicators and school data, including gender-disaggregated data. Under the Strengthening Institutional Capacity and Management of the Education System Project, the WB provided technical advice and implementation support to develop the MoE's capacity to collect, analyze and share information. In addition to the provision of equipment, training, and consultant services, and support for data collection through the project, the WB supported the development of a unified platform to integrate existing computerized systems on infrastructure, human resources, and education data.

13. The outcome on improved utilization of maternal and child health care services and communicable disease control programs was mostly achieved. WB engagement in the health sector was provided as part of the Improving Health Sector Performance Project (approved in FY13). The outcome indicators were well defined, but progress was uneven throughout the implementation period. The share of women giving birth in a facility increased from 25 percent (2013) to over 79 percent (2018), exceeding the target of 50 percent. The share of children fully immunized before their first birthday increased from 32 percent (2013) to 52 percent (2018), achieving the target. The third indicator on the share of HIV-positive pregnant women receiving antiretroviral therapy was partially achieved, having reached 26.9 percent in 2018. While this was an improvement compared to the baseline of 12 percent (2013), it fell short of the overly ambitious target of 63 percent. The target was overestimated at the CPS stage and was not revised at the time of the PLR.¹⁷ Based on the progress made, this outcome indicator is rated partially achieved.

14. The outcome on increased access to basic infrastructure in disadvantaged rural and urban areas was mostly achieved. Three IDA-funded projects supported this objective:

- **On the rural side, the Rural Community Development and Water Mobilization (PRODERMO) project was launched in 2012 and benefited from two additional financing operations approved in 2013 and 2017.** The project financed subprojects in water mobilization and soil conservation, agriculture, livestock, and small-scale fisheries. PRODERMO strengthened participatory approaches through the creation of many community-based organizations and introduced a grievance redress mechanism; improved access to water among many households and heads of cattle in remote areas; increased the value-added of agricultural, livestock, and fish production; introduced nutrition education for mothers; and improved revenue in targeted areas. The two objectives related to this project—rural access to drinking water and the share of income-generating activities financed—were achieved. This project serves as an example of good practice for other projects in the sector.
- **The WBG's engagement in urban development focused on upgrading Quartier 7, where a sizable percentage of the country's population resides, through the first and second Urban Poverty Reduction Projects (PREPUD).** The projects delivered social and basic infrastructure, including a health center, community centers, and roads, in the largest neighborhood of Djibouti City. The corresponding outcome indicator is rated mostly achieved. However, poor maintenance poses continuing challenges to its sustainability. Over 7,000 project beneficiaries now live within 150 meters of roads, lighting, and drains (compared to a target of 10,000). The share of women among subproject beneficiaries who have increased access to services reached 55 percent (against a target of 50 percent). To date, about 84 subproject micro-grants have been awarded to local associations and nongovernmental organizations, targeting women and youth associations.
- **Finally, through the regional refugee window, IDA financed a regional Development Response to Forced Displacement in the Horn of Africa Project (DRDIP) to support refugee populations.** To date, 33,480 people have benefited from project activities (against a target of 40,000). This indicator is therefore rated mostly achieved.

15. The outcome on improved assessment of disaster risks and vulnerability is rated not achieved. The Comprehensive Approach to Risk Assessment in Djibouti—a technical program focused on developing a comprehensive and sustainable system to assess, communicate, and monitor risks associated with

¹⁷ The team adjusted the project-level indicator to total numbers, not percentages.

natural disasters in Djibouti—has helped the country shift from a responsive to a preventive approach to natural disasters. The WBG provided technical assistance (TA) to this program. The project management unit that piloted the program was housed at the Center of Research of Djibouti, anchored to the Ministry of Higher Education, while the institution in charge of disaster management, the *Secretariat Executive pour la gestion de catastrophe*, reported to the Ministry of Interior. These fragmented institutional arrangements hindered the achievement of this outcome. The WBG did not have the right counterpart to successfully complete this work. Some progress was made during the time period, including the completion of a hazard risk assessment for floods and earthquakes. This assessment is critical in enabling the authorities to understand the disaster risks confronting Djibouti and serves as the basis for ongoing engagement on the issue. The WBG kept this outcome at the PLR stage because of the desire to stay engaged on a crucial issue for Djibouti, a small state prone to disasters. Most recently, floods have resulted in extensive damage. Based on lessons learned through past engagement, the WB has started assisting the authorities on this issue. Consultations with all government ministries have been conducted to make the process inclusive and ensure ownership on the part of the appropriate authorities.

16. **Pillar 2: Strengthening public and private sector capacity for service delivery.** This pillar is rated *mostly achieved*. While outcomes were achieved in the energy sector, progress on services for the private sector was more limited.

17. **The outcome on improved access to affordable electricity was achieved.** IDA has had substantial engagement in the energy sector throughout the CPS period. The IDA-financed projects in this sector experienced initial delays due to institutional challenges, but implementation speed has since picked up. Support was provided to the sector under three IDA-funded projects and a Global Environmental Facility (GEF) project. The Power Access and Diversification Project, which closed on December 31, 2014, was implemented by a Project Implementation Unit (PIU) within the Prime Minister's office. The project disbursed fully during the last two years of implementation. Under the project, 4 percent of Djibouti's population (26,796 people) was provided with access to electricity through household connections. Accordingly, the CPS outcome indicator was achieved. IDA support for energy access continued through the Sustainable Power Project, approved in June 2017. In addition to the two above-mentioned projects, a Geothermal Power Project has been under implementation since June 2013, with the aim of tapping into the country's geothermal energy capabilities. The geothermal project experienced implementation delays in the first two years, due to challenges in recruiting an external project manager. While the project objectives have not yet been achieved, drilling commenced in early 2019.

18. **The outcome related to improved services for the private sector was partially achieved.** IDA provided support through the Governance for Private Sector Development Project. Overall, Djibouti made great strides in enhancing the business environment and was among the 10 economies that improved the most across three or more areas measured by *Doing Business* in 2018. While there has been progress on Djibouti's *Doing Business* indicators (and the distance to the frontier has improved by 3.99 percentage points), progress on specific outcome indicators was slow due to a disconnect between project activities and identified outcome indicators. Recognition of this disconnect prompted a restructuring, approved in June 2018. Investment climate reforms are ongoing in several areas, including business creation and issuance of construction permits, both of which are outcome indicators. These indicators were mostly achieved, as they have seen progress, but neither reached its target. Further progress has been made in executing contracts, protecting minority investors, enhancing access to credit, and registering property. On the third outcome indicator, regarding publication of the decisions of the Commercial Chamber, there has been limited progress. It is expected, however, that recent training of dedicated judges in the Commercial Chamber will help to improve commercial justice. Action plans have been prepared to

support improved progress against each *Doing Business* indicator, and a dedicated task force has been established to implement the action plans. A more detailed implementation plan will help monitor progress toward results. Overall, the Investment Promotion Agency is playing a greater role in coordinating the investment climate reform program. Its capacity is being strengthened, and it is expected to further improve services to investors following the completion of its investment promotion strategy. One IFC advisory services project was completed (Djibouti PPP Framework) in this time period.

3. WBG PERFORMANCE

19. **Overall WBG performance is rated *good*.** Both the design and implementation of the CPS program were well considered and responded appropriately to realities on the ground.

20. **On the design side, the WBG program was well aligned with both the government program and needs on the ground.** It was linked with the country's Vision 2035 document. It was also the first joint IDA–IFC–MIGA strategy for Djibouti. The WBG was effective in using the 2016 PLR for mid-course corrections. Furthermore, risks were appropriately identified in the CPS and PLR. The PLR identified the fragile political economy landscape, low capacity, and the influx of refugees as potential risks. All of these have been highly relevant to the Djibouti program.

21. **The results framework was generally well-defined and reflected activities under the purview of the WBG.** The original CPS included an additional outcome area on telecom. Prior to the PLR, the WBG concluded that, in the absence of clear government commitment to reform, ongoing support would not lead to improved performance. Hence, the WBG scaled back its support in this area, and the corresponding outcome area was removed at the PLR stage. Also, in response to the worsening refugee crisis, the WBG leveraged regional IDA resources to address the needs of refugees and host communities, and this specific objective was added in the PLR. One area in which the WBG could have made an adjustment and did not was in disaster risk management. The WBG kept the indicator in this area in the hope that it could reengage with the government. In a small state prone to disasters, it will be important for the WBG to remain engaged with the government on this agenda.

22. **On the implementation side, the WBG program would have benefited from further adjustments to limit the proliferation of activities.** The portfolio was spread over nine areas of engagement defined in the CPS.¹⁸ In the post-implementation period and during the IDA18 cycle, the WBG transitioned to implementing larger projects, with the intent to deepen its engagement. It is still too early to see the results of this shift, but it was an appropriate transition to the more focused program being developed under the CPF for FY22–26.

23. **While the availability of instruments for a small state such as Djibouti was limited, the WBG was effective in leveraging resources for the country through different IDA windows, as well as through trust funds.** Lending to Djibouti picked up substantially during this period, totaling US\$164.6 million during FY14–FY19 through the various IDA windows. All IDA-financed projects envisaged in the CPS/PLR were delivered (Table P2). This included one project funded from the IDA regional window, the DRDIP. Notably, the average size of IDA-funded operations approved during this period was significantly larger. For example, the DRDIP and the Sustainable Electrification Project had commitment amounts of US\$20 million or more. This was substantially higher than previous projects, which averaged about US\$6 million.

24. **The focus on in-country WBG presence in Djibouti came to fruition and yielded positive results.** In 2012, the WB opened an office in Djibouti and located a Resident Representative in the country. Staffing

¹⁸ As defined by overall outcomes in the results framework.

in-country expanded throughout the CPS period. Currently, seven staff members and several short-term consultants are based in-country. In a low-capacity country such as Djibouti, this local presence has proven crucial in maintaining dialogue with the authorities, defining the lending program, and accelerating portfolio implementation. It also elevated the dialogue from primarily portfolio quality discussions to shared efforts on governance and institution building and expanded engagement on service delivery for the vulnerable and the private sector.

25. In addition to IDA and trust fund resources, the CPS period saw an active ASA portfolio in the country (Attachment 2). The WBG undertook ASA in several areas, including poverty and gender, tax reform, and national accounts. Notably, the recommendations of the ASA on tax administration are being adopted by the authorities and have underpinned the new IDA-funded Public Sector Modernization Project. The WB also engaged in governance ASA during this period, including capacity building in the judicial and public enterprise sectors.

26. The WB was effective at leveraging key partnerships during the CPS period. In particular, there was close collaboration with *Agence Française de Développement* (AFD), the United Nations Refugee Agency (UNHCR), the European Union (EU), the Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD), and the African Development Bank (AfDB). These partnerships were crucial in implementing the CPS program and achieving results in rural development, including responses to displacement and migration, energy, and regulatory reform. Going forward, the WB should build on this good collaboration and engage partners broadly, especially on policy and institutional reform, which has emerged as a crucial agenda for Djibouti.

27. IFC's role was limited during the CPS period. Over the period FY14–19, and given the complex operating environment—economically and politically—in Djibouti, IFC was unable to make investments in the country. Almost all its leads in sectors such as tourism, property development, financial markets, fisheries, and infrastructure were dropped at different stages of processing and for various reasons (including alternative sources of funding and sectoral bottlenecks such as governance). To date, one IFC advisory services project was completed (Djibouti PPP Framework), one is in the pipeline (Djibouti Credit), and three are at the identification stage (Djibouti IDA/IFC Joint Investment Climate Reform Project, Red Sea Fishing, and Governance for the Private Sector Project). To effectively support private sector development and capitalize on synergies with the WB, IFC has identified the following areas of focus: financial sector development, investment climate reforms, education and vocational training, renewable energy (especially solar), transport and telecom infrastructure, and institutional capacity building and reform.

28. During the CPS period, MIGA issued guarantees in support of Djibouti's strategy to become a regional financial sector and logistics hub. In FY18, MIGA issued guarantees totaling US\$24.3 million to a Swiss company, Horafia S.A., for a commercial real estate project in Djibouti—the Mezz Tower and Djibouti International Business Centre.¹⁹ The project is aligned with the national aspiration, as expressed in Vision 2035, for Djibouti to become a regional financial center and logistics hub, as well as with the CPS FY14–18 objective of strengthening public and private sector capacity for service delivery. Djibouti has made significant public investments in infrastructure to improve competitiveness and to attract the private sector, but the country has a limited supply of office space, with many international companies currently working out of villas. The project is viewed as a flagship office building, reflecting the country's

¹⁹ During the CPS period, MIGA had preexisting exposure in Djibouti stemming from guarantees issued to international lenders for the financing of the DCT port project. Since 2014, the project has been the subject of a dispute between the Government of Djibouti and the project company; however, the project performed well from a financial perspective, enabling the project company to prepay the final two debt payments owed to the international lenders. As a result, MIGA's guarantees for the lenders were terminated early in Q4 FY17.

modernization efforts, and setting a high bar for real estate developers. The project also generates climate co-benefits, as the Mezz Tower is the first project in Djibouti meeting EDGE “green building” certification requirements and will house a desalination unit that produces drinking water, a wastewater treatment plant, and a solid waste storage unit. An anticipated 270 tons of CO₂e is expected to be avoided each year once the building’s infrastructure is fully operational. The project has performed well to date. In FY20, MIGA issued guarantees totaling US\$91.6 million to the 58.9 MW Ghoubet wind power project, the first utility-scale wind project and the first Independent Power Project (IPP) in Djibouti. With this additional project, MIGA’s total exposure in Djibouti stood at US\$115.9 million as of January 6, 2020.

29. **Portfolio performance.** Table P3 highlights portfolio trends over the CPS period. While the number of projects in the country has remained constant, commitment values have increased substantially because IDA-funded projects with larger commitment amounts have come online. There were no problem projects during FY18–FY19, thanks to 100 percent proactivity over the CPS period. The disbursement ratio consistently exceeded 20 percent over the last five years, with peaks in FY15 and FY17. There were three exits during this period, of which two were rated *moderately unsatisfactory* by the WBG’s Independent Evaluation Group one was rated *satisfactory*. The Power Access and Diversification Project and Urban Poverty Reduction Project were rated *moderately unsatisfactory* due to poor implementation readiness and incentives to contracted PIU consultants to extend implementation time by stretching activities over several years. The Strengthening Institutional Capacity and Management of the Education System Project was rated *satisfactory* as a result of a sound design and flexibility in implementation.

30. **The WB has been working actively to improve performance.** The WB conducted joint quarterly portfolio reviews with the client, which have been refocused from fiduciary issues to program results to allow for close follow-up by the authorities on intended project objectives and removal of bottlenecks. In addition, increasingly frequent missions, regular videoconferencing with PIUs, and the recruitment of local short-term consultants has resulted in much more proactive follow-up on issues affecting IDA-funded projects.

31. **Over the CPS period, the WB prioritized the need for good-quality procurement and financial management mechanisms to improve implementation progress and disbursement rates and build country capacity.** The main recurrent issue facing the WB program in Djibouti is weak borrower capacity, and the WB has put in place mitigation measures such as staffing the country office with a senior procurement specialist to provide hands-on support, supporting capacity building through training of PIU staff and training-of-trainers programs, and strengthening the national procurement system through a WB-funded Institutional Development Fund grant.

Table P2: Proposed and Delivered Operations during the CPS Period

FY	Planned Operations	Delivered Operations
14	Second Urban Poverty Reduction Project (IDA) Access to Quality Education Project (Education for All Trust Fund Grant) Governance for Private Sector Development Project (IDA) Geothermal Power Project (IDA) Geothermal Power Project (GEF)	Second Urban Poverty Reduction Project (US\$5.6 million) Access to Quality Education Project (US\$6m) GPE Governance for Private Sector Development Project (US\$2 million) Geothermal Power Project (approved in FY13, US\$6 million)
15	Social Safety Nets Project AF (IDA) Enhancing Income Opportunities in Djibouti (Japan Social Development Fund Grant) Health Sector Performance Improvement Project (IDA)	Social Safety Nets Project AF (US\$5 million) Health Sector Performance Improvement Project (US\$7 million)
16	Rural CDD and Water Mobilization (IDA) Development Response to Displacement Impacts in the HoA (national/regional IDA)	Rural CDD and Water Mobilization (US\$7 million) Social Safety Second Additional Financing (US\$4 million) Development Response to Displacement Impacts in the HoA (US\$20 million)
17	Governance for Private Sector Development Additional Financing (IDA) Sustainable Electrification (IDA)	Governance for Private Sector Development Additional Financing (US\$5 million) Sustainable Electrification Project (US\$23 million)
18		Public Administration Modernization Project (US\$15 million) SWYEP Project (US\$15 million)
19		Integrated Slum Upgrading Project (US\$20m) Towards Zero Stunting (US\$15 million) Integrated Cash Transfers and Human Capital Project (US\$15 million) Improving Health Sector Performance Second Additional Financing (US\$6 million)

4. ALIGNMENT WITH THE WBG TWIN GOALS

32. The FY19 Djibouti Systematic Country Diagnostic (SCD) found that WBG engagement has not fully addressed the key drivers to eliminating extreme poverty and boosting shared prosperity in a sustainable manner in Djibouti. The document defines three constraints to the achievement of the twin goals: (1) the enabling environment for business and investment; (2) human capital and workforce skills; and (3) governance effectiveness. The first constraint, on the business environment, was addressed in the second pillar of the PLR on strengthening public and private sector capacity for service delivery. However, one of the key areas defined in the SCD, the information and communication technology (ICT) sector, was one in which the WB could not advance its engagement during the CPS period. On human capital and workforce skills, the WB did address some key areas, including education and health, under the first pillar on reducing vulnerability. Although it was identified in the SCD as a key development area for Djibouti, the CPS/PLR did not specifically address water, sanitation, and hygiene. Another area not directly

addressed in the CPS/PLR program was governance. Although there has been ASA on governance, the program did not address the issue comprehensively.

Table P3. Djibouti Portfolio At-a-Glance, FY14–FY19

Indicator	FY14	FY15	FY16	FY17	FY18	FY19
Portfolio and disbursements						
Active projects (#)	11	9	9	11	13	12
Commitments(US\$ millions)	78	58	69	98	125	157
Undisbursed (US\$ millions)	47	33	38	53	67	107
Disbursed in FY (US\$ millions)	10	15	9	13	15	16
Disbursement ratio (%)	18	35	29	37	25	22
Portfolio riskiness						
Actual problem projects (#)	1	2	0	2	0	0
Projects at risk (%)	33	42	0	50	30	18
Proactivity (%)	100	0	100	n/a	100	n/a

Note: The number of projects, net commitments, undisbursed balances, and disbursements in FY include small recipient-executed trust funds (RETFs) <US\$5 million; all other indicators exclude small RETFs. Regional operations and co-financing RETFs to IDA-funded operations are not included.

5. LESSONS LEARNED

33. **In a small state with low capacity, such as Djibouti, it is important to have a well-prioritized program in a few sectors where there is political buy-in.** The program adopted at the beginning of the CPS cycle was too fragmented, and it was appropriately narrowed in the PLR. Areas that performed well, such as safety nets, urban service delivery, education, health, and energy, benefitted from long-standing IDA engagement with a relatively large amount of resources. Other areas, such as ICT and disaster risk management, did not yield expected results. Ministerial support was crucial in pushing forward a reform program. In social safety nets, success was due in large part to support from a reform-minded and dynamic minister. In sectors where such a champion was lacking, such as the telecom sector, results were not achieved.

34. **Applying a mix of instruments in a country such as Djibouti would be helpful to address critical development challenges.** In key sectors, such as telecom, policy reforms are needed to move forward. This necessitates the application of instruments beyond investment project financing to include other lending instruments to support policy reforms. These are appropriate paths to pursue, allowing for necessary interventions to meet the development challenges confronting Djibouti. Use of development policy financing or program-for-results instruments will need careful consideration of capacity, and a strong program of accompanying TA may be required to assist the government in implementing relevant reform measures.

35. **The WBG's presence on the ground is crucial in implementing the CPS program.** The opening of the office in Djibouti proved to be a major factor in improved implementation of the WBG program. WB staff worked directly with PIUs to resolve bottlenecks. Moreover, day-to-day dialogue with the client allowed for midstream adjustments to the program.

36. **The CPS program should be flexible to allow for changing country circumstances.** During this period, Djibouti experienced both natural disasters and shocks related to geopolitical events (including the refugee crisis triggered by the war in Yemen). The program should allow for adjustments as circumstances change. The WB was successful in leveraging additional IDA resources to address the refugee crisis during this CPS cycle and responded to the most urgent needs in the country.

37. During project preparation, the WBG needs to engage proactively with project implementation entities to ensure implementation readiness. Implementation delays can be attributed to frequent reliance on external consultants and creating parallel systems through PIUs instead of reinforcing local institutions. In the Geothermal Power Project, implementation was delayed because the project was not ready at effectiveness and faced staffing constraints. The WB hired an interim director until a permanent one was recruited. This was crucial in moving forward with project implementation.

38. Low state and institutional capacity can pose serious risks to the private sector, where WBG de-risking instruments can play an important role. The Doraleh Container Terminal example, involving one of the most important infrastructure projects in Djibouti, demonstrates that high-profile, developmentally critical projects can nonetheless be vulnerable to political risk where state and institutional capacity are limited. It also underlines the importance of MIGA's insurance coverage in de-risking private investors in such fragile contexts.

39. The need to more actively engage the private sector will require greater collaboration between IFC and IDA. While MIGA has been active in the country, IFC's role has been more limited—until FY21, with the conclusion of two investments. IFC has finalized a private sector diagnostic aimed at assessing the state of the private sector and identifying opportunities for private sector development, as well as reforms and policy actions to crowd in private investment to address Djibouti's key development challenges. By combining both economy-wide and sector-specific analysis of constraints, the private sector diagnostic will inform the WBG's country engagement process and support its efforts to maximize finance for development in the country over the medium term. IFC has identified areas of focus in coordination with IDA. This is the start of closer collaboration to ultimately engage more actively in the private sector.

CLR Attachment 1: Achievement of Results under CPS Results Matrix for Djibouti

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
Pillar 1: Reducing Vulnerability		
1.Improved institutional capacity to reach the poorest and most vulnerable and increase their access to short-term employment opportunities: Achieved		
<i>1.1.1 Employment in labor-intensive community works and services increased (person-days)</i> Baseline: 15,000 (2013) Target: 400,000 (2018) Actual: 538,450 (2018). Target achieved.	Crisis Response Social Safety Net Project (P130328) Social Safety Net Project Additional Financing (P149621)	Long-term engagement in the social sector was helpful in establishing trust with the authorities.
<i>1.1.2 Female employment in labor-intensive community works and services increased (person-days)</i> Baseline: 7,500 (2013) Target: 200,000 (2018) Actual: About 90% of beneficiaries are women. Over 480,000 person-days have been created for women. Target exceeded.	Human Capital Social Safety Net Project (P120588) Poverty and Social Impact Analysis: Strengthening Safety Nets in Djibouti (P148622) Gender and Poverty Diagnostic	Lending was accompanied by capacity building measures (including training within ministries). This helped improve project implementation. The project benefited from a community-level approach.
<i>Proxy means-tested benefits introduced</i> Baseline: No (2013) Target: Yes (2018) Actual: Yes (2018). Target achieved.		Project design was simple.
<i>Number of households registered in the social registry with a unique household identity number</i> Baseline: 0 (2013) Target: 7,000 (2018) Actual: 56,857 households (2018). Target exceeded.		
<i>Poverty and gender monitoring system improved through the strengthening of statistics and the carrying out of a poverty and gender diagnostic</i> Baseline: No (2013) Target: Yes (2018)		

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<p>Actual: Yes. Target achieved.</p> <p>The poverty and gender diagnostic was completed. Improvements of the monitoring system are ongoing, supported through a grant from the Trust Fund for Statistical Capacity Building.</p> <p>The project is supporting a registry and national social protection strategy. The registry currently contains information on 42,000 households, exceeding the target of 20,000. The collection of biometric data on these households has recently been launched. Registry data is currently being shared across 4 programs (target of 6).</p>		
1.2 Strengthened management of the education system: Achieved		
<p><i>1.2.1 Annual education statistical reports produced with key national indicators, including gender disaggregated data, to support education management (cumulative number)</i></p> <p>Baseline: 1 (2013)</p> <p>Target: 5 (2018)</p> <p>Actual: 6 reports produced (2018). Target exceeded.</p> <p>The education indicator is fully achieved. The MoE has regularly produced an education statistical yearbook that provides updated education indicators and school data, including gender disaggregated data.</p> <p>Under the Strengthening Institutional Capacity and Management of the Education System Project, the WB provided technical advice and implementation support to develop the MoE's capacity to collect, analyze, and share information. In addition to the provision of equipment, training, and consultant services, and support for data collection through the project, the WB provided support to develop one platform to integrate existing computerized systems on infrastructure, human resources, and school data.</p>	<p>Strengthening Institutional Capacity and Management of the Education System (P123315)</p> <p>Education Access and Quality (P145323)</p>	<p>The project is implemented by the MoE. Its performance was affected by high turnover in the MoE and the unit in charge of education projects. This initially resulted in weak project ownership. To cope with these weaknesses, the WB provided intensive supervision, including day-to-day support to the MoE by a local education team member and regular thematic meetings.</p>
1. 3 Improved utilization of maternal and child health care services and communicable disease control programs: Mostly Achieved		
<p><i>1.3.1 Share of women giving birth in a facility assisted by qualified personnel in rural areas (%)</i></p> <p>Baseline: 25% (2013)</p>	<p>Improving Health Sector Performance Project (P131194)</p>	<p>It is important to course-correct to enable flexibility. In this case, adjustments</p>

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<p>Target: 50% (2018) Actual: 79.35% (2018). Target exceeded.</p> <p>Through a results-based financing approach, the IDA-funded Health Sector Performance Project supports all health facilities where the majority of deliveries take place (this includes all primary and secondary-level facilities across the country and the tertiary-level maternity hospital (Dar el Hanan)).</p> <p><i>1.3.2 Share of children fully immunized before their first birthday (%)</i> Baseline: 32% (2013) Target: 52% (2018) Actual: 52% (2018). Target achieved.</p> <p>The Health Sector Performance Project supported all public primary care facilities that provide vaccines.</p> <p><i>1.3.3 Share of HIV-positive pregnant women receiving antiretroviral therapy according to protocol (%)</i> Baseline: 12% (2013) Target: 63% (2018) Actual: 26.9% (2018). Partially Achieved.</p> <p>Note: The target was originally overestimated and was not revised at the time of the PLR. The target has been changed from 1,175 to 400, and the project indicator was revised. HIV treatment is provided in a specialized hospital that is not included in the Health Sector Performance project.</p>		were made in 2017 to maximize impact.
<p>1.4 Increased access to basic infrastructure in disadvantaged rural and urban areas: Mostly Achieved</p> <p><i>1.4.1 Number of rural households with more secure access to drinking water within a reasonable travel time (two hours round-trip) in project areas (number)</i> Baseline: 2,160 (2013) Target: 7,099 (2018) Actual: 8,087 (2018) Target exceeded.</p> <p>Rural Community Development and Water Mobilization Project/PRODERMO (P117355)</p> <p>Successfully addressing sustainable rural development and water mobilization requires long-term engagement to strengthen the capacities of</p>		

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<p>Thanks to the construction/rehabilitation of water mobilization infrastructure (104, or 91% of the end target), filled many times, the end target was surpassed.</p> <p>1.4.2 Share of income-generating activities financed by the PRODERMO project for women (%) Baseline: 0% (2013) Target: 39% (2018) Actual: 53% (2018). Target exceeded.</p> <p>1.4.3 Number of people within 150m of rehabilitated and new urban roads, drains, and street lighting (number) Baseline: 0 (2013) Target: 10,000 (2018) Actual: 7,280 (2018). Target mostly achieved.</p> <p>In the context of PREPUD II, the project development outcome indicator contributing to this CPS indicator is the “Population within 150m of rehabilitated and new roads, drains, and street lightning,” which has the end target (2019) of 7,500 persons.</p> <p>Advancement on this indicator is tied directly to the implementing agency’s completion of road paving and street lighting well ahead of schedule. This activity has been the most capital-intensive activity of the project and made use of cobblestones in road works—all of which enhanced job creation and employment of local communities. Notably, 11,196 person-days of short-term employment were generated under project investments.</p> <p>1.4.4 Share of subproject beneficiaries in Quartier 7 (%) who have increased access to services and are women Baseline: 0% (2013) Target: 50% (2018) Actual: 55% (2018). Target achieved.</p>	<p>Rural Community Development and Water Mobilization Project/PRODERMO Additional Financing</p> <p>Development Response to Displacement Impacts in the HoA Project (DRDIP) (P152822)</p> <p>Urban Poverty Reduction Project (P988876)</p> <p>Second Urban Poverty Reduction Project(P145848)</p>	<p>stakeholders at different levels, introduce climate-smart agriculture, and improve the country’s resilience to climate change and natural disasters.</p>

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<p>The implementing agency estimates <i>female beneficiaries</i> of the PREPUD II project at 55%, where the number of <i>direct project beneficiaries</i> is 25,113, already exceeding the end target (2019) of 25,000.</p> <p>These results underline the WB's engagement in Djibouti's urban sector through the PREPUD projects, which has enhanced access to basic infrastructure and community services by rehabilitating major roads and associated drains, benefitting more than 42,000 local residents to date. WB engagement has delivered a network of much-needed urban infrastructure, including a community center where women can meet and receive training on how to start small businesses, two sport courts with state-of-the-art services for youth, an early childhood development center, and a facility for primary health, all located in areas previously occupied by dump sites.</p> <p>1.4.5 Beneficiaries of DRDIP with access to social and economic services and infrastructure Baseline: 0 (2018) Target: 40,000 (2018) Actual: Mostly Achieved. The outcome indicator targeted the total number of beneficiaries of activities at 40,000. The current total estimated number of beneficiaries of the activities is 33,480.</p> <p><u>Progress on Supplementary Milestones</u></p> <p><i>Share of grievances registered related to delivery of project benefits that are actually addressed</i> Baseline: 0% (2013) Target: 60% (2018) Actual: 100% (2018). Target achieved.</p>		

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<p>In the context of PREPUD II, the intermediate results indicator contributing to this milestone is the percentage of "<i>Grievances registered related to delivery of project benefits that are actually addressed</i>," estimated at 100%, surpassing the end target of 90%.</p> <p>Following the mid-term project review, the implementing agency launched an ICT-based grievance redress mechanism financed through PREPUD II, which allows the agency to systematically record and handle community grievances across its portfolio (which extends beyond WB-financed programs to other donors). The grievance redress mechanism was spot-checked by the WB in November 2017, confirming that the system works to address complaints submitted via the agency's website.</p> <p><i>Number of Community Development Fund-financed subprojects increased</i> Baseline: 0 (2013) Target: 30 (2018) Actual: 34 Target achieved.</p> <p>The implementing agency is working to further accelerate results under this intermediate results indicator, by issuing a final call for subproject proposals by mid-2018 and awarding the final set of 16 subprojects in the same year.</p> <p><i>Share of funded subprojects completed by women's associations</i> Baseline: 0% (2013) Target: 50% (2019) Actual: 47% Target mostly achieved.</p> <p>Of the number of Community Development Fund-financed subprojects noted above, the "<i>Percentage of which are from women-led associations</i>" is 47% against an end target of 50%.</p> <p>Community development funds made available via both PREPUD projects have yielded strong gains in social cohesion in an integrated approach to urban development. To date,</p>		

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<p>about 84 subproject micro-grants have been awarded to local associations and nongovernmental organizations in the context of the WB's engagement, with careful targeting of women and youth associations. Local associations (many of which are women-led) have gone on to implement community-driven microprojects on topics such as malnutrition sensitization, road sanitation, after-school tutelage, and artisanal skill-training in Quartier 7—in effect multiplying the development outcomes of project investments.</p>		
1.5 Improved assessment of natural disaster risk and vulnerability: Not Achieved		
<p><i>1.5.1 Implementation of Comprehensive Approach to Risk Assessment in Djibouti</i></p> <p>Baseline: No (2013) Target: Yes (2018) Actual: No. Target not achieved.</p> <p>The Government's ORSEC plan was not adopted.</p> <p>The Comprehensive Approach to Risk Assessment in Djibouti focused on developing a comprehensive and sustainable system to assess, communicate, and monitor risks associated with natural disasters in Djibouti. It has helped the country shift from a responsive to a preventive approach to natural disasters and reach the following outcomes:</p> <ul style="list-style-type: none"> • 30 national practitioners were trained and certified by the GFDRR in disaster risk management and reduction; • Disaster data collection and management capacity increased following technical training of 40 stakeholders from line ministries (February 20–23, 2011); • A disaster loss and damage inventory database was created and anchored at the Center of Research of Djibouti, enabling the country to quantify its damage and losses after a disaster event; • Two university students joined a Master's degree program in disaster risk management in France, financed by the Djiboutian government; • Some progress was made during the time period, such as the completion of a hazard risk assessment for floods and earthquakes, which is critical to understanding the risks confronting Djibouti and will be used for preparing disaster risk financing options, as requested by the Ministry of Finance. 	<p>Disaster Risk Management Phase III (P149978)</p> <p>Natural Disaster Risk Assessment and Monitoring System (P119878)</p>	<p>This is a highly ambitious target for a small TA activity with no major IDA funding behind it. In future, more consideration should be given to more realistic targets in line with WBG interventions.</p>

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<ul style="list-style-type: none"> In FY19, the WB started work with the <i>Secretariat Executive pour la gestion de catastrophe</i> after cyclone Sagar, following the time period of this review. 		
Pilar 2: Strengthening Public and Private Sector Capacity for Service Delivery		
2.1 Improved access to affordable electricity: Achieved		
<p><i>2.1 Improved access to affordable electricity</i> <i>Baseline:</i> 14,800 (2013) <i>Target:</i> 22,800 (2018)</p> <p>Actual: 26,796 (2018). Target achieved.</p> <p>Progress on Supplementary Milestones <i>Feasibility study for geothermal power generation provided</i> <i>Baseline:</i> No (2013) <i>Target:</i> Yes (2018)</p> <p>Actual: No. Drilling for this project was delayed but is now complete. The feasibility study will be completed in end of August 2020. Target not achieved.</p>	<p>Geothermal Power Generation Project (P127143)</p> <p>Power Access and Diversification Project (P08379)</p>	<p>Long-term engagement in the sector, with the WB working closely with the implementing agency, contributed to success in this sector.</p>
2.2 Improved services for the private sector: Partially Achieved		
<p><i>2.2.1 Business start-up procedures streamlined (number of days)</i> <i>Baseline:</i> 37 days (2013) <i>Target:</i> 10 days (2018)</p> <p>Actual: 14 (2018). Target mostly achieved.</p> <p>The average number of days to create a business is 13 at end-FY19, as a result of the establishment of a one-stop shop, financed partly by the WB. In addition, Djibouti has made starting a business less expensive by exempting new companies from professional licensing fees and reducing the cost of registering a business and publishing the legal ad.</p> <p><i>2.2.2 Issuance of construction permits streamlined (number of days)</i> <i>Baseline:</i> 167 days (2013)</p>	<p>Governance for Private Sector Development Project (P146250)</p> <p>MIGA Mezz Tower and Djibouti International Business Centre Commercial Real Estate Project</p>	<p>In a context of weak capacity and lack of coordination among government entities, involvement of the highest level is critical to ensure commitment to and implementation of the investment climate reform program. Cross-sectoral <i>Doing Business</i> reforms</p>

CPS outcome/cluster of outcomes and milestones status and evaluation summary	WBG activities that contributed to the outcome	Lessons
<p>Target: 90 days (2018) Actual: 111 (2018) Mostly achieved.</p> <p>Djibouti reduced the fees associated with construction inspections and implemented decennial liability for all professionals involved in construction projects. In 2015–16, TA was provided to streamline the process to obtain a construction permit. Detailed recommendations to further streamline the issuance of construction permits are available.</p> <p><i>2.2.3 Publication of commercial and civil court cases on Ministry of Justice website expanded (%)</i></p> <p>Baseline: 0% (2013)</p> <p>Target: 95% (2018) Actual: 0%. Target not achieved.</p> <p>This action has not yet been initiated. This is one of the proposed actions to be implemented by the Ministry of Justice as part of its recent <i>Doing Business</i> action plan. The Court needs to agree on the content of the decisions to be published.</p>		(such as transferring property) with far-reaching impact should be better assessed, planned, and costed in coordination with relevant WB units.

CLR Attachment 2: ASA Products

Task ID	Task Name	Prod. Line	ACS - FY	ACS - Actual Date
P128870	Djibouti - Support to CPI and National Accounts	TA	2014	9-Jul-2013
P130590	Study on Telecom Sector and Potential for Growth and Improvement	TA	2014	23-Mar-2014
P130809	DJ HRITF Knowledge and Learning	TA	2014	21-Jun-2014
P132803	Governance	TA	2014	10-Jul-2013
P144127	Options for Telecom Sector Opening in Djibouti (Phase II)	TA	2015	29-Jun-2015
P144188	Evaluating the nutrition/workfare SSN	IE	2016	10-Jun-2016
P145913	DJIBOUTI HOUSING REVIEW AND SLUM STRATEGY	TA	2016	29-Nov-2015
P146635	Support to Governance Reforms TA	TA	2015	29-Apr-2015
P147240	Djibouti MTDS	TA	2015	9-Jul-2014
P147405	Djibouti #A034 Modernization of the payments system and credit reporting infrastructures	TA	2015	22-Jun-2015
P148622	Poverty and Social Impact Analysis: Strengthening Safety Nets in Djibouti	TA	2015	3-Jun-2015
P148978	Poverty and Gender ESW: Assessing Gender and the Incidence of Growth on Poverty	EW	2015	11-Jun-2015
P149392	Djibouti #A047 Operationalization of MSME Credit Guarantee Fund	TA	2016	31-May-2016
P149727	Djibouti Light Manufacturing Policy Note	TA	2014	28-Jun-2014
P149978	Disaster Risk Management Country Program Phase III	TA	2016	6-May-2016
P150911	DJ South-South Technical Assistance	TA	2016	28-Jul-2015
P151141	DJ Governance TA	TA	2016	3-Jun-2016
P155495	Improving Youth well-being and opportunities in Djibouti by reducing Qat consumption	TA	2016	22-Jun-2016
P156794	DJ Poverty TA	TA	2018	20-Jul-2017
P157187	Djibouti Governance Capacity Building	EW	2016	29-Jun-2016
P159859	Support to Parliament in Djibouti	AA	2018	8-Mar-2018
P160534	Djibouti #D025 Strengthening the Legal Framework for Accounting and Auditing	AA	2018	13-May-2018
P160091	Djibouti Tax Reform and National Account	TA	2017	24-Mar-2017
P163522	Djibouti Debt Management Performance Assessment 2017	AA	2018	27-Sep-2017

Annex 3: Operations Portfolio (IBRD/IDA and Grants)

(as of June 30, 2021)

Project Name	Bank Approval Date	Closing Date	Net Comm. Amt. - Total (\$M)	Undisb. Bal. (\$M)	Age (Months)	Project Ratings - DO	Project Ratings - IP
DJ Improving Health Sector Performance	2-Apr-2013	30-Sep-2021	13.00	2.58	98.9	MS	MS
Djibouti: Sustainable Electrification Program	2-Jun-2017	5-Dec-2023	23.30	14.57	48.9	MS	MS
Djibouti Integrated Slum Upgrading Project	9-Nov-2018	31-Dec-2025	50.00	43.25	31.7	S	MS
Public Administration Modernization Project	25-Apr-2018	30-Oct-2022	15.00	9.20	38.2	MS	MS
Towards Zero Stunting in Djibouti	9-Jul-2018	31-Dec-2023	15.00	5.29	35.7	MS	MS
Djibouti Support for Women and Youth Entrepreneurs	8-Jun-2018	31-Dec-2023	15.00	11.41	36.7	MS	S
Expanding Opportunities for Learning	30-Sep-2019	15-Dec-2024	15.00	10.73	21.0	MS	MS
Integrated Cash Transfer and Human Capital Project	15-May-2019	31-Dec-2023	30.00	17.64	25.5	S	S
Economic Management and Statistics Development	29-May-2020	31-Dec-2025	15.00	14.81	13.0	MS	MS
Djibouti COVID-19 Response	2-Apr-2020	31-Mar-2023	5.00	2.32	14.9	MS	S
Development Response to Displacement Impacts	31-May-2016	6-Jun-2016	30.00	18.66	61.0	S	MS
First Africa Higher Education Centers of Excellence	27-Mar-2019	12-Apr-2019	15.00	12.32	27.1	S	S
Emergency Locust Response Program	20-May-2020	22-May-2020	6.60	3.75	13.3	S	MS
Total			232.90	166.53			

**Annex 4: Statement of IFC's Held and Disbursed Portfolio
(as of June 30, 2021)**

Client	Product	Industry Group	Description	Commitment year	Committed Amount
East Africa Bank (EAB SL)	Guarantee/RM	Financial Institutions Group (FIG)	The project consists of a trade line under Global Trade Finance Program (GTFP) to EAB, of up to US\$5 million equivalent with maximum tenor of 6 months.*	2021	5.0
Onomo Hotels	Loan	Manufacturing, Agribusiness and Services (MAS)	This is a commitment of a €36.1 million (US\$43 million) financing package comprised of a €20.9 million (US\$25 million) IFC A Loan and a €15.2 million (US\$18 million) Subordinated Loan from IDA PSW Blended Finance Facility to Onomo Group, a mid-scale (three star equivalent) business hotel owner/operator of 21 hotels in 13 countries in Africa. IFC and IDA PSW investment will support a €73.7 million (US\$87.7 million) project to expand and strengthen Onomo's operations in the region through refurbishment, expansion and debt refinancing of 3 existing hotels in Abidjan, Dakar, Bamako, and expansion with 2 greenfield hotels in Yaoundé and Djibouti . The IDA PSW Loan will be temporarily subordinated to help de-risk IFC A Loan from completion/ramp up risk, particularly given the COVID-19 pandemic's impact on the hospitality sector	2021	8.7
TOTAL					13.7

Annex 5: MIGA's Guarantee Portfolio

(as of June 30, 2021)

Fiscal Year	Project Id	Project Name	Effective Date	Expiration Date	Investor Country	Business Sector	Gross Exposure (\$USD)	Description
FY18	13129	Mezz Tower	Jul-17	Jun-32	Switzerland	Services	24,300,000	The project entailed the designing, building and managing of a business and finance center in Djibouti City. The center included a 17-storey tower hosting high-standing offices destined for corporations of different sizes. Ancillary services, were also expected to be provided.
FY20	14303	Ghoubet Wind Power Company SAS	Dec-19	Dec-39	Mauritius	Infrastructure	91,593,112	The Project consists of the development, design, construction, operation and maintenance of a 60 MW wind farm and interconnection facilities, comprising of a 220kv substation and 5km overhead transmission line to connect to the nearest substation in Ghoubet, in the Arta Region along the border with the Tadjura Region of Djibouti.
Total							115,893,112	

Annex 6: Donor Coordination and Partnerships

a. Donor Coordination Context

The WBG engaged with the donor community and international partners on the CPF program. Partners endorsed the CPF's analysis and proposed focus areas for intervention. They stressed the need for better coordination and collaboration in certain sectors to enhance policy dialogue and improve the quality of service delivery. The importance of reform in certain sectors and SOEs was highlighted. Some donors sought collaboration with the WB in responding to country challenges such as youth unemployment, urban and rural development, and institution building.

The donor community is small, with no formal coordination framework in place. The international community consists of bilateral partners (China, France, AFD, USA, USAID, Japan, JICA, Turkey, Saudi Arabia, and Kuwait) and multilateral institutions (EU, WB, AfDB, IsDB, Kuwait Fund for Arab Economic Development, OPEC, IFAD, IMF, Arab Funds, GEF, and UN agencies). Most multilaterals do not have an office in Djibouti, conducting occasional visits to the country. The WBG is engaging decisively in stronger partner coordination with the perspective to ensure stronger leverage and building on competitive advantages.

Bilateral donors work through their respective development agency or directly through the cooperation mechanism.

- a. China, through the Exim Bank of China, has financed investment projects linked with the Belt and Road initiative. Several high-impact projects have been financed, including the water adduction project with Ethiopia, the railway project, construction of the Multipurpose Port, and the Lac Assal Salt Export Terminal.
- b. AFD's program is organized around three key objectives: (i) promoting the diversification of the economy to improve its competitiveness and its regional links (energy transition, digital, political transition); (ii) contributing to strengthening human capital (demographic and social transition); and (iii) promoting the development of sustainable cities (territorial and ecological transition). IDA is working closely with AFD on urban restructuring and on primary and higher education.
- c. USAID's work in Djibouti is focused on workforce development, health, education, food security, energy through the Power Africa program, and governance. IDA conducts regular consultations with USAID regarding support for education, energy, and entrepreneurship.
- d. JICA's program focuses on three main pillars: (i) infrastructure development for sustainable development; (ii) human resources training for economic development; and (iii) stabilization of the region. IDA and JICA are closely involved in building the capacity of the MoE, and they coordinate their activities within the platform established by the MoE to support Djibouti's education system.
- e. Turkey's support includes grant in water protection infrastructure.

The EU program in Djibouti supports: (i) infrastructure in the water and sanitation sector; (ii) food security, resilience, and climate change; (iii) governance, support for civil society, migration, gender parity, private sector development, vocational training, and TA to the Ministry of Finance. The EU and WB both support the finance ministry's agenda to enhance entrepreneurship and reforms in government institutions. Coordination takes place at both the sectoral and strategic levels to align the development policy agenda. In addition, both actors are playing a leading role in the HoA initiative to support this high-priority development program in the five member countries (Eritrea, Ethiopia, Djibouti, Kenya, and Somalia).

AfDB's Djibouti Country Strategy for 2016–20 is focused on: (i) development of socioeconomic infrastructure in the energy and health sectors; and (ii) supporting good governance through institutional capacity building. AfDB and WB are jointly financing a renewable energy project and are involved with the EU in coordinating and supporting the development program of the HoA initiative.

IsDB is active in several sectors in Djibouti: economic and social infrastructure, ICT, health, education, and energy through credit lines for the import of petroleum products. IsDB and WB coordinate on social infrastructure and the slum upgrading program.

Djibouti has received substantial resources from Arab partners, notably Saudi Arabia, Kuwait, and the Arab Fund for Social and Economic Development.

- a. The Saudi Fund for Development supports the government's social housing program, as well as roads, port infrastructure, housing, and justice.
- b. The Kuwait Fund for Arab Economic Development focuses on road investment projects and geothermal exploration.
- c. The Arab Economic and Social Development Fund has supported projects in road, port infrastructure, housing, and water infrastructure.

IFID and GEF are involved in resilience programs to reduce the vulnerability of the population to climate change, while OPEC is involved in the construction of logistics infrastructure, energy, and education. IDA is collaborating, at both the country and headquarters level, with IFID and GEF on agriculture and climate change. IDA is collaborating with OPEC in the energy sector, as both are co-financiers of the ongoing geothermal project.

On May 8, 2020, the IMF Board approved a disbursement under the Rapid Credit Facility of US\$43.4 million (100 percent of Djibouti's quota) to help Djibouti meet urgent balance-of-payments needs stemming from the COVID-19 pandemic. It also approved grants under the IMF's Catastrophe Containment and Relief Trust to cover Djibouti's debt service falling due to the IMF from May 8 to October 13, 2020, for US\$2.3 million. Additional relief covering the period from October 14, 2020, to April 13, 2022, will be granted subject to the availability of resources in the trust, potentially bringing total debt service relief to about US\$8.2 million.

The UN system intervenes through its specialized agencies (United Nations Development Programme; World Food Programme; UNICEF; World Health Organization; United Nations Population Fund; International Organization for Migration; UNHCR; FAO; United Nations Office for Project Services; United Nations Office on Drugs and Crime; United Nations Educational, Scientific, and Cultural Organization; and the Joint United Nations Programme on HIV/AIDS). The 2018–22 United Nations Framework Plan for Aid to Development identified four priorities: (i) inclusive economic growth and sustainable poverty reduction; (ii) strengthening of social services and inclusive human development; (iii) reinforcement of the environment and institutions responsible for good governance; and (iv) resilience building and promotion of equitable regional development. The WB has established a close relationship with the UN agencies on health, education, agriculture, social safety nets, regional development, ICT, entrepreneurship, refugees, and disaster management to support the country's development agenda. In 2019, the two institutions supported the government in preparing a Post Disaster Needs Assessment following the flooding of November 2019. This exercise has served to realign interventions on both sides to address the urgent humanitarian and development needs emanating from the crisis.

b. Mapping of Development Partners' Current Interventions in Djibouti

	Development Partners																
	Bilateral							Multilateral									
	France /AFD	Japan/ JICA	US/US AID	China	Saudi Arabia/ SDF	Kuwait	Turkey	EU	IMF	WBG	AfDB	IsDB	Arab Funds	IFID	GEF	OPEC	UN
Focal Point for Djibouti	MEFI	MAECI	MAECI	MAECI	MAECI		MAECI	MEFI	MEFI	MEFI	MEFI	MEFI	MEFI	MEFI	MUEAT	MAECI	MAECI
Water & sanitation	X	X		X	X		X				X		X	X			X
Housing				X	X	X				X			X				
Urbain development	X	X								X	X	x					
Environment and Climate Change								X		X	X			X	X		X
Disaster Preparedness										X							
Energy	X	X	X			X				X	X	X	X		X	X	X
Agriculture					X			X		X	X			X			X
Health		X	X							X	X	X					X
Education	X	X	X							X		X				X	X
Social protection								X		X							X
Gender		X	X					X		X	X						X
Private sector	X		X					X		X		X					X
Financial Sector										X							X
Telecom										X		X					
Transport		X		X	X	X						x	X	X			X
Refugees/ Migration		X								X							X
Justice	X				X			X									
Governance	X		X					X		X							
Macroeconomy and planning									X	X							X
Capacity Building								X	X	X							X

MEFI Ministry of Economy and Finance & Industry

MAECI Ministry of Foreign Affairs and International Cooperation

MUEAT Ministry of Urbanization, Environment, Handicraft and Tourism

Annex 7: WBG Consultations during CPF Preparation

Consultations with Government and Other Stakeholder Groups

CPF consultations with the government highlighted the need for the WB to play a leading role in the country's reform agenda, particularly on challenges caused by the protracted presence of refugees, which places enormous pressure on service delivery and social infrastructure. Djibouti will continue implementing ongoing restructuring of public institutions and will engage in a new wave of structural reforms during the CPF period. In doing so, the government will need development policy support commensurate with its unique development challenges. The consultations underscored the need for a new engagement program to strengthen public institutions and provide support for youth employment and skills development, slum upgrading, and service delivery. During these consultations, the government highlighted the need to diversify the instruments used by the WB in Djibouti by combining investment project financing, program-for-results approaches, and budget support to help the government mitigate the risks associated with the reform agenda.

Discussions with parliamentarians highlighted the need for the WB to change its operational model in rural areas to increase inclusivity. Lawmakers pointed out that, despite ongoing operations by the WB and other donors in rural areas, poverty remains staggering outside urban areas. Considering the small size of Djibouti's rural population, estimated at 150,000 inhabitants, the WB could draw on its international experience to bring new development strategies and improve the living conditions of poor households. Representatives underlined the importance of building the capacity of public institutions to improve service delivery and find sustainable solutions to the impact of refugees in the country.

Consultations with the private sector and civil society underlined the importance of reducing the cost of services and improving service delivery. Both groups felt that the primary challenges in Djibouti are to increase nongovernment involvement in the economy and to improve living conditions. They directed the WB to focus its interventions on reducing the cost of energy and improving the quality of and access to telecom/ICT services. They further pointed out that improving service delivery by strengthening local institutions and improving the quality of health and education services, justice and public administration services, access to land, and the business environment would be essential for the country's development. Civil society organizations emphasized the importance of sharing economic prosperity and redistributing the growth dividend, particularly in rural areas where there are fewer opportunities. Private sector representatives underscored that a lack of access to finance and payment systems impedes their growth and business potential. They felt that improving telecom services by tapping into the country's vast submarine cable network would spur new services and support their development.

Consultations on Making the MFD Approach Work in Djibouti

As part of CPF preparation, the component agencies of the WBG (the WB, IFC, and MIGA) led broad consultations with the government, private sector, and development partners to explore ways to apply the MFD approach in Djibouti as a means to systematically leverage all sources of finance, expertise, and solutions to support the SDGs and the WBG's twin goals of eradicating extreme poverty and boosting shared prosperity. These consultations allowed the country team to identify indicative areas in which the MFD approach could be leveraged in Djibouti. These include, but are not limited to, renewable energy (geothermal, solar, and wind), telecom/ICT (internet services and data centers), logistics (DCT extension), affordable housing, tourism, trade finance, and warehousing.