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Report No: PAD924

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 1.3 MILLION
(US \$2 MILLION EQUIVALENT)

TO THE

REPUBLIC OF DJIBOUTI

FOR A

GOVERNANCE FOR PRIVATE SECTOR DEVELOPMENT
PROJECT

May 28, 2014

Finance and Private Sector Development Group
Egypt, Djibouti, Yemen Country Department
Middle East and North Africa Region

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THE REPUBLIC OF DJIBOUTI

Currency Equivalent

(Exchange Rate April 30, 2014)

Unit of Currency = Djibouti Franc

US\$1 = DJF 178

DJF 1 = US\$0.01

Fiscal Year

January 1st – December 31st

ABBREVIATIONS AND ACRONYMS

ANPI	<i>Agence Nationale de Promotion des Investissements</i> (National Investment Promotion Agency)
CBD	Central Bank of Djibouti
CFAA	Country Financial Accountability Assessment
CFR	Corporate Financial Reporting
CNMP	<i>Commission Nationale des Marchés Publics</i> (High Tender Board)
CPS	Country Partnership Strategy
CRS	Credit Reporting System
DA	Designated Account
FDED	<i>Fonds de Développement Economique de Djibouti</i> (Djibouti Economic Development Fund)
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FIRST	Financial Sector Reform and Strengthening
FM	Financial Management
FMS	Financial Management System
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDP	Gross Domestic Product
GoD	Government of Djibouti
HCNDPP	<i>Haut Conseil National du Dialogue Public Privé</i> (National Council for Public-Private Dialogue)
ICA	Investment Climate Assessment
IFC	International Finance Corporation
IFR	Interim Financial Report
IMF	International Monetary Fund
MEF	Ministry of Economy and Finance
M&E	Monitoring and Evaluation
MFI	Microfinance Institutions
MSEs	Micro and Small Enterprises
NBFI	Non-Bank Financial Institutions
NPS	National Payments System
ODPIC	<i>Office Djiboutien pour la Protection des Propriétés Intellectuelles et Commerciales</i> (Intellectual and Commercial Property Protection)

	Agency)
ORAF	Operational Risk Assessment Framework
PCG	Partial Credit Guarantee
PDO	Project Development Objective
PFS	Project Financial Statement
PIE	Project Implementation Entity
PPIAF	Public Private Infrastructure Advisory Facility
SME	Small and Medium Enterprise
SOE	Statement of Expenditures
WBG	World Bank Group

Regional Vice President:	Inger Andersen
Country Director:	Hartwig Schafer
Sector Director:	Loic Chiquier
Sector Manager:	Simon C. Bell
Task Team Leader:	Djibrilla A. Issa

THE REPUBLIC OF DJIBOUTI
Governance for Private Sector Development Project

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PAD DATA SHEET*Djibouti***Governance for Private Sector Development Project (P146250)****PROJECT APPRAISAL DOCUMENT**

MIDDLE EAST AND NORTH AFRICA

MNSF1

Report No.:PAD924

Basic Information			
Project ID P146250	Lending Instrument Investment Project Financing	EA Category C	TTL: Djibrilla Issa Co-TTL: Mehdi Benyagoub
Project Implementation Start Date 23-Jun-2014		Project Implementation End Date 30-Jun-2019	
Expected Effectiveness Date 01-Sep-2014		Expected Closing Date 31-Dec-2019	
Joint IFC Yes	Joint Level Complementary and Interdependent project requiring common design and active coordination		
Sector Manager Simon C. Bell	Sector Director Loic Chiquier	Country Director Hartwig Schafer	Regional Vice President Inger Andersen
Borrower: Republic of Djibouti			
Implementing Entity : <i>Agence Nationale de Promotion des Investissements-ANPI</i>			
Contact:	Mahdi Obsieh Darar	Title:	Managing Director
Tel.	+253 21 31 21 02	Email:	Mahdi_darar@yahoo.fr
Fax.	+253 2135 88 37		
Project Financing Data(in USD Million)			
<input type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
<input checked="" type="checkbox"/> Credit	<input type="checkbox"/> Guarantee		
Total Project Cost:	4.0	Total Bank Financing:	2.00
Total Parallel Financing	0.8	Financing Gap:	0.00
Financing Source	Amount		
Borrower	1.2		
International Development Association	2.0		
IFC	0.3		
FIRST Initiative	0.5		
Total	4.0		

Expected IDA Disbursements (in USD Million)

Fiscal Year	FY15	FY16	FY17	FY18	FY19	FY20
Annual	0.06	0.40	0.40	0.50	0.60	0.04
Cumulative	0.06	0.46	0.86	1.36	1.96	2.00

Proposed Development Objective(s)

The Project Development Objective is to help improve Djibouti's business environment.

Components

Component Name	Cost (USD Millions)
Component I: Investment Climate Reform	1.4
Component II: Project Management	0.6

Institutional Data**Sector Board**

Investment Climate Practice

Sectors / Climate Change

Sector (Maximum 5 and total percent must equal 100)

Major Sector	Sector	Percent		
Industry and trade	General Industry and trade sector	50		
Industry and trade	Agro-Industry, Marketing and Trade	20		
Finance	SME Finance	15		
Public Administration, Law, and Justice	Public Administration – Industry and Trade	15		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total percent must equal 100)

Major theme	Theme	percent
Financial and Private Sector Development	Other Private Sector Development	50
Financial and Private Sector Development	Corporate Governance	50
Total		100

Compliance			
Policy			
Does the project depart from the CPS in content or in other significant respects?	Yes []	No [X]	
Does the project require any waivers of Bank policies?			
Does the project require any waivers of Bank policies?	Yes []	No [X]	
Have these been approved by Bank management?			
Have these been approved by Bank management?	Yes []	No [X]	
Is approval for any policy waiver sought from the Board?			
Is approval for any policy waiver sought from the Board?	Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?			
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
Safeguard Policies Triggered by the Project			
	Yes	No	
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Institutional Arrangements (Schedule 2, Section I.A.2)		One month after Effectiveness	
Description of Covenant			
The Recipient shall cause the Project Implementing Entity to recruit not later than one (1) month after Effective Date: (i) a procurement specialist; and (ii) a financial management specialist, in accordance with the provisions of Section III of this Schedule and on terms of reference acceptable to the Association.			
Name	Recurrent	Due Date	Frequency
Institutional Arrangements (Schedule 2, Section I.A.4 (i))		One month after Effectiveness	
Description of Covenant			
The Recipient shall: (i) adopt not later than one (1) month after Effective Date the POM in form and substance acceptable to the Association.			
Name	Recurrent	Due Date	Frequency
Financial Management (Schedule 2, Section II.B.4)		Three months after Effectiveness	

Description of Covenant			
The Recipient shall ensure, or cause the Project Implementing Entity to ensure, that no later than three (3) months after the Effective Date, the Project Implementing Entity has: (i) purchased an accounting software acceptable to the Association; and (ii) recruited an external auditor under terms of reference, and with qualifications and experience satisfactory to the Association.			
Conditions			
Name	Recurrent	Due Date	Frequency
Subsidiary Agreement (Article V. 5.01)		Effectiveness	
The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity			
Team Composition			
Bank Staff			
Name	Title	Specialization	
Djibrilla Issa	Country Sector Coordinator	TTL	
Mehdi Benyagoub	Private Sector Specialist	Co-TTL	
Paul Prettitore	Sr. Public Sector Specialist	Governance	
Ruxandra Costache	Counsel	Legal	
Steve Wan	Operations Analyst	Operations Analyst	
Fadwa Bennani	Financial Sector Specialist	Access to Finance	
Roya Vakil	Economist	Access to Finance	
Walid Dhouibi	Procurement Specialist	Procurement	
Moussa Kayad	Procurement Specialist	Procurement	
Ibrahima Dione	Consultant	PIM and POM	
Peter Ladegaard	Lead PSD Specialist	Business Environment	
Cemile Hacibeyoglu	Associate Operations Officer	Business Environment	
Eric Ranjeva	Finance Officer	Disbursement	
Adamou Labara	Resident Representative	Business Environment	
Abdoulaye Sy	Economist	Macro-Economic Context	
Suzanne Parris	Program Assistant	Program Assistant	
Rima Koteiche	Sr. FM Specialist	Financial Management	
Rock Jabbour	FM Analyst	Financial Management	

I. STRATEGIC CONTEXT

A. Country Context

1. **Economic growth in Djibouti has accelerated in recent years driven by port-related activities and large investment inflows.** Djibouti has experienced sustained growth over the last decade thanks to large inflows of foreign investment particularly in port activities and in the overall transport and logistics sector. A high demand for transit trade and transshipment activities from landlocked Ethiopia has allowed Djibouti to capitalize on its strategic location along the Red Sea and to turn its ports into the engine of its economy. In 2000, the Government of Djibouti (GoD) signed a 20-year management concession with Djibouti Port World (DPW) which contributed to attracting large amounts of foreign direct investment (FDI). FDI inflows accelerated sharply in 2006 with the construction of the Doraleh container terminal and the port free zone. Between 2006 and 2010, FDI inflows averaged over 14 percent of GDP and gross capital formation reached 31 percent of GDP (Figure 1). Consequently the growth rate accelerated in 2002-2012 to reach an average of about 4 percent per year. Inflation has remained fairly well contained during this period.

2. **Despite moderate growth, poverty remains high in Djibouti.** Djibouti is a lower-middle-income country with a GDP per capita in 2011 of US\$1,430 (US\$ 2,500 in PPP). Between 2002 and 2012, GDP growth averaged about four percent per year (Figure 1). However poverty in Djibouti is high and has declined little over the last decade. According to Government statistics, absolute poverty was 42.2 percent in 2002 and only declined marginally to 41.9 percent in 2012. Absolute poverty is estimated to be 30 percent in the capital Djibouti-Ville, whereas outside the capital, 70 percent of the population is poor. Absolute levels of poverty among female-headed households and male-headed households are virtually similar (41.8 percent and 41.9 percent respectively).

3. **The recent economic growth has failed to generate enough job opportunities to reduce unemployment.** The large amounts of foreign investment that Djibouti attracts do not create many jobs compared to other countries in the region (Figure 2). In this context, Djibouti's small and young population (about 865,000 habitants in 2011, of which 60 percent are aged 15 and above) faces low levels of activity and high unemployment. Government statistics show that in 2012 about 26 percent of the population aged 15 and above who were actively looking for work could not find a job. Around 48 percent of the working-age population is without employment. The public sector employs about 17,000 workers which represent about 44 percent of formal employment.

4. **Gender Inequalities¹.** Gender inequalities in access, opportunities, and power relations persist. Social and cultural norms sometimes limit women's access to productive resources, economic opportunities, and participation in decision-making bodies. These inequalities are exacerbated downstream by inadequate job skills. Employment prospects remain far better for male job seekers. Only 37 percent of women aged 15 to 64 participate in the labor market, as compared to 69 percent of men. Though the agriculture sector remains limited countrywide, the

¹Sources : Politique Nationale Genre. 2011. Ministère de la Promotion de la Femme et du Planning Familial, Chargé des Relations avec le Parlement, FNUAP, UNESCO, PNUD, ONUSIDA; UNICEF. 2011. *Djibouti: MENA Gender Equality Profile, Status of Girls and Women in the Middle East and North Africa*

fishing industry—in particular, marketing or fish farming—could provide an alternate source of income for women, but its potential is hampered by inadequate infrastructure, limited access to financing, and lack of training and organizational capacity.

Figure 1. FDI and Growth in Djibouti, 2000-2012

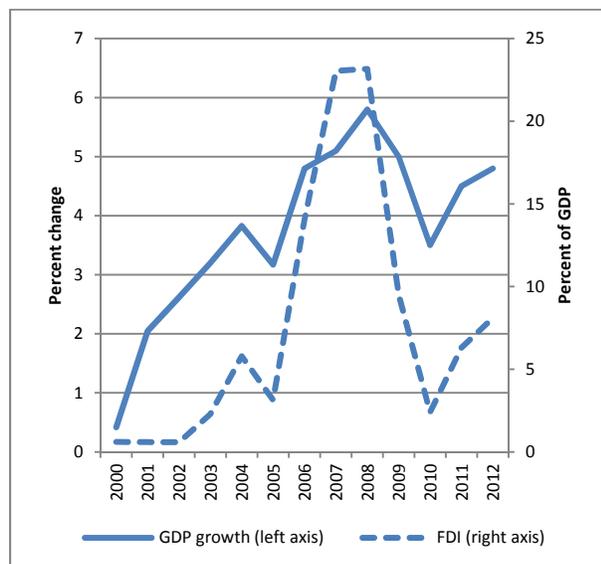
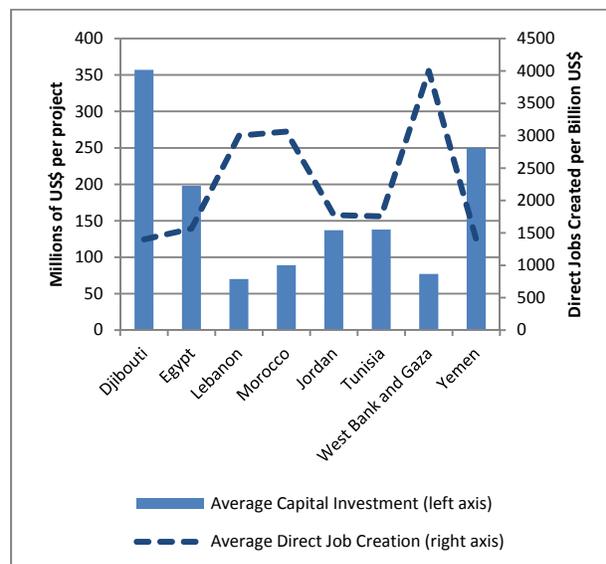


Figure 2. Greenfield Investments and Jobs, 2002-2012



Source: Djibouti officials and Economic Development and Prospects, MENA, Oct 2013.

5. **Gender Inequalities².** Gender inequalities in access, opportunities, and power relations persist. Social and cultural norms sometimes limit women’s access to productive resources, economic opportunities, and participation in decision-making bodies. These inequalities are exacerbated downstream by inadequate job skills. Employment prospects remain far better for male job seekers. Only 37 percent of women aged 15 to 64 participate in the labor market, as compared to 69 percent of men. Though the agriculture sector remains limited countrywide, the fishing industry—in particular, marketing or fish farming—could provide an alternate source of income for women, but its potential is hampered by inadequate infrastructure, limited access to financing, and lack of training and organizational capacity.

6. **A job-creating private sector-led growth is critical for Djibouti’s long-term growth and poverty reduction performance.** The private sector remains embryonic and consists of small and medium firms concentrated in the tertiary sector. The formal private sector in Djibouti comprises 3,000 companies with operating licenses and approximately 2,000 private companies reporting at least one paid employee to the National Social Security Fund (*Caisse Nationale de Sécurité Sociale, CNSS*). Most of these smaller companies operate in the services (29 percent), trade (27 percent), and transit activities (19 percent) sectors. Moreover, most enterprises are small with only a few large firms. In 2010, only 141 firms reported annual revenue in excess of US\$100,000 and 62 reported revenue above US\$1 million. The cost and quality of important factors of production such as labor and electricity along with the quality of the investment

²Sources : Politique Nationale Genre. 2011. Ministère de la Promotion de la Femme et du Planning Familial, Chargé des Relations avec le Parlement, FNUAP, UNESCO, PNUD, ONUSIDA; UNICEF. 2011. *Djibouti: MENA Gender Equality Profile, Status of Girls and Women in the Middle East and North Africa*

climate (IC) remain severe binding constraints to private sector development and growth in Djibouti.

7. **Djibouti's economic potential remains fundamentally untapped.** Djibouti has natural assets, which, if exploited, could serve as the basis for a new growth model. A World Bank study on Djibouti's Growth Model (August 2012) focused on four growth sectors in Djibouti in order to evaluate that potential: (i) tourism; (ii) fisheries; (iii) transport/logistics; and (iv) telecommunication.

8. **The tourism sector is certainly one of the most promising in terms of job creation.** Djibouti currently welcomes about 50,000 tourists a year, most of whom are business travelers visiting the country because of the presence of foreign military bases. Tourist lodging capacity is small (1,200 beds), reflecting a dearth of investment in the sector. Djibouti is endowed with extraordinary natural assets for the development of tourism, including marine life of great beauty, unique geological landscapes, and a rich cultural and archeological heritage. Many of these sites would likely be eligible for the United Nations, Education, Scientific, and Cultural Organization (UNESCO) classification. Moreover, tourism demand focused on the Red Sea is especially dynamic, as evidenced by the increasing popularity of dive tourism in Sharm-el-Sheikh and Hurghada.

9. **Djibouti could therefore position itself as a first-class tourist destination in the region by focusing on three key elements:** (i) a capital city component (business and recreational tourism); (ii) a seaside component (swimming and dive complexes located on priority development sites); and (iii) an eco-conscious component (discovery tourism at archeological and prehistoric sites). According to World Bank projections, Djibouti could attract up to 500,000 tourists each year by 2030 and generate up to 30,000 direct and indirect jobs. Small and Medium Enterprises (SMEs) in the tourism sector can benefit from this growth, provided they have the capacity and are trained to be goods and services providers in the tourism industry.

10. **Fisheries have a very large potential in Djibouti.** Djibouti's artisanal fishing sector plays a minor role in the economy. The fisheries sector employs about 2,600 people, including 600 seamen. The number of boats reported is 157. The volume of catches is relatively small (1,800 tons), with most of the yield sold in the domestic market. However, Djibouti has major maritime resources that are largely underutilized. The authorized exploitable potential is estimated at more than 30,000 tons. Currently, most of the catch is sold on the domestic market to major local restaurants, military bases, and market stalls. The domestic market is hardly saturated; generating more and more demand and regional markets could offer attractive outlets as well. Ethiopia, Saudi Arabia, and Egypt are likely to generate a strong product demand. International exporting of fish was launched in 2010, leading to a one-time sale of 60 metric tons to Egypt. Developing Djibouti's marine resources through boat acquisition, skills training for SMEs, and exploration of new fisheries could raise the total catch above 5,000 metric tons by 2020, creating more than 3,000 direct jobs.

11. **The transport and logistics sector is the backbone of Djibouti's economy.** The country has a remarkable deep-water port complex, located on one of the busiest maritime routes in the world. The Emirate of Dubai played a major role in financing the development of the port, and in helping Djibouti implement proven methods for effective port management. The Port of Djibouti is also the main point of access to the sea for Ethiopia. Nearly 85 percent of the traffic in the port of Djibouti is related to Ethiopian transit shipping. As a result of the recent port and road

improvements, the Djibouti-Addis corridor is more attractive to Ethiopian merchants than the Berbera and Port Sudan corridors. Trade through Djibouti's port is expected to continue growing rapidly in response to economic expansion in Ethiopia. This could create jobs if Djibouti works with Ethiopia to implement the quota of freight given to Djibouti firms and provides needed technical assistance to develop the local trucking industry, logistics service providers such as transshipment, warehousing, maritime services, freight forwarding to allow the optimization and development of small operators. Developing potential trade with South Sudan could further expand port activities.

12. **The telecommunication sector could attract large private investment and generate growth and jobs.** Djibouti is one of only three remaining African countries (along with Ethiopia and Eritrea) to have a monopoly in the telecommunications sector, and access to telecommunications services lags well behind the rest of Africa. The country's only operator, Djibouti Télécom, is fully owned by the Government. Mobile telephone and Internet services are expensive and of poor quality, with low penetration rates at 20 percent and six percent, respectively. These deficiencies severely hinder Djibouti's competitiveness, as high-quality services are necessary to solidify its position as a regional logistic hub, attract foreign investors, and promote economic diversification. Paradoxically, Djibouti has a powerful but largely underutilized infrastructure of undersea cables. Djibouti Télécom sells the excess capacity abroad, bringing in US\$22 million in revenues in 2012. The country is working with the World Bank on a reform program and an investment operation – the Djibouti Telecom Sector Opening Project (P146219) under preparation – to help address the issues related to the telecom sector and tap into its potential for growth and job creation.

13. **Djibouti's economic and social situation is quite troubling.** Many success stories have occurred in small countries such as Cape Verde and Mauritius, whose populations are as small as Djibouti's. The strategic questions for Djibouti today are: "How did those countries, which are similar to Djibouti, manage to develop so quickly?" and "Why has Djibouti failed to develop its economic potential, particularly in the fields of tourism, fishing, and telecommunications?"

B. Sectoral and Institutional Context

14. **Of the four sectors identified, three have the potential to generate strong economic and social benefits: Logistics, Tourism and Fisheries.** They were identified, based on analytical studies available, and the discussions held during project preparation, as: (i) having the potential for generating jobs; (ii) having high upside potential in terms of growth and spillover effects (cost recovery and economic linkages between the growing tourism sector and artisanal fishing); and (iii) offering a platform for successful intervention such as the ability to bridge the competitiveness gap, the likelihood that policy failures could be addressed with fresh reforms, and the opportunity to harness private sector to address market failures (in the case of logistics and little integration with the rest of the economy). Accordingly, these three sectors are strategic priorities for the Government and the private sector.

15. **To realize its potential, Djibouti must improve its governance and its business environment.** Djibouti's main challenges in the years to come are to leverage the expected scaling-up of investment in transport logistics and diversify its economy by developing selected value chains to accelerate growth. In particular, the challenges facing the Government are to: (i) improve the investment climate to create the incentive for the private sector to invest in the high potential sectors; (ii) make strategic choices and the required investment to tap into the potential

offered by the Ethiopian market and more generally its strategic position as a logistic hub; and (iii) maximize the contribution of this investment in the fisheries sector and the tourism sector.

16. **The decisive factor in economic development is the quality of governance.** Both Cape Verde and Mauritius have favorable governance indicators with respect to the rule of law, legal security, combating corruption, and the effectiveness of public policies. Djibouti, on the other hand, suffers from a major governance deficit in all the dimensions mentioned, and is scored rather poorly on those international indicators that cover it.

17. **Djibouti lacks legal security and has a weak judiciary system.** In Djibouti, the judicial system is beset with numerous problems, such as insufficient resources, no judicial training, lack of independence and impartiality, and the slowness with which judgments are executed. In these circumstances, both the domestic and the international business communities express serious reservations about the ability of the Djiboutian justice system to guarantee the protection of their rights and to resolve disputes fairly. Less than ten cases are handled each year by the commercial chamber of the court, and judges assigned to the chamber lack adequate training on commercial law. The commercial chamber is also undermined by overall weak case management procedures related to civil cases.

18. Recognizing the weaknesses within the judicial sector, the GoD launched a reform strategy in 2011 (*Une Justice Efficace, Efficiente, Respectueuse des Droits de l'Homme et au Service du Développement*), to be implemented over the period 2012-2016. This reform strategy covers the following: (i) building human resources capacity; (ii) improving court infrastructure in Djibouti-Ville and outside regions; (iii) enhancing access to justice (including the execution of court decisions); (iv) modernizing the civil and criminal codes and procedural codes; (v) addressing gaps in the criminal justice framework; and (vi) improving human rights. To supplement the strategy, the GoD has established a special system of commercial courts to address the gaps in services to support private sector development.

19. While the strategy is a positive step forward in terms of reforms, it is neither currently backed by financial and personnel resources from the Government, nor are activities related to building the capacity of the commercial courts or providing services to the poor and vulnerable. To assist with the implementation of the strategy, the Ministry of Justice (MoJ) requested technical assistance from the Bank on the following topics: capacity-building for the commercial chambers of the courts; improving service delivery to the poor and other vulnerable persons; case management and automation; and judicial training. After consultations with the MoJ, it was agreed that priority support will be focused on commercial courts given the Bank's comparative advantages and the limited resources available for this Project.

20. **Djibouti suffers from weaknesses in public policy planning and execution conducive to private investments.** To maximize its economic potential, Djibouti needs to radically change its governance arrangements. The GoD wishes to enhance the use of Public Private Partnerships (PPPs) as a mechanism for procuring and financing infrastructure projects and services in the public sector. A number of projects are either on-going or at various stages of project development. Djibouti benefits from financing and technical assistance from the Public-Private Infrastructure Advisory Facility (PPIAF) to develop the framework for PPP. To develop adequate transactional, technical, and contract management and project monitoring expertise, Djibouti has created an Investment promotion agency (*Agence Nationale de Promotion des Investissements-ANPI*) by Law n°114/AN/01/4 dated January 21, 2001. ANPI will be supported by the proposed Project.

21. **The General business environment is not conducive to private sector development.** Compared to similar countries, the cost and time for starting a business in Djibouti remain high, despite some progress made since 2012 after the transfer of the Commerce Registry to the Intellectual and Commercial Property Protection Agency (*Office Djiboutien pour la Protection des Propriétés Intellectuelles et Commerciales - ODPIC*). High tax rates and cumbersome and costly procedures to register and transfer properties were identified as key constraints in the 2014 Doing Business.

22. **Access to finance for SMEs is limited in Djibouti.** A Djibouti Financial Sector Assessment Program (FSAP) was conducted in 2009 and an FSAP follow-up was conducted in 2010 focusing on policies to improve access to finance. These studies all concluded that access to finance for SMEs is limited, and made recommendations in that respect. They found that only about five percent of registered firms have a loan. While the amount of credit to the private sector has increased over the past few years, it has been directed towards a select group of firms and, of these, only a few are SMEs. The FSAP recommendations included: (i) the establishment of a guarantee fund to support SME access to financing in order to alleviate collateral requirements; (ii) help to the Central Bank of Djibouti (CBD) to develop a reliable and more comprehensive credit registry (to improve its existing numerous and fragmented banking supervision database, monetary statistics, credit registry, checks history files), with an open and transparent consultation mechanism to help reduce information asymmetry in the credit market; and (iii) the modernization of the payment systems.

23. **Djibouti's SME sector lacks skills, know-how and competitiveness.** In general, the SME sector does not have international exposure and many firms lack experience on modern management methods and standards. As a result, the level of technical and managerial capability and skills in the business community is low and constitutes an obstacle to new technology adoption, worker productivity improvement and new product development. This has exacerbated market failures which cause SMEs to invest less in modernization and technology acquisition than is economically optimal. The Government should help SMEs make the needed investments to become more competitive because: (i) the costs of local expertise are high (consultants, technical experts, trainers and training institutions); and (ii) SMEs are unable to afford the services, particularly in light of their deteriorating financial situation.

C. Government's Reform Efforts

24. **The current Government has launched an ambitious program of reforms.** They aimed to foster private sector growth and diversify the economy. They particularly focused on establishing appropriate frameworks for private sector development and initiated reforms that had stalled since 2007/08. This includes the adoption of a new commercial and investment code that will create more transparency for investors. Business environment reforms undertaken in 2013 by simplifying registration formalities and eliminating the minimum capital requirement for limited liability companies contributed to reducing to 17 days (from 37 in 2012) the time required to create an enterprise. These reforms allowed Djibouti to become one of the ten best reformers world-wide in Doing Business.

25. **Private sector development and investment climate reforms are supported by several groups.** The National Council for Public-Private Dialogue (*Haut Conseil National du Dialogue Public Privé-HCNDPP*) was established by Decree 2012/188/PR/MEFIP dated August 30, 2012. Chaired by the President, the HCNDPP seeks to foster better synergy between the

private sector and the Government to identify constraints facing private sector and have reforms implemented by technical ministries. While the HCNDPP is considered by private sector representatives as an effective tool for fostering public private dialogue and resolving business constraints, it has not convened as planned since its inception. It now has a Technical Committee which seems more appropriate as it will meet at a more technical level and will be chaired by the Minister of Finance. The implementation of a national private sector promotion policy has led to the creation of several support and supervisory structures, in particular, the Chamber of Commerce, ANPI and ODPIC, that houses a business registry. In addition, the Government and the Central Bank of Djibouti (CBD) have initiated the creation of a Partial Credit Guarantee (PCG) scheme and a credit registry to improve private sector access to financing.

26. **Low capacity of these various institutions and lack of coordination of their activities remain a challenge.** The rationalization of these agencies and a strategic approach to reforms through a PPD remain the priority for the Government in its Vision 2035, as it seeks to accelerate employment generation. As the Government is seeking to improve the investment climate, Doing Business indicators provide an entry point, while addressing and taking on other reforms such as judiciary effectiveness.

D. Higher Level Objectives to which the Project Contributes

27. There are several higher level project objectives that the successful implementation of the operation will directly and indirectly achieve.

28. The Project would contribute to the achievement of the Government's goals as spelled out in the Vision 2035 and its strategy for accelerated growth and employment promotion³.

29. These goals include:

(i) Reducing unemployment and poverty: support to enterprises and increasing skills of workers in Djibouti will promote enterprises, which in turn is expected to increase formal employment and encourage better working conditions. In addition, the Project will help improve the investment climate in Djibouti so that the private sector can better contribute to growth and employment creation;

(ii) A diversified and competitive economy: support to the private sector to become an engine of growth that creates jobs; develop access to finance, promote financial market development, and develop strategic partnerships with private investors;

(iii) Good governance: help the emergence of strong institutions in Djibouti and modernize the justice system to improve governance for the prevention and repression of corruption.

Links with other World Bank Group and Development Partners' Activities

30. *Contribution to the Country Partnership Strategy (CPS).* The Project is aligned with the objective and the pillars of the FY14–17 Country Partnership Strategy (CPS), discussed by the World Bank Group's Board of Directors on March 13, 2014 (Report 83874-DJ). The overarching objective of the CPS is to support the Government's Vision 2035, working to reduce extreme poverty and build the foundations for shared growth by harnessing the country's human and

³ *Stratégie de Croissance Accélérée et de Promotion de l'Emploi (SCAPE).*

economic potential. The CPS rests on two pillars: (i) reducing vulnerability; and (ii) strengthening the business environment. To achieve the second pillar of the CPS, the Bank seeks to support the modernization of infrastructure services, private sector development, and governance, with a renewed focus on strengthening the targeting of Djibouti's job creation, energy, and telecommunications programs in an effort to reduce poverty and boost shared prosperity. The Project will make contributions to these efforts.

31. This objective also reflects the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity. These pillars are aligned with the World Bank's Middle East and North Africa (MENA) Regional Framework, presented to World Bank Group's Board of Directors on May 15, 2014, which aims for enhanced, shared prosperity and reduced poverty through governance, inclusion, jobs, and sustainable growth.

II. PROJECT DEVELOPMENT OBJECTIVE

A. Project Development Objective

32. The Project Development Objective is to help improve Djibouti's business environment.

B. Project Beneficiaries

33. The project is expected to have 1200 direct beneficiaries of which 20 percent are women. The ultimate beneficiaries will be Government and private sector institutions in charge of PPD and investment climate reform and private enterprises.

34. The two main groups of beneficiaries are (i) Government and private sector agencies playing a key role in the interaction between Government and private sector; and (ii) all various private sector stakeholders (primarily private enterprises), investors and their workers.

35. *Government and private sector agencies:* The Project will directly support various Government entities and private sector agencies with Technical Assistance (TA) and training. The public/private sector agencies that will specifically benefit from this direct support are the HCNDPP, ANPI, ODPIC, and the DEDF. In addition to the direct capacity development for these specific agencies, the Government will also benefit by way of improvement of its capacity to settle commercial disputes through support to the commercial chamber of the Ministry of Justice, collection of property taxes through support to the delivery of construction permit and transfer of property. Furthermore, improved transparency and efficiency of the key agencies supported by the Project are expected to increase public confidence in the public institutions.

36. *Entrepreneurs, investors and workers:* Entrepreneurs and investors will benefit from the improvement of the business environment. The increase in transparency and predictability will benefit SMEs, which normally tend to have limited bargaining power, as well as foreign investors by reducing uncertainty and transaction costs.

37. *Workers:* The Project will contribute to creating jobs by promoting investments and facilitating enterprise creation through improvements in the business environment.

C. PDO Level Results Indicators

38. The PDO related performance indicators are: (i) reduction of time to create a business; (ii) reduction in time to register a property; and (iii) decrease in the average number of days to settle a commercial dispute; and (iv) Direct project beneficiaries (number) of which female (percentage). The Results Framework for the PDO indicators and intermediate key performance indicators is in Annex 1.

III. PROJECT DESCRIPTION

A. Overall Approach

39. It appears from the various policy and strategy documents mentioned in the county context section that to support private sector-led growth and attract private investment in the identified high potential sectors, actions need to be taken in a number of mutually-supportive areas to create conditions for private sector development.

40. In Djibouti, this involves the development of a program supported by many donors with the combination of elements including: (i) providing policy, and institutional support to key government institutions involved in private sector development; (ii) promoting a conducive business environment, including access to financial services through the development of sound financial infrastructure, business registration, investor protection and registration and transfer of propriety; (iii) supporting the development of technical and business management skills to improve productivity at the firm level; (iii) developing linkages between the SMEs and global companies that invested in high potential sectors; and (iv) facilitating increased availability of critical infrastructure and services.

41. However, given the low capacity and the limited resources available, while promoting such an integrated approach, prioritization and sequencing of the reforms are vital for a successful implementation.

42. These priority reforms supported by the Project aim to help Djibouti improve the investment climate and create conditions conducive to private sector development; before it can undertake any sector selection and be able to attract more private investment in the high potential value sectors. These priority reforms supported by the Project include (i) activity to improve the investment climate and the commercial justice; (ii) support enterprise access to financing by improving the credit information system and financial infrastructure; and (iii) strengthening the capacity of Government entities in charge of investment climate reform.

43. While this Project will focus on the Components I and II described below, the International Finance Corporation (IFC) and the Financial Sector Reform and Strengthening (FIRST) Initiative are supporting activities that complement the Project through parallel financing to improve the business environment and access to finance respectively.

B. Project Components

Component 1: Investment Climate Reform (US\$1.4 million)

44. Activities under this component will support reforms which could be easy to implement and have a quick impact on the business environment and thus assist the Government in meeting

its objective of promoting competitiveness and encouraging development and growth of private investment. Activities include:

Component 1.1. Commercial and Civil Justice (US\$0.6 million)

45. The Project will provide technical and institutional support to the commercial chamber of the civil courts, which are under the administration of the Ministry of Justice, to improve the settlement of commercial disputes in Djibouti. The component will finance:

(a) Technical work to help revise the main functions of the commercial chambers, including: (i) organizational structure and staffing plans; (ii) case management techniques; (iii) providing support to develop a system for monitoring and evaluating performance of judges and court administration staff; (iv) collection and analysis of case-related data; (v) publication and dissemination of court procedures, forms and judicial decisions; and (vi) strengthening of the office of the registrar;

(b) Upgrading of the Ministry of Justice website to cover publication of decisions of the commercial chamber, information on procedures for the chamber and appropriate forms;

(c) Developing training curricula for civil and commercial matters and conducting training for judges and court staff in accordance with the said curricula. Training of judges and court staff in specialized matters, such as case management techniques, data collection and international commercial law, as required based on a detailed training program to be prepared with project financing;

(d) Hiring of expert to help review and modernize key commercial justice documents including (i) the civil code and the civil procedures code; and (ii) the commercial code;

(e) Purchasing publications for the courts on commercial law, services (online access to legal information for judges) and hardware (computers) for the commercial law library of MoJ;

(f) Acquiring information systems for the courts to modernize the *Régistre du Commerce et des Sociétés* and to have key information required in business transactions readily accessible to the public.

Component 1.2. Establishment of the One-Stop-Shop and TA for investment climate reforms through the One-Stop-Shop (US\$0.8 million)

Carrying out works and provision of goods, consultant services and non-consultant services

The component will finance the following:

(i) The rehabilitation of the physical space of the One-Stop-Shop as the Government has allocated a building for the One-Stop-Shop: this includes refurbishing the building like painting, but does not involve any major civil work;

(ii) Equipment and information system for the One-Stop-Shop: This includes experts to implement the appropriate information system and the acquisition of computer equipment (computers, printers) as well as the implementation of a management system of information for the operation of the One-Stop-Shop;

(iii) Improvement of the process for delivering construction permits. The Project will provide TA to the Direction of the Habitat and Urbanism and the Central Laboratory for Building and Equipment of the Ministry of Health to streamline and simplify the procedure for delivering construction permits;

(iv) Transfer of property. The costs associated with the transfer of land titles are very high (between nine and twelve percent of the value of the property). This rate is more than double the average of the Middle East and North Africa (MENA) and the Sub-Saharan Africa regions. The Project will provide technical assistance to the authorities to revamp and streamline the procedures for property transfer and assist with relocation and representation of the related services at the One-Stop-Shop.

Component II. Project Management (US\$0.6 million)

46. This component provides support to ANPI (the Project Implementing Entity) and to the Project Steering committee for project implementation through the provision of goods, consultants' services, Training and Operating Costs for: (i) the Project management, implementation, monitoring and evaluation, including audits; and (ii) the meetings of the Project Steering Committee. These include:

- (i) Operating costs for a Procurement Specialist;
- (ii) Operating costs for a Financial Management Specialist;
- (iii) Training, capacity building and operating costs for ANPI project implementation;
- (iv) Consultants to carry out project annual audits;
- (v) Consultant to define and implement a Monitoring and Evaluation (M&E) system for the Project.
- (vi) Institutional support to ANPI for the elaboration of and implementation of a business plan that spells out the technical assistance and training requirements;
- (vii) Equipment to ANPI for project implementation.

C. Project Financing

IDA allocation and IFC and the FIRST Initiative parallel financing

47. In addition to the Bank financing of activities in Components I and II, resources have been mobilized by the IFC (US\$ 300,000) and the FIRST Initiative (TF015443 and TF015443 for a total of US\$ 500,000) to support the Government private sector development program through parallel financing. The First Initiative will finance activities to improve access to finance and the IFC will finance TA to the Government to improve the investment climate. The activities are the following:

Parallel financing from the IFC to provide TA for investment climate reforms (US\$ 300,000)

48. IFC will finance Technical Assistance to the One-Stop-Shop and the Government to improve the investment climate in selected areas mentioned in Component 1.2. Subject to client commitment, progress and reform appetite, IFC may seek to build or scale up on these interventions gradually and that, conversely, the interventions may be scaled back if there is limited progress on the areas above.

49. IFC will provide:

(a) Support to the Public Private Dialogue (US\$ 50,000). This will provide TA to the *HCNDPP* for the formulation and implementation of policies and reforms needed to improve the business climate. This support will include: (i) guidance and TA to carry the Council's meetings

and the PPD for the formulation of investment climate reforms; and (ii) enhance structured dialogue mechanism and process, help stakeholders to do evidence based advocacy.

(b) Support for the establishment of the One-Stop-Shop and TA for investment climate reforms through the One-Stop-Shop (US\$ 150,000)

50. IFC will finance the following:

(i) Business registration. TA to define the architecture for the One-Stop-Shop for business registration, including the simplification and streamlining of procedures, enhance transparency, increase data sharing among agencies and definition of guidelines for business registration based on best practice,

(ii) TA to the One-Stop-Shop including services of experts to define the appropriate information system and the implementation of a management system of information for the operation of the One-Stop-Shop (operations manual, etc.); and support in terms of capacity building to ensure sustainability of the reform,

(iii) TA to the One-Stop-Shop in the second and third phases of its expansion (after business registration) to assist it with inclusion of services of construction permitting connection to utilities and customs services.

(c) Support to other areas of Investment Climate Reform as necessary (US\$ 100,000)

(i) Update *Doing Business* reform memorandum for Djibouti in a number of selected areas including, but not limited to: starting a business, dealing with construction permits, registering property and trading across borders.

(ii) Provide support in other areas of investment climate reform as requested. The Project will provide further TA as needed in investment climate reforms in other areas including, but not limited, to construction permitting, payment of taxes, and the revision of the investment code.

(iii) TA to implement the recommended reforms including support with communication/awareness creation through targeted awareness communication to inform private sector and other stakeholders of new reforms.

Parallel financing from the FIRST Initiative to improve Access to finance (US\$ 500,000)

51. The objective of these activities is to help the GoD implement its reforms that aim to improve SME access to financing through (i) the creation of a PCG fund; and (ii) the elaboration of a Financial Infrastructure Development Strategy.

52. **Operationalization of a PCG Fund (US\$ 250,000 from the FIRST Initiative).** The Trust fund will support the following activities:

(a) Finance consultants to help design the key parameters of the PCG including, the governance and institutional structure of the PCG (e.g. governing bodies, the role of the Central Bank, the role of FDED, the establishment of a portfolio guarantee mechanism vs. individual guarantee issuances etc.); and a funding plan to include capitalization needs over a five-year horizon (the fund size, initial allocations needed, funding requirements, and a timeline for recapitalization etc.);

(b) Finance consultants and technical assistance to the Government to develop the legal and regulatory framework of the PCG Fund (including drafting of the legal documents for the

establishment of the PCG Fund, drafting of regulations and oversight framework for the CBD in governing the activities of the PCG Fund; and

(c) Finance experts and provide TA to the Government for the development of rules and guidelines for the operations of the PCG Fund. This comprises development of Guidelines for the issuance of guarantees (eligibility criteria for borrowers and lenders, payment rules, risk management procedures, interest rates, fees etc.); draft of standard guarantee agreement with banks, specifying terms and conditions of the guarantee; and design of an information database system that can easily comply with the reporting requirements of the CBD.

53. Financial Infrastructure development (US\$ 250,000 from the FIRST Initiative): This activity will help the Government and the CBD design a Financial Infrastructure Development Strategy, and improve the safety and efficiency of its financial infrastructure along the following three main activities:

(a) Finance experts to help design a National Payments System (NPS) Development Strategy, based on the applicable international standards that will identify gaps of the existing payment system, present recommendations for reforms and resources that will be needed across the nine-pillars⁴ that form the technical and regulatory framework for payment and settlement in a country.

(b) Finance experts and provide TA to elaborate a Credit Reporting System (CRS) Development Strategy using the General Principles for Credit Reporting Systems, developed by the World Bank as the organizing framework, a prerequisite for the implementation in a later stage of a credit registry compliant with international standards;

(c) Finance consultants to help draft laws and regulations for the NPS and CRS.

54. Any hard and software financing (Real-Time Gross Settlement - RTGS - servers, telecom equipment, servers) will be provided by the CBD and the Government. The Government's contribution, estimated at US\$1.2 million, will be in the form of staff cost associated with the commercial court, ANPI and the One-Stop-Shop, as well as utility cost of the One-Stop-Shop.

D. Project Cost and Financing

55. The Project is financed through a US\$2 million IDA Credit, two Bank-Executed Trust Funds mobilized from the FIRST Initiative (US\$ 500,000) to support the financial sector development component and US\$ 300,000 from the IFC to provide TA to improve the investment climate. The FIRST Initiative grants and the IFC are parallel financing that will be used to support activities to improve access to finance and the investment climate respectively. Government's contribution will be used for the Capitalization of the Guarantee Fund, financing of equipment for the payment system and contribution to the Project management. The Government's contribution will be in the form of staff cost associated with the commercial court,

⁴ These pillars are: Legal Framework; Large Value Payments; Retail Payment Systems; Government Payments; Interbank Money Markets and foreign exchange; Securities Settlement Systems; International remittances; Oversight Framework; and, Cooperative Framework⁴. For each area, the World Bank team will first conduct a stocktaking exercise, and then make recommendation in the context of a comprehensive strategy

ANPI and the One-Stop-Shop as well as utility cost of the One-Stop-Shop. It is estimated at US\$1.2 million.

56. Retroactive financing will be provided to finance the salaries of the incoming FM specialist and procurement specialist who will be recruited by the Project Implementing Entity (PIE). Withdrawals up to an aggregate amount not to exceed US\$ 20,000 may be made for eligible expenditures incurred between June 1, 2014 and the expected signing date of the Financing Agreement.

Component	IDA	IFC Parallel Financing	First Parallel Fin.	GoD	Total
Component I: Investment Climate Reform					2.4
Component 1.1 Commercial and Civil Justice	0.6			0.2	0.8
Component 1.2. Establishment of the One-Stop-Shop and TA for investment climate reforms through the One-Stop-Shop	0.8			0.8	1.6
Component II. Project Management	0.6				0.8
Component 2.1. Support to the steering meetings	0.1				0.1
Component 2.2. Support to ANPI for project implementation	0.5			0.2	0.7
First Initiative Parallel Financing: Access to Finance					0.5
A. Partial Credit Guarantee Fund			0.25		0.25
B. Financial Infrastructure development			0.25		0.25
IFC Parallel Financing: TA for IC reforms		0.3			0.3
Total Project Cost	2.0	0.3	0.5	1.2	4.0

57. As the Project financing comes from many sources, this requires strong coordination to ensure timely availability of such resources. Whereas overall co-ordination will take place within the Project implementation arrangement and steering committee, it is agreed that the FIRST Initiative grants mobilized are Bank-Executed, whereas funds mobilized by the IFC is executed by the IFC.

E. Gender Mainstreaming

58. The Project's positive impact on the business environment will also benefit female entrepreneurs.

59. The Monitoring and Evaluation mechanism of the Project will track gender disaggregated indicators and has a target for women direct beneficiaries.

F. Lessons Learned and Reflected in the Project Design

60. *Selectivity and sequencing.* There are clear reform lessons emerging from several developing countries concerning the prioritization of investment climate improvements. The 2012 Growth Model Study highlighted the "binding constraints" to growth and private investment in the high potential sectors in Djibouti. It systematically identified key growth drivers, income-enhancing diversification, critical constraints, and the cost-benefit factors that could help to determine the best sequencing of reform actions. The Project will focus on selected ones, with other Bank operations helping the Government with additional reforms, including in the infrastructure, energy and telecom sectors.

61. *Reform momentum.* Broad-ranging improvements in the investment climate through regulatory and institutional reforms are typically done with national coverage. However, experience shows that such a strategy does not bring results in the short term, and, more importantly, does not necessarily allow the emergence of a better business environment to foster private sector investment. Given the importance of a reliable business environment for the success of this Project, a combination of: (i) horizontal investments and regulatory reforms; and (ii) support to reforms to allow private investments in selected sectors will be financed by the Project. These focus on investment reforms and helping the Government in developing investment opportunities, in attracting private investors and structuring PPP transactions in the selected sectors.

62. *Public (IDA) funding leveraged by private sector investments.* While proposing an additional public investment, this project is designed to leverage private sector investments and to create a context for PPP. Investments in business environment should allow the development of larger private sector operations in the supported industries.

63. *Link with other Bank operations.* The Project is an integral part of the World Bank’s Djibouti portfolio. It seeks to generate synergies with ongoing or planned operations on infrastructure, energy, telecommunication and public financial management in the table below.

Table 1. Selected current and planned Bank supported projects in Djibouti

		Ongoing	Planned under CPS
IDA	Lending	<ul style="list-style-type: none"> • Geothermal Power Generation (FY14) • Power Access and Diversification (FY06) 	<ul style="list-style-type: none"> • Telecoms Project (FY14)
	Technical Assistance	<ul style="list-style-type: none"> • PPIAF grants in energy (FY12) • PPIAF grants in telecoms (FY12) • Financial Sector TA FIRST Initiative (FY13) 	<ul style="list-style-type: none"> • PPIAF grants in telecoms (FY14) • Support to legal and institutional PPP framework (PPIAF) (FY14)
	Knowledge	<ul style="list-style-type: none"> • New Growth Model Study (FY12) • Port Study (FY12) • Transport Study (FY13) 	<ul style="list-style-type: none"> • Poverty and Gender Study (FY14) • Support to improving Doing Business indicators (with IFC)
IFC		<ul style="list-style-type: none"> • Support to improve Doing Business 	<ul style="list-style-type: none"> • Support to improve Doing Business indicators (with IDA)

64. *Collaboration with the IFC.* Recognizing the critical importance of the private sector and diversified growth in Djibouti’s future development, the Project is a joint reform program with IFC. It supports enhanced IFC/IDA collaboration to allow Djibouti to tap into its economic potential more effectively, bringing together efforts to address key development challenges with the exploration of investment opportunities in growth sector. Even if IFC resources represent a small fraction of the operation, the value of an integrated IFC/Bank project lies in the World Bank Group’s commitment to “bundling” its expertise and financing, transferring global knowledge, supporting institutional capacity development, and providing timely and agile implementation support to the Government’s reform efforts.

65. *Use of Trust Funds.* For this operation, trust funds have leveraged IDA resources or have complemented the Project. In particular, the access to finance component of the Project is financed with a US\$ 500,000 grant already approved by the FIRST Initiative. The Foreign

Investment Advisory Service (FIAS) is financing a parallel TA to help Djibouti develop a legal, regulatory and institutional framework for PPP.

G. Outreach Venues and Stakeholders' Consultation

66. *Create a forum for dialogue.* Experience with private sector development project in general indicates that success depends on establishing an institutional platform to foster regular dialogue and a working and collaborative partnership among various stakeholders, including different ministries, the public and private sectors and civil society organizations. This is particularly relevant if civil society organizations and private sector associations are to have more of a say in the definition of public policies. Such an institutional platform requires a high-level oversight and direction at the level of the key implementing ministry and a continuous PPD throughout project implementation.

67. The proposed Project through the support to HCNDPP component will finance and build a sustainable PPD process in Djibouti.

68. *Increasing voice, participation and accountability.* Stakeholders' engagement through the HCNDPP will ensure transparent and effective processes for greater citizen voice and participation in the preparation, implementation, and M&E of the operation; with the objective of improving accountability and thereby increasing the development impact of the Project for all citizens. The aim is to maximize client impact and results by incorporating stakeholders' voices into the operation.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

69. The Implementation arrangements feature several players whose roles will be further detailed in the Project Operations Manual, the adoption of which is a dated covenant in the Project's Financing Agreement.

70. These arrangements take into consideration capacity limitations in the Government and the need to use existing Government entities and strengthening their capacity. The Ministry of Finance will take the lead in the oversight of the Project. The project implementation arrangements include the following structures.

71. **Steering Committee (SC).** The *Secretariat Permanent* of the HCNDPP (*PS-HCNDPP*) will serve as a Steering Committee that will provide oversight to the project implementation. The *PS-HCNDPP* (Steering Committee) was created by Decree 2012/188/PR/MEFIP dated August 30, 2012. It is chaired by the Secretary General of the Ministry of Finance and consists of (i) the Secretary General of the Chamber of Commerce; (ii) two representatives from the public sector; and (iii) two representatives from the private sector.

72. **Project Implementing Entity (PIE).** The Project will be managed by ANPI. ANPI will be responsible for all procurement, disbursement, accounting, financial reporting and monitoring and evaluation of the Project, and for ensuring the auditing of project accounts. ANPI's General Manager will also be the Project Coordinator. However, the Project will have to recruit a

Procurement Specialist and a Financial Management Specialist dedicated to the Project no later than one month after effectiveness of the Project.

73. **Focal points:** Focal point will be designated within (i) the Ministry of Justice; (ii) the Ministry of Housing; and (iii) the Central Bank to coordinate the implementation of activities related to the commercial justice, the delivery of construction permits and access to finance, respectively.

B. Results Monitoring and Evaluation

74. *Institutional framework.* The M&E system will be based on the agreed Results Framework (Annex 1) and implementation arrangements. ANPI will be responsible for conducting M&E activities. Data collection for the agreed indicators and component under their responsibility will be initiated by ANPI. The beneficiaries' focal points will participate in data collection in collaboration with ANPI. Overall, ANPI will be responsible for consolidating and preparing all periodic fiduciary and M&E reporting, including impact and output indicators as well as the annual audit of their financial statements (including of the Project). In addition, ANPI will be required to provide to the Government for forwarding to the Association a quarterly Implementation Progress Status Report.

75. *Capacity building for data collection, management and reporting.* The capacity of ANPI and other beneficiary institutions will be enhanced through TA on information management systems and online services delivery through a One-Stop-Shop for the investment climate component.

76. The M&E consultant to be hired under Component II of the Project will provide this technical support to implementing agencies designated focal points as well as coaching and mentoring on data collection, management and reporting.

77. The design of the systems will be based on a participatory approach using up-to-date and user-friendly application technology (a web site) allowing each technical implementing agency as well as the PIE to participate interactively in the production, analysis and exchange of data and information both generated within the project cycle and the day-to-day operation of the executing agencies. This will foster a greater ownership and accountability for the Project implementation results and outcomes.

78. The system will improve data harmonization and minimize duplication as well as strengthen the capacity of implementing agencies to respond to the Government's need for information and data to improve management of these agencies, and compare its business environment with international standards and attract potential investors.

C. Sustainability

79. The sustainability of the Project's impact will depend on several institutional and economic requirements.

80. *Strength of the policy and institutional framework for project implementation.* Given the lack of capacity, the Project includes an institutional arrangement that will help build the Government capacity, and ensures coordination between the various ministries involved in the Project. The existing Investment Promotion Agency (ANPI) within the Ministry of Finance will implement the Project. It will be strengthened by the hiring of a Procurement Specialist and a

Financial Management Specialist to ensure adequate project implementation. ANPI and a broad-based public/private dialogue will be supported by the Project.

81. *Ownership and beneficiaries' commitment.* The Project has been tailored to national development needs as expressed in the Government development strategy. The GoD has stressed its commitment to significantly improve the business environment as shown by the recently developed action plan to improve the investment climate, and the creation of the HNCDDP. Chaired by the President, the HCNDPP is considered by private sector representatives as an effective tool for fostering PPD and resolving business constraints. The creation and existence of support and supervisory structures (Chamber of Commerce, ANPI, and ODPIC) to lead the implementation of a national private sector promotion policy and the recent improvements in the area of business creation demonstrated the Government's willingness and ability to undertake the required reforms despite the opposition of specific constituencies and vested interests. These institutions will be supported by the Project for better efficiency, and synergy will continue operating after the Project closure.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary

Stakeholder Risk	Substantial
Implementing Agency Risk	
• Capacity	High
• Governance	Substantial
Project Risk	
• Design	Substantial
• Social and Environmental	Low
• Program and Donor	Moderate
• Delivery Monitoring and Sustainability	Substantial
Overall Implementation Risk	Substantial

B. Overall Risk Rating Explanation

82. The overall risk rating for the Project is Substantial driven mainly by the risk that this is the first PSD project for Djibouti and will require close coordination amongst the various ministries and entities involved in implementation of the Project. Key associated risks are:

83. *Institutional Capacity.* While Djibouti has made significant improvements in its capacity to carry out its reform program, there are many weaknesses. These weaknesses can be found across a wide range of areas: in the building of a more conducive business regulatory environment, in the quality and efficiency of its public administration, and in the transparency and accountability of the public sector. Given the lack of capacity, the Project will include an institutional arrangement to build Government capacity and ensure coordination between the various ministries involved in the Project.

84. *Stakeholder ownership:* This is the first Private Sector Development (PSD) Project in Djibouti. As such, the main challenge will be building consensus across different segments of the public and private sphere as well as maintaining strong ownership from both public and private stakeholders. By requesting support in the form of a first PSD investment operation in Djibouti, the Government has signaled its commitment to private sector development and a break from the past. The Project design is in line with key priorities outlined by the Government in its development strategy “Djibouti Vision 2035” and the FY2014-FY2017 CPS, which also reflects an ongoing dialogue with the authorities following the completion of the “New Growth Model” report. To mitigate this risk, the Bank has initiated several rounds of consultation with stakeholders and Government institutions in order to confirm/inform the content and scope of the proposed project activity so that the Project reflects the Government’s needs in the areas of finance and private sector development. Also, the proposed project will provide capacity building to key Government entities involved in its implementation.

85. *Institutional and implementation capacity limitations.* Lack of capacity represents a significant and real risk requiring mitigating measures. The main implementing agency (the Ministry of Finance), has experience in coordinating across agencies and is familiar with some of the Bank’s procedures but lacks concrete implementation experience, especially its administrative staff. Line ministries or sector agencies such as the Ministry of Industry and commerce, and other PSD relevant institutions do not have project implementing experiences with the World Bank, and building up capacity is necessary to ensure the Project meets its objectives. Also, a significant risk for consideration is the potential risk associated with the multiplicity of agencies that could be involved to carry out some of the Project components which can result in delays in project implementation. The Bank Group will need to ensure that operations adequately anticipate the need for building institutional and implementation capacity and have realistic objectives in terms of what can be achieved within a limited time frame. This will include proper training in financial management and procurement practices. Some of the Project components include building institutional capacity of government and private sector agencies (ANPI – CBD) by providing dedicated resources.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

86. The Governance for Private Sector Development Project is a comprehensive operation, providing various forms of assistance to improve Djibouti’s business environment through its sub-components. The immediate economic benefits that are expected to be achieved in the country’s investment climate include positive trends in newly registered businesses, streamlined procedures and further reductions in registration fees along with less delay associated with the process of starting a firm.

87. The Bank’s value added in financing this project lies in its ability to capitalize on proven international experience in institutional capacity building and providing technical assistance for agencies in charge of private sector market reform – particularly for the institutional set up of the One-Stop-Shop and the assistance to the commercial and civil justice components. In addition, since this is the first PSD operation in Djibouti - as the donor community has traditionally focused on social and human development agenda - the Bank is in a position to leverage

additional resources moving ahead. This project has brought together additional sources of financing from IFC – US\$ 300,000 – and the FISRT initiative - US\$ 500,000.

88. Overall, the Project is expected to generate significant economic benefits by putting in place building blocks that together will improve conditions for private sector development and growth. The complementary nature of the Project components will create synergies that have great potential to leverage further spillovers in terms of advancing the country's reform agenda in attracting private investment and promoting private sector development.

89. The beneficiaries include Djiboutian firms, associations and new entrepreneurs as well as institutions in charge of governing and regulating markets for firms; particularly those in charge of business entry, administering commercial justice, promoting investments and facilitating and regulating credit markets. Therefore a number of performance indicators will be key to measuring the Project's expected benefits and progress in achieving the latter.

90. As is the case for some PSD projects, this initiative is based mainly on TA. As a result it presents a challenge when attempting to demonstrate quantifiable outcome and benefits. In particular, significant aspects of the Project will include institutional reforms and capacity building such as improvement in commercial justice, investment climate reforms and the establishment of a PPD platform.

91. Annex 6 presents an estimate of the economic benefits from the various subcomponents of the Project. The analysis demonstrates key trends and results expected by the Project's outcome based on international experience, research and knowledge of the existing context in the country as well as recent work carried out by various Bank teams. Further, it is expected that the complementary nature of these measures will act as catalyst to leverage the resources the Project will be disbursing.

92. **Summary of key results:** In terms of results, studies undertaken by the IFC demonstrate that, in total, WBG supported PPD activity has resulted in the implementation of approximately 400 specific reforms including more than 50 distinct areas within the overall investment climate. Impact assessments of a fairly limited number of PPDs by IFC carried out to date indicate total net benefits generated of over US\$400 million (private sector savings); this is testimony to the high value for money that investments in PPD can generate. For an investment between US\$ 100,000 and US\$ 200,000 annually per PPD, reforms in some countries through PPD have fundamentally improved the investment climate.

93. A study undertaken in the context of the 2010 FSAP update estimates that a functional PCG with an initial endowment of US\$2.5 million can generate 489 loan guarantees over four years.

B. Technical Analysis

94. *Improving the business environment.* This component was designed in coordination with the Investment Climate Department of the Bank Group and the Djibouti private sector (Chamber of Commerce, ODPIC, and ANPI). Following a review of existing diagnostics,⁵ discussions with

⁵ Djibouti New Growth Model Diagnostic, 2012, Djibouti, Doing Business in a more Transparent World, Working paper, 2012, Doing Business 2014

Government counterparts and private sector representatives, three areas were selected: starting a business, delivering construction permits and transfer of property.

95. The main reasons behind this selection include: (i) being a key priority for the private sector; (ii) relevance to prepare ground for the development of the potential sectors identified in the Government's "Vision 2035" and the Bank's "New Growth Model Diagnostic for Djibouti, 2012"; and (iii) existing opportunities for further reforms. In addition, reducing discretion and increasing transparency in the areas of business creation, import/export, transfer of property, resolution of commercial litigation can contribute to improve Governance for the private sector and increase access to finance. According to the Investment Climate Policy Note (2012), trading across borders, and obtaining business licenses are among the areas where entrepreneurs have the highest probability of being asked for a bribe.⁶

96. The creation of the HCNDPP offers a good platform for dialogue between Government and private sector to improve the investment climate. The support to the creation of a One-Stop-Shop for enterprises creation provides incentives for further simplification of the business registration procedures and is based on successful examples in similar countries.

97. Simplifying business registration and property registration and making it more efficient through computerization are two interlinked activities. Administrative simplification generally benefits taxpayers, as it reduces compliance costs, but it also constitutes a necessary pre-requisite to computerization, to avoid the crystallization of inefficient processes.

98. Trade facilitation, improvement of transparency and efficiency for import/export transactions emerged as a key priority given the importance that trade has for the economy of Djibouti as the main port for Ethiopia. Due to the small size of Djibouti's economy and the potential it has with Ethiopia as a trade partner, integrating regionally and globally through trade is a priority for Djibouti. The cumbersome process to import and export may be limiting trade.

C. Financial Management and Disbursement arrangements

99. ANPI is an autonomous administrative public institution related to the Ministry of Finance and will be responsible for project management, including financial management and accounting. The Financial Management (FM) assessment conducted during appraisal found the FM risk, as a component of the fiduciary risk, is rated Substantial. With the proposed mitigating measures ANPI will have the financial management requirements as per OP/BP 10.00 and will have an acceptable financial management system. Therefore the residual FM risk rating would be moderate.

100. A single segregated Designated Account (DA) in US Dollars will be opened at a Djibouti commercial bank acceptable to the World Bank. The name of the commercial bank at which the DA will be opened was provided and was deemed acceptable by the Bank. Payments and withdrawal of eligible expenditures accompanied by supporting documents or statements of expenditure (SOE) for sums less than predefined thresholds for each expenditure category, following the applicable procedures and the World Bank's Disbursement Handbook. ANPI will be responsible for submitting replenishment requests on a monthly basis. All requests for withdrawals should be fully documented, maintained and made available for review by the Bank

⁶ World Bank 2012. *Investment Climate Policy Note*. Washington, D.C.

and project auditors. All disbursements will be subject to the terms of the Financing Agreement and to the procedures are defined in the Disbursement Letter.

101. The general accounting principles for the Project will be as follows: (a) project accounting will cover all sources and uses of project funds, including payments made and expenses incurred. Project accounting will be based on accrual accounting; and (b) project transactions and activities will be separated from other activities undertaken by the ANPI.

102. The Project financial reporting will include unaudited Interim Financial Reports (IFRs) and yearly Project Financial Statements (PFS): (a) IFRs should include data on the financial situation of the Project. These reports should include: (i) a statement of funding sources and uses for the period covered and a cumulative figure, including a statement of the bank project account balances; (ii) a statement of use of funds by component and by expenditure category; (iii) a reconciliation statement for the DA; (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget; and (v) a comprehensive list of all fixed assets; (b) ANPI will produce the IFRs every quarter and submit to the Bank within 45 days at the end of each quarter. The annual PFS should include: (i) a cash flow statement; (ii) a closing statement of financial position; (iii) a statement of ongoing commitments; and (iv) an analysis of payments and withdrawals from the account. (c) IFRs and PFSs will be produced based on the accounting system and submitted for an external financial audit.

103. ANPI will prepare periodic reports and maintain the Project bookkeeping, and will produce annual PFS and quarterly IFRs.

104. The PFS will be audited annually and will cover all aspects of the Project, uses of funds and committed expenditures. The audit will also cover the financial operations, internal control and financial management systems and a comprehensive review of statement of expenditures. The annual audit report will include: (i) the auditor's opinion on the Project's annual financial statements; (ii) a management letter on the Project internal controls; and (iii) a limited review opinion on the IFRs. The annual reports will be submitted to the World Bank within six months from the closure of each fiscal year and the limited review opinion will also be submitted to the World Bank with the IFRs.

D. Procurement

105. The proposed Credit will be implemented in line with World Bank policies that are standard for project implementation. Procurement would be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers", published by the World Bank in January 2011; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011. Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and updated January 2011, shall apply to the Project. ANPI as the PIE will administrate all procurement-related transactions to be financed under the Project. ANPI is subject to the rules and regulations under Public Procurement Code of the Government of Djibouti. Above 5,000,000 FDJ (US\$ 28,500 equivalent), all procurement decisions (bid opening, evaluation report, contract award, etc.) are subject to the prior review by the High Tender Board (*Commission Nationale des Marchés Publics-CNMP*). Overall, while Djibouti's new procurement code that was prepared with the World Bank technical assistance

(through a previous Institutional Development Fund) and promulgated in July 2009, has addressed the main weaknesses raised in the 2004 Country Procurement Assessment and Review (CPAR) and aligned the country's procurement framework with international good practices, the code's implementation still suffers significant issues and weakness.

106. Since ANPI is not familiar with Bank procurement guidelines and procedures as it will be implementing, for the first time, a Bank-funded project, its overall capacity in procurement management is seen to be weak and evidenced by: (i) a lack of awareness of the new procurement law among ANPI; (ii) delays in contract signing due to administrative procedures; (iii) delayed procurement implementation under the Project as a result of delayed bid opening; (iv) a weak participation of the private sector in public tenders, reinforced by a lack of publicly-available procurement plans; and (v) weak capacity in procurement implementation and management.

107. To help ANPI better mitigate the procurement related risks and implement efficiently the Project, the following measures are recommended: (i) hire a qualified procurement specialist with terms of reference satisfactory to the Bank; (ii) prepare and use a Standard Bidding Document (SBD) for National Competitive Bidding (NCB) complying with procedures for NCB acceptable to the Bank; (iii) train the ANPI staff involved in the Project's procurement on procurement procedures to be used within the framework of the Project; and (iv) prepare a comprehensive Project Operations Manual. More details are provided in Annex 3.

E. Social Safeguards

108. The Project is not expected to have any negative environmental or social impact and is classified as category "C"- Not Required. There are no social issues triggered by this project. Key stakeholders from both the public and private sector have been involved in the Project design. Overall social impact of the Project is expected to be positive, in large part by promoting formal employment opportunities.

F. Environmental Safeguards

108. The project focuses mainly on technical assistance and does not trigger any safeguard policies. Funding is mostly for consultants and, to a lesser extent, equipment and refurbishment (i.e. painting, repairs, installing air conditioner; no new civil works will be undertaken).

ANNEX I. RESULTS FRAMEWORK AND MONITORING

PROJECT DEVELOPMENT OBJECTIVE (PDO): The Project Development Objective is to help improve Djibouti's business environment.													
PDO Level Results Indicators*	Core	Unit	Baseline	Cumulative Target Values**						Frequency	Data Source/Methodology	Responsibility For Data Collection	Description (indication or definition etc.)
				2015	2016	2017	2018	2019	2020				
Indicator one: Reduction of time to create a business	<input type="checkbox"/>	days	17	15	12	10	8	7	3	Annual	Doing Business report	ODPIC/PIE	
Indicator two: Reduction in time to register a property	<input type="checkbox"/>	days	39	39	25	20	15	12	10	Annual	Land management Agency	Land Management Directorate (domain Nos) PIE	
Indicator three: Decrease in the average number of days to settle a commercial dispute	<input type="checkbox"/>	days	400	400	400	300	250	200	180	Annual	Periodic survey/DB	MoJ	
Indicator four : Direct project beneficiaries of which female (percentage)	<input checked="" type="checkbox"/>	Number %	0 20	150 20	300 20	500 20	700 20	900 20	1200 20	Annual	ODPIC/ANPI report	PIE	
Intermediate Results Indicators: (Component 1 : Investment Climate Reform)													
Intermediate Level Results Indicators*	Core	Unit of Measure	Baseline	2015	2016	2017	2018	2019	2020	Frequency	Data Source/Methodology	Responsibility for Data Collection	Description (indication or definition etc.)
1.1. Percentage of Commercial Chamber Decisions Published on the Web Site	<input type="checkbox"/>	%	0	0	10	25	50	75	95	Semi Annual	Web Site data collection	Ministry of Justice/PIE	
1.2 Percentage of property titles computerized	<input type="checkbox"/>	%	0	0	25	50	75	80	80	Semi Annual	Data collection/Periodic survey	Ministry of Finance; Land management Directorate /PIE	
1.3 Percentage of magistrates trained	<input type="checkbox"/>	%	0	0	10	25	45	50	50	Semi Annual	Periodic data collection	Ministry of Justice/PIE	
1.4. Number of enterprises registered per year of which 20% are led by women	<input checked="" type="checkbox"/>	Number %	150 20	150 20	350 20	550 20	750 20	950 20	1200 20	Annual	One-Stop-Shop and ODPIC data	PIE/ODPIC	

ANNEX II. DETAILED PROJECT DESCRIPTION

1. The ultimate beneficiaries will be Government and private sector institutions in charge of PPD and investment climate reform and private enterprises.
2. The two main groups of beneficiaries are (i) Government and private sector agencies playing a key role in the interaction between Government and private sector; and (ii) all various private sector stakeholders (primarily private enterprises), investors and their workers.
3. *Government and private sector agencies:* The Project will directly support various Government entities and private sector agencies with technical assistance and training. The public/private sector agencies that will specifically benefit from this direct support are the HCNDPP, ANPI, ODPIC, and FDED. In addition to the direct capacity development for these specific agencies, the Government will also benefit by way of improvement of its capacity to settle commercial disputes through support to the commercial chamber of the Ministry of Justice, collection of property taxes through support to the delivery of construction permit and transfer of property etc. Furthermore, improved transparency and efficiency of the key agencies supported by the Project are expected to increase trust in the public institutions.
4. *Entrepreneurs, investors and workers:* Entrepreneurs and investors will benefit from the improvement of the business environment. The increase in transparency and predictability will benefit SMEs, which normally tend to have limited bargaining power, as well as foreign investors by reducing uncertainty and transaction costs.
5. *Workers:* The Project will contribute to create jobs by promoting investments and facilitating enterprise creation through improvements in the business environment.

A. PDO Level Results Indicators

6. The PDO related performance indicators are: (i) reduction of time to create a business; (ii) reduction in time to register a property; and (iii) decrease in the average number of days to settle a commercial dispute; and (iv) direct project beneficiaries of which 20 percent are female.

III. PROJECT DESCRIPTION

B. Overall Approach

7. It appears from the various policy and strategy documents mentioned in the county context section that to support private sector-led growth, actions need to be taken in a number of mutually-supportive areas to create conditions for private sector development. In Djibouti, this involves the development of a program supported by many donors with the combination of elements including (i) providing policy and institutional support to key government institutions involved in private sector development; (ii) promoting a conducive business environment, including access to financial services through the development of sound financial infrastructure, business registration, investor protection and registration and transfer of propriety; (iii) supporting the development of technical and business management skills to improve productivity at the firm level; (iii) developing linkages between the SMEs and global companies that invested in high potential sectors; and (v) facilitating increased availability of critical infrastructure and services.

8. However, given the low capacity and the limited resources available, while promoting such an integrated approach, prioritization and sequencing of the reforms are vital for a successful implementation.

9. The Project support reforms that focus on developing conditions conducive for the private sector to invest, and for Djibouti to attract more private investment in the high potential value chains. They include: (i) an activity to improve the investment climate and the commercial court; (ii) support access to finance; and (iii) investment promotion by providing key TA to the Government ANPI.

10. While this Project will focus on the Components I and II described below, the International Finance Corporation (IFC) and the Financial Sector Reform and Strengthening (FIRST) Initiative are supporting activities that complement the Project through parallel financing to improve the business environment and access to finance respectively

B. Project components

Component 1: Investment Climate Reform (US\$1.4 million)

11. Activities under this component will support reforms which could be easy to implement and have a quick impact on the business environment and thus assist the Government in meeting its objective of promoting competitiveness and encouraging development and growth of private investment. Activities include:

Component 1.1. Commercial and Civil Justice (US\$0.6 million).

12. The Project will provide technical and institutional support to the commercial chamber of the civil courts, which are under the administration of the Ministry of Justice, to improve the settlement of commercial disputes in Djibouti. The component will finance:

(a) Technical work to help revise the main functions of the commercial chambers, including: (i) organizational structure and staffing plans; (ii) case management techniques; (iii) providing support to develop a system for monitoring and evaluating performance of judges and court administration staff; (iv) collection and analysis of case-related data; (v) publication and dissemination of court procedures, forms and judicial decisions; and (vi) strengthening of the office of the registrar;

(b) Upgrading of the Ministry of Justice website to cover publication of decisions of the commercial chamber, information on chamber procedures and appropriate forms;

(c) Developing training curricula for civil and commercial matters and conducting training for judges and court staff in accordance with the said curricula. Training of judges and court staff in specialized matters, such as case management techniques, data collection and international commercial law, as required based on a detailed training program to be prepared with project financing;

(d) Hiring of expert to help review and modernize key commercial justice documents including (i) the civil code and the civil procedures code; and (ii) the commercial code;

(e) Purchasing publications for the courts on commercial law, services (online access to legal information for judges) and hardware (computers) for the commercial law library of MoJ;

(f) Acquiring information systems for the courts to modernize the *Régistre du Commerce et des Sociétés* and to have key information required in business transactions readily accessible to the public.

Component 1.2. Establishment of the One-Stop-Shop and TA for investment climate reforms through the one-stop-shop (US\$0.8 million)

13. Carrying out works and provision of goods, consultant services and non-consultant services.

(i) The component will finance the following: The rehabilitation of the physical space of the One-Stop-Shop as the Government has allocated a building for the One-Stop-Shop: this includes refurbishing the building like painting, but does not involve any major civil work;

(ii) Equipment and information system for the One-Stop-Shop: This includes experts to implement the appropriate information system and the acquisition of computer equipment (computers, printers) as well as the implementation of a management system of information for the operation of the One-Stop-Shop;

(iii) Improvement of the process for delivering construction permits. The Project will provide TA to the Direction of the Habitat and Urbanism and the Central Laboratory for Building and Equipment of the Ministry of Health to streamline and simplify the procedure for delivering construction permits;

(iv) Transfer of property. The costs associated with the transfer of land titles are very high (between nine percent and twelve percent of the value of the property). This rate is more than double the average of the Middle East and North Africa (MENA) and the Sub-Saharan Africa regions. The Project will provide technical assistance to the authorities to revamp and streamline the procedures for property transfer and assist with relocation and representation of the related services at the One-Stop-Shop.

Component II. Project Management (US\$0.6 million)

14. This component provides support to ANPI (the Project Implementing Entity) and to the Project Steering committee for project implementation through the provision of goods, consultants' services, Training and Operating Costs for: (i) the Project management, implementation, monitoring and evaluation, including audits; and (ii) the meetings of the Project Steering Committee. These include:

- (iv) Operating costs for a Procurement Specialist;
- (v) Operating costs for a Financial Management Specialist;
- (vi) Training, capacity building and operating costs for ANPI project implementation;
- (viii) Consultants to carry out project annual audits;
- (ix) Consultant to define and implement a Monitoring and Evaluation (M&E) system for the Project.
- (x) Institutional support to ANPI for the elaboration of and implementation of a business plan that spells out the technical assistance and training requirements;
- (xi) Equipment to ANPI for project implementation.

C. Project Financing: IDA allocation and IFC and the FIRST Initiative parallel financing

15. In addition to the Bank financing of activities in components I and II, resources have been mobilized by the IFC (US\$ 300,000) and the FIRST Initiative (TF015443 and TF015443 for a total of US\$ 500,000) to support the Government private sector development program through parallel financing. The First Initiative will finance activities to improve access to finance and the IFC will finance TA to the Government to improve the investment climate. The activities are the following:

Parallel financing from the First Initiative to improve Access to Finance (US\$ 500,000)

16. The objective of these activities is to help the Government of Djibouti implement its reforms that aim to improve SME access to financing through: (i) the creation of a PCG Fund; and (ii) the elaboration of a Financial Infrastructure Development Strategy.

Operationalization of a PCG Fund (US\$ 250,000 from the FIRST Initiative). The Trust fund will support the following activities:

(a) Finance consultants to help design the key parameters of the PCG including, the governance and institutional structure of the PCG (e.g. governing bodies, the role of the Central Bank, the role of FDEJ, the establishment of a portfolio guarantee mechanism vs. individual guarantee issuances etc.); and a funding plan to include capitalization needs over a five-year horizon (the fund size, initial allocations needed, funding requirements, and a timeline for recapitalization etc.);

(b) Finance consultants and technical assistance to the Government to develop the legal and regulatory framework of the PCG Fund (including drafting of the legal documents for the establishment of the PCG Fund, drafting of regulations and oversight framework for the Central Bank of Djibouti in governing the activities of the PCG Fund; and

(c) Finance experts and provide TA to the Government for the development of rules and guidelines for the operations of the PCG Fund. This comprises development of Guidelines for the issuance of guarantees (eligibility criteria for borrowers and lenders, payment rules, risk management procedures, interest rates, fees etc.); draft of standard guarantee agreement with banks, specifying terms and conditions of the guarantee; and design of an information database system that can easily comply with the reporting requirements of the CBD.

Financial Infrastructure development (US\$ 250,000 from the FIRST Initiative): This activity will help the Government and the CBD design a Financial Infrastructure Development Strategy, and improve the safety and efficiency of its financial infrastructure along the following three main activities:

(a) Finance experts to help design a National Payments System (NPS) Development Strategy, based on the applicable international standards that will identify gaps of the existing payment system, present recommendations for reforms and resources that will be needed across the nine-pillars⁷ that form the technical and regulatory framework for payment and settlement in a country.

⁷ These pillars are: Legal Framework; Large Value Payments; Retail Payment Systems; Government Payments; Interbank Money Markets and foreign exchange; Securities Settlement Systems; International remittances;

(b) Finance experts and provide TA to elaborate a Credit Reporting System (CRS) Development Strategy using the General Principles for Credit Reporting Systems, developed by the World Bank as the organizing framework, a prerequisite for the implementation in a later stage of a credit registry compliant with international standards;

(c) Finance consultants to help draft laws and regulations for the NPS and CRS.

17. Any hard and software financing (RTGS servers, telecom equipment, servers etc.) will be provided by the CBD and the Government. The Government contribution to be included in the project funding will be confirmed during appraisal.

Parallel financing from the IFC to provide Technical Assistance for investment climate reforms (US\$ 300,000)

(a) Support to the Public Private Dialogue (US\$ 50,000). This will provide TA to the HCNDPP for the formulation and implementation of policies and reforms needed to improve the business climate. This support will include: (i) guidance and TA to carry the Council's meetings and the PPD for the formulation of investment climate reforms; and (ii) enhance structured dialogue mechanism and process, help stakeholders to do evidence based advocacy.

(b) Support establishment of the One-Stop-Shop and TA for investment climate reforms through the One-Stop-Shop (US\$ 150,000)

18. IFC will finance the following:

(i) Business registration. TA to define the architecture for the One-Stop-Shop for business registration, including the simplification and streamlining of procedures, enhance transparency, increase data sharing among agencies and definition of guidelines for business registration based on best practice,

(ii) TA to the One-Stop-Shop including services of experts to define the appropriate information system and the implementation of a management system of information for the operation of the One-Stop-Shop (operations manual, etc.); and support in terms of capacity building to ensure sustainability of the reform,

(iii) TA to the One-Stop-Shop in the second and third phases of its expansion (after business registration) to assist it with inclusion of services of construction permitting, connection to utilities and customs services.

(c) Support to other areas of Investment Climate Reform as necessary (US\$ 100,000)

(i) Update *Doing Business* reform memorandum for Djibouti in a number of select areas including, but not limited to: starting a business, dealing with construction permits, registering property and trading across borders.

(ii) Provide support in other areas of investment climate reform as requested by the client. The Project will provide further TA as needed in investment climate reforms in other areas including, but not limited, to construction permitting, payment of taxes, and the revision of the investment code.

Oversight Framework; and, Cooperative Framework⁷. For each area, the World Bank team will first conduct a stocktaking exercise, and then make recommendation in the context of a comprehensive strategy

(iii) TA to implement the recommended reforms including support with communication/awareness creation through targeted awareness communication to inform private sector and other stakeholders of new reforms.

Table 2.1. Financing Table

Component	IDA	IFC Parallel Financing	First Parallel Fin.	GoD	Total
Component I: Investment Climate Reforms					2.4
Component 1.1 Commercial and Civil Justice	0.6			0.2	0.8
Component 1.2. Establishment of the One-Stop-Shop and TA for investment climate reforms through the One-Stop-Shop	0.8			0.8	1.6
Component II. Project Management	0.6				0.8
Component 2.1. Support to the steering meetings	0.1				0.1
Component 2.2. Support to ANPI for project implementation	0.5			0.2	0.7
First Initiative Parallel Financing: Access to Finance					0.5
A. Partial Credit Guarantee Fund			0.25		0.25
B. Financial Infrastructure development			0.25		0.25
IFC Parallel Financing: TA for IC reforms		0.3			0.3
Total Project Cost	2.0	0.3	0.5	1.2	4.0

A. Financing Mechanisms: IDA allocation; and IFC and the FIRST Initiative parallel financing

19. In addition to the IDA US\$2 million that will finance activities in Components I and II resources have been mobilized by the IFC (US\$ 300,000) and the First Initiative (TF015443 and TF015443 for a total of US\$ 500,000) to support the Government private sector development program through parallel financing. The First Initiative will finance activities to improve access to finance and the IFC will finance TA to the Government to improve the investment climate.

20. Government's contribution will be used for the Capitalization of the Guarantee fund, financing of equipment for the payment system and contribution to the Project management. The Government's contribution will be in the form of staff cost associated with the commercial court, ANPI and the One-Stop-Shop as well as utility cost of the One-Stop-Shop. It is estimated at US\$1.2 million.

21. As the Project financing comes from many sources, this requires strong coordination to ensure timely availability of such resources. Whereas overall co-ordination, will take place within the Project implementation arrangement and steering committee, it is agreed that the FIRST Initiative TFs being mobilized are Bank executed, whereas funds mobilized by the IFC is executed by the IFC.

Annex III. Implementation Arrangements

A. IMPLEMENTING AGENCY

1. The Implementation arrangements feature several players whose roles will be further detailed in the Project Operations Manual, the adoption of which is a dated covenant in the Project's Financing Agreement.
2. These arrangements take into consideration capacity limitations in Government and the need to use existing Government entities and strengthening their capacity. The Ministry of Finance will take the lead in the oversight of the Project. The Project implementation arrangements include the following structures.
3. **Steering Committee (SC).** The *Secretariat Permanent* of the HCNDPP (*PS-HCNDPP*) will serve as a Steering Committee that will provide oversight to the Project implementation. The *PS-HCNDPP* (Steering Committee) was created by Decree 2012/188/PR/MEFIP dated August 30, 2012. It is chaired by the Secretary General of the Ministry of Finance and consists of (i) the Secretary General of the Chamber of Commerce; (ii) two representatives from the public sector; and (iv) two representatives from the private sector. It has been expanded to other project stakeholders including the (i) *Directeur Général des Impôts*; (ii) *Directeur de la Planification et des Réformes* of the Ministry of Justice; and (iii) *Directeur Général* of ODPIC.
4. **Project Implementing Entity (PIE).** The Project will be managed on day-to-day basis by ANPI. ANPI will be responsible for all procurement, disbursement, accounting, financial reporting and monitoring and evaluation of the project, and for ensuring the auditing of project accounts. ANPI's General Manager, will also be the Project Coordinator. However, the Project will have to recruit a Procurement Specialist and a Financial Management Specialist dedicated to the Project no later than one month after effectiveness of the Project.
5. **Focal points:** Focal point have been designated within (i) the Ministry of Justice; and (iii) the Central Bank to coordinate the implementation of activities related to the commercial Justice, the delivery of construction permits respectively and access to finance.

B. PROCUREMENT ARRANGEMENTS

6. **General.** Procurement for the proposed project will be carried out in accordance with the World Bank "Guidelines: Procurement of goods, works, and non-consulting services under IBRD loans and IDA credits & grants by World Bank borrowers" dated January 2011 ("Procurement Guidelines"), and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011("Consultant Guidelines"), and the provisions stipulated in the Financing Agreement. National Competitive Bidding (NCB) will be carried out with procedures acceptable to IDA. Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and updated January 2011, shall apply to the Project.
7. **Procurement assessment.** In July 2009, Djibouti promulgated a new, modernized procurement framework that was aligned with international good practices in procurement and addressed the main weaknesses raised in the 2004 Country Procurement Assessment and Review. However, the framework's full implementation continues to suffer significant issues and weaknesses including: (i) a lack of awareness of the new procurement framework among public

entities; (ii) delays in contract signings due to administrative procedures; (iii) delayed procurement implementation under Bank-funded projects as a result of delayed bid opening; (iv) a lack of publicly available procurement plans to enable broader private sector competition in tenders; and (v) weak capacity in procurement implementation and management (as highlighted in the 2011 and 2013 Country Portfolio Performance Reviews).

8. The ANPI's capacity to execute procurement activities in the framework of this project was assessed in October 2013 and the report will be filed in the Procurement Risk Assessment Management System (P-RAMS). The ANPI's capacity to oversee the procurement management has been judged **weak**. However, this capacity could be improved provided that the recommended actions are taken. The risk has been rated as **High**. The frequency of procurement supervision including PPR/Audit will be **every 6 months**. The Action Plan is summarized below:

Table 3.1. Summary of Procurement Assessment

Analysis of Procurement Capacity	Issues/Risks	Mitigation Measures
1. Organization.	The PMU is not committed to this responsibility and the tasks that it entails.	Make the implementation arrangements including coordination and reporting responsibilities clear in the Project Implementation Manual.
2. Facilities, Support Capacity and Staffing/Professional Experience.	Under-staffed PIE and project's implementation delayed	Hire a qualified procurement specialist with terms of reference satisfactory to the Bank.
3. Record Keeping and Filing System.	Weak capacity in coping with the project volume of transactions and insufficient space for records keeping	Provide the PIE with: (i) sufficient space in furnished offices, (ii) instructions and (iii) training to ensure that project specific files are kept for all procurement and related transactions and recorded contract by contract in an adequate manner.
4. Procurement Planning.	Procurement Plans will not be ready before effectiveness and periodically updated	The PIE has drafted the Project Procurement Plan which was discussed and approved during negotiations.
5. Monitoring/Control Systems.	Procedures used are not fully compliant with the Bank ones and cumbersome/slow prior review by the Commission Nationale des Marchés Publics (CNMP)	(i) Have procurement procedures well and clearly described in the Project Implementation Manual and (ii) expedite the prior review by CNMP
6. Capacity to meet Bank's Reporting Requirements.	Report not provided timely and in adequate format.	Use standard bidding documents, bid evaluation reports, request for proposals and standard consultants' contracts

9. **Procurement Methods.** The methods to be used for the procurement under this project, and the estimated amounts for each method, as well as the prior review thresholds are set in Table 3.2 below.

Table 3.2. Prior review and Procurement Method Thresholds

Prior Review Thresholds (in USD)						
Procurement Type		High Risk Implementing Agency Prior Review Thresholds			Comments	
Works, Turnkey and S&I of Plant and Equipment		0.1 million			And 1 st contract regardless of the amount	
Goods		0.05 million			And 1 st contract regardless of the amount	
IT Systems and Non-consulting Services		0.05 million			And 1 st contract regardless of the amount	
Consulting Firms		0.05 million			And 1 st contract regardless of the amount	
Individual Consultants		0.025 million			And 1 st contract regardless of the amount	
Procurement Method Thresholds (in USD)						
Djibouti	Goods/Non-consulting Services			Works		
	ICB	NCB	Shopping	ICB	NCB	Shopping
	> 150,000	≤ 150,000	≤ 25,000	> 1 million	≤ 1 million	≤ 100,000

a. Procurement Planning

10. A concise Project Operation Manual (POM) has been prepared and includes the description of applicable procurement procedures. The POM will be adopted within one month of effectiveness of the Project. The following procurement plan for the first 18 months of activity has been prepared, discussed and approved upon during negotiations.

11. **Goods, Works, and Non Consulting Services.** (a) List of contract packages to be procured following NCB (ICB and direct contract under this project):

1. Works

Table 3.3.a Procurement plan for works

1	2	3	4	5	6	7	8	9	10	11
N° Réf	Contract Description	Package Number	Estimated Amount in US \$	Procurement Method	Pre-or Post-Qualification	Domestic Preference (yes/no)	Prior or Post Review	Estimated Bid Closing-Opening	Estimated Contract Signature	Comments
1	Rehabilitation of the One-Stop-Shop Building	Lot 1	100.0	NCB	No	No	Prior	10/30/2014	02/01/2014	

2. Goods

Table 3.3.b Procurement Plan for Goods

1	2	3	4	5	6	7	8	9	10	11
N° Réf	Contract Description	Package Number	Estimated Amount in US \$	Procurement Method	Pre-or Post Qualification	Domestic Preference (yes/no)	Prior or Post Review	Estimated Bid Closing-Opening	Estimated Contract Signature	Comments
Component 1: Investment Climate Reform										
1	Acquisition of books and encyclopedias on legal business law	Lot 1	75	NCB	No	No	Prior	01/01/2015	04/30/2015	

1	2	3	4	5	6	7	8	9	10	11
N° Réf	Contract Description	Package Number	Estimated Amount in US \$	Procurement Method	Pre-or Post Qualification	Domestic Preference (yes/no)	Prior or Post Review	Estimated Bid Closing-Opening	Estimated Contract Signature	Comments
2	Hardware (computers) to initiate a commercial law library and for ministry of justice information management system	Lot 2	50	NCB	No	No	Prior	10/30/2014	02/01/2015	
3	Technology equipment for the One-Stop-Shop	Lot 3	100	NCB	No	No	Prior	02/01/2015	06/01/2015	
Component 2: Support to ANPI for and for Investment Promotion and for Project Management										
4	Equipment for ANPI	Lot 4	45	NCB	No	No	Post	10/15/2014	12/15/2014	

(b) Contracts estimated to cost \$50,000 or above for goods, \$100,000 or above for works, and all direct contracting will be subject to prior review by the Bank

3. Consulting Services

Table 3.3.c Procurement Plan for Consulting Services

1	2	3	4	5	6	8
N°Réf	Contract Description	Procurement Method	Estimated Amount in US\$	Review by Bank (prior/Post)	Expected Contract Signature Date	Comments
Component 1: Investment climate reforms						
A. Commercial and Civil Justice						
1. Review and modernize key commercial justice documents						
1	Civil and civil procedures codes	QC	50.00	prior	2/15/2015	
2	Commercial Code	QC	50.00	prior	3/15/2015	
3	Upgrading of the Ministry of Justice website to cover publication of decisions of the commercial chamber, information on procedures for the chamber and appropriate forms	IC	10.00	post	12/6/2014	
2. Define and/or modernize the functions of the chamber						
5	Organizational structure and staffing plans	IC	50.00	prior	12/11/2014	
6	Collection, management and analysis of case-related data	IC	40.00	prior	1/30/2015	
7	Monitoring and evaluation of judges and administrative staff performance	IC	40.00	prior	2/28/2015	
8	Website, publication and dissemination of court procedures, forms and judicial decisions	IC	50.00	prior	2/28/2015	
9	Organization of the office of the registrar	IC	15.00	post	12/11/2014	
3. Strengthen the capacity of judges and administrative staff						
10	Design a detailed training program	IC	30.00	prior	11/22/2014	
B. Establishment of the One-Stop-Shop and TA for investment climate reforms through the One-Stop-Shop						
1. Establishment of a One-Stop-Shop						

1	2	3	4	5	6	8
N°Réf	Contract Description	Procurement Method	Estimated Amount in US\$	Review by Bank (prior/Post)	Expected Contract Signature Date	Comments
11	TA to define the appropriate information system and the computer system	IC	25.00	post	12/1/2014	
12	Implementation of a management system of information for the operation of the One-Stop-Shop	QC	75.00	prior	12/1/2015	
2. Implementation of reforms through the One-Stop-Shop						
13	Business registration including the simplification and streamlining of procedures, definition of guidelines for business registration based on best practice	CQ	100.00	prior	12/11//2014	
14	Improvement of the procedure for delivering construction permits	CQ	100.00	prior	2/1/2015	
15	Revamp and streamline the procedures for property transfer	CQ	100.00	prior	3/1/2015	
Component 2: Support to ANPI for and for Investment Promotion and for Project Management						
1. Support to ANIP for Investment Promotion						
18	Support to ANPI to design and implement a business plan	CQ	200	prior	2/1/2015	
2. Support to ANPI and to the Steering committee for project implementation						
19	Procurement specialist	IC	100.0	prior	5/17/2015	
20	Financial management specialist	IC	100.0	prior	5/17/2015	
21	Establish a monitoring and evaluation system	IC	30.0	prior	10/1/2014	
22	Training and capacity building for ANPI staff for implementing the Project	IC	20.0	post	6/1/2015	
23	Audit of project account	LCS	75.0	prior	3/30/2015	

(a) List of consulting assignments with short-list of international firms.

(b) Consultancy services estimated to cost US\$50,000 or above per contract and Single Source selection of consultants (firms), as well as assignments for individual consultants estimated to cost US\$25,000 or above per contract, and single source selection of individual consultants will be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

12. **Training, Workshop, Study Tours.** At the beginning of each year, each beneficiary will submit their proposed staff development plans in the form of an annual training plan for the coming year, to be reviewed by the Bank. The plan would indicate the persons or groups to be trained, the type of training to be provided, indicative learning outcomes, the provider or location of the training, and its estimated cost. Selection of training institutions for workshops/training should be based on a competitive process, using the consultant's qualification method of selection.

a. FINANCIAL MANAGEMENT ARRANGEMENTS

13. The Republic of Djibouti has adequate procedure for sound public finance management.

The legal framework of Djibouti includes notably: (i) the Constitution of September 4, 1992; and (ii) the law n°107/AN/00 relating to the finance laws which fix the rules relating to the determination of the resources and expenses, the preparation and the vote on annual budget, the execution, and the control of the budget.

14. The institutional framework contains the structures necessary for public financial management. The institutional framework meets the needs as regards preparation as well as execution and control of the budget. However, some practices affect the efficiency of the texts. This is the case in particular for: (i) the use of the derogatory procedures of public expenditure; and (ii) a certain lack of budgetary discipline.

15. The Project will be implemented in Djibouti according to the World Bank guidelines by the *Agence Nationale de Promotion des Investissement* (ANPI). The Project funds will be disbursed from a grant account established by the Bank using advance to a designed account, direct payments, and withdrawal for eligible expenditures accompanied by supporting document or for statements of expenditure for sums less than predefined thresholds for each expenditure category, following the applicable procedures and the World Bank's Disbursement Handbook.

16. Interim Un-audited Financial Reports (IFRs) and Annual Project Financial Statements (PFS) will be used as a financial reporting mechanism and not for disbursement purposes.

Financial Management Assessment

17. The Bank reviewed the Financial Management (FM) arrangement at the “*Agence Nationale de Promotion des Investissements* (ANPI)” and met with the director of ANPI and the head of the SME department.

18. Based on the result of the assessment, the FM risk, as a component of the fiduciary risk, is rated as **Substantial**. With the proposed mitigating measures, ANPI will have the financial management requirements as per OP/BP 10.00 and will have an acceptable financial management system and the residual FM risk rating would be moderate.

19. In view of the risks identified and the weaknesses observed, the overall financial management risk is deemed to be **Substantial**. The following are the risks identified: (i) ANPI has no previous experience in implementing Bank financed projects; (ii) the current software in use at ANPI is a basic software with limited customization capabilities and is unable to produce the required FM reports; (iii) ANPI has no internal control procedures; and (iv) ANPI is related directly to the ministry of finance and is part of the audit conducted of the ministry by the Supreme Audit Institution (SAI). The SAI has a limited role in auditing public institutions and has no experience in auditing Bank financed projects. The SAI may not specifically audit the Project as part of ANPI operations which would give limited assurance on the Project's use of funds.

20. Based on the above risks, the following mitigating measures have been agreed upon in order to reduce the FM risk level and have an adequate FM system in place: (i) ANPI will recruit a Financial Management Specialist (FMS) who will be handling the FM aspects of the Project. The Bank will provide the necessary training to the FMS on Bank FM procedures; (ii) ANPI will acquire accounting software to record daily transactions and produce the Interim Un-audited Financial Reports (IFRs). The format of the IFRs will be agreed upon with the Bank. The IFRs will be submitted to the Bank no later than 45 days after the end of each quarter; (iii) for the purpose of the project, ANPI will develop an operational manual which will contain an FM

chapter describing in details the FM procedures including internal controls: and (iv) ANPI will get into a contract with an independent external auditor with Terms of Reference (ToRs) acceptable to the Bank to audit the Project Financial Statements (PFS). The auditor will prepare an audit report and management letter. The Project will submit the annual audit report and management letter to the Bank no later than six (6) months after the end of each fiscal year.

Financial Management and Disbursement Arrangements

21. *Staffing:* ANPI has no experience in implementing Bank financed projects. The Project team within ANPI consists of ANPI's Managing Director as project manager, a Financial Management Specialist, a procurement specialist and an assistant. The Financial Management Specialist will be handling the FM aspects of the Project and will be reporting to the Project manager. The Bank will provide the necessary training to the Financial Management Specialist on Bank FM procedures.

22. *Internal control:* ANPI has no internal control procedures in place as it follows the internal control procedures within the MoF. For the purpose of the Project ANPI will prepare a Project Operational Manual (POM) which will define the roles, functions and responsibilities for the implementing agency. The POM will contain a separate FM chapter detailing the FM and accounting procedures and will include internal controls procedures.

23. *Budgeting:* ANPI prepares its budget on an annual basis in November of each fiscal year and is a part of the overall budget of the MoF. The consolidated budget of ANPI is prepared after inputs from the various departments. Reconciliation with the previous year is established to better monitor differences. The Project will be treated as off budget as it will be independent from other activities at ANPI. ANPI will be preparing a separate annual budget and a disbursement plan for the purpose of the Project. The budget will be prepared on an annual basis and submitted to the Bank in November of each year. The disbursement plan will cover each fiscal year and will be divided by quarter and submitted with the quarterly Interim Un-audited Financial Reports (IFRs). ANPI will monitor the variances in the disbursement plan and will provide justification on any major divergence.

24. *Project accounting system:* The ANPI uses a basic software "SAGE" with limited capacity in terms of customization and is unable to accommodate the financial reporting requirements of the Bank. For the purpose of the Project, acquire an accounting software with specifications acceptable to the Bank. The accounting software will be used to record daily transactions and produce the Interim Un-audited Financial Reports (IFRs). The project Financial Management Specialist is responsible for preparing the IFRs before their transmission to the Project Manager for approval. Periodical reconciliation between accounting statements and IFRs will also be done by the Financial Management Specialist.

25. The general accounting principles for the Project are as follows: (i) project accounting will cover all sources and uses of project funds, including payments made and expenses incurred. All transactions related to the Project will be entered into the accrual accounting system.

26. Disbursements made from the project Designated Accounts (DA) will also be entered into the project accounting system; (ii) project transactions and activities will be separated from other activities undertaken by ANPI. IFRs summarizing the commitments, receipts, and expenditures made under the Project will be produced quarterly using the templates established for this purpose; and (iii) the Project chart of accounts will be in compliance with the

classification of expenditures and sources of funds indicated in the Project cost tables and the general budget breakdown in addition to the POM. The chart of accounts should allow for data entry to facilitate the financial monitoring of project expenditures by component, sub-component and category.

27. *Project reporting:* The Project financial reporting includes quarterly IFRs and yearly Project Financial Statements (PFS). IFRs should include data on the financial situation of the Project, including:

(a). Statement of Cash Receipts and Payments by category and component.

(b). Accounting policies and explanatory notes including a footnote disclosure on schedules: (i) “the list of all signed Contracts per category” showing Contract amounts committed, paid, and unpaid under each contract, (ii) Reconciliation Statement for the balance of the Project’s Designated Account, (iii) Statement of Cash payments made using Statements of Expenditures (SOE) basis, (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget, and (v) a comprehensive list of all fixed assets.

28. The IFRs should be certified by the external auditor and should be produced by ANPI every quarter and send to the Bank within 45 days from the end of each quarter. PFS should be produced annually. The PFS should include (a) a cash flow statement; (b) a closing statement of financial position; (c) a statement of ongoing commitments; and (d) an analysis of payments and withdrawals from the Project’s account; (e) a statement of cash receipts and payments by category and component; (f) reconciliation statement for the balance of the Project’s Designated Account; (g) statement of cash payments made using Statements of Expenditures (SOE) basis.

29. *Flow of funds:* Payment will be instructed by three signatures: The managing Director of ANPI, the Director of the External Financing Department at the MoF and the Director of the Debt Department at the Ministry of Budget.

30. Funds will be transferred from the Bank based on Withdrawal Applications submitted by the Project. The funds will be channeled from the Bank through the single segregated Designated Account (DA) in US\$ opened at a commercial bank in Djibouti acceptable for the World Bank. Advances from the IDA account will be disbursed to the designed account to be used for the Project expenditures.

31. *Audit of the Project financial statements:* An annual external audit of the Project financial statements will cover the financial transactions, internal control and financial management systems and will include a comprehensive review of statements of expenditures (SOEs).

32. An external auditor will be appointed according to Terms of Reference acceptable to the Bank and should conduct the audit in accordance with international auditing standards. The auditor should produce: (i) an annual audit report including his opinion on the Project's annual financial statements; (ii) a management letter on the project internal controls; and (iii) a limited review opinion on the IFRs. The annual reports will be submitted to the World Bank within six months from the closure of each fiscal year and the limited review opinion will be submitted to the Bank with the IFRs.

33. ANPI will ensure that the recruitment of the external auditor will be done early during the year and that the external auditor is on board and will start early his field work so to deliver the audit report and management letter within the deadlines and avoid any delays in this regard.

34. *Flow of information:* ANPI will be responsible for preparing periodic reports on project implementation progress and on both physical and financial achievements. These reports will be based on project activity progress (by component and expenditure category), including technical and physical information reported on a quarterly basis. ANPI will maintain the Project bookkeeping, and will produce annual PFSs and quarterly IFRs.

Table 3.4. Summary of Actions to be Implemented

Actions	Deadline
Recruit a Project Financial Management Specialist	1 month after effectiveness
Acquire an accounting software	3 months from effectiveness
Hire an external auditor with ToRs acceptable to the Bank	3 months from effectiveness

Disbursement

35. The IDA funds will be disbursed according to the World Bank guidelines and should be used to finance project activities.

36. The proceeds of the Project will be disbursed in accordance with the traditional disbursement procedures of the Bank and will be used to finance activities through the disbursement procedures currently used: i.e., Advances, Direct Payment, Reimbursement accompanied by appropriate supporting documentation (Summary Sheets with records and/or Statement of Expenditures (SOEs)) in accordance with the procedures described in the Disbursement Letter and the Bank's "Disbursement Guidelines". The IFRs and the PFS will be used as a financial reporting mechanism and not for disbursement purposes. The minimum application size for direct payment, reimbursement will be 20 percent of the DA advance.

Table 3.5. Allocation of the Credit's Proceeds

Category	Amount of the Financing Allocated (expressed in US\$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project.	2,000,000	100%
TOTAL AMOUNT	2,000,000	100%

Designated Account

37. On behalf of the ANPI, the Department of External Financing will open a segregated DA in a Commercial Bank in Djibouti acceptable to the World Bank in US Dollars to cover the Project's share of eligible project expenditures. The name of the commercial bank at which the DA will be opened has been provided to the World Bank at negotiations. The Ceiling of the DA will be US\$150,000 of the Credit's amount. ANPI will be responsible for submitting monthly replenishment applications with appropriate supporting documentation.

Statement of Expenditures (SOEs):

38. For requests for Reimbursement and for reporting eligible expenditures paid from the Designated Account:

(i) Statement of Expenditures related to contracts for works in an amount below US\$500,000; for goods and non-consulting services in an amount below US\$250,000; for consulting firms in an amount below US\$100,000 and for contracts for individual consultants in an amount below US\$50,000 in value;

(ii) Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for all other expenditures, namely those against contracts exceeding the above indicated amounts.

Governance and anti-corruption

39. Fraud and corruption may affect the Project resources, thus impact negatively the Project outcomes. The World Bank worked closely with project's consultants and developed an integrated understanding of possible vulnerabilities and agreed on actions to mitigate the risks. The above proposed fiduciary arrangements, including POM with a detailed FM chapter, internal auditor assignment, reporting and auditing and review arrangements are expected to address the risk of fraud and corruption that are likely to have a material impact on the Project outcomes.

40. **Supervision Plan:** The financial management of the Project will be supervised by the Bank in conjunction with its overall supervision of the Project and conducted at least three times a year.

41. **Supporting Documentation and Record Keeping:** All supporting documentation was obtained to support the conclusions recorded in the FM Assessment.

ANNEX IV.
OPERATIONAL RISK ASSESSMENT FRAMEWORK (ORAF)

Djibouti: Governance for Private Sector Development Project

Stage: Board

Project Stakeholder Risks						
Stakeholder Risk	Rating	Substantial				
<p>Description: This is the first Private Sector Development Project in Djibouti as such the main challenge will be building consensus across different segments of the public and private sphere as well as maintaining strong ownership from both public and private stakeholders. Ensuring these parameters will be paramount for its successful implementation.</p> <p>There is a risk of policy shift inherent with the country's governance and institutional context characterized by a low capacity and lack of overall direction and planning.</p>	<p>Risk Management: By requesting support in the form of a first PSD investment credit in Djibouti, the Government has signaled its commitment to private sector development and a break from the past. The Project is in line with key priorities outlined by the Government in its development strategy "Djibouti Vision 2035" and the new Country Partnership Strategy, which also reflects an ongoing dialogue with the authorities following the completion of the 2102 "New growth Model" report. Over FY13 and FY14, the team has imitated several rounds of consultation with stakeholders and government institutions in order to confirm/inform the content and scope of the proposed project activity so that the Project reflects government needs in the areas of Finance and Private Sector Development. Also, as most World Bank financed projects and programs, this proposed project has a capacity building component to provide support to key Government entities involved in its implementation.</p> <p>In addition concerted efforts have been made during preparation to consult with stakeholders.</p>					
	Resp: Bank	Stage: Preparation and Implementation	Recurrent: X	Due Date:	Frequency:	Status:
Implementing Agency (IA) Risks (including Fiduciary Risks)						
Capacity	Rating	High				
<p>Description: Lack of capacity represent a significant and real risk requiring mitigating measures. The main implementing agency (ANPI and the Ministry of Finance), has experience in coordinating across agencies and are familiar with some of the Bank's procedures</p>	<p>Risk Management: The main implementing agency would be the Ministry of Finance, which has experience in coordinating across agencies and are familiar with some of the Bank's procedures but, but lacks concrete implementing experience, especially its administrative staff. Line sector agencies such as the ministry of finance, the ministry of justice do not have project implementing experiences with the World Bank Group and building up capacity will be necessary to ensure the Project meets it objectives.</p>					

<p>but lacks concrete implementing experience, especially its administrative staff. Line ministries or sector agencies such as the ministry of industry and commerce, and other PSD relevant institutions do not have project implementing experiences with the World Bank and building up capacity will be necessary to ensure the Project meets its objectives. Also, a significant risk for consideration is the potential risk associated with the multiplicity of agencies that could be involved to carry out some of the Project components which can result in delays in the Project preparation and implementation.</p> <p>Financial Management: The team has identified low capacity in the area of financial management and public procurement. Although the team does not anticipate significant add up risk – national procurement rules and practices are aligned with those of the World Bank.- there could be issues related to errors/delays in the preparation of required documents/forms associated with unfamiliar or complex procedures. Potential risks associated with Financial management include capacity to monitor, deliver quality financial reporting documents.</p>	<p>The Bank ensured that the operation adequately anticipates the need for building institutional and implementation capacity and has realistic objectives in terms of what can be achieved within limited resources and timeframe. For instance, given the low capacity and the limited resources available, the Project was designed to include only priority activities that are achievable and vital for a successful implementation.</p> <p>The Project also includes the recruitment of a dedicated procurement specialist and a financial management specialist, as a legal covenant. Also, training in Bank financial management and procurement will be provided to these specialists by Bank staff. The Project includes resources for capacity building of key private sector institutions (ANPI and institutions like ODPIC that compose the One-Stop-Shop).</p>						
	Resp: Bank and Client	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date: Three months after effectiveness	Frequency:	Status: Not Yet Due	
Governance	Rating: Substantial						
<p>Description:</p> <p>The roles and responsibilities of the implementing Entity at the Ministry of Finance will require clear and unambiguous definitions with adequate coordination at both the public and private sector. Overall, procurement laws, rules and regulations appear adequate and are coherent with Bank's standards. In 2010, the Government promulgated a new public procurement law, a new Procurement Manual, a</p>	<p>Risk Management:</p> <p>The proposed governance structure of the Project considers specific contextual and institutional environment in order to ensure that coordination across agency and flow of information and processes are key features/requirements. In addition the Bank is providing technical assistance under the Governance and Anti-Corruption (GAC) program. Technical assistance has been provided in the areas of procurement, budgeting, and auditing. The Project implementing entity has a clear mandate in implementing the Project and will have dedicated staff to be recruited under the Project. The Government will cause the PIE to implement the Project by signing a subsidiary agreement that will be reviewed and agreed with the Bank.</p>						
	Resp: Client	Stage: Implementation	Recurrent: X	Due Date:	Frequency:	Status: Not Yet Due	

Chart of Ethics and Standard Bidding Documents that are, overall, in line with the Bank's Procedures – however the application of all procedures especially in terms of transparencies of transactions are not applied systematically.		ion					
Design	Rating	Substantial					
Description: The Project complexity could delay its implementation.	Risk Management: The Project design has been simplified. Initially, the Project included a value chain dimension/approach that is new to the private sector and the Project implementing agency. Now the Project focuses on improving the business environment and the commercial dispute resolution seen by private enterprises as the most binding constraints their development. The Project reflects lessons learned in a similar project with a broader dialogue with stakeholder and policy makers undertaken during project implementation to reflect context specific features. The Project will finance a PPD process during its implementation through its steering committee to consult stakeholders on the reform that will be implemented.						
	Resp: Client	Stage: Implementation	Recurrent: X	<input type="checkbox"/>	Due Date:	Frequency:	Status:
Social and Environmental	Rating	Low					
Description: The Project is a capacity building project as such it is not expected by the team to have any kind of detrimental environmental impact and should have a positive social impact by contributing to increased private sector capacity building through improvement the business environment and technical assistance. No significant risks identified for the short to medium term. The Project is considered as a category C and has been transferred to the sector unit	Risk Management: There are no risk management measures required as no significant risks were identified.						
	Resp: Client	Stage: Implementation	Recurrent:	<input type="checkbox"/>	Due Date:	Frequency:	Status:
Program and Donor	Rating	Moderate					
Description: Ensuring the consistency of approach with the involvement of an increasing number of donors	Risk Management: The Government is highly committed to private sector development. The Bank held discussions with other projects and initiatives to ensure effective complementarities between the various interventions. The current						

<p>in Djibouti including the EU, AFD and ADB. Also, the financing comes from many sources which require coordination to ensure timely availability of such resources.</p>	<p>government has prepared a socio-economic development strategy (Djibouti Vision 2035) which serves as basis for donor intervention. Two TFs have been mobilized. To minimize the coordination risk, they will be Bank executed TF and managed by the same unit to ensure coordination during project implementation.</p>					
	Resp: Bank	Stage: Implementation	Recurrent: X <input type="checkbox"/>	Due Date:	Frequency:	Status:
Delivery Monitoring and Sustainability	Rating	Substantial				
<p>Description: Ownership of project investments by the private sector and sustainability of investment made and enterprises supported after project closure.</p>	<p>Risk Management: Experience from similar bank projects in the MENA region guided the design of the Project. To ensure sustainability, the Project will be implemented by the Djibouti National Investment Promotion Agency, the main Government institution in charge of private sector develop. This will help build its capacity as its implements the Project.</p>					
	Resp: Client	Stage: Implementation	Recurrent: X <input type="checkbox"/>	Due Date:	Frequency:	Status:
Overall Risk						
Implementation Risk Rating:				Substantial		
<p>Description: The overall risk rating for the Project is Substantial driven mainly by the risk that this is the first PSD project for Djibouti and will require close coordination amongst the various ministries and entities involved in its implementation.</p>						

Annex V. Implementation Support Plan

1. The following table indicates the main focus of support to implementation during the Project's lifetime, skill mix requirements, and involvement of other partners.

Project Implementation Support Plan (ISP)

Skills Needed	Number of annual Staff Weeks	Number of Trips	Comments
Task Team Leader	8	2	Based in DC
Co-Task Team Leader	6	2	Based in DC
Investment climate reforms specialist/IFC	4	2	Based in the region
Financial Sector Specialist	4	2	Based in DC
Entrepreneurship specialist	3	2	Based in DC
Financial management specialist	3	1	Based in the region
Procurement specialist	3	0.5	Based in the field and in the region
Communications Specialist	2	1	Based in the region

Annex VI. ECONOMIC AND FINANCIAL ANALYSIS

1. The Governance for Private Sector Development Project will provide assistance to the Government of Djibouti in selected aspects of the country financial and business environment. Significant weaknesses continue to prevent the development and growth of Djiboutian firms. Compared to countries with similar income levels, the cost and time for starting a business in Djibouti remains high, despite recent progress brought about by the implementation of parts of the new Commercial code, including the transfer of the Commerce Registry to ODPIC, the removal of the minimum capital requirement to start a business, and the reduction and simplification of registration procedures. Other weaknesses, including the limited access to financing for SME's (less than five percent of Djiboutian SMEs have access to formal credit) and serious governance deficiencies were identified in the latest FSAP update (2010) and the Djibouti New growth Model Study (2012).

2. The present analysis seeks to present benefits that the Project will provide to its main beneficiaries which are Djiboutian institutions governing private firms including Judicial, financial and agencies associated with business entry; as well as firms, potential investors and new entrepreneurs.

3. As is often the case for private sector development projects, this operation is based exclusively on technical assistance activities. As a result, it presents a challenge when attempting to demonstrate quantifiable outcome and benefits. In particular, significant aspects of the Project will include institutional reforms and capacity building such as improvement in commercial justice, Investment climate reforms and setting up a Public Private Dialogue platform. As a result, the analysis presented demonstrates key trends and results expected by the Project's outcome based on international experience, research and knowledge of the existing context in the country as well as recent works carried out by various Bank teams. Further, it is expected that the complementary nature of these measures will act as catalyst to leverage the resources the Project will be disbursing.

Methodology

4. As mentioned, the nature of this particular type of intervention presents challenges for measuring its impact. The direct measurable outcomes under the various components of the Project's benefits are not quantifiable, particularly where there is indirect relationship between the technical assistance and capacity building provided under the Project and its stream of benefits and expected outcomes. As common practice, evaluating this kind of project warrants a qualitative appraisal of the Project's benefits, and identifying catalyst levers that may induce further benefits. Therefore a qualitative analysis of the cost-benefits is presented to provide useful insights on each subcomponent.

5. The beneficiaries include Djiboutian firms, associations and new entrepreneurs as well as institutions in charge of governing and regulating markets for firms; particularly those in charge of business entry, administering commercial justice, promoting investments and facilitating and regulating credit markets. Therefore a number of performance indicators will be key to measuring the Project expected benefits and progress in achieving the latter. The main indicators necessary for monitoring performance are included in the table below:

Facilitating business entry for new entrepreneurs	<ul style="list-style-type: none"> - Reduction of time to create a business; - Reduction in time to register a property
Facilitating access to and transparency of commercial justice	<ul style="list-style-type: none"> - No of days for the commercial chamber before issuing a ruling in a commercial litigation - Publication of court decision on web site

Component I: Investment Climate Reform

Commercial and Civil Justice

6. This sub-component of the Project is designed to improve the settlement of commercial justice and access to commercial justice for economic operators. Formal settlements of commercial cases currently represents less than one percent of total litigations in the country and therefore highlights the lack of confidence of firms in the formal judicial system to resolve their grievances in a credible and predictable manner. In addition there is a chronic understaffing of commercial judges as well as a lack of both technical and institutional capacity to administer commercial justice adequately.

7. The Project will provide technical and institutional support to the commercial chamber of the Ministry of Justice to improve the settlement of commercial disputes in Djibouti. The direct expected result will occur over several dimensions as improvement in the functioning of the commercial chamber are expected (i) to increase the number of decisions rendered by the chamber each year; (ii) to increase transparency and communication between stakeholders (among magistrates as well as between the court and the public) with the publication of 100 percent of legal decisions on a web site financed through the Project; (iii) to improve quality and restore confidence and credibility with the training of judges and magistrate complemented with a review process and improved access to legal information.

8. The institutional and capacity building component administered to the commercial chamber will provide tools that will help its organization and redesign in order to develop its functionality. This will ease the flows of cases as the demand increases. At the same time the training of judges combined with the expert review processes and better access to legal information will improve the quality of case ruling.

9. Increasing and improving access to information both internally and to the public with the creation of a website will provide the public with direct access to judicial procedures and rulings. A judicial information system will streamline communication between magistrates. International experience (Guatemala) shows that technical improvements along with measures to increase transparency and the dissemination of information are essential for sustained legal reforms and the long term functioning of commercial justice.

10. The impacts of an efficient commercial chamber generate benefits beyond its operational effectiveness. In the particular case of Djibouti's legal system which suffers from negative perceptions among the business community; a faster more efficient ruling of decisions will have repercussion beyond its capacity to function well. First, measures to improve its effectiveness will translate into faster and more credible and transparent judicial system and send signals that the authorities are committed to reforms. In addition, as conditions on the ground improve, users and potential investors' perception of the court will also improve and contribute to improving the overall investment climate for investors and firms.

11. Numerous international experience and research (Why Nations Fail; Acemoglu and Robinson, 2012) underscores the importance of the effective functioning of institutions such as the judicial system (Guatemala, Argentina) as a key aspect of the investment climate and a factor for success in development. Also studies from Argentina and Brazil show that firms doing business in provinces with better performing courts enjoy greater access to credit and examples from Mexico demonstrate that large and more efficient firms gravitate around locations where courts work better. A sound judicial system reduces risks associated with predation, rent and corruption and increases the incentives for firms to invest more in their operations. These aspects serve to highlight the synergies and spillover effect that these types of measures can have on the private sector.

Public Private Dialogue process and One-Stop-Shop for investment climate reforms

12. Facilitating the process of firm creation is a key aspect of the investment climate and an important contributor to growth and employment. In addition to expanding economic activities and diversifying the range of product and services, more business entry promotes competition, lower prices and can improve the transfer of technology and innovation. As mentioned earlier, Djibouti suffers from rigid and expensive barriers to entry for firms wishing to engage in formal commercial activity. Dynamic growing SMEs are lacking severely but micro firms that use low technology and produce low value goods and services are omnipresent. As a result many micro enterprises continue to operate in the informal sector.⁸

13. The Investment Climate Reforms sub-component will address issues related to business entry by capitalizing on the work already initiated under the new commercial code. The Project will focus on the establishment of a One-Stop-Shop and will continue to support the improvements realized under ODPIC by further simplifying and reducing costs associated with registering companies. Beyond the registration process, the Project will provide technical assistance to institutions in charge of other aspects of the entry process, such as obtaining construction permits and transferring properties. The One-Stop-Shop will therefore act as a catalyst for investment climate reforms designed to facilitate formal business entry by leveraging reforms of other important elements of this process.

14. The immediate economic benefits that are expected to be achieved from the One-Stop-Shop subcomponent and other improvements in the country's investment climate include positive trends in newly registered businesses, streamlined procedures and further reductions in registration fees, along with less delay associated with the process of starting a firm. International experience shows that the savings resulting from reduced fees can help newly established firms with more investment opportunities. One-Stop-Shops present additional benefits that include a relatively modest institutional or administrative cost, and no major changes of the country's institutional or regulatory framework. The effect on both users and the administration can be felt immediately as coordination among agencies abolishes the multiplicity of procedures and trips that were formerly required.

15. International experiences have demonstrated that One-stop shops offer advantages beyond just increased business entry. Important features of the One-Stop-Shop include improved transparency and efficiency. Utilizing a single interface result not only in the saving of time and

⁸ Research from international experience (Amine 2009) shows that the obstacle most widely considered by firms to register formally are taxes (54%), followed by registration fees (50%).

money, but also increased transparency. The case of Indonesia is a good example. Officials are seated behind the counters in full view, thus reducing attempts at corruption or favoritism. One-Stop Shops make efficiency gains possible. As is the case in many countries that have implemented similar facilities, this component of the Project plans to add additional services related to business entry (construction permits and transfer of properties). Most countries that have introduced a one-stop shop offer a minimum of one service in addition to business registration, which can make starting up a business twice as fast as in countries limiting these services to registration only.

16. Today, of the 83 countries that have established a One-Stop Shops for business registration, many include other services associated with firm entry, such as construction permits and transferring properties. For instance, the Former Yugoslav Republic of Macedonia created a central registry that enabled entrepreneurs to register their businesses in the commercial registry, deal with the tax and statistical authorities, open a commercial bank account, and publish a notice of the start of their business on the registry website. The Former Yugoslav Republic of Macedonia has further harmonized this process by adding the social security registration. One-stop shops in other countries such as El Salvador or Mali offer similar services.

17. In order to better organize the process of Investment Climate reform implementation the Project will capitalize on IFC's extensive experience in Public Private Dialog (PPD). PPDs can open communication and advocacy channels where they did not exist, as is the case in Djibouti where very little real representative and organized advocacy and consultations exists. On the policy maker's side, Government can use a PPD to improve its own coordination mechanisms, establish trust and consensus between stakeholders and a willingness to exchange. Because of PPDs, these attributes have emerged in countries with little history or track record of dialogue. Such outcomes are important contributors to the continuity of the reform process and will be achieved through constant and committed engagement between private sector and government throughout the key steps of the reform process (diagnosing issues, designing solutions, implementation and monitoring and evaluating).

18. In terms of results, studies undertaken by the IFC show that, WBG supported PPD activities have resulted in the implementation of approximately 400 specific reforms including more than 50 distinct areas within the overall investment climate. Impact assessments of a fairly limited number of PPDs by IFC carried out to date indicate total net benefits generated of over \$400 million (private sector savings); this is a testimony of the high value for money that investments in PPD can generate. *For investment between \$100,000 – 200,000 made annually reforms within some PPDs have fundamentally transformed the investment climate.*

19. In addition to economic benefits, PPD also builds an atmosphere of trust and understanding between public and business community, thereby promoting good governance, transparency and accountability.

Access to finance: First Initiative Parallel financing

20. The TA provided under this project component implements some of the FSAP update recommendation carried out in 2011⁹ and will intervene along two main dimensions (i)

⁹ Technical assistance to the CBD on banking supervision has been provided for the last two years by an IMF team which increased the number of supervisors from 3 to 11. This initiative is set to continue this year.

Guarantee facility: Provide Technical Assistance to the Ministry of Economy and Finance (MEF) and the Central Bank of Djibouti to define and validate the design of PGC fund and its regulatory and legal framework; and (ii) financial infrastructure: This sub component will assist the CBD to modernize its Credit Reporting and National Payment Systems (NPS).

21. Access to credit remains limited in the country. Even though credit has increased over the last few years, less than nine percent of the adult population has access to a bank account (FSAP 2011). Total credit to SME represents 22 percent of GDP, which is relatively high, however most of it remains concentrated among larger firms and only about five percent of formal SME have access to a bank credit. In addition, alternative instruments are limited and credit duration remains very short. Overall the lack of firm financing in Djibouti is a combination of factors, chief among them is the lack of real collateral, but also weak accounting and auditing capacity of firms and the inability to come up with structured business plans when applying for a loan (as well as the size of the informal sector).

22. As recommended in the latest FSAP update a number of measures will be necessary to alleviate constraints preventing access to finance for Djiboutian firms. The work to build capacity among the CBD and MEF to better design a functioning guarantee facility. Taken together with financial infrastructure modernization activities on Credit reporting and payment systems, these initiatives will begin to ease conditions for accessing bank loan. Additional expected impacts on the financial sector outcome include :

(i). *Loan maturity*: Banks will have more incentives to provide longer and more flexible loan instruments

(ii). *Loan size*: Banks will have more incentives to meet adequate demand of SME finance

(iii). *More financing options to SMEs*: A well designed guarantee facility with an adequate regulatory framework and operational design such as more flexible eligibility criteria can facilitate access for the smaller firms.

(iv). *Positive spillover*: Improve financial management capacity for firms and institutions under the project activities.

(v). *Less information asymmetries and lower collateral*: Entrepreneurs who are able to leverage positive credit histories towards decreasing their risk perception to lenders can access credit on more favorable terms, and with less guarantees.

23. A recent study undertaken in the context of the latest FSAP update estimates that a functional PCG with an initial endowment of US\$2.5 million can generate 489 loan guarantees over 4 years. The international experience shows that in countries without a credit bureau around 50 percent of small firms report significant financing constraints; whereas in countries with a credit bureau this figure is only 27 percent, and small firms are 40 percent more likely to get a bank loan. (Love and Mylenko: “*Credit reporting and financing constraints*” - World Bank - October 2003). Credit bureaus also offer significant operational savings to lenders; In a World Bank survey of creditors carried out across 22 countries, most respondents acknowledged a minimum 25 percent reduction in operating costs, loan processing times, and default rates as a direct result of the availability of borrower credit.

Conclusion

24. Overall, the Project is expected to generate significant economic benefits by putting in place building blocks that together will improve conditions for private sector development and growth. Beyond the benefits listed below, the complementarity nature of the Project components will create synergies that have great potential to leverage further spillovers in terms of advancing the country's reform agenda and reaching a wider group of SMEs. The Project will:

(i). Facilitate the process of business entry through technical assistance to institutions and firms in the areas of firm registration, construction permits and licensing, and transferring or acquiring property for firm growth and development.

(ii). Facilitate firm access to finance, particularly for the smaller and newer entrepreneurs by reducing risks associated with securing collateral as well as reducing information asymmetries

(iii). Improve the functioning and efficiencies of institutions in charge of governing and private sector development, such as entry, capacity building , finance and the judicial

(iv). Generate benefits through its demonstration effect to a wider group of SMEs such as providing more incentive to new entrepreneurs to enter the formal sector.