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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 12-Jan-2020 | Report No: PIDC27567

**BASIC INFORMATION****A. Basic Project Data**

Country Djibouti	Project ID P171777	Parent Project ID (if any)	Project Name Economic Management and Statistics Development for Policy Making (P171777)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date Mar 05, 2020	Estimated Board Date Apr 30, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment
Financing Instrument Investment Project Financing	Borrower(s) Republic of Djibouti	Implementing Agency Ministry of Budget, Ministry of Economy and Finance in charge of Industry	

Proposed Development Objective(s)

To modernize the Government's economic and fiscal management tools and processes and strengthen the National Statistical System (NSS) for evidence-based policy making in Djibouti

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	15.00
Total Financing	15.00
of which IBRD/IDA	15.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	15.00
IDA Credit	15.00

Environmental and Social Risk Classification

Concept Review Decision



Moderate

Track II-The review did authorize the preparation to continue

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Other Decision (as needed)

B. Introduction and Context

Country Context

- Djibouti is the smallest state and the youngest and most stable nation in the Horn of Africa.** About a million inhabitants reside in the country, which covers a land area of 23,000 square kilometers. Since it gained its independence in 1977 from France, the country is politically organized as a republic, with an executive branch led by the President who is elected by universal suffrage every five years, and a legislative power vested to the National Assembly consisting of 65 members, also elected every five years. The country is politically and socially stable but is surrounded by areas in conflict or in fragile situations.
- Over the last two decades, Djibouti has achieved remarkable economic growth and improved social outcomes, by leveraging its strategic location.** According to the revised national accounts, per capita GDP¹ increased by an average of 4.4 percent per year in real terms in the last two decades to nearly US\$3,000 in 2018. This impressive growth performance was a clear break from the poor economic record of the 1990s² when real per capita GDP contracted by 4.2 percent on average per year between 1990 and 1998. Economic growth since 2000 has been driven by export of services, with transportation and logistics, telecommunication and banking sectors being the main contributors. In these three sectors, Djibouti's strategy leveraged the country's most valuable and significant asset, its geography, generating extensive value in its main and fast-growing economic partnership with Ethiopia. Djibouti serves as the main port and handles 90 percent of the external trade of landlocked Ethiopia, the East Africa's largest and fastest growing economy. On the social front, the share of population living with less than US\$1.90 2011 PPP a day declined to 17 percent in 2017 with significant inequality between Djibouti city and the rest of the country.
- Improvements in the quality of public policy and significant strengthening of institutional capacity are key to making growth sustainable and more inclusive.** The country has a long-term vision (Vision 2035) and a medium-term development plan (Accelerated Growth Strategy and Employment Promotion (SCAPE)) that set clearly the government's priorities in the medium to long term. However, weak link to the annual budget and lack of timeliness and reliability of economic and social statistics for proper monitoring continues to undermine the implementation of the development plan and the effectiveness of government's decision-making process.

1 With support from AFRISTAT, the World Bank Group (WBG) and the International Monetary Fund (IMF), the Government of Djibouti has revised of its national accounts, focusing on the period 2013-2017 and applying the general principles of the UN's Systems of National Accounts of 2008 (SNA2008), with 2013 as the base year. GDP was revised upward by 50 percent.

2 Part of the period was marked with civil war which lasted from 1991 to 1994, resulting in thousands of fatalities.



Statistics development

4. **Despite these improvements, lack of timeliness and reliability of economic and social statistics continues to undermine the effectiveness of government's decision-making process.** Djibouti has a unique specificity that makes timely production of reliable economic and social statistics technically challenging. The country is a major transit area for a significant number of people (nomads and migrants) and goods (through the free trade zones) that are not easy to track. In addition, there are several territorial enclaves (military bases) within the country that maintain economic relationships with the country's residents. This complexity combined with the weak statistical and analytical capacity delayed several policy decisions in the past. The National Statistics System (SSN) produces limited data on an irregular basis, standard surveys are not conducted at regular intervals, and analytical capacity is weak making it difficult to predict when most publications will be disseminated and to discern major trends and their policy implications. As a result, the demand for and utilization of statistics are greatly inhibited, preventing more robust involvement of citizens, service users, and civil society organizations to monitor the impact of government policies.

5. **To address these gaps, Djibouti is taking steps to build a strong and coherent statistical system.** The country has recently adopted a new National Statistical Development Strategy (NSDS), which covers the period 2018-2022. The goal of the NSDS is to develop a coherent and well-organized statistical system, with the capacity to produce and disseminate reliable data to be able to meet the growing needs of all public users. In addition, a law passed in September 2018 has created the National Institute of Statistics of Djibouti (INSD) as a public institution with legal personality and financial autonomy to replace the *Direction de la Statistique et des Etudes Démographiques* (DISED) which was dissolved by the same law. The Institute is responsible for ensuring the technical coordination of the activities of the NSS and for carrying out statistical production and dissemination activities for the needs of several stakeholders. The setting up of INSD is currently ongoing and hence provides an important opportunity to support the institutional framework and the setting of the organigramme. INSD needs to modernize its working environment, increase the number and quality of its technical staff, and upgrade its infrastructure to be able to deliver its mandate.

Macroeconomic modeling

6. **With the rapid debt accumulation since 2014, the need to conduct proper macroeconomic assessment to inform public policy has increased.** In the context of the implementation of the SCAPE, Djibouti embarked on the development of ambitious infrastructure projects and the implementation of a reform program to upgrade the business environment that narrowed significantly the country's fiscal space and led to a rapid accumulation of external PPG debt which reached 71 percent of GDP in 2018. This in turn created the need to build domestic capacity to monitor the key macroeconomic variables on a regular basis at the Ministry of Finance.

7. **To respond to the demand, the MoFI's forecasting model was updated with the new national accounts data, but some gaps remains.** MoFI uses a financial programming type of model that produce short to medium-term forecast (three years) for four main macroeconomic tables (real sector, government fiscal, balance of payments and monetary statistics) with established linkages between them. The model has neither a debt nor an employment module. It is written on a excel spreadsheet and allow for flexible integration of new information or hypothesis. However, it is not suitable for policy simulation for ex-ante estimation of impact of exogenous shocks, as a Calculable General Equilibrium (CGE) model would do. In addition, in January 2018, the Government created a Committee to foster coordination between the different units in charge of the preparation of the macroeconomic framework and building capacity of the members of the Committee is a priority.



Medium Term Expenditure Fiscal Framework (MTEF) and investment planning

8. **Djibouti's budget framework has not evolved since 2000 despite recent improvement in strategic planning.** Budget preparation is still done on an annual basis as framed by the organic law of finance, the law 107/AN/00 of October 2000. Its process is still purely mechanical. The SCAPE includes a medium-term macroeconomic framework with a costing of the selected programs by pillar but there is no three-year rolling MTEF that links it to the annual budget. However, the maintenance of adequate revenue mobilization and aggregate expenditure control is important for the Government not only to preserve fiscal sustainability, but also to create fiscal space for higher developmental expenditure, economic growth, and ultimately poverty reduction.

9. **There is no integrated investment planning process.** There is no defined process for domestically financed investment project which each donor follows for its own project cycle. A more efficient allocation and more effective use of public expenditure are required to justify and underpin higher developmental expenditure, in light of the high level of debt. Efficient investment planning requires institutions that ensure public investment is fiscally sustainable, effectively coordinated across sectors and is directed to the most productive projects. Timely and cost-effective implementation of public investment projects requires institutions that ensure projects are fully funded, transparently monitored, and effectively managed throughout their implementation.

10. **The Government is committed to upgrading its Public Finance Management (PFM) systems and has already started on tax policy and administration.** Public Administration Modernization Project supported by the WBG support the revision of various tax legislation for more coherent and efficient tax and customs administration. It will also ensure that tax and customs systems are upgraded and integrated, and a sound digital architecture for revenue collection is established. A Public Expenditure and Financial Accountability (PEFA) report will be prepared in 2020 and a Public Investment Management Assessment (PIMA) in 2021. These will help the government develop a comprehensive PFM reform plan that will create an opportunity for the country to catch up or even leapfrog to the best and suitable practices.

Debt management

11. **Djibouti undertook institutional changes that resulted to a fragmentation of debt management functions between the two ministries (finance and budget).** Resource mobilization and debt contracting belong to the ministry of finance while debt recording systems are managed by the debt unit within the ministry of budget. Coordination and information sharing between different agencies responsible for contracting and managing debt could be improved. Debt recording systems remain adequate and reliable but analytic capacity need to be bolstered. Public debt data are produced on a regular basis but are not published.

12. **The authorities have recognized the need to consolidate the various laws and regulations related to debt management and have drafted a comprehensive law to manage the public debt.** The proposed legal framework focuses on filling the gaps of the existing legal and institutional framework. It strengthens the framework for issuance and monitoring of government on-lent and guaranteed loans, reporting and monitoring risks associated with contingent liabilities as well as debt sustainability analysis and a debt management strategy. In April 2019, the Government issued a decree establishing a national debt committee (CNEP) supported by a technical sub-committee to ensure better coordination of decision making. The capacity of the CNEP has to be quickly built to make it effective. The new reform plan also includes borrowing targets, requirements for the development of a debt management strategy and reporting to Parliament.



Relationship to CPF

13. The proposed Project is aligned with the strategic goals of the World Bank Group (WBG) to end extreme poverty and boost shared prosperity in a sustainable manner and the draft CPF, particularly its third focus area. The SCD noted concerns with the reliability and timeliness of statistics in Djibouti, which limits the Government's capacity to monitor results and adapt public policies to the rapidly changing environment and weakens Government accountability to Parliament and citizens. It also noted concerns about the weak link between planning and budgeting, as well as the rapid increase in the ratio of public debt to GDP, which has sharply increased from 36.8 percent in 2013 to 71.2 percent in 2018. In the view of these challenges, the draft CPF noted that considerable efforts must be made to (i) improve the strategic allocation of resources and quality of expenditure; (ii) modernize tax and customs administration, (iii) strengthen debt management, and (iv) develop accountability mechanisms.

C. Proposed Development Objective(s)

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14. To modernize the Government's economic, budget, and debt management tools and processes and strengthen the National Statistical System (NSS) for evidence-based policy making in Djibouti

Key Results (From PCN)

15. The expected outcomes of the project are greater link between planning and budgeting and increased availability of statistics for policy making.

16. The PDO-level results indicators are as follows:

- Number of ministries with approved budget anchored to a Medium-Term Expenditure Framework
- Percentage of INSD's reports published on a timely manner
- Percentage of SOEs that benefiting from a guarantee from the state that submit annual financial statement on timely manner

17. Some key intermediary results indicators include

- Number of statutory meetings held by the Superior Council of Statistics (CSS) per year
- Number of survey micro-datasets (anonymized) that are publicly available
- Reduction in delay between the publication of definitive (final) national accounts
- Dissemination of the results of the Population Census
- Number of relevant policy documents that make reference to the model's outputs
- The share of external loan agreement signed without the approval of the CNEP
- Tax to GDP ratio
- The number of projects domestically financed prepared under the new PIP framework



D. Concept Description

18. The proposed project is structured into two components. They are (a) Statistics and macroeconomic modeling and (b) Budget preparation and debt management.

Component 1: Statistics development and Macroeconomic Modeling (US\$10 million)

Subcomponent 1.1: Modernization of the National Institute of Statistics of Djibouti (INSD)

19. The project proposes to finance the following activities:

- **Upgrading the working conditions in the INSD.** The activities to be financed include construction of a building with modern characteristics, procurement of office furniture, and enhancement of the electrical and information and communications technology (ICT) system. IDA financing for the construction of the building will be complemented with resources from the Ministry of Finance.
- **Strengthening the institutional framework of INSD.** The project will finance an institutional assessment that will lay the foundation for the institutional reform. It will support the assessment of human resources needs in line with the new organigram, the updated mandate as well as the timeline of the outputs INSD is responsible to deliver. It will also include the financing of technical assistance to develop a human resources (HR) policy and a results-based management system to establish a staff evaluation and monitoring approach that provides incentives and career development opportunities to well-performing staff. The project also proposes assistance in the development of a performance contract with MEFI. The activities to be included into the performance will be validated first by the Superior Council of Statistics (SCS) as part of the annual statistical program.
- **Developing a partnership with advanced statistical offices** in order to focus on process and procedures that would make INSD effective. Ideas to promote the use of technology to leapfrog will be explored throughout the institutional setup of INSD.
- **Strengthening project management capacity within INSD** to manage all fiduciary related activities.
- **Statistical Production and Dissemination.**

Subcomponent 1.2: Building macroeconomic modeling capacity

20. The expected impact of this subcomponent is an improved policy dialogue environment, more timely macroeconomic policy assessments that inform policy.

21. The project will finance the following activities under this component:

- **Forecasting model.** It will also provide training for a wide range of stakeholders, including all members of the *Comite de Cadrage*. The project will finance the timely production and publication of the *tableau de bord* (dashboard) which is a critical input for the model's update.
- **Calculable General Equilibrium (CGE) Model.** This model will be based on the SAM produced by INSD and will have a micro simulation module. The project will also provide training for a wide range of stakeholder, including all members of the *Comite de Cadrage* and selected Djiboutian researchers.
- **Debt Sustainability Analysis (DSA) Model.** The project will also provide training for a wide range of stakeholders, including all members of the CNEP and its technical committee as well as selected Djiboutian researchers.

Component 2: Budget Preparation and Debt Management



Subcomponent 2.1 Budget preparation and investment planning

22. The project will finance the following activities:
- **Development of a new budget framework**, with the revision of the existing legal and regulatory framework, the revision of a new organic law and its adoption and implementation.
 - **Preparation of a Medium-Term Fiscal Framework (MTFF) and a Medium-Term Expenditure Framework (MTEF)**, based on the approved macroeconomic framework. A model MTEF could be added to the macroeconomic forecasting model or developed as a stand-alone model, using the output of the forecasting model as an input to produce the expenditure breakdown by sectors and ministries.
 - **Support to pilot ministries**. The project will support line ministries (health and education) selected as pilot to implement the MTEF.
 - **Public Investment Management Assessment (PIMA)**. The project will support the assessment of the public investment management framework, using the PIMA methodology developed by the IMF and the development of an action plan to reform the PIP.
 - **Developing project design capacity**. The project will provide training on project design for the DFE and the pre-identification of the projects selected in the next medium-term development strategy.
 - **Publication of the PIP**. The project will support the formatting of the PIP and its publication on the revamped MoFI's website.

Subcomponent 2.2 Debt Management

23. The second subcomponent will support debt management and SOE monitoring. It will support the revision of the existing public investment framework and the development of a medium-term debt strategy to finance it. A debt management action plan has already been developed with WBG support.
24. The project will support full implementation of the action plan.
- **Support the secretariat of the CNEP**. The project will finance the activities of the secretariat in charge of the preparation of the Public Debt Committee (CNEP) meetings;
 - **Upgrading of the IT system of debt management unit**. The Public debt unit is currently using an old and obsolete version of the Debt IT system and needs to upgrade to the most recent system to secure continued maintenance.
 - **Monitoring of SOEs benefiting from a state guarantee**. The project will finance the development of framework for providing guarantee or a on lending facility to state-owned enterprise, including a monitoring system.

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Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

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Note: To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document. *Please delete this note when finalizing the document.*

CONTACT POINT

World Bank

Mamadou Ndione, Vibhuti Mendiratta
Senior Economist

Borrower/Client/Recipient

Republic of Djibouti

Implementing Agencies

Ministry of Budget
Simon Minrathu
SG
smibrathu27@gmail.com

Ministry of Economy and Finance in charge of Industry
Abdou-Razak Ahmed Idriss
General Secretary
a.a.idriss@gmail.com



Simon Mibrathu
General Secretay MoB
smibrathu27@gmail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Mamadou Ndione, Vibhuti Mendiratta
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Approved By

Environmental and Social Standards Advisor:		
Practice Manager/Manager:		
Country Director:		

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