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**AFRICAN DEVELOPMENT
BANK GROUP**

PROJECT: URBAN POVERTY REDUCTION PROGRAMME SUPPORT PROJECT- SUPPLEMENTARY GRANT

COUNTRY: DJIBOUTI

PROJECT APPRAISAL REPORT

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Currency Equivalents

September 2010

UA 1 = DJF 268.16

UA 1 = USD 1.56

USD 1 = DJF 172.32

Fiscal Year

1 January - 31 December

Weights and Measures

| | | |
|-------------------|---|--------------|
| 1 metric ton | = | 2204 pounds |
| 1 kilogram (kg) | = | 2.200 pounds |
| 1 metre (m) | = | 3.28 feet |
| 1 millimetre (mm) | = | 0.03937 inch |
| 1 kilometre (km) | = | 0.62 mile |
| 1 hectare (ha) | = | 2.471 acres |

Acronyms and Abbreviations

| | | |
|-------|---|---|
| ADDS | = | Djibouti Social Development Agency |
| AFD | = | French Development Agency |
| AFESD | = | Arab Fund for Economic and Social Development |
| BCD | = | Djibouti Central Bank |
| BTP | = | Public Works and Civil Engineering |
| CDC | = | Community Development Centres |
| CNEC | = | National Savings and Credit Funds (Caisses Nationales d'Épargne et de Crédit) |
| CPEC | = | People's Savings and Credit Fund (Caisse Populaire d'Épargne et de Crédit) |
| DHU | = | Department of Housing and Town Planning |
| DISED | = | Department of Statistics and Population Studies |
| EDAM | = | Demographic and Household Expenditure Survey |
| EDIM | = | Multiple Indicator Demographic Survey |
| ENSEA | = | (National Institute of Statistics and Applied Economics, Abidjan (Ecole Nationale des Statistiques et d'Économie Appliquée d'Abidjan)) |
| FSD | = | Social Development Fund |
| FSN | = | National Solidarity Fund |
| IGA | = | Income Generating Activity |
| INDS | = | National Social Development Initiative |
| IsDB | = | Islamic Development Bank |
| LCB | = | Local Competitive Bidding |
| LI | = | Labour Intensive |
| MDG | = | Millennium Development Goals |
| MFI | = | Microfinance Institution |
| NPV | = | Net Present Value |
| RC | = | Regional Council |
| UD | = | University of Djibouti |
| WB | = | World Bank |

Project Information Sheet

Client Information Sheet

DONEE: Government of Djibouti
EXECUTING AGENCY: Djibouti Social Development Agency (ADDS)

Financing Plan

| Source | Amount (UA) | Instrument |
|-------------------|---------------------|-----------------------|
| ADF | 0.800 million | (supplementary grant) |
| | 5.82 million | (initial grant) |
| | | |
| TOTAL COST | 6.62 million | |

ADB Key Financial Information

| | |
|------------------------------|---------------------|
| Grant currency | (UA) |
| Interest Type* | (NA) |
| Interest rate spread* | (NA) |
| Commitment fee* | (basis point) |
| Other charges* | (type, basis point) |
| Maturity | (NA) |
| Grace Period | (NA) |
| FRR, NPV (baseline scenario) | (NA°) |
| ERR (baseline scenario) | (NA) |

**if applicable.*

Time-frame – Main Milestones (expected)

| | |
|-------------------------|---------------|
| Concept Note approval | August 2010 |
| Project approval | December 2010 |
| Effectiveness : | January 2011 |
| Last disbursement : | June 2013 |
| Completion (Government) | December 2013 |
| Completion (Bank) | June 2014 |
| Last Repayment | NA |

Project Summary

- **Project overview:** In January 2007, the Government launched the National Social Development Initiative (INDS) in a bid to check the phenomenon of extreme poverty which affects nearly 60% of the Djibouti population, notably in the urban areas. It is within this framework that the African Development Fund (ADF) on 24 October 2008 approved a grant of UA 5.82 million to finance the Urban Poverty Reduction Programme Support Project (PREPUD) (**document ADF/BD/WP/2008/93**).
- PREPUD became effective on 13 November 2008 and is part of a program co-financed by four donors (AFD, ADB, IsDB and WB) and the Government. The goal of the said program is to improve the living conditions of the population. The ADF intervention aims to promote and consolidate socio-economic development in the five provincial capitals. The expected outcomes are: (i) in the long term: attainment of the millennium development goals; (ii) in the medium term: narrowing the gap between the regions and Djibouti City through improved access to basic infrastructure. The cost of the Urban Poverty Reduction Programme is UA 18.74 million. The ADF amount is estimated at UA 6.62 million (supplementary grant included), or 32% of the total cost. The project execution is satisfactory. The commitment rate should reach 40% at year end. The current disbursement ratio stands at 8.28%.
- The supplementary grant of UA 0.800 million provides additional funding for PREPUD components, namely: (i) capacity building; and (ii) access to basic socio-economic infrastructure and (iii) monitoring and evaluation. It seeks to address the negative effects on people's lives due to the financial crisis and the repetitive food droughts in the country by strengthening the initial activities of PREPUD. The justification for the intervention is to assist in responding to needs by identifying pockets of poverty, to help create jobs and to measure the impact of actions in the field. The implementation of supplementary activities through the grant will thus improve the attainment of the initial objectives of PREPUD and measure the impact of its outputs on the ground. The activities will span the three remaining years of the five-year period envisaged initially.
- The grant beneficiaries are the women and men of Djibouti. The other targeted beneficiaries of the supplementary grant are: 65 000 people living at the border areas between Djibouti, Somaliland and Ethiopia, as well as the Directorate of Statistics and Population Studies, regional council services, sector ministries and the University of Djibouti.
- The Bank's value added lies in the incorporation of the monitoring/evaluation and impact assessment mechanisms in interventions financed, to better measure the effectiveness of such interventions in poverty reduction.
- The supplementary grant will help to develop knowledge on statistical data collection and analysis techniques and on poverty monitoring/evaluation.

Results-Based Logical Framework

| HIERARCHY OF OBJECTIVES | EXPECTED OUTCOMES | SCOPE/ BENEFICIARIES | PERFORMANCE INDICATORS | BASELINE INDICATIVE TARGETS AND TIMEFRAMES | ASSUMPTIONS/RISKS |
|---|---|--|---|---|---|
| Goal 1.1 Improve the living conditions of the people | Impacts Achievement of the Millennium Development Goals | Beneficiaries The people of Djibouti | Impact Indicators The proportion of people living below the poverty line | Progress expected in the long term 1.1 Progress expected: the proportion of people living below the poverty line decreases from 45% to 40% between 2010 and 2015 | Assumptions 1.1 Pursuance of the INDS action plan 1.2. Lack of financing for the INDS. |
| Project Objectives 2.1 Enhance the socio-economic development of regions. | Immediate Impacts 2.1 Narrowing of gaps between Djibouti City and the regions 2.2 Improved access to urban services 2.3 A poverty monitoring/evaluation mechanism put in place. | Beneficiaries The population of the regions The population of Djibouti City Ministries, public services, regional councils | Impact Indicators 2.1 Unemployment rate 2.2 Rate of access to urban services 2.3 Number of surveys conducted. | Progress expected in the medium term 2.1 Unemployment rate of workforce drops from 80% to 70% at regional headquarters. 2.2 An updated database on household living conditions available in 2012 2.3 An updated database on the project impact in 2014. | Assumptions 2.1 Government's sustained efforts in combating poverty 2.2 Risk: lack of resources. 2.3 Mitigative strategy: enhance INDS resource mobilization and monitoring capacity. |

| Resources and Activities | Expected Outcomes | Beneficiaries | Output Indicators | Targeted Value of Indicator |
|---|--|---|---|---|
| <p>3.1 Support to services charged with poverty analysis and monitoring</p> <p>Goods UA M 0.070 Services UA M 0.340 Miscellaneous UA M 0.040</p> <p>TOTAL UA M 0.450</p> <p>3.2 Putting in place of commercial infrastructure (0.300 M).</p> <p>Goods UA M 0.030 Works UA M 0.250 Services UA M 0.020 Total UA M 0.300 Total</p> <p>3.3 Impact monitoring/evaluation and impact measurement</p> <p>Works UA M 0.260 Goods UA M 0.029 Services UA M 0.300 Operation UA M 0.211</p> <p>TOTAL PROJECT : UA M 0.800</p> <p>TOTAL PREPUD: UA M 19.84</p> <p>AFD : UA M 5.17 ADF : UA M 6.62 IsDB : UA M 5.10 WB : UA M 2.75</p> | <p>3.1 The poverty monitoring/evaluation system and analysis tools put in place at DISED</p> <p>3.2 The market is built and operational</p> <p>3.3 Monitoring/evaluation system put in place within the project.</p> | <p>Department of Statistics Ministries of Health, Education, Social Affairs, National Solidarity</p> <p>25 000 households living in Dikhil Region and border areas</p> <p>Executing agency staff, implementation partners</p> | <p>3.1 Existence of a database of socio-economic indicators on living conditions</p> <p>3.2 Number of markets built</p> <p>3.3 Project monitoring/evaluation system operational</p> | <p>3.1 20 statistics assistants and 15 project workers understand poverty analysis techniques in 2012</p> <p>3.2 A basic database on the living conditions of households available in 2012</p> <p>3.3 A cattle market built at Dikhil in 2013 with an additional capacity of 10000 m².</p> <p>3.4 .Survey reports on the impact of microfinance in 2012 and on project outputs in 2014</p> |

| ID | Task Name | Start | Finish | Half 1, 2011 | Half 2, 2011 | Half 1, 2012 | Half 2, 2012 | Half 1, 2013 | Half 2, 2013 | Half 1, 2014 | Half 2, 2014 | | | |
|----|--|---------------------|---------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|--|--|
| 1 | ADF ADMINISTRATION | Mon 11/22/10 | Tue 12/17/13 | [Gantt bar from Mon 11/22/10 to Tue 12/17/13] | | | | | | | | | | |
| 2 | Negotiations | Mon 11/22/10 | Mon 11/22/10 | [Task bar at Mon 11/22/10] | | | | | | | | | | |
| 3 | Approval | Wed 12/8/10 | Wed 12/8/10 | [Task bar at Wed 12/8/10] | | | | | | | | | | |
| 4 | Signature of Grant Agreement | Fri 12/10/10 | Fri 12/10/10 | [Task bar at Fri 12/10/10] | | | | | | | | | | |
| 5 | Project Launch | Mon 1/10/11 | Fri 1/14/11 | [Task bar from Mon 1/10/11 to Fri 1/14/11] | | | | | | | | | | |
| 6 | Supervisions | Wed 6/1/11 | Tue 12/17/13 | [Gantt bar from Wed 6/1/11 to Tue 12/17/13] | | | | | | | | | | |
| 13 | Mid-term Review | Fri 6/1/12 | Thu 6/14/12 | [Task bar from Fri 6/1/12 to Thu 6/14/12] | | | | | | | | | | |
| 14 | Completion Mission | Mon 12/2/13 | Fri 12/13/13 | [Task bar from Mon 12/2/13 to Fri 12/13/13] | | | | | | | | | | |
| 15 | COMPONENT 1: ATS TRAINING | Tue 2/1/11 | Tue 12/31/13 | [Gantt bar from Tue 2/1/11 to Tue 12/31/13] | | | | | | | | | | |
| 16 | Signature of Agreement UD-ENSEA-DISSED | Mon 8/1/11 | Mon 8/1/11 | [Task bar at Mon 8/1/11] | | | | | | | | | | |
| 17 | Signature of Agreement ADDS | Tue 2/1/11 | Fri 4/15/11 | [Task bar from Tue 2/1/11 to Fri 4/15/11] | | | | | | | | | | |
| 18 | Recruitment of Teachers ENSEA and UD | Tue 2/15/11 | Tue 7/31/12 | [Task bar from Tue 2/15/11 to Tue 7/31/12] | | | | | | | | | | |
| 19 | Training 2 nd Year ADT | Mon 9/3/12 | Wed 7/31/13 | [Task bar from Mon 9/3/12 to Wed 7/31/13] | | | | | | | | | | |
| 20 | Monitoring/eval. system put in place | Tue 2/15/11 | Thu 9/15/11 | [Task bar from Tue 2/15/11 to Thu 9/15/11] | | | | | | | | | | |
| 21 | Service Contracts EDAM BC | Tue 3/1/11 | Mon 10/31/11 | [Task bar from Tue 3/1/11 to Mon 10/31/11] | | | | | | | | | | |
| 22 | Survey 1 Microfinance and Impact Monit. | Fri 6/1/12 | Mon 10/1/12 | [Task bar from Fri 6/1/12 to Mon 10/1/12] | | | | | | | | | | |
| 23 | Survey 2 Microfinance and Impact Monit. | Thu 8/15/13 | Tue 12/31/13 | [Task bar from Thu 8/15/13 to Tue 12/31/13] | | | | | | | | | | |
| 24 | Contin. Trng. 20 per. (stat. staff, ADDS mngrs | Mon 5/16/11 | Fri 7/15/11 | [Task bar from Mon 5/16/11 to Fri 7/15/11] | | | | | | | | | | |
| 25 | Local shopping goods UD, AMI .. | Tue 3/1/11 | Tue 5/31/11 | [Task bar from Tue 3/1/11 to Tue 5/31/11] | | | | | | | | | | |
| 26 | Bid analysis, award of contracts | Wed 4/27/11 | Thu 6/30/11 | [Task bar from Wed 4/27/11 to Thu 6/30/11] | | | | | | | | | | |
| 27 | COMPONENT 2: ACCESS MARKET INFRASTR.. | Tue 2/1/11 | Fri 12/30/11 | [Gantt bar from Tue 2/1/11 to Fri 12/30/11] | | | | | | | | | | |
| 28 | Extension consultancy firm contract | Tue 2/1/11 | Thu 6/30/11 | [Task bar from Tue 2/1/11 to Thu 6/30/11] | | | | | | | | | | |
| 29 | BD works, local shp. equipment | Mon 5/2/11 | Thu 6/30/11 | [Task bar from Mon 5/2/11 to Thu 6/30/11] | | | | | | | | | | |
| 30 | Works impl., prov. Reception and delivery | Fri 7/1/11 | Fri 12/30/11 | [Task bar from Fri 7/1/11 to Fri 12/30/11] | | | | | | | | | | |
| 31 | Final works reception | Mon 5/2/11 | Wed 11/30/11 | [Task bar from Mon 5/2/11 to Wed 11/30/11] | | | | | | | | | | |
| 32 | COMPONENT 3: IMPACT MONIT./EVAL. | Tue 3/1/11 | Mon 12/30/13 | [Gantt bar from Tue 3/1/11 to Mon 12/30/13] | | | | | | | | | | |
| 33 | Microfinance monit. survey | Fri 6/1/12 | Fri 8/31/12 | [Task bar from Fri 6/1/12 to Fri 8/31/12] | | | | | | | | | | |
| 34 | Project impact survey | Thu 8/1/13 | Fri 11/29/13 | [Task bar from Thu 8/1/13 to Fri 11/29/13] | | | | | | | | | | |
| 35 | Quarterly activity reports | Tue 3/1/11 | Mon 12/30/13 | [Task bar from Tue 3/1/11 to Mon 12/30/13] | | | | | | | | | | |
| 36 | Government completion report | Tue 10/1/13 | Thu 10/31/13 | [Task bar from Tue 10/1/13 to Thu 10/31/13] | | | | | | | | | | |
| 37 | ADF completion report | Tue 11/12/13 | Wed 12/25/13 | [Task bar from Tue 11/12/13 to Wed 12/25/13] | | | | | | | | | | |
| 38 | Half-yearly acct. audit - Proj., UD and DISED | Wed 6/1/11 | Mon 12/30/13 | [Gantt bar from Wed 6/1/11 to Mon 12/30/13] | | | | | | | | | | |

**REPORT AND RECOMMENDATION OF ADB GROUP MANAGEMENT TO THE
BOARD OF DIRECTORS ON A PROPOSED GRANT TO DJIBOUTI FOR THE
URBAN POVERTY REDUCTION PROGRAMME SUPPORT PROJECT
- SUPPLEMENTARY GRANT**

Management hereby submits the following Report and Recommendation on a proposed supplementary grant of UA 0.800 million to the Government of Djibouti to finance the Djibouti Urban Poverty Reduction Programme Support Project

1. STRATEGIC THRUST AND RATIONALE

1.1 Project Linkages with Country Strategy and Objectives

1.1.1 In 2007, the Government of Djibouti put in place the National Social Development Initiative (INDS). The resultant 2008-2011 Government Action Plan centres on four strategic thrusts, namely: (i) accelerate growth and preserve the major macro-economic balances; (ii) promote universal access to basic services; (iii) fight social exclusion, vulnerability and regional disparities; and (iv) promote good governance. The purpose of this initiative was to consolidate the progress achieved since 2000 towards attaining the Millennium Development Goals (MDG).

1.1.2 The implementation of the INDS shows that overall, despite several global crises, the GDP annual growth rate over the period 2007-2010 has been maintained at around 5%, driven by foreign direct investments concentrated in the maritime transport, construction and tourism sectors. However, this presumably favourable context has failed to produce the expected impact on poverty reduction and unemployment in the country. The proportion of the population with access to decent income (USD 2/day) at the national level has not fallen in Djibouti-ville. However, the situation has deteriorated in areas where 80% of the population lives below the poverty line and suffers from food insecurity.

1.1.3 The June 2010 mid-term evaluation of the status of the Millennium Development Goals (MDG) in the country, which was conducted in conjunction with UNDP, confirms this trend. The report admits that progress has been achieved in the social sector. It specifies that sustained effort could help in attaining certain Millennium goals in the area of education for all and gender parity (MDG2), equality and women's empowerment (MDG4) as well as access to water and sanitation (MDG7). In contrast, the report underscores the fact that the country will be unable to achieve a number of MDGs (MDG 3, 5, 6, 7, 8) given that progress towards reducing extreme poverty (MDG1) is insufficient and further efforts are needed to eradicate impoverishment in the hinterland.

1.1.4 The October 2010 review of the implementation of Bank Strategy in the country (2007-2010) confirms the above performance. The results obtained by the Results-Based Country Strategy Paper (RBCSP) are deemed fairly satisfactory. Only the first pillar concerning the promotion of local development was implemented and substantial progress is noted in the microfinance area. The second pillar concerning good governance promotion was not implemented due to lack of resources. Post-RBCSP, nationwide disparities persist and major challenges remain, namely: (i) reduction of pockets of poverty and inequalities in the country; (ii) fight against desert encroachment; and (iii) mobilization of resources required for more balanced development. The major constraints identified include: (i) weak technical and institutional capacity in monitoring/evaluation of the INDS; and (ii) limited access by the

population to economic infrastructure. The recommendations thus concern pursuance of actions geared towards combating regional vulnerability and inequalities, and putting in place a reliable mechanism to help the Government to mobilize additional resources; monitor and measure the impact of INDS actions. Therefore, the supplementary grant offers the Government an opportunity to pursue its efforts in the areas mentioned above.

1.2 RATIONALE FOR BANK'S INVOLVEMENT

1.2.1 Despite enormous poverty reduction efforts spanning a decade, Djibouti continues to be marked by significant disparities between its capital city, which is attractive due to the diversity of port-centred activities, and the rural areas, which suffer the effects of the harsh natural environment and the precariousness of income from agro-pastoral activities. In a bid to attenuate this imbalance, the African Development Fund (ADF) has been intervening for a decade in poverty reduction programs. Within this framework, the ADF on 24 October 2008 approved a grant of UA 5.8 million to finance the Urban Poverty Reduction Programme Support Project (PREPUD) (see document **ADF/BD/WP/2008/93**). PREPUD became effective on 13 November 2008 and shares the same name with a programme co-financed by the French Development Agency (AFD), the World Bank (WB) and the Islamic Development Bank (IsDB). The ADF intervention aims to promote and consolidate socio-economic development in the five regional headquarters. It will be recalled that for reasons of synergy among the donors at the spatial level, the other three donors are intervening in Djibouti City whereas the Bank's support is concentrated in the five regional headquarters. The program's relevance and the effectiveness of the implementing agency are recognized by all donors. Additional support has been made since the beginning of the project, to support the efforts of the Government. The World Bank awarded a supplementary grant of SDR 2.5 million to supplement the development of District 7 and prepare the Djibouti City Development Plan alongside the regional headquarters plans financed by the Bank. At the same time, a consultative framework exists with the United Nations Development Program (UNDP), the International Fund for Agricultural Development (IFAD) and the United Nations Capital Development Fund on the themes of decentralization, microfinance and micro-enterprise promotion. Thanks to this mechanism, additional resources estimated at USD 2 million were mobilized by the Government through IFAD and UNDP to extend savings and credit fund operations in the regions. The Government's contribution to this program is valued at nearly US\$ 12 million and will be through the National Solidarity Fund.

1.2.2 After more than one year of implementation, its execution is satisfactory. While the effective disbursement rate does not exceed 9% (end October 2010), the financial commitment ratio stands at 40% and the physical implementation is estimated at 30%. In terms of implementation, the number of people having access to close-to-client financial services rose from 2,500 to 10,000 members between 2008 and 2010. The management tools and accounting framework of savings and loan funds are available. Work aimed at improving access to basic socio-economic infrastructure is progressing normally and two development centres will be completed before year-end. The first audit of the project is due for the fiscal year 2010 because disbursement started only at end 2009.

1.2.3 Due to the condition of dilapidated infrastructure in the regions it prevents people from developing activities that generate income on a large scale and on a sustainable manner. In this context, the initial project targeted as a priority only specific towns and regions, and did not cover other important needs identified at the regional level. Hence, the intervention

primarily targeted actions retained for the regional headquarters, sidelining some major identified needs. The monitoring/evaluation mechanism and impact assessment were restricted solely to the project and the size of commercial infrastructure reduced due to limited resources, thus decreasing their scope of activity. Thus, the grant enables coverage of unattended needs and mitigation of the combined effects of the food and economic crises and recurrent droughts, which have exacerbated the disparities between the regions and Djibouti City. In fact, two imperatives justify the Bank's intervention.

(i) ***Need to broaden basic infrastructure access and quality.*** The need to expand the access and quality of basic infrastructure is because the food and financial crises, and drought in neighboring countries have increased population movements with their livestock to the project areas and basic infrastructure needs have increased dramatically. Indeed, the analysis of the minimum needs in the regions was estimated in 2008 to 15 various market infrastructures, and PREPUD covered only 50% of the priority needs of the regions. The size and number of commercial infrastructure identified in the initial project no longer meets the standards required as priority investments, due to increasing poverty in the hinterland. The intake capacity of these market infrastructures is no longer sufficient to effectively serve people. To date, the country has only one market for livestock in Djibouti city for the entire country. Also, strengthening market infrastructure provides income generating activity opportunities for the people of Djibouti and potential for border trade.

(ii) ***Urgent need for the country to have a more updated poverty profile.*** The fuel, food and financial crisis generate new pockets of poverty which need immediate actions to circumvent their spread effects at national level. The key poverty indicators have not been updated and the INDS monitoring mechanism lacks sufficient qualified human resources. Hence, making available to the Government more reliable indicators likely to provide a more comprehensive and elaborate baseline scenario is a key step towards steadier action on social protection and the fight against inequalities. The updating of the poverty profile will help to better specify the indicator targets to be reached within the framework of the Millennium Development Goals and facilitate measurement of the impact of outputs. In this regard, capacity building in analysis justifies the intervention. This will better address the weaknesses noted in the operation of the monitoring/evaluation system used by the INDS. The current situation is conducive, given the possibility of developing a reliable survey frame based on the 2009 population census results.

1.2.4 Therefore, activities planned under the initial PREPUD will be consolidated and extended, thanks to the supplementary grant resources. This will enable the regions to widen their productive base and generate employment. These activities ensure synergy with the initial objective of job creation in the regional headquarters (450 additional jobs will be thus created besides 3,500 jobs expected at project end, thanks to the microfinance activities under the initial PREPUD). Hence, the actions adopted justify the intervention in light of the mixed results obtained under ongoing actions to reduce extreme poverty in the country and the weaknesses identified in monitoring and measuring their impact on the living conditions of the population.

1.2.5 The Bank's comparative advantage within the framework of this supplementary support rests on three essential components resulting from the implementation of poverty reduction projects. Firstly, the Bank's experience gained in the implementation of

interventions to reduce poverty by creating jobs is deemed as an appropriate response to various crises. Secondly, the need to create more synergy with other Bank projects, notably those concerning support to food security, emergency aid and the harnessing of surface water, to boost the social and economic effectiveness of such projects. Thirdly, knowledge of the environment and the existence of a network of credible partners (NGOs, regional councils, producers' associations) will help to accelerate project execution.

1.3 Donor Coordination

| Sector or sub-sector* | | GDP | Exports | Workforce |
|---|--------|---------------|---------|-----------|
| URBAN POVERTY | | [9 %] | - | 3 500 |
| Stakeholders – Annual Public Expenditure (average) ** | | | | |
| Government | | Donors | | |
| | | AFD | | 14% |
| UAM | UAM 55 | UAM 32 | WB | 22% |
| % | 66% | 34% | ADB | 24% |
| | | EU | | 16% |
| | | AFESD | | 25 % |
| | | OTHERS | | 9% |
| Level of Aid Coordination | | | | |
| Existence of thematic working groups | | | | [YES] |
| Existence of a comprehensive sector programme | | | | [YES] |
| ADB's role in aid coordination *** | | | | [M]**** |
| The expenditure structure has hardly changed | | | | |
| *The most appropriate ** Years [2000 à 2008] *** For this sector or sub- sector | | | | |
| **** L : Lead donor; M : member (not lead donor); None : no role | | | | |

Comments on Donor Coordination

1.3.1 The Ministry for Economic Affairs and Finance in charge of Privatization is responsible for donor coordination at the country level. At the sector level, the Secretariat of State for National Solidarity is charged with implementing the INDS. The programme's four key donors (AFD, IsDB, ADB and WB) in May 2007 initiated an urban poverty reduction thematic group. It will be recalled that this group had determined the thematic thrusts of the programme and the zones of intervention, defined the financing and implementation as well as the organizational and management mechanism. When the program started, regular consultations and discussions between various members of the group continued, leading to: (i) joint supervision and review missions; (ii) mobilization of additional resources; and (iii) conduct of accounts audit by the same firm. As a partner, the Bank plays a prominent role in building the capacity of national structures in charge of urban management. The execution rates are respectively 20% for the WB and 10% for the AFD. For other partners, the

disbursement rates are 20% for the WB and 15% for the AFD. Commitments should reach 40% before year-end.

1.3.2 In terms of outputs from other partners, the drainage works of Districts 7 (WB) and Balbala (AFD) are under way. Their implementation rates are respectively 20% for the WB and 10 % for AFD. The disbursement rates are 20 % for the WB and 15% for AFD. Commitments should reach 40% before the end of the year.

II Description of the Supplementary Grant

2.1. Project Components

2.1.1 The project's goal is to improve the living conditions of the people of Djibouti. The specific objective of the Bank's intervention is to enhance the socio-economic development of the five provincial capitals and measure the impact of that development. The supplementary grant covers all the PREPUD themes and comprises activities related to: (ii) capacity building (ii) construction/rehabilitation of priority infrastructure in the regional headquarters; and (iii) monitoring/evaluation.

2.1.3 The supplementary grant will be used to finance the activities falling within the framework of the initial PREPUD components and in particular additional needs identified at component 1. Table 2.1 summarizes the components, financing by component and a short description of the activities financed by the supplementary grant.

Table 2.1
Project Components

| # | Component Name | Cost Initial Grant | Cost Supplementary Grant | Foreign Exchange | Local Currency | Supplementary Grant Description of Components |
|---|---|--------------------|--------------------------|------------------|----------------|--|
| 1 | Capacity building | 3.97 | 0.46 | 0.09 | 0.37 | <ul style="list-style-type: none"> - Support in the forms of expertise in decentralization and urban management, support in training of staff of savings and loan funds and of the Central Bank - Support for the organization of budget-consumption and poverty surveys, and training of statistical assistants |
| 2 | Access to structuring infrastructure and socio-community facilities | 2.57 | 0.28 | 0.06 | 0.22 | <ul style="list-style-type: none"> - Construction of 5 community development centres, 2 bus stations, 5 markets, 1 handicraft display centre and extension of a cattle market (supplementary grant). |
| 3 | Project management | 1.22 | 0.06 | 0.02 | 0.04 | <ul style="list-style-type: none"> - Allowances and operating expenses of the executing agency - Project mechanism for monitoring/evaluating impact. |

| | | | | | | |
|--|--------------|-------------|--------------|-------------|-------------|--|
| | Total | 7.76 | 0.800 | 0.17 | 0.63 | |
|--|--------------|-------------|--------------|-------------|-------------|--|

2.2. TECHNICAL SOLUTIONS ADOPTED AND ALTERNATIVES EXPLORED

2.2.1 The choice made within the framework of the supplementary grant is identical to that of the initial project. It was based on solutions likely to sustainably reduce inequalities, create jobs and build national capacity. The technical design could have been based on common poverty reduction and management training practices. The idea is to put in place programmes that provide social safety nets for the most disadvantaged groups through resource allocation to poor families or “food-for-work” operations. In the area of training, the alternative not followed would have involved sending students abroad. These options were not chosen because of their high cost and low sustainability.

2.3. *Project Type* : This is an investment project.

2.4. *Project Cost and Financing Arrangements*

2.4.1 The total cost of the supplementary grant summarized in Table 2.3 is UA 0.800 million. It supplements the initial PREPUD financed for UA 5.82 million.

Table 2.3
Project Cost by Component of the Initial Grant (in DJF million and UAM)

| COMPONENTS | FDJ million | | | UA million | | | % T.C. | %. FE |
|--|-------------|--------|-------|------------|------|-------|--------|-------|
| | FE | LC | Total | FE | LC | Total | | |
| 1. Capacity building | 12.01 | 101.21 | 113.2 | 0.04 | 0.38 | 0.42 | 52.8% | 11% |
| 2. Access to structuring and socio-community infrastructures | 29.79 | 40.70 | 70.5 | 0.11 | 0.15 | 0.26 | 32.8% | 42% |
| 3. Project management | - | 13.29 | 13.3 | 0.00 | 0.05 | 0.05 | 6.2% | 0% |
| Total base cost | 41.80 | 155 | 197 | 0.16 | 0.58 | 0.73 | 91.8% | 21% |
| Physical contingencies | 2 | 8 | 10 | 0.01 | 0.03 | 0.04 | 4.6% | 21% |
| Price escalation | 1 | 6 | 8 | 0.01 | 0.02 | 0.03 | 3.6% | 19% |
| Total | 45 | 169 | 215 | 0.17 | 0.63 | 0.800 | 100% | 21% |

2.4.2 The ADF contribution within the supplementary grant framework amounts to UA 0.800 million. It covers total foreign exchange costs and 100% of the costs in local currency. This option was chosen in accordance with the provisions of the policy on expenditure eligible for Bank Group financing (**document ADB/BD/WP/2007/72/Rev.2 of 2 May 2008**) that authorize the Bank to finance under certain conditions up to 100% of the expenditure. The same arrangements were adopted under the initial PREPUD. The cost estimates were prepared during the October 2010 preparation/appraisal mission. The project cost incorporated average annual provisions of 5% and 3% for physical contingencies and price escalation, in that order. The Tables from 2.3 to 2.5 below summarize the distribution of the total project cost by component, source of financing and expenditure category.

Table 2.4
Project Cost by Expenditure Category of the Supplementary Grant (in DJF million and UA million)

| EXPENDITURE CATEGORY | DJF million | | | UA million | | | %T.C | %FE |
|------------------------|-------------|--------|--------|------------|------|-------|-------|-----|
| | FE | LC | Total | FE | LC | Total | | |
| A. Works | 29.79 | 34.30 | 64.09 | 0.11 | 0.13 | 0.24 | 29.9% | 46% |
| B. Goods | 0.00 | 8.09 | 8.09 | 0.00 | 0.03 | 0.03 | 3.8% | 0% |
| C. Services | 8.30 | 63.14 | 71.44 | 0.03 | 0.24 | 0.27 | 33.3% | 12% |
| D. Operating cost | 3.71 | 49.67 | 53.38 | 0.01 | 0.19 | 0.20 | 24.9% | 7% |
| Total base cost | 41.80 | 155.20 | 197.00 | 0.16 | 0.58 | 0.73 | 91.8% | 21% |
| Physical contingencies | 2.09 | 7.76 | 9.85 | 0.01 | 0.03 | 0.04 | 4.6% | 21% |
| Price escalation | 1.48 | 6.28 | 7.77 | 0.01 | 0.02 | 0.03 | 3.6% | 19% |
| Total | 45.37 | 169.24 | 214.62 | 0.17 | 0.63 | 0.800 | 1.00 | 21% |

Table 2.5
Expenditure Schedule by Component of the Initial Grant (in UA million)

| COMPONENTS | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|---|------|------|------|------|------|-------|
| 1. Capacity building | 1.53 | 0.81 | 0.62 | 0.57 | 0.44 | 3.97 |
| 2. Access to structuring and socio-community facilities | 0.80 | 0.98 | 0.51 | 0.15 | 0.14 | 2.57 |
| 3. Project management | 0.30 | 0.46 | 0.25 | 0.13 | 0.08 | 1.22 |
| Total | 2.63 | 2.24 | 1.38 | 0.85 | 0.66 | 7.76 |

Table 2.6
Expenditure Schedule by Component of the Supplementary Grant (in UA million)

| COMPONENTS | 2011 | 2012 | 2013 | Total |
|---|------|------|------|-------|
| 1. Capacity building | 0.40 | 0.03 | 0.03 | 0.46 |
| 2. Access to structuring socio-community facilities | 0.28 | 0.00 | 0.00 | 0.28 |
| 3. Project management | 0.00 | 0.00 | 0.06 | 0.06 |
| Total | 0.68 | 0.03 | 0.09 | 0.80 |

2.4.5 The expenditure schedule by component is shown in Table 2.6 above. The high amounts of the early years are due to the conduct of the national budget-consumption and poverty survey, and the construction of the Dikhil cattle market whose technical studies are nearing completion.

2.5 Project Target Area and Population

2.5.1 Initially, the zone covered comprised the five regional headquarters with a population estimated at 120,000 and nearly 100,000 Djibouti City dwellers. Through the cattle market, the supplementary grant widens the geographic area and beneficiaries beyond the country's borders. The population directly impacted by the supplementary grant concerns the people of Dikhil Region (88 000) as well as the transhumant stockbreeders in the border regions of Somaliland (Borama) and Ethiopia (Ayeror, Dhadin, Bakere and Sankal Districts),

representing a population of close to 65,000 people (54% women). These are mainly poor households having livestock as their source of income and facing chronic food insecurity.

2.5.2 The other groups concerned are: (i) cattle haulers and herdsmen (580 persons); (ii) intermediate brokers (185); (iii) fodder farmers (25 persons); (iv) butchers (15 persons); (v) meat sellers, of which 40% women (25 persons), representing in all nearly 1,000 households living on meat sector activities in Dikhil. These different groups are organized in associations. The capacity building activities target especially the Directorate of Statistics and Demography (DISED), (60 persons), the University of Djibouti (15 persons), technical services of sector ministries charged with producing gender-disaggregated statistical data (45 persons) as well as ADDS staff (5 persons). Overall, the beneficiaries are the women and men of Djibouti, whose indicators of household living conditions will be known (819,000 inhabitants).

2.6 Participatory Approach for Project Identification, Design and Implementation

2.6.1 The same approach as that used for the preparation of PREPUD was followed in preparing the supplementary grant. The different missions were carried out in consultation with the central authorities, notably the Directorate of Statistics, regional councils and civil society associations. Based on a list of commercial and socio-economic infrastructure adopted after consultation with the stakeholders in 2008, a cattle market was selected using criteria concerning: (i) creation of jobs for disadvantaged groups; (ii) revitalization of trade between regions; and (iii) extension of the financial base of regional councils. Cattle trade sector stakeholders were consulted.

2.6.2 During Bank missions to the country, meetings were held with representatives of the key players. The discussions helped to validate the choice of the market site and structure, define roles and propose alternative solutions. The potential risks and implementation strategy were discussed and mutually agreed upon with members of associations of herdsmen, butchers and meat sellers, administrative officials and the private sector. The performance indicators were discussed through workshops attended by all stakeholders. Concerted decision-making is encouraged throughout the execution of the project. The surveys were selected based on the priorities of the Statistics Strategic Plan approved in 2009. The organization, design and results were validated during meetings held under the aegis of the DISED and including potential producers and users (see Annex B.3).

2.7. BANK GROUP EXPERIENCE AND LESSONS REFLECTED IN PROJECT DESIGN

2.7.1 The same considerations and lessons learned from the implementation of ADF projects have been taken into account. Lessons learned from the ongoing implementation of PREPUD confirmed by other partners (AFD, WB) are: i) delays in the procurement process; ii) the weakness of the monitoring and evaluation; and iii) low partners' involvement in monitoring and implementing the project. The current project incorporates the following elements: i) the establishment within the cell responsible for the procurement of technical assistance for Strengthening the capacities of intervention in the procurement process; ii) the launch of information campaigns and awareness on the roles and responsibilities of different actors to increase their participation and have more active partners in the implementation of the project. In the case of PREPUD, in order to reduce delays in the procurement process prior actions have been taken and include: i) the early development of terms of reference and

technical records (methodologies, questionnaires) of the three surveys provided by the Directorate of Statistics and Demographic Studies (DISED) this will avoid delays in the preparation of surveys.

2.8 KEY PERFORMANCE INDICATORS

2.8.1 The main outputs will be measured through a monitoring and evaluation mechanism put in place at the project level, as mentioned in the logical framework. The main indicators are the reduction of poverty and unemployment rates in the project area.

2.8.2 The results obtained will be disseminated and shared with the beneficiaries (men and women) and policy makers to measure the effectiveness of the project during its implementation and upon completion. The gender-disaggregated indicators will be published in the quarterly and annual management reports as well as in the project newsletter.

III. PROGRAMME FEASIBILITY

3.1. Economic and Financial Performance

3.1.1 The overall economic rate of return and the net present value (NPV) are the same as in the initial project.

3.2. ENVIRONMENTAL AND SOCIAL IMPACT

Environment

3.2.1 This project is classified under Environmental Category III since additional activities financed by the supplementary grant have no negative impact on environment. The works to be carried out will have a limited negative impact on the environment. Instead, the facilities will reduce nuisance caused by poor working conditions and that can generate respiratory and water-borne diseases resulting from pollution and poor hygiene in the present open-air cattle market. The cattle, traders and users of facilities (65% women) will suffer less exposure to the sun. The new structure will facilitate regional cattle trade by reducing the straying of herds and the spread of livestock diseases, thanks to enhanced veterinary surveillance in the zone. Girls and women who are household heads will benefit most from the spin-offs of these actions as they constitute the main users of the new annex to the facility.

Climate Change

3.2.2 The supplementary grant activities complement the effects generated by the initial project activities on mitigating the effects of nomadic migration to the cities, while providing a specific response to under-equipment in terms of markets and adaptation to the nomadic lifestyle. The creation of a major regional cattle market will increase national cattle export capacity to Persian Gulf countries, in that way reducing the livestock pressure on the plant cover. The technologies used in the agro-pastoral schemes encourage the use of composting and ensilage thus reducing plant cover degradation. Similarly, the data on household conditions will provide precise information on the energy sources used by the population and guide action regarding the production of alternative energies and reduction of consumption.

Gender

3.2.3 The supplementary grant will have a positive impact on gender. There has been unquestionable progress in schooling, access to care as well as participation in decision making. Despite all of this, many constraints remain, notably access to economic opportunities, the burden of traditions and the practice of female genital mutilation (FGM) which affects nearly 95% women aged above 15. Current results show that gender parity in basic education is 0.98. Nearly 60% of beneficiaries of microfinance activities are women. The unemployment rate is nearly 60% of the workforce and remains very high among the youth. Households headed by women have an unemployment rate of 68.6%. The conduct of the survey on household living conditions, monitoring/evaluation and the impact measurement mechanism put in place under the project will provide gender disaggregated data and updated information on female poverty and women's status in Djibouti. Therefore, the Government will be able to diagnose the situation of women and young girls in the country and will use more appropriate strategies to reduce gender disparities, foster empowerment and continue to expose situations such as gender-based violence, illiteracy and access to decision-making. Within the same framework, the information furnished will enable the Government to prepare programmes aimed at enhancing men's participation in income-generating activities, thus reducing male youth unemployment and fostering equity in a sector dominated by women. Lastly, thanks to improved work conditions in the cattle market, nearly 120 women working in related services at the market (restaurants, eateries, sale of fodder and drinks, shops) will be able to operate in a more attractive and safe environment. That should help increase their productivity, diversify their activities, and boost their income and self-reliance.

Social Sector

3.2.4 The social impact of the supplementary grant will be measured mainly through monitoring and knowledge of the poverty phenomenon. The Government will use the socio-economic data generated by the poverty survey and analysis to improve monitoring of the implementation of the social development initiative and attainment of the millennium development goals. Multiple social benefits will be generated by PRÉPUD in terms of job creation, emergence of individual micro-enterprises and increased income in families, especially for the youth. Given the growing instability and vulnerability due to poverty and unemployment, their economic and social integration is fundamental to the prevention of all forms of delinquency. With the activities developed around the market, nearly 250 full-time jobs and 750 part-time jobs should be created in the sectors of transport, fodder trade, catering, cleaning and guarding. The market construction works will offer nearly 350 part-time jobs. The construction of the Dikhil Cattle Market will increase the traffic and turn-around of vehicles, as well as the volume of head of cattle transported, from 500,000 to 700,000 as from 2012. The trade will facilitate the movement of goods and services between regions, thus reducing the inequalities between the hinterland and Djibouti City. The regional character of the cattle market represents a major step towards stabilizing the population of the sub-region and reducing rural migration to Djibouti City.

Involuntary Resettlement

3.2.5 The project will not entail population displacement.

IV. IMPLEMENTATION

Implementation Arrangements

4.1.1 Executing Agency

The supplementary grant will be implemented through the same institutional mechanism as PREPUD. The Djibouti Social Development Agency (ADDS) will be the delegated project owner. Since PREPUD started in 2008, its intervention capacity has been strengthened in procurement, coordination of activities and monitoring/evaluation. Its services are satisfactory. Its role will be notably to: (i) coordinate all project activities; (ii) manage the goods, services and works procurement process; (iii) carry out the administrative and financial management of all the project components; (iv) supervise the studies and execution of works and supply and installation of equipment; (v) supervise the different training programs; (vi) prepare payment requests for service providers; (vii) prepare meetings of the Board of Directors and ensure the execution of its decisions; (viii) ensure the conduct of annual financial audits; (ix) ensure the conduct of technical audits of the services of implementation partners; and (ix) prepare and transmit to the ADB quarterly management reports. The procedures manual and management tools are in place.

The implementation partners are required to: (i) collaborate in implementing the different activities; and (ii) find solutions to difficulties arising in the field, within their spheres of competence:

- The Directorate of Statistics and Demographic Studies (DISED) will: (i) draw up the terms of reference of the three surveys; (ii) validate and approve methodology; (iii) carry out the collection, processing, analysis of data and publish and disseminate the results; (iv) ensure compliance with the agreement between the stakeholders with regard to the training of statistics technical assistants and continuous training;
- As a main structure of local higher education, the University of Djibouti (DU) will be closely associated with the training of statistical assistants in partnership with ENSEA to benefit from the expertise and sustain the training in this field. In this context, the DU will be responsible for: i) validating the educational package from ENSEA; ii) organize the course and examinations; iii) manage the logistics of trainings and validate degrees in collaboration with ENSEA.
- The National School of Statistics and Applied Economics is required to: (i) take part in the recruitment process of students who will benefit from the training; (ii) organize the competitive examination, deliver courses and examinations; and (iii) co-validate the certificates of these students.

Through a monitoring committee, the regional councils, community associations and professional bodies will: (i) ensure the proper conduct of works; and (ii) conclude a leasing contract with a private firm for the management of the contract.

4.1.2 Procurement Arrangements

The PREPUD procurement arrangements will be observed under the supplementary grant (see Annex B.5). All Bank-financed goods, works and services will be procured in accordance with Bank Rules of Procedure for the Procurement of Goods and Works, or, as appropriate, Bank Rules of Procedure for the Use of Consultancy Services.

To comply with the national arrangements for the conduct of the social surveys, an agreement will be signed with DISED to conduct the surveys on household living conditions.

The section on procurement arrangements in Annex B5 was prepared and justified according to the accepted format. ADDS will be responsible for procurements and other activities as described in the Technical Annex B5.

4.1.3 Financial Management and Audit Arrangements

The PREPUD executing agency will be responsible for the administrative, financial and accounting management of the supplementary grant. Its organizational mechanism and the procedures and management tools exist, and are used by the four PREPUD donors. During the mid-term review of PREPUD scheduled for 2011, the Bank will ensure that the financial management system in place enables adequate financial execution of the project. It will evaluate the existing mechanism namely: (i) a manual of administrative, financial and accounting procedures dedicated to the project; (ii) accounting allowing for availability of ledgers and financial statements required by the Bank at all times; and (iii) a clear segregation of duties.

The Recipient will open a special account in the name of the supplementary grant in a commercial bank acceptable to the Bank. This account will hold the grant resources. Providing evidence of opening the account will be a condition precedent to the first disbursement of the ADF grant. The details relating to the terms and conditions for paying and replenishing the revolving fund are specified in Annex B3.

The project accounts will be audited annually by an audit firm in accordance with Bank terms of reference and the reports transmitted to the Bank within six months following the end of the financial year.

Furthermore, ADDS will give a quarterly account of supplementary grant activities and expenditure through the project activity/progress and financial reports.

4.2. Monitoring

4.2.1 The same arrangements under PREPUD will apply to the supplementary grant. The supervision missions will be organized regularly on a half-yearly basis. The mid-term review is scheduled for 2012. The quarterly management reports will be transmitted regularly to the Bank. Furthermore, ADDS has a monitoring and evaluation department charged with monitoring project activities and measuring the impact of its outputs through the mechanism in place. The grant will reinforce that mechanism.

At the country level, thanks to the results of the survey on household living conditions and data from the 2009 census, DISED will have a reliable benchmark from INDS to monitor the progress achieved in terms of reaching the MDGs. This database will also be used as national reference for the technical ministries to set realistic sector goals to be reached within the poverty reduction framework. The database will be updated regularly through specific annual surveys, while the poverty profile will be updated every 5 years, in accordance with the National Statistics Strategic Plan recently approved by the Government.

| Date | Follow-Up | Action Steps |
|----------------|---------------------|---|
| Janvier 2011 | Launch | Set up of the institutional and organizational structure |
| September 2011 | Supervision | Status of financing and implementing status |
| March 2012 | Supervision | Evaluation of status of procurement and knowledge of the operational framework |
| September 2012 | Mid-term evaluation | Performance and institutional constraints / reorientation and status of procurement |
| March 2013 | Supervision | Performance evaluation and monitoring update of procurement |
| September 2013 | PCR | Final evaluation of performance for identified objectives |

4.3. Governance

4.3.1 For the past decade, Djibouti has benefited from political stability which has attracted and encouraged foreign direct investment and established a peaceful democratic process. The last parliamentary elections held in February 9, 2008 were boycotted by the opposition. In April 2010, the National Assembly approved a constitutional amendment allowing the president's current run for a third term in presidential elections in March 2011. With respect to financial governance, reforms were initiated in the areas of Public Financial Management (PFM), the administration processes were modernized, and business environment and decentralization were enhanced. Djibouti has also committed to the restructuring and modernization of the welfare system by merging the social security funds and pension funds into one entity.

4.3.2 Under PREPUD, a system integrating both the procurement and financial management is in place at the ADDS. A reinforced unit responsible for all project procurements is in place and publishes a procurement plan annually. The project accounts are kept by the ADDS chief accountant using a private accounting plan. Separate accounts are kept on all ADF-financed operations and audited annually by an external auditing firm.

4.4. Sustainability

4.4.1 The viability analysis conducted for PREPUD is valid for the supplementary grant. The sustainability of the project impact lies in the combination of several factors. First, the various trainings organized for senior staff and employees of DISED and ADDS in statistical methods will provide a pool of qualified officers to handle survey organization, data analysis

and establishment of the poverty profiles. Similarly, the participation of ministry officials in various surveys planned and the analysis of the results will contribute to knowledge transfer within the structures charged with feeding information into the INDS monitoring and evaluation system. This work will enhance the capacity of the key data producers to be fed into the monitoring and evaluation system. Similarly, the Government has undertaken to regularly finance from its budget (5 years), actions aimed at updating the database financed by the supplementary grant. The annual cost of these operations does not exceed UA 30,000, which can be easily mobilized from the budget. These effects will provide further guarantees of sustainability of the outputs, while maintaining the momentum generated beyond the project period.

4.4.2 The recurrent and operating cost of the market will be covered by the market fees. The market itself will be managed by a private company as a concession under a leasing contract. Besides these receipts, payments for services provided (vaccination, livestock transit charges, rental of kiosks and stands and sale of fodder) will be used to service and maintain the market. This approach will strengthen ownership of the project by beneficiaries, which constitutes a guarantee of sustainability. In addition, the low recurrent costs (UA15 000) to be borne by the project and the transfer of almost UA 300,000 from the national budget will also help to ensure sustainability of the project outputs.

4.4.3 Lastly, the establishment of a monitoring and evaluation system offers the advantage of involving stakeholders in monitoring the implementation of activities, thereby upgrading the skills of local authorities in planning and participatory decision-making; these skills will be used beyond the initial project implementation period.

4.5. Risk Management

The PREPUD appraisal report had identified 3 risks: (i) INDS's lack of financing; (ii) lack of resources for the decentralization process; and (iii) limited capacity of the ADDS. Risks (i) and (iii) were attenuated by the measures to mobilize supplementary resources, thanks to the National Solidarity Fund (USD 5 million each year) and the supplementary grants of the WB and the ADB, and grants from the private sector (USD 4 million). The January 2011 donors' roundtable will help to mobilize further resources. To enhance the capacity of ADDS, well-targeted technical assistance was provided in procurement and activity coordination. An integrated computerized management system has also been put in place. Only risk (ii) remains valid due to an inappropriate institutional and legal framework. To address it, the Government is reviewing the decentralization laws and regulations. No additional risk has been identified for the supplementary grant.

4.6. Knowledge Building

4.6.1 Besides the knowledge building actions identified in the initial PREPUD, the supplementary grant will contribute to the acquisition and mastery of techniques of conducting surveys and calculating poverty indicators, methods of targeting vulnerable groups; monitoring and evaluation tools and measurement of the impact of poverty reduction policies.

4.6.2. Such knowledge will be transmitted through consultancy services and specific training (poverty analysis and monitoring). The knowledge will be disseminated through training modules as well as monitoring and evaluation activities carried out by the ADDS team.

V Legal Framework

5.1. Legal Instrument

5.1.1. The legal framework of PREPUD is a grant agreement (“the Agreement”) to be signed between the Republic of Djibouti and the Bank. The Agreement, which will be satisfactory in form and substance to both parties, will contain the usual terms and conditions:

5.2. *Conditions Associated with Bank’s Intervention*

The Agreement will become effective at the date of its signature by the competent authorities of Djibouti and the Fund.

5.3 *Conditions Precedent to First Disbursement of the Loan*

Apart from effectiveness of the Agreement, the disbursement of the Grant will be subject to fulfilment of the following conditions to the full satisfaction of the Fund:

- (a) Show to the Fund, evidence of opening a special account in a bank deemed acceptable by the Fund, in which the grant resources will be kept.
- (b) Show to the Fund, evidence of the signature of 3 (three) agreements between ADDS and DISED, the first on the conduct of the EDAM-BC survey in 2011, the second on the analysis of the impact of microfinance on household living conditions (2012), and the third on the final survey of the impact of the project outputs (2013).

5.4 *Compliance with Bank Policies*

5.4.1. The proposed supplementary grant complies with all applicable Bank policies, including its policy on supplementary financing as well as the Bank’s intervention strategy in Djibouti as defined in the RBCSP 2007-2010, especially Pillars (I) and (II).

VI. Recommendation

Management recommends that the Board of Directors approve the proposed supplementary grant of UA 0.800 million to the Government of Djibouti for the purpose and subject to the conditions stipulated in this report.

Djibouti

INDICATEURS SOCIO-ECONOMIQUES COMPARATIFS

| Djibouti - Development Indicators | | | | |
|--|----------|--------|---------|----------------------|
| Social Indicators | Djibouti | | Africa | Developing countries |
| | 1990 | 2009 * | | |
| Area ('000 Km²) | 23 | | 30 323 | 80 976 |
| Total Population (millions) | 0,6 | 0,9 | 1 008,4 | 5 628,5 |
| Population growth (annual %) | 5,0 | 1,7 | 2,3 | 1,3 |
| Life expectancy at birth, total (years) | 50,8 | 55,8 | 55,7 | 66,9 |
| Mortality rate, infant (per 1,000 live births) | 115,8 | 82,1 | 80,0 | 49,9 |
| Physicians per 100,000 People | 15,0 | 16,3 | 42,9 | 78,0 |
| Births attended by skilled health staff (% of total) | ... | 92,9 | 50,5 | 63,4 |
| Immunization, measles (% of children ages 12-23 months) | 85,0 | 73,0 | 74,0 | 81,7 |
| School enrollment, primary (% gross) | 38,1 | 46,2 | 100,2 | 106,8 |
| Ratio of girls to boys in primary education (%) | 70,9 | 88,3 | 90,9 | 100,0 |
| Literacy rate, adult total (% of people ages 15 and above) | ... | ... | 64,8 | 81,0 |
| Access to Safe Water (% of Population) | 76,0 | 92,0 | 64,0 | 84,0 |
| Access to Sanitation (% of Population) | ... | 67,0 | 38,5 | 54,6 |
| Human Develop. (HDI) Rank (Over 169 Countries) | ... | 147 | n.a | n.a |
| Human Poverty Index (% of Population) | ... | 25,6 | 34,7 | ... |
| Djibouti | | | | |
| Economy | 2000 | 2007 | 2008 | 2009 |
| GNI per capita, Atlas method (current US\$) | 760 | 1 110 | 1 210 | 1 280 |
| GDP (current Million US\$) | 556 | 848 | 983 | 1 061 |
| GDP growth (annual %) | 0,4 | 5,1 | 5,8 | 4,8 |
| Per capita GDP growth (annual %) | -2,4 | 3,3 | 4,0 | 3,0 |
| Gross Domestic Investment (% of GDP) | 8,8 | 43,0 | 46,7 | 35,8 |
| Inflation (annual %) | 1,6 | 5,0 | 12,0 | 1,7 |
| Budget surplus/deficit (% of GDP) | -1,8 | -2,6 | 1,3 | -1,8 |
| Trade, External Debt & Financial Flows | 2000 | 2007 | 2008 | 2009 |
| Export Growth, volume (%) | 13,8 | -0,2 | 12,6 | 8,5 |
| Import Growth, volume (%) | 5,0 | 15,8 | 25,8 | -6,5 |
| Terms of Trade (% change from previous year) | -0,5 | -1,1 | 2,0 | 0,2 |
| Trade Balance (mn US\$) | -175 | -425 | -617 | -504 |
| Trade balance (% of GDP) | -31,5 | -50,1 | -62,8 | -47,5 |
| Current Account (mn US\$) | -50 | -219 | -383 | -193 |
| Current Account (% of GDP) | -9,0 | -25,8 | -39,0 | -18,2 |
| Debt Service (% of Exports) | 7,6 | 7,5 | 6,8 | 8,0 |
| External Debt (% of GDP) | 52,0 | 63,6 | 59,2 | 62,0 |
| Net Total Inflows (mn US\$) | 91,4 | 133,2 | 154,7 | ... |
| Net Total Official Development Assistance (mn US\$) | 71,4 | 112,4 | 120,9 | ... |
| Foreign Direct Investment Inflows (mn US\$) | 3,3 | 195,4 | 234,0 | 100,0 |
| External reserves (in month of imports) | 2,3 | 1,7 | 1,6 | 2,5 |
| Private Sector Development & Infrastructure | 2000 | 2005 | 2009 | 2010 |
| Time required to start a business (days) | ... | 37 | 37 | 37 |
| Investor Protection Index (0-10) | ... | 2,3 | 2,3 | 2,3 |
| Main Telephone Lines (per 1000 people) | 13,3 | 13,4 | 12,7 | 12,7 |
| Mobile Cellular Subscribers (per 1000 people) | 0,3 | 54,8 | 51,9 | 51,9 |
| Internet users (000) | 1,9 | 12,4 | 15,3 | 15,3 |
| Roads, paved (% of total roads) | 14,1 | 13,7 | 16,0 | 16,0 |
| Railways, goods transported (million ton-km) | ... | 97 | ... | ... |

Source: ADB Statistics Department, based on various national and international sources.

* Most recent year

Last Update: November 2010

Table of ADB Portfolio in Djibouti

| Sector | Type | Classification | Amount Approved | Approval Date |
|---|------|----------------|--------------------|---------------|
| <u>AGRICULTURE</u> | | | | |
| Emergency Assistance to Drought Victims | G | S | 0.4 | |
| Avian Influenza Control | G | S | 0.3 | 12-Dec-06 |
| <u>TRANSPORT</u> | | | | |
| Djibouti Bulk Terminal | L | S | 6.7 | 03-Dec-03 |
| <u>SANITATION</u> | | | | |
| Djibouti City Sanitation | G | S | 6.0 | 26-Nov-07 |
| <u>ENERGY</u> | | | | |
| Djibouti-Ethiopia Hydro-electric Grid Project | L | S | 17.6 | 13-Dec-04 |
| <u>SOCIAL SECTOR</u> | | | | |
| Strengthening of Basic Health Services I | | NS | 4.0 | |
| | L | | 3.0 | 17-July-02 |
| | G | | 1.0 | 17-July-02 |
| Education III | | NS | 5.0 | |
| | L | | 4.6 | 17-July-04 |
| | G | | 0.4 | 14-July-04 |
| Urban Poverty Reduction Programme Support Project | G | S | 5.82 | 17-Oct-08 |
| <u>MULTI-SECTOR</u> | | | | |
| Multinational Projects | L | | 17.6 | |
| Guarantee | | | 0.0 | |
| Private sector | L | | 6.7 | |
| <u>TOTAL</u> | | | | |
| <u>L</u> | | | <u>63.9</u> | |
| <u>G</u> | | | <u>3.2</u> | |

Annex III.

Major Related Projects Financed by the Bank and Djibouti's Other Development Partners

| DONOR | PROJECT TITLE | INTERVENTION AREAS |
|--|---|--|
| French Development Agency | Integrated Urban Development Project of Districts 12, 14 and 15 of Balbala in Djibouti City (2009-2013) | Road network, sanitation, community facilities (markets, bus stations, health centre), community development, water supply |
| Islamic Development Bank | Djibouti Urban Poverty Reduction Project – District 5 (2009-2013) | Infrastructure and equipment (latrines, water supply, electricity, health centres, schools, public utilities) |
| World Bank | Urban Poverty Reduction Project – District 7- (2008-2013) | Urban road networks, community development, extension of electric grid, public latrines, basic infrastructure |
| African Development Bank | Djibouti City Sanitation – (2007-2012) | Sanitation |
| | Ethiopia-Djibouti Hydro-electric Grid (2005-2010) | Electricity supply, institutional support to EDD company |
| | Urban Poverty Reduction Project | Microfinance, access to basic services (commercial infrastructure, community development) |
| European Union | Building of Urban Bypass Roads (2005-2010) | Road network, sanitation and basic infrastructure |
| Arab Fund for Economic and Social Development (AFESD) | One Thousand Housing Units (Phases I and 2) - (2004-2012) | Social housing, sanitation, access to basic infrastructure |
| | Social Infrastructure | Better access to education and health services |
| Abu Dhabi Fund for Arab Economic Development (ADFAED) | Extension of Boulaos Power Station | Electricity supply |

Map of Project Area



This map was provided by African Development Bank exclusively for the use of the readers of the report to which it is attached. The names used and borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of the territories, nor any approval or acceptance of these borders.

**DJIBOUTI: PROPOSAL FOR A SUPPLEMENTARY GRANT OF UA 0.800 MILLION
TO FINANCE THE URBAN POVERTY REDUCTION PROGRAMM SUPPORT
PROJECT**

OUTCOME OF NEGOTIATIONS

The ADF Supplementary grant for UA 0.800 million was negotiated on 24th November 2010, with the official delegation from the Government of the Republic of Djibouti. The negotiations were successfully concluded and the terms and conditions of the ADF supplementary grant have been accepted by the delegation of the Government of the Republic of Djibouti.