

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



DJIBOUTI

RESULTS-BASED COUNTRY STRATEGY PAPER

2007-2010

COUNTRY REGIONAL DEPARTMENT EAST 2

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ACRONYMS AND ABBREVIATIONS

ACBF	:	African Capacity Building Foundation
ADETIP	:	Djibouti Public Works Agency
AFD	:	French Development Agency
AFESD	:	Arab Fund for Economic and Social Development
AGOA	:	African Growth and Opportunities Act
ANPI	:	National Investment Promotion Agency
ARPP	:	Annual Review of Portfolio Performance
BCD	:	Banque Centrale de Djibouti (Central Bank of Djibouti)
BEPE	:	Education Projects Implementation Bureau
BOT	:	Build Own and Transfer
BWI	:	Bretton Woods Institutions
CBS	:	Currency Board System
CCDB	:	Audit and Budget Discipline Office
CET	:	Common External Tariff
CFAA	:	Country Financial Accountability Assessment
CFI	:	Court of first instance
CNM	:	Commission Nationale des Marchés Publics (National Procurement Board)
COMESA	:	Common Market for Eastern and Southern Africa
CPAR	:	Country Procurement Assessment Report
CPIA	:	Country Policy and Institutional Assessment
CSM	:	Conseil Supérieur de la Magistrature (Higher Judicial Council)
CSO	:	Civil society organization
DEF	:	Department of External Financing
DJF	:	Djibouti Franc
DPI	:	Dubai Port International
SFD	:	Social Fund for Development
EDAM	:	Enquête Djiboutienne Auprès des Ménages (Djibouti Household Survey)
EDD	:	Électricité De Djibouti (Djibouti Electricity Corporation)
EDF	:	European Development Fund
EDSF	:	Population and Family Health Survey
EFPM	:	Economic and Financial Policy Memorandum
FEWSNET	:	Famine Early Warning System Network
FTA	:	Free Trade Area
GIF	:	General Inspectorate of Finance
GSI	:	General State Inspectorate
HIPC	:	Highly Indebted Poor Countries Initiative
TIC	:	Domestic Consumption Tax
IFAD	:	International Fund for Agricultural Development
IGAD	:	Inter-Governmental Authority on Development
INAP	:	National Institute of Public Administration
IsDB	:	Islamic Development Bank
JICA	:	Japanese International Cooperation Agency
MDGs	:	Millennium Development Goals
MEFP	:	Memorandum of Economic and Financial Policies
MTEF	:	Medium-Term Expenditure Framework
NPV	:	Net Present Value

NTF	:	Nigeria Trust Fund
OFPA	:	African Public Services Organisation
OHADA	:	Organization for the Harmonization of Business Law in Africa
ONED	:	Office Nationale des Eaux de Djibouti (Djibouti National Water Agency)
PRGF	:	Poverty Reduction and Growth Facility
PRSP	:	Poverty Reduction Strategy Paper
SCM	:	Supreme Council of the Magistracy
SMP	:	Staff Monitored Program (IMF)
SNIFD	:	National Strategy for the Involvement of Women in Development
SYGADE	:	Computerized External Debt Management System
TPI	:	Tribunal de Première Instance (Court of First Instance)
UNCTAD	:	United Nations Conference on Trade and Development
WHDR	:	World Human Development Report

FISCAL YEAR

1 January – 31 December

CURRENCY EQUIVALENTS

(July 2007)

UA 1 = US\$ 1.52

US\$ 1 = DJF 177.40

UA 1 = DJF 268.87

UNITS OF MEASURE

Metric system

EXECUTIVE SUMMARY

1. The objective of this document is to define a results-based Bank Group operations strategy for Djibouti for the period 2007-2010. It is a tool for programming Bank assistance during the said period and also presents the results framework for monitoring progress in implementing the strategy. The document identifies the Government's development goals which Bank interventions will seek to support.

2. **Recent economic developments:** The real GDP growth rate of 3% for 2004-2005 barely exceeded the annual population growth rate (2.8%) and did not lead to a significant improvement in income per capita. Exogenous shocks, notably the appreciation of the Euro against the dollar to which the Djibouti Franc is pegged, the rise in petroleum product prices and the slowdown in port activity strongly undermined economic growth. Renewed dynamism in port activities generated a real growth rate of 4.8% in 2006. The budget situation deteriorated in 2004-2006 following a sharp increase in recurrent expenditure that generated an accumulation of payments arrears owed to State suppliers as well as outstanding loan repayment arrears. However, external resources obtained through military cooperation helped to maintain the budget deficit (payment order and grants basis inclusive) at 2.2% of GDP in 2004-2006.

3. **Economic reform program:** The interim reform program is aimed at consolidating the tax reforms initiated in 2002. In particular, it seeks to enhance public expenditure control and eliminate the main obstacles to private investment that relate to the legal framework and low competitiveness resulting from the high cost of factors of production. Progress has been made under the Staff Monitored Program with the promulgation of the law on the creation of free trade areas, the drafting of an investment charter, and the preparation of a labor code that makes recruitment and salary determination conditions more flexible. The public corporations privatization program has been delayed and this could affect reductions in factor of production costs and improved competitiveness.

4. **Poverty situation:** Djibouti is ranked 148th out of 177 countries in the Human Development Index (WHDI 2006). Poverty incidence rose from 64.9% in 1996 to 74.4% in 2002 with a higher concentration of poverty in rural and peri-urban areas. The non-monetary poverty situation is highly contrasting, with improved access to education, persistently difficult health conditions and problematic access to basic social services such as water, sanitation and housing. HIV/AIDS remains a major public health problem in Djibouti. According to a survey conducted in 2002, the prevalence rate is 2.9% but but could reach 6% within the 15-35 age bracket.

5. **Government Poverty Reduction Program** The Poverty Reduction Strategy Paper (PRSP) adopted by the BWIs in July 2004 is the national poverty reduction program for 2004-2006. The PRSP seeks to generate a growth momentum and a build-up of human capital capable of boosting the participation of the poor in productive activities and promoting income redistribution. The strategy focuses on four thrusts, namely: (i) strengthening of the country's competitiveness and creation of conditions conducive to robust and sustainable growth; (ii) human resource development through improved access by the poor to health and education and through the implementation of a job promotion policy based on the development of microfinance and vocational training; (iii) integrated local development (community development) through actions that particularly target poor areas; and (iv) promotion of political, local, judicial and economic good governance. The PRSP was updated under the National Social Development Initiative launched in January 2007.

6. **Medium-term strategy of the Bank Group:** The Bank's strategy for 2007-2010 is designed taking into account: (i) the country's development strategy; (ii) other donor interventions; (iii) economic and sector work carried out by the Bank and other development partners; and (iv) lessons learnt from previous strategies. It will focus on two of the four thrusts of the Poverty Reduction Strategy Paper, namely: the promotion of integrated local development (Thrust III) and the promotion of good governance (Thrust IV). This shall be done through a drainage project that will improve access to sanitation in Djibouti city, an urban poverty reduction support project and institutional support for good governance.

7. **Recommendations:** The Boards of Directors are invited to approve the strategy proposed in this RBCSP (2007-2010) which covers the ADF-X and ADF-XI periods.

I. INTRODUCTION

1.1 During consideration of the previous Country Strategy Paper (CSP) 2002-2004 (ADF/BD/WP/2004/75), the Board noted the efforts made by the Government to promote macroeconomic stability and revive growth through reform of the public finance legal and regulatory frameworks and private sector involvement in the management of infrastructure enterprises, notably in the ports sub-sector. The Board underscored that budget resource allocation to priority programs and the implementation of structural reforms that boost competitiveness remained the prerequisites for consolidating macroeconomic stability and raising growth to poverty-reducing levels. Improving good governance and equitable access to health and education services should also be promoted to speed up the implementation of the Millennium Development Goals. The Board approved the Bank Group's assistance strategy that was aimed at supporting the social sector by increasing access to secondary education and HIV/AIDS control in schools.

1.2 Since then, the authorities of Djibouti have been striving to implement these different recommendations through various measures and actions aimed at preserving macroeconomic stability and creating conditions conducive to the revival of economic growth. Financial resources obtained from military cooperation were crucial in maintaining macroeconomic stability. However, the budget situation deteriorated in 2004-2005 following a steep rise in recurrent expenditure that led to an accumulation of domestic and external arrears. Similarly, the current growth rate is not sufficient to generate more revenue and reduce poverty. In the social sectors, the implementation of long-term strategies aimed at increasing access to basic social services was initiated with the support of development partners.

1.3 This document defines the Bank Group's strategy in Djibouti for 2007-2010. The present strategy consolidates the actions undertaken by the Bank over the last few years and identifies the challenges to be addressed to ensure sustainable development for the country. The report was drafted following missions to Djibouti where broad-based consultations were held with the Government, development partners and civil society. The proposed strategy was formulated taking into consideration the ongoing interventions of development partners, notably the European Union's cooperation strategy paper for 2002-2007 and the World Bank's country assistance strategy approved in March 2005.

II. COUNTRY CONTEXT

2.1 Political Context

2.1.1 The Constitution of 4 September 1992 instituted the framework conducive to democratic governance promotion. It endows the country with a presidential system, having a President and a National Assembly with a six-year and five-year term of office, respectively.

2.1.2 Regional elections were organized in March 2006 in a bid to kick-start the decentralization process.

Box 1: Key characteristics of the country

1. The Republic of Djibouti covers an area of 23 000 km² with 370 kilometers of maritime coasts and had a population of more than 806 818 inhabitants in 2006, of which two-thirds (65% of the population) live in the capital. The country has a semi-desert climate characterized by low rainfall, hence the scarcity of water resources. Djibouti lies in a geostrategic position opening out to the Aden Gulf at the Southern entry to the Red Sea and is ringed in by Ethiopia, Eritrea and Somalia and faces the Arabic peninsula. The geostrategic position of the country is enhanced by the new context of counter-terrorism with the stationing of the *Combined Joint Task Force-Horn of Africa* in the country since 2002.

2. Djibouti is a transit country for most of Ethiopia's external trade, which constitutes close to 70% of the national port traffic. This re-export trade constitutes a major economic activity, mainly because Djibouti lacks major natural resources and its level of industrialization remains low. Services based on port activities as well as road and rail traffic supported by the financial sector constitute the country's main source of economic growth. Djibouti is classified among lower middle-income countries owing to its per capita income which was estimated at US\$ 815 in 2004. Monetary poverty has attained alarming proportions, estimated at close to 74% of the population, with a higher concentration in rural and peri-urban areas. Despite the recent improvement in living conditions, human development indicators such as the gross enrolment ratio; the infant, child and maternal mortality rates and access to potable water remain below levels that should enable the country to attain the MDGs by 2015.

2.2 Macroeconomic and Structural Context

2.2.1 **Economic Growth:** The real GDP growth rate of 3% for 2004-2005 barely exceeded the annual population growth rate (2.8%) and did not enable a significant improvement in income per capita. The recovery momentum which started in 2003, slowed down in 2004 due to exogenous shocks suffered by Djibouti's economy, namely the appreciation of the Euro against the dollar to which the Djibouti franc is pegged and the surge in petroleum product prices. This was compounded by the slowdown in port activity due to competition from neighboring ports and to the fact that the main shipowner responsible for transshipment trade in Djibouti returned to the Port of Aden, Yemen. The renewed dynamism in port traffic following the increase in Ethiopian imports and the start of activities on the oil terminal have boosted economic growth. Hence, the real growth rate is estimated at 4.8% for 2006.

2.2.2 **Public Finance** The budget situation deteriorated in 2004-2005 following a sharp increase in recurrent expenditure that generated a net accumulation of payments arrears owed to State suppliers as well as debt repayment arrears. Successive reductions of the Internal Consumption Tax and exemption from excise duties and taxes on petroleum products helped cut the tax ratio from 29.5% in 2004 to 27.7% in 2005. However, external resources from military cooperation helped to maintain the budget deficit (cash basis) at 2.5% of GDP in 2004-2006.

2.2.3 **Balance of Payments** External account trends for 2004-2006 show a decline in the trade balance structural deficit resulting from an increase in imports for the construction of the port complex and the execution of the investment program. Surpluses in revenue and unrequited transfers were not sufficient to reduce the trade deficit thus generating an external current account deficit of 8.9% of GDP for 2006. Drawings from development partners and direct foreign investment generally covered the external current account deficit for 2004-2006, thus generating an overall balance of payments surplus and an accumulation of foreign exchange reserves estimated at 3.2 months of importation of non-factor goods and services for 2006.

2.2.4 Money, Credit and Inflation: The Currency Board System (CBS), whereby foreign exchange reserves are maintained at a surplus relative to the issued money supply, makes it possible to maintain the fixed parity between the Djibouti Franc and the US dollar¹. The CBS fostered price stability through its restrictive monetary policy. However, the surge in petroleum product prices and the appreciation of the Euro against the Djibouti Franc generated an inflation rate of over 3% for 2004-2006. Monetary aggregate trends for 2004-2006 show a sustained rise in money supply (12% in annual average) due, in part, to the regular payment of salaries by the State.

2.2.5 Public Debt: At end - 2006, the total outstanding external debt was estimated at US\$ 427 million (or 56% of GDP), of which 33 million as accumulated arrears. About 75% of this debt was contracted from multilateral donors and 25% from bilateral donors. It is more or less sustainable with an estimated net present value (NPV) ratio of debt stock to GDP of 50% in 2006, an estimated NPV ratio of debt stock to exports of 125% and an estimated debt service to exports ratio of 9% compared to the respective thresholds of 30%, 100% and 15%. A debt sustainability analysis shows that certain debt ratios will remain below previously set thresholds for the 2007-2011 period, with export debt service declining to 4%. The predominance of non-reschedulable multilateral debt in the debt stock is a further constraint on active debt management. The challenge for Djibouti is to further reduce non-priority public spending and conclude rescheduling agreements with bilateral creditors in order to focus on regular repayment of the non-reschedulable debt. Hence, agreements have been concluded with the Arab Funds, notably of Saudi Arabia, Kuwait and Abu-Dhabi. Negotiations were initiated with Italy which is proposing the conversion of the external debt into social and environmental projects. A solution is required for accumulated arrears owed Spain. The domestic debt, amounting to DJF 28 billion at end -2006, is composed of domestic arrears owed to State suppliers, pension funds and State employees. A ten-year arrears settlement plan adopted in 2002 is being implemented.

2.2.6 Macroeconomic and Structural Reforms: The authorities of Djibouti have put in place an interim economic reform program for 2004-2005 supported by an IMF Staff Monitored Program (SMP). The objective is to put in place the reforms supported by the first Poverty Reduction and Growth Facility (PRGF) granted the country for 1999-2003, and establish a good economic policy track record for the conclusion of a second PRGF.

2.2.7 The goal of the economic reform program is to consolidate the fiscal reforms initiated since 2002 and ensure better control of public spending. Considering the high tax rates in Djibouti, the fiscal measures adopted seek to broaden the tax base and ease the tax burden². To improve expenditure control, a cash management plan is being applied and recruitments have been suspended except in priority sectors such as education, health and justice. Macroeconomic stability was restored mainly through the external resource flows into the country.

¹ The viability of the CBS is based on balance of payments surpluses and on the fact that the Djibouti Central Bank refrains from any financing of the budget deficit and refinancing of the banking sector.

² Apart from the reorganization of revenue collection services to ensure the efficiency and harmonization of tax legislation, the measures adopted entailed the unification and reduction of income and indirect taxes. The measures adopted for indirect taxes concerned: (i) a reduction of the tariff structure of the Internal Consumption Tax (ICT) from seven to three rates, and (ii) a reduction of excise duties on staple products, notably oil products destined for energy production and household use.

2.2.8 The objective of the structural reforms program is to remove the key obstacles to private investment which mainly concern the legal and regulatory framework for business, low competitiveness resulting from high costs of factors of production and limited access to bank credit.

2.3 Priority Crosscutting Issues

2.3.1 **Governance:** A Country Governance Profile was jointly prepared by the Bank and the African Capacity-Building Foundation (ACBF) in March 2005. The challenges identified for good governance promotion in Djibouti are centred mainly on: (i) the adoption of political reforms that will enable the institutions to reflect the diversity of the national political landscape; (ii) the revival of administrative reforms that foster the accountability and productivity of State employees; (iii) better allocation of public finances to priority programs, notably poverty reduction strategy implementation results; and (iv) the strengthening of legal and judicial systems.

2.3.2 **Regional Integration:** Considering Djibouti's geographical position and size, regional integration should generate economies of scale that will boost the competitiveness of the national economy and broaden its production base. Hence, Djibouti is a member of the Common Market for Eastern and Southern Africa (COMESA), the Intergovernmental Authority for Development (IGAD) headquartered in the country, and the Arab League. Besides, the country's eligibility to the US government's Africa Growth and Opportunities Act (AGOA) can also help boost external trade. Furthermore, on account of the country's regional role, it can participate in putting in place the NEPAD infrastructure.

2.3.3 Djibouti participates in the implementation of COMESA's Free Trade Area (FTA) which involves 11³ of the 19 COMESA countries. Trade between these countries is duty free.

2.3.4 **Population:** The natural growth rate is around 3% per year and the rate of migration from neighbouring countries is estimated at 3%. The total fertility rate reportedly fell sharply from 5.2 to 4.6 children between 2001-2006. Infant mortality remains high (close to 86‰) and life expectancy is 54 years. The population age structure shows that nearly half of the total population is aged below 20. The urbanization rate is high (75%), with 68% of the population living in the city of Djibouti. Owing to successive droughts, the nomadic populations have tended to settle close to urban centres, thus fueling rapid urban growth in the country. This is putting further stress on water and sanitation networks and undermining substantial improvements made notably in education and health.

2.3.5 **Gender Parity:** The combined gross enrolment rate for males is estimated at 27% compared to 21% for females. Illiteracy affects 38.6% of women compared to 20.1% of men. In the area of employment, the supply of female labour is low with 34.6% of working women aged 15 and above, compared to 73.5% of men. Gender mainstreaming has since 1999 led to the adoption of political and legal measures seeking to promote women's participation in political, economic and social development. These include in particular: (i) the creation in 1999 of a Ministry in charge of Women's Advancement with a mandate to mainstream women in development; (ii) the adoption in 2002 of the national women in development strategy on health, education, employment and decision-making; (iii) adult literacy programs

³ Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwandan, Sudan, Zambia and Zimbabwe.

targeting women in particular and the adoption of an Action Framework for the Promotion of Girls' Education (CAPEF) in 2004; (iv) the passing of the law on a quota system that guarantees at least 10% of elective and administrative positions for women, thereby strengthening their representation in decision-making.

2.36 HIV/AIDS and Communicable Diseases: HIV/AIDS remains a major public health problem in Djibouti. According to a 2002 survey, the prevalence rate could be 2.9% but should attain 6% within the 15-35 age bracket. The incidence of tuberculosis, malaria and diarrhoeal diseases remains high. Health sector reforms concerning decentralization and human resource training, coupled with ongoing health programs and actions (epidemiological surveillance, integrated management of childhood illnesses, intensification of immunization campaigns, provision of ARVs to patients and HIV/AIDS prevention campaigns) will contribute to capacity building to combat the major diseases while improving the overall health coverage of the population.

2.3.7 Environmental Situation: Djibouti is an arid country, characterized by low and erratic rainfall and difficult climatic and ecological conditions. There are no perennial water resources and water table renewal is slow. The vegetation cover has deteriorated considerably, due to sanding, overgrazing, poor farming practices and deforestation. The pressure exerted on the coastline by port activities, with pollution from oil and heavy metals is a further major environmental challenge. Squatter settlements with very limited access to basic infrastructure have proliferated in the main urban centres of the country, notably in Djibouti City. Poor sanitary conditions as a result of defective sanitation facilities have led to the deterioration of the living environment and thus represent a health hazard for the people.

2.4 Social Context and Poverty

2.4.1 Social Sectors: Since the launching of educational system reform in 1999, substantial progress has been made in terms of better education access as well as education quality. The gross primary school enrolment ratio rose from 39% in 1999 to 52% in 2004 thanks to an increased intake capacity. Through these same efforts, the secondary enrolment ratio rose from 18% in 1999 to 29% in 2004. However, girl child enrolment in basic education (7 girls for every 10 boys) remains low. Substantial financial resources have been allocated to the education sector to support the reform program. The share of education in the budget stood at 23% in 2004, up from 21% in 1999. In the domain of health, the country's epidemiological profile is dominated by infectious and parasitic diseases such as tuberculosis, malaria and chronic respiratory diseases. The situation is exacerbated by high fertility, insufficient medical follow-up, malnutrition, anaemia and the consumption of Qat. Maternal and child health indicators are improving, compared to their 1989 levels, but still remain high. The infant mortality rate dropped from 116 ‰ in 1989 to 86‰ in 2002. The complete immunization rate is only 45%. According to available information, the maternal mortality rate is about 546 per 100,000 births.

Box 2: Poverty trends

1. With a Human Development Index of 0.495 in 2006, Djibouti ranked 148th out of 177 countries. Poverty, defined as total deprivation, almost always refers to monetary poverty which determines access to a number of basic social services such as food, drinking water, education and health. In Djibouti, monetary poverty is analysed from two poverty thresholds: a relative poverty line of 3.3 dollars per adult and per day, taking into account food and non-food expenditure; and an extreme poverty line of 1.8 determined on the basis of minimum food needs equivalent to the daily calorie intake of 2115 per adult equivalent.
2. The different household surveys conducted in Djibouti show a high incidence of poverty despite high per capita income levels. Relative poverty rose from 64.9% in 1996 to 74.4% in 2002 while extreme poverty affected 42% of the population in 2002 compared to 35% in 1996. Inequalities also increased with the Gini index inching up from 39.5% to 40.9% from 1996 to 2002. The highest concentration of poor people is found in rural and peri-urban areas. The incidence of relative poverty can be up to 95% of the population in rural areas and over 60% in four of the five districts in Djibouti. It is most prevalent among households whose heads are unemployed, self-employed or not in the labor force, thus confirming the strong correlation between unemployment and poverty in Djibouti. The most recent data available shows that there is a real crisis on the labor market, with a high unemployment rate of 60% compared to its 1996 level (44%).
3. The non-monetary poverty situation is highly contrastive with improved education access, persistently difficult health conditions and problematic access to basic social services such as water, sanitation and housing. The gross primary enrolment ratio rose from 39% in 1999-2000 to 52% in 2003-2004 thanks to increased intake capacities. These same efforts translated into a surge in secondary enrolment from 18% in 1999-2000 to 29% in 2003-2004. Maternal and child health indicators have improved considerably compared to their 1989 levels, although they remain high. The infant mortality rate fell from 114 per 1000 in 1989 to 100.7 in 2002. The complete immunization rate is only 45 % for the entire national territory, but the levels in rural areas are very low (less than 20%). Malnutrition affected 17% of under-five children in 2003. According to available data, the maternal mortality rate is about 546 per 100,000 births. Besides, the extreme salinity of the water distributed (2mg/l) may, in the medium-term, generate cardio-vascular diseases relating to hypertension and kidney diseases.

2.4.2 Sanitation and Water: The sanitation problem is one of the country's main environmental threats, especially in Djibouti City where the rate of access to community sanitation facilities is only 25% in certain neighborhoods. Individual sanitation facilities such as dry latrines, cesspools, septic tanks, with an access rate of 75%, cause point source pollution of the soil and water table. Sanitation problems negatively impact the health status and undermine the productivity of human resources. According to the study on the strategic plan of Djibouti City, diseases caused by dysfunctions in the sanitation system account for 42% of pediatric consultations, 35% of hospitalization days and 38% of deaths. Better sanitation systems will have the advantage of increasing disease prevention and reducing human pressure on care establishments.

2.4.3 Djibouti's sanitation sector management policy was reinforced in 2000 with the putting in place of an operational institutional framework structured around a central operator, namely the Department of Sanitation (DS) created in 2000. This led to progressive mastery of the sector, in keeping with the development pace and needs of the urban environment and of industrial and touristic areas, to reach rural areas today. The Bank has financed a Sanitation Sector Strategic Plan that should lend some visibility to the sector. This strategic plan includes the definition of an institutional and financial framework.

2.4.4 Water: There are two main constraints in the water sector, namely natural constraints related to water sources, and institutional constraints (technical and financial management). The country's arid climate makes drinking water supply particularly difficult. More than 95% of the drinking water comes from groundwater which is very salty and often extremely hot. Moreover, drinking water needs in Djibouti City are growing considerably due to the sharp increase in new group housing complexes and the expansion of economic activities in the port area. The main institutional constraints concern management, notably billing (deficiencies in metering), low tariff collection rate (the amount of outstanding bills has increased especially in government services) as well as fairly high technical losses due to the ageing equipment and illicit tapping on the distribution network. However, the national water and sanitation Authority (ONEAD) set up in February 2006, which is a grouping of all water and sanitation services, has embarked on the rationalization of water management in keeping with the development pace and needs.

2.5 Medium-term Economic Outlook and the External Environment

Development Constraints

2.5.1 Low competitiveness: Apart from the country's natural constraints, the main development constraint is its low competitiveness. Djibouti is experiencing a decline in competitiveness due to the high cost of factors of production such as water and sanitation, electricity, telecommunications and labour which hamper the expansion of the productive base. Similarly, the currency board system has instituted a fixed nominal exchange rate for the US dollar thus limiting the possibility of offsetting the impact of exogenous shocks such as the depreciation of the currencies of competing countries (notably Ethiopia and Yemen).

2.5.2 Insufficient public savings: A high level of recurrent expenditure translated into a public savings rate of 3% during the period 2000-2006. The corollary of such limited public savings is a decline in public investments which stood at an annual average of 4.8% of GDP during the period 2000-2006.

2.5.3 Institutional constraints: Administrative structures are inefficient and highly centralized. The deconcentrated structures responsible for providing public services in rural areas lack human and financial resources thus making it difficult to implement and monitor development programs. The inadequacies in human resource management planning have led to overstaffing of government services, discrepancies between staff profiles and job positions and the lack of qualified staff. An institutional reform strategy was prepared in 2002 to address this situation but was only timidly applied three years after its adoption.

External Environment and Economic Outlook

2.5.4 The country's international context is characterized by uncertainty fueled by regional crises. However, Djibouti remains a haven of stability in the region and should continue to attract substantial private investments. During 2007-2009, economic activity is expected to bounce back with a real GDP growth rate of around 5% to 6%. However, to accelerate attainment of the MDGs and substantially reduce poverty, the economy has to grow at a faster rate with an annual real GDP growth rate of at least 6%. Such growth should be boosted by prospects of construction, by the private sector, of a port complex with a container terminal and an industrial and commercial free trade area. Regarding external trade, imports generated by public and private investments are expected to aggravate the external current account deficit from 8.9% of GDP in 2006 to 15.9% by 2010, despite an increase in the exportation of services resulting from the start-up of activities on the oil terminal. Foreign direct investment expected in the port sector as well as public capital flows are expected to cover the external current account deficit and thus maintain a surplus in the overall balance for 2007-2010. This situation should translate into an increase in foreign exchange reserves.

2.6 Business Environment and Private Sector Issues

2.6.1 The formal private sector in Djibouti is relatively small and currently represents only 22% of the GDP (15% for trade and tourism, 3% for the primary sector and 4% for other services). The economy is still dominated by the public sector which provides more than 70% of formal sector jobs. The country has 2300 registered enterprises, with 82% of them located in the capital. The informal sector is a major component of the private sector.

2.6.2 Private sector development still faces numerous constraints, in particular: (i) a tax ratio that remains high (ii) a low level of financial intermediation with only 5% of the population using banking services; (iii) limited human resource development; (iv) high costs of the factors of production (water, electricity and telecommunications). To improve the business environment, the Government aims to reduce the high factor costs under the structural reform program, notably reforms on the privatization of public enterprises and labour market liberalization.

III. KEY ELEMENTS OF THE NATIONAL POVERTY REDUCTION PROGRAM

3.1 Key Elements of the Program

3.1.1 The Poverty Reduction Strategy Paper (PRSP) seeks to generate a growth momentum and human capital accumulation that can facilitate the participation of the poorest in productive activities and foster income redistribution. The strategy focuses on four thrusts:

3.1.2 **The first thrust seeks to strengthen national competitiveness and create conditions for robust and lasting economic growth** through consolidation of macroeconomic stabilization and structural reform policies.

3.1.3 **The second thrust seeks to accelerate human resource development**, by improving access to health and education for the poorest; and implementing an employment policy through the promotion of microfinance and the development of vocational training.

3.1.4 **The third thrust seeks to promote integrated local development** through actions specifically targeting poor regions. This entails in particular increasing access to water, sanitation and basic social infrastructure for the poor while promoting income-generating activities.

3.1.5 **The fourth thrust seeks to promote political, local, judicial and economic good governance.** Besides consolidating democratic gains, this pillar of the strategy focuses on the implementation of decentralization, and justice that guarantees fair trials in order to reassure investors and protect ownership.

Box 3: Summary of the key elements in the Government's program and expected outcomes

THRUSTS	PRIORITY ACTIONS	EXPECTED OUTCOMES
Revive growth and enhance competitiveness	<p>Simplify and unify income taxes and taxation of professional profits; computerize taxation services; and gradually introduce the VAT;</p> <p>Ensure better management of recurrent expenditure by controlling the wage bill and cutting operating expenses; Implement the ten-year plan for settlement of past arrears by giving priority to creditors who are socially and financially vulnerable;</p> <p>Reinforce the financial sector, notably through more effective bank supervision and control in order to preserve the integrity of the currency board system; Revision of the banking law to foster financial sector development;</p> <p>Set up an attractive legal and regulatory framework for private investments by preparing new labor, trade and investment codes; Complete the privatization program in the electricity, water and telecommunications sectors.</p>	<p>Budget deficit (pay order and grants basis inclusive) is reduced from 2.2% of GDP in 2005 to 1.5% in 2010;</p> <p>Inflation is contained at below 2% in 2007-2010;</p> <p>Real GDP growth rate rises from 3.5% in 2005 to 4.6% in 2010;</p>
Develop human resources	<p>In the various education cycles: Encourage expansion of the intake capacity; Reduce gender and regional disparities; Improve the quality of teaching through curriculum reform and more continuing training for teachers; Prepare and implement a job promotion strategy by matching training with job market needs.</p> <p>In the area of health: Strengthen the planning and management role of central and external services; Improve health coverage by rehabilitating/building health infrastructures and providing them with adequate human and material resources; Put in place a viable health financing mechanism to ensure access to care for the poor;</p> <p>Ensure women's involvement in : (i) decision-making, (ii) health, (iii) education, and (iv) the economy.</p>	<p>Increase the gross primary enrolment ratio from 51% in 2003-2004 to 100% by 2015</p> <p>Reduce gender disparities in primary schools from 127 to 118 boys to 100 girls between 2004 and 2006</p> <p>Reduce infant mortality from 94.6% to 50% between 2005 and 2015;</p> <p>Maintain HIV/AIDS seroprevalence below 3% in 2015.</p>
Promote integrated local development	<p>Encourage urban development by reinforcing the urban management institutional mechanism and facilitating the construction of basic socio-economic infrastructure (schools, health centers, drinking water and housing);</p> <p>Improve on the health status and living conditions of the population by facilitating access to durable sanitation infrastructure; establish an institutional and regulatory framework that helps to ensure the sustainability of sector investments;</p> <p>Ensure rational management of the water table which is the country's main source of drinking water; eliminate institutional constraints that undermine the development of the sector by improving the financial situation of ONED;</p> <p>Put in place other programs in the domains of village water supply, stockbreeding and fisheries; promote biodiversity through the creation of protected areas and better sensitization of local communities on best practices in natural resource protection.</p>	<p>Increase access to drinking water in urban areas from 91.2% to 100% between 2005 and 2015</p> <p>Increase access to drinking water in rural areas from 50.9% to 100% between 2005 and 2015</p> <p>Increase access to sanitation from 15% in 2005 to 50% in 2009.</p>
Promote good governance	<p>Consolidate democratic achievements and speed up the implementation of decentralization;</p> <p>Improve the legal system by supplementing the Code of Criminal Procedure with implementation decrees; by revamping the code of civil procedure; Build the capacity of the judicial system by ensuring the independence and training of magistrates; Improve the working conditions of magistrates by renovating judicial infrastructure;</p> <p>Modernize public administration through the setting up of a reliable staff management system and the promotion of further training Ensure the continuous application of provisions governing budget preparation and the monitoring/control of expenditure execution; Establish a medium-term budget framework and program budgets; Ensure gradual decentralization of expenditure initiation in high-spending ministries; Strengthen the corps of State auditors, notably the IGE and the Audit Bench.</p>	<p>Reinforcement of political stability and involvement of citizens in the management of community problems;</p> <p>Justice guarantees fair trials, protects investors and protects property</p> <p>Public finance is better tailored to the Government's priority programs</p>

3.2 Partnership Framework

3.2.1 Consultations with development partners were held mainly within the framework of the formulation of sectoral strategies. The preparation of the Poverty Reduction Strategy paper (PRSP) was an initial attempt to put in place a single reference through which development partner interventions would be implemented. The partners are aware of the role that donor coordination should play in improving the effectiveness of assistance, with the Government playing a lead role. Coordination of assistance within the Government is the responsibility of three structures, namely the PRSP Monitoring Unit in the Prime Minister's Office, the External Finance Department in the Ministry of the Economy and Finance, and the Department of International Cooperation in the Ministry of Foreign Affairs.

3.2.2 Assistance coordination is characterized by a lack of formal consultative structures and the fact that most of the bodies and embassies that have jurisdiction over Djibouti are accredited in neighboring countries. This situation makes consultations between donors difficult.

Box 4: Key interventions of development partners

SECTOR	DEV'T PARTNERS	OBJECTIVES
Education	IDA, AFESD, ADB, IsDB, Japan, France, Saudi Fund, USAID, AFD	Increase intake capacity in primary and secondary schools; encourage girls' education; support the initial and further training of teachers; support curriculum reform; support technical and vocational education; and improve school health.
Health	IDA, USAID IsDB, ADB, OPEC, France, Italy, AIDS Global Fund grant	Increase the coverage of basic health services; improve reproductive health; support further training; build the sector's managerial capacity; supply ARVs; enhance epidemiological surveillance; ensure safe blood transfusion.
Other social sectors	IDA, ADB, AFESD, IsDB France, and AFD	Community development; improved access to basic socioeconomic infrastructure; granting of micro-credits; encourage income-generating activities; and support to women's empowerment.
Public facilities	IDA, AFESD, EU, AFD, ADB, Abu-Dhabi, Kuwait, IsDB, OPEC Fund	Port development; expansion of the production capacity of the energy sector; development of urban by-pass roads; construction of social housing; rehabilitation of economic and social infrastructure following floods; dev't of the Djibouti-Addis-Abeba road corridor, electrical interconnection with Ethiopia.
Agriculture	IFAD, ADB, IsDB, France USAID, Saudi Fund, European Union	Development of micro-finance and rural micro-enterprises; early warning of famine (FEWSNET), control of animal diseases, support for cattle re-exportation, upgrading of fishery infrastructure to meet health standards.
Multisector	IMF, IDA, ADB, UNDP, ACBF, UNFPA, EU	Support to the economic reform program; support to debt management; financing of the demobilization program; reinforcement of financial governance; support to local and administrative governance; capacity-building in the analysis of demographic data.
Water and sanitation	JICA, ADB, OPEC, France, EU	Increase of water resources in Djibouti City; development of rural water supply schemes; formulation of a sanitation strategy focusing on the institutional aspects and the definition of a priority investment program; drainage of rainwater and rehabilitation of the primary road network.
Environment	UNIDO, IDA, UNDP, FEM, UNEP, UNDP	Technical assistance in the preparation of the National Implementation Plan for the Reduction of Persistent Organic Pollutants; IEC actions on the impact of the environment on living conditions; conservation of territories (Maskali islands); sector capacity-building; and the institution of an environmental information system.

IV. BANK GROUP COUNTRY ASSISTANCE STRATEGY

4.1 Country Context and Strategic Selectivity

4.1.1 Current government efforts are aimed at completing the structural reforms that should improve the competitiveness of the economy, and at implementing a public investment program based on the development of the transport chain and the improvement of access to basic infrastructure and social services.

4.1.2 **Strategic selectivity:** The formulation of the Bank's strategy for 2007-2010 has taken into account: (i) the country's development strategy, (ii) the interventions of other donors, (iii) economic and sector work conducted by the Bank and other development partners, and (iv) lessons learnt from previous strategies. The pillars of the strategy centre on two of the four PRSP thrusts, namely the promotion of integrated local development (Thrust III) and the promotion of good governance (Thrust IV). This shall be accomplished through a sanitation project to improve sanitation access in Djibouti City, an urban poverty reduction project and an institutional support project.

4.2 Portfolio Management and Lessons Learnt from the Previous CSP

4.2.1 **Scale of the portfolio:** Since launching its activities in Djibouti in 1979, the Bank Group has approved 28 (twenty-eight) operations amounting to a cumulative commitment of UA120.45 million, net of cancellations, as of 30 June 2007.

4.2.2 The active portfolio comprises 6 projects, representing commitments of UA 43.3 million, of which 28.5% has already been disbursed. Ongoing interventions concern, in order of importance, the energy sector (40.75%); social sector (37.6%); agricultural sector (3.5%); and multisector (2.7%). The Bank is supporting the private sector (16.3%) in the financing of the bulk cargo terminal to be used for storage and processing of agricultural imports.

4.2.3 **Appraisal of the previous CSP:** The previous CSP targeted human resource development through support to the development of basic education by increasing the number of public general education middle schools to handle the additional flow of primary school leavers. As part of the financing of NEPAD projects, the Bank supported the electrical interconnection of Djibouti with Ethiopia which should help cut energy costs. It is premature to draw lessons from the implementation of these two loans given that the Education III project became effective only in April 2005, and the loan agreement for the electrical interconnection project was only signed in July 2005. Long delays in project effectiveness and in satisfying conditions precedent to first disbursement account for the time overruns in starting projects.

4.2.4 **Portfolio Performance Review:** On the whole, the portfolio has undergone some improvements since the last PPAR conducted in May 2002. Only one of the eight projects in the portfolio can be considered risky, namely the social fund for development (SFD) which was approved in July 1998. The SFD is experiencing a considerable time overrun due to the suspension of civil engineering activities and the long delays in selecting the contractors that shall provide services. Only the microfinance component has been satisfactorily implemented with a cumulative loan amount of DJF 213 million (or UA 1.23 million). The technical audit conducted by the Bank recommended the abandonment of small-scale projects for the benefit of larger scale health infrastructure by delegating project supervision to other structures such as the Djibouti Agency for Execution of Public Interest Projects (ADETIP).

4.2.5 Despite this progress, portfolio implementation is still facing recurrent difficulties stemming from the country's institutional constraints. The suspension of disbursements as a result of debt repayment arrears is the key constraint on project implementation. Poor internalization of national procurement procedures and of Bank regulations on procurement is also among the major constraints on portfolio implementation.

4.2.6 **Lessons Learnt from Previous Strategies:** The lessons learnt from previous strategies include the adoption of a more selective approach that is based on a limited number of projects. Actions envisaged to enhance portfolio quality should be geared primarily towards making debt repayments on schedule. To avoid an accumulation of arrears owed to the Bank, there is a need to improve the State's cash situation and ensure efficient external debt management. As concerns project implementation, more frequent supervision and regular conduct of mid-term reviews should serve as opportunities to examine the relevance of activities, adapt them and revise their costs. The streamlining of project implementation conditions and the diligent processing of no-objection notices and disbursement requests by the Bank could also contribute to the improvement of project implementation.

4.3 RBCSP Results-based Framework

4.3.1 The RBCSP has two objectives: (i) contribute to the improvement living conditions by facilitating access to durable sanitation facilities and other basic equipment and services; (ii) contribute to institutional capacity-building.

4.3.2 The intermediate outcomes expected from the sanitation program concern the mitigation of the risk of water-borne diseases transmission and thus an improvement in the productivity of human resources. The rehabilitation and extension of sanitation networks provide the best guarantees for reducing health risks and protecting the water table and also limiting the discharge of wastewater into the coastal marine environment.

4.3.3 The urban poverty reduction program will foster access to basic social services, job creation and assistance to socially vulnerable groups thanks to the construction of local infrastructure using labour intensive techniques, community development support and the provision of microfinance services.

4.3.4 Institutional capacity-building should help improve the business environment and strengthen administrative capacities.

Table 4.1
Matrix of Thematic Outcomes

Strategic long-term objectives	RBCSP expected outcomes by 2009				Bank priorities and performance		
	Key sectoral constraints	RBCSP outcomes and outputs that the Bank hopes to influence through its interventions	Intermediate indicators for RBCSP outputs	Actions for attaining the indicators and intermediate outputs	Expected outcomes	Current interventions of the Bank/development partners in the sector	Performance measurement instruments
<p>Pillar I: Integrated local development</p> <ul style="list-style-type: none"> Promote human capital development by increasing the population's access to durable sanitation facilities <p>MDG 7: Carry out sustainable development and ensure environmental viability</p> <p>MDG 1: Eradicate poverty and famine</p> <p>Pillar II: Capacity-building</p> <p>Promote good governance by building the capacity of the judicial system</p> <p>MDG 8: Develop a global partnership for development</p>	<p>No autonomous sector management structure</p> <p>Sanitation and drainage system in very poor state</p> <p>No cost-recovery mechanisms</p> <p>Very defective commercial infrastructure</p> <p>Limited financial resources (1% of State budget); insufficient material means; obsolescence of judicial infrastructure</p> <p>Low technical capacity of NGOs, councils, districts and regions</p> <p>Limited number of magistrates; no clarity on their status which risks compromising their independence</p>	<p>Establishment of an institutional and statutory framework that guarantees the sustainability of investments</p> <p>Rehabilitation of the rainwater drainage system</p> <p>Rehabilitation of the wastewater collection system; construction of wastewater treatment stations</p> <p>Construction of more functional commercial infrastructure</p> <p>Provision of local infrastructure and basic social services through labor-intensive work.</p> <p>Capacity-building for local elected representatives, NGOs and microfinance institutions</p> <p>Improvement of the working conditions of judges and the entire judicial system</p> <p>Modernization and accessibility of legislation in order to reinforce judicial security</p> <p>Help in creating a business environment that is rid of non-commercial risk and able to boost investor confidence.</p> <p>Modernization of management tools in the districts and regions.</p>	<p>The rate of connection to the public sanitation network in Djibouti City rises from 18% to 37% in 2011 and to 57% in 2015</p> <p>No standing wastewater near residential areas</p> <p>Mitigation of health risks related to water-borne diseases</p> <p>Improvement of marketing channels and promotion of economic activities in the regions</p> <p>The judicial institution is able to ensure the application of laws and regulations</p> <p>The business environment is rid of non-commercial risks and wins investor confidence.</p> <p>Private investment rises from 11.8% of GDP in 2004 to 13.9% in 2010.</p> <p>The participation of local institutions and civil society in the development of the regions is greater and more visible.</p>	<p>Putting in place of an institutional and regulatory framework that guarantees the sustainability of investments</p> <p>Support to the priority investment program</p> <p>Support to the decentralization program</p> <p>Capacity-building for microfinance institutions</p> <p>Capacity-building for judicial institutions</p> <p>Capacity-building for elected officials and employees of districts and NGOs</p>	<p>The sanitation sector is autonomous in its financial and administrative management</p> <p>Limitation of the risk of pollution of the water table which is the sole source of drinking water</p> <p>Abolition of discharge into the sea and protection of fishery resources</p> <p>Sharp fall in water-borne diseases resulting from dysfunctions in the sanitation system which cause 38% of deaths</p> <p>Renovation of the judicial infrastructure (Supreme Court, Personal Status Court, and the Ministry)</p> <p>Establishment of decision-making aids (library and procurement of books)</p> <p>Staff training and procurement of capital goods</p>	<p>Strategic study on sanitation in Djibouti City</p> <p><u>Main development partners</u></p> <p>EU JICA World Bank AFD</p> <p>Project for the promotion of good governance in public finance (support to the Audit Office in the institution of accountability in the use of public finances)</p> <p><u>Main development partners</u></p> <p><u>ACBF</u> <u>UNDP</u></p>	<p>Status report by contractor</p> <p>On-site observation</p> <p>Supervision mission</p> <p>Mid-term review</p> <p>User satisfaction surveys</p> <p>Monitoring by the ministry of health</p> <p>Supervision mission</p> <p>Mid-term review</p> <p>Progress report of project.</p> <p>User satisfaction survey</p> <p>Status reports</p>

4.4 RBCSP pillars and focus areas

4.4.1 The interventions of the key development partners essentially aim at improving the country's competitiveness by promoting the elimination of obstacles to private investment, access to education and health, the development of micro-enterprises and production support infrastructure. The Bank's strategy is in line with this perspective by promoting community access to a sustainable sanitation system and to other basic facilities and services, supporting income-generating activities and capacity-building. The choice of this strategy is justified by the key role played by sanitation in the prevention of water-borne diseases and the improvement of the health status of the population. Capacity building also helps to boost competitiveness by creating the institutional framework needed to safeguard investments and protect property, as well as the capacity to guide and supervise productive activities.

Pillar I: Promotion of Integrated Local Development

4.4.2 The sanitation problems in Djibouti, which is experiencing rapid urbanization, are found mainly in the capital and hinterland towns that host the majority of the population. Support funding for water and sanitation is mostly directed towards potable water supply without ensuring that wastewater drainage and treatment infrastructure is also put in place. This situation accounts for the emergence of a new form of public health risk caused by wastewater stagnation and contamination of the water table which is the only source of drinking water. The Bank financed the study on the Djibouti City Sanitation Strategic Plan, with a view to putting in place a viable institutional and financial framework, prior to the commitment of new investments in the sector.

4.4.3 The study on the Djibouti City Sanitation Strategic Plan financed by the Bank proposes the creation of an Industrial and Commercial Public Establishment (EPIC) comprising all sanitation and water services and initially placed under the authority of a Ministry. As decentralization gains ground, EPIC shall be placed under the authority of a local government body formed by an autonomous municipality, thus making it possible to refocus sanitation services on the relevant urban spaces. The study also proposes a five-year priority investment program to: (i) promote private sewage disposal wherever possible, (ii) rehabilitate and expand the public sewer system (clearing-out, replacement of the most degraded sections); and (iii) build treatment stations in Douda and Balbala. The estimated cost of priority works is US\$ 38.6 million.

4.4.4 The extremely high concentration of Djibouti's population in the capital has generated widespread urban poverty. The "Poverty Mapping in Djibouti City" shows a concentration of about 400,000 persons living below the poverty line in certain districts in the capital. To reduce poverty and curb rural exodus to the capital where job opportunities are already very scarce, the Government has prepared an *urban poverty reduction program* covering Djibouti City and district chief-towns. The objective of the program is to increase access to basic infrastructure, social services and facilities, community development and microfinancing for the people living in the poor neighbourhoods of the city and chief-towns of districts. The actions envisaged are: (i) the construction of local infrastructure and provision of basic social services through labour-intensive works; (ii) community development support targeting grassroots associations, NGOs and local government structures, with a view to supporting their social development initiatives within the communities; (iii) the provision of microfinance services to promote the emergence or increase of income-generating activities.

Pillar II: Capacity-building

4.4.5 *Support to good governance promotion:* The need to adopt a selective approach in the formulation of its assistance program prompted the Bank to seek the best possible ways of using its resources to address Djibouti's good governance challenges. Justice has the advantage of serving as a prerequisite to the institution of governance, in that the proper enforcement of laws and regulations requires the existence of efficient judicial institutions endowed with sufficient human and material resources. The priority actions to be supported by the Bank will concern capacity building of the judiciary by supporting the setting-up of the organs provided for in the instrument organizing the Ministry. This instrument provides for the creation of several services, of which the Department of Judicial Services, the Department of Legislation and Reforms, and the Department of Prison Administration. In the area of training, initial training should be envisaged for new recruits and refresher courses for judicial/legal officers and other employees with some seniority.

**Table 4.2:
Results-based CSP Framework**

LONG-TERM OUTCOMES/HIGHER THAN EXPECTED BY THE COUNTRY	EXPECTED OUTCOMES OF CSP 2007-2009	RELATIONSHIP BETWEEN CSP AND PRSP PRIORITIES
<p>Pillar I: Promotion of integrated local development. Promote human capital development by increasing the population's access to durable sanitation facilities and basic social infrastructure</p> <p>Strengthening of local institutions and NGOs</p>	<p>A functioning institutional framework that guarantees sanitation facilities and capable of managing public services is in place</p> <p>The rate of connection to the public sewer system in Djibouti City rises from 18% in 2005 to 37% in 2011</p> <p>Permanent access to infrastructure and basic social services</p> <p>The management capacity of local elected representatives and NGO representatives is enhanced</p> <p>Efficient management mechanisms and tools are operational in the districts and regions.</p> <p>A viable and sustainable microfinance system is operational in the country</p>	<p>Develop human capital</p> <p>Promote integrated local development</p> <p>Poverty reduction and improvement of local capacity</p>
<p>Pillar II: Capacity building Promote good governance by building the capacity of the judicial system</p>	<p>Independence and efficiency of magistrates</p> <p>Improve working conditions by renovating the judicial infrastructure (Supreme Court, Personal Status Court, and the Ministry)</p> <p>Establishment of decision-making aids (library and procurement of books)</p> <p>Staff training and procurement of capital goods</p>	<p>Promote good governance</p>

4.5 Regional Dimension of Bank Assistance

4.5.1 Djibouti is actively engaged in integration efforts within COMESA and IGAD and has been able to use its stability and neutrality to contribute to the resolution of regional crises. Besides creating a free trade area, Djibouti is involved in the implementation of the main initiatives of COMESA, namely the common investment area; the harmonization of public procurement legislations and the free circulation of goods, services and capital.

4.5.2 By investing in the sanitation of Djibouti City, the Bank is contributing to the improvement of environmental health but also enhancing Djibouti's attractiveness as the commercial and financial hub of the region. By targeting the improvement of judicial governance, its institutional support falls within the framework of the COMESA initiative to create a common investment area aimed at the liberalization and protection of investments.

Box 5: Consultations on the Bank Group strategy

The first consultations of the Bank Group's assistance strategy for 2005-2010 were held in Djibouti in September 2005. Other discussions were held at the end of December 2006 and in May 2007. Working sessions were held with senior State officials, in particular the Minister of the Economy, Finance and Planning responsible for Privatization (MEFPP), the Minister of Justice and the Minister of Agriculture. Discussions were held with the Coordinator of the National Poverty Reduction Program and civil society, specifically the NGO Bender Djedid (New Land) which enjoys a special consultative status with the UN Economic and Social Council. The Bank's mission team worked closely with the technical staff from the ministries of the economy and finance, education, health, agriculture, environment and justice to seek their opinion on the priority actions in the Government's program to be financed by the Bank in the medium term. For better coordination of the Bank's intervention strategy with that of other development partners, the mission held working sessions with the European Union, IGAD, AFD, USAID and the UNDP. The priority of developing human capital in order to raise the competitiveness of Djibouti's economy and further integrate the country into the regional economy was unanimously recognized by all parties as the strategic direction of development partner interventions in Djibouti. To consolidate the country's role as the economic and financial hub of the region, the parties consulted underscored the need to promote good governance and better predictability of the business environment by building the capacity of the judiciary so that it can enforce the arsenal of laws and regulations.

4.6 Bank Group Assistance: Performance-based Resource Allocation, Performance Criteria and Non-lending Activities

4.6.1 Bank Group financial assistance framework: The assistance strategy for 2007-2010 shall be financed with the country's entire allocation under ADF-X and the resources that will be available under ADF-XI. The resources allocated to Djibouti under ADF-X are grants amounting to UA 6.5 million and about UA 9.5 million under ADF XI.

4.6.2 The appraisal of Djibouti's performance under the CPIA led to its classification among countries with average quality policies and institutions given the modest progress made in the area of macroeconomic stabilization and its under-performance in implementing structural reforms and policies of inclusion and equity.

4.6.3 Regarding *macroeconomic stability*, the adoption of a budget policy enabling the reduction of financial instability risks and fostering better budget resource allocation shall be a performance criterion. A better tax yield and the widening of the taxbase should enable the attainment of this objective. The control of recurrent expenditure shall be decisive in enabling the allocation of additional resources to investment expenditure and social programs.

4.6.4 *Structural policies* that will serve as performance criteria concern reforms that are capable of boosting private investment and economic growth. These cover: (i) the adoption of an investment code harmonizing the various tax exemptions and rationalizing the procedures for granting approvals; (ii) a commercial code that should lend greater predictability to the business environment; (iii) private sector involvement in the management of the water and electricity public utility companies; and (iv) voting of the new labour code by Parliament.

4.6.5 As concerns measures to encourage *inclusion and social equity*, the performance criteria adopted for promoting education and health programs will focus on increasing the budget resources allocated to these sectors. With regard to social protection, access to gainful employment is virtually the only means of benefiting from such protection in Djibouti.

Hence, the development of the productive sector is the springboard from which social protection can be expanded in the long term. In the short term, it is necessary to develop income-generating activities for specific groups (the unemployed, nomads, etc...) by ensuring greater professionalism in microfinance activities. The adoption of a microfinance development strategy will be the main performance criterion in this domain.

4.6.6 As concerns *public sector management and institutions*, performance shall be measured by the progress made in promoting transparency and accountability in the use of public resources. To that end, the Bank shall encourage the setting up of medium-term budget frameworks such as budgeting-by-objectives and medium-term expenditure frameworks. The regulatory framework for public procurement needs to be modernized by harmonizing it to the extent possible, with the practices of development partners. One main area for streamlining the procurements system is the revision of thresholds for awarding contracts without going through a bidding process and the adoption of price benchmarks.

4.6.7 **Loan program:** Bank Group assistance for 2007-2010 shall centre on three operations, namely: (i) *a sanitation support project in Djibouti City*, (ii) *an urban poverty reduction support project*, and (iii) *a good governance support project*. The Bank and the European Union shall co-finance the putting in place of the institutional and financial framework, the rehabilitation of the public sewer system and the construction of a new treatment station. The poverty reduction program in urban areas will be cofinanced with the World Bank and other donors. The institutional support project will be used for capacity-building of the judiciary.

4.6.8 **Private sector operations:** Djibouti has enormous potential for the development of infrastructure companies for the exportation of transport services to Ethiopia and the countries of the region. Hence, in 2003, the Bank approved the first loan to Djibouti's private sector aimed at supporting the construction and operation of a bulk cargo terminal in Djibouti Port for the storage and processing of agricultural produce imports bound for Ethiopia and other countries of the region. The Bank Group's private sector development strategy in Djibouti has two main objectives: (i) create conditions conducive to private initiative through institutional capacity building and the putting in place of a more efficient regulatory framework that fosters competition and the reduction of production costs; and (ii) public-private partnership in the development of infrastructure companies.

4.6.9 **Non-lending activities:** Non-lending activities will consist of studies and consultancy services aimed at building capacity for implementation of the Bank's strategy. To that end, the Bank shall encourage regular visits to its headquarters by staff from the various project executing agencies or the organization of workshops in Djibouti to ensure better ownership, by project management units, of goods and services procurement regulations and disbursement procedures. Portfolio reviews shall be organized more regularly with a view to preparing an action plan for enhancing project implementation. Analytical activities, especially the project completion reports shall be conducted to provide better guidance in the preparation of future interventions and improve knowledge on the areas with a high growth potential within Djibouti's economy.

4.7 Partnership and harmonization

4.7.1 The assistance coordination mechanism remains weak due to the project approach which continues to form the basis of the assistance programs of most development partners in Djibouti. These partners, however, recognize the need to address the fragmentation of aid and harmonize their policies and procedures such as to encourage collaboration and gradual alignment with the country's priorities, systems and procedures. The adoption of a concerted approach based on program financing through lending instruments such as budget support or the sectoral approach that would pool the financial resources of partners to support the Government's program is hampered by delays in the conclusion of a second PRGF with the IMF which, for most development partners, determines the financing of budget support.

V. RESULTS-BASED MONITORING AND EVALUATION

5.1 Monitoring of CSP Outcomes and Bank Group Performance

5.1.1 **Country's capacity to monitor RBCSP implementation:** Monitoring and evaluation (M and E) practices and results-based management are not widespread within Djibouti's public administration. This situation stems from the weakness of the national statistics apparatus and in particular the fact that the notion of accountability was introduced into public policies only very recently in response to donor concerns for better public sector performance. The need for greater consideration of the impact of official development assistance and State action now features among the Government's priorities as attested by recent initiatives⁴ taken in this domain. Improvements are also noted in the production of data on domains covered by the two pillars of the Bank's strategy. Indeed, the ADF study on the strategic plan for Djibouti City provides an in-depth diagnosis of liquid and solid waste sanitization and makes proposals for the institutional framework needed to ensure the sustainability of investments in this sector. The challenge in improving monitoring and evaluation capacity entails ensuring sound coordination between the various ministries by adopting a comprehensive framework for the organization of work and the circulation of information.

5.1.2 **Appraisal of Bank Group Performance:** Portfolio performance reviews, the RBCSP mid-term appraisal, and project completion reports will serve as instruments for measuring progress in the attainment of intermediate results and the medium-term impact of Bank assistance. RBCSP outcomes for the sanitation sector shall be measured through the future EPIC proposed by the ADF-funded study with a view to ensuring managerial autonomy for the sector. Private investment trends will serve as an indicator for monitoring improvements in the judiciary.

⁴ Such initiatives include: (i) the merging of the former Department of Statistics and the Central Census Office into a single Department of Statistics and Demographic Studies (DISED); (ii) adherence of the country to the IMF's General Data Dissemination System in order to build a complete and coherent statistics system that is in keeping with international standards; (iii) the country's participation in the International Comparison Program (ICP) piloted by the ADB which aims to address the growing demand for reliable and accurate data to support attainment of the MDGs.

5.2 Risk Management

5.2.1 **Country risk:** As was the case in the implementation of the Government's national poverty reduction strategies, the key risk factor in the Bank Group's program concerns institutional and public administration constraints. The mitigative measures for this risk should be the revival of institutional reform with components that include: (i) public service reform to institute a system based on merit and the strengthening in-service training; (ii) procurements reform aimed at softening contract award conditions while respecting the principles of saving, impartiality, transparency and efficiency.

5.2.2 An accumulation of Bank Group loan repayment arrears also constitutes a risk for the implementation of the Bank strategy. Indeed, this situation would lead to the suspension of Bank disbursements and, *de facto*, make it impossible for the ADF to finance RBCSP-supported actions. A mitigative measure for this risk is the reduction of operating expenses and transfers in non-priority sectors.

5.2.3 **Risk related to Bank Group Performance:** The country's low absorptive capacity remains a major risk in the implementation of the Group's assistance strategy. Sustained dialogue with the authorities on proposals to improve the quality of the portfolio and intensify the supervision and mid-term review of projects should also enable the mitigation of this risk.

5.2.4 **Exogenous Risks:** Djibouti's economy is highly dependent on port activity, the position advantage relative to the presence of foreign troops on its territory and official development assistance. Some macroeconomic instability could be generated by the loss of competitiveness in Djibouti Port or a reduction in military cooperation resources in the event of the region's political situation being normalized. This risk could be mitigated through current efforts by the authorities to increase port capacity through the construction of a second port complex. The risk inherent in the contraction of official assistance can be mitigated if the Government firmly resolves to carry out sustainable economic reforms that are supported by the donor community.

5.3 Country Dialogue Issues

5.3.1 Djibouti faces four main risks that could jeopardize the implementation of development programs, namely: (i) weak public institutions; (ii) the financial and economic vulnerability of the country, which could result from the slackening of adjustment efforts; (iii) its excessive dependence on services, in particular port activities; and (iv) its low absorptive capacity. The issues to be discussed with the Government stem from these different risks.

5.3.2 **Public Sector Reform:** In a bid to build up the capacities of public administration, Djibouti should revive the institutional reform program aimed at revitalizing the public sector. This program is expected to include public service reform that is based on the promotion of merit and performance of State employees. The reform should also put a premium on the National Institute of Public Administration (INAP) in the public administration capacity-building drive. The second component of this institutional reform should focus on the consolidation of budget reforms in order to promote accountability and move from a resource-based budget to a results-based budget. Special attention has to be paid to the revision of the procurements code in order to align it with the practices followed by development partners.

5.3.3 Consolidation of Macroeconomic Stability: In conjunction with the BWIs, the Bank Group will strengthen dialogue on economic policies capable of contributing to continued fiscal discipline and allocation of public resources to poverty reduction priorities. Debt management is also expected to be improved in order to increase the predictability of external debt. To that end, the Bank will encourage the Government to sign rescheduling agreements with bilateral creditors in order to ensure regular servicing of unreschedulable debts, such as those of the Bank Group, and avoid accumulation of external debt arrears.

5.3.4 Emergence of new sources of growth: The Bank will encourage the Government to adopt structural reforms aimed at improving the business environment in order to promote the expansion and diversification of the productive base. Dialogue with the Government will also focus on the need to support high-potential sectors such as fisheries, mining, and export enterprises in the free trade area.

5.3.5 Improvement of Portfolio Management. The improvement of the institutional framework of projects is of paramount importance for Bank strategy implementation. Proposals for enhancing project implementation shall be monitored during supervisions of the portfolio.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

6.1.1 Despite several years of adjustment, the economic and financial situation remains fragile. The current macroeconomic stability, reflected in a reduction of the budget deficit, balance of payments surpluses and the maintenance of the nominal peg of the local currency stems more from external resource inflows to the country than from any real budget management reform efforts. The growth rate is not sufficiently high to promote job creation and reduce poverty. Inflationary pressures were generated when petroleum product prices surged on the international market. To reduce the country's financial vulnerability and direct its budgetary resources towards priority programs, fiscal discipline would need to be restored through further cuts in public spending without a significant impact on poverty reduction programs.

6.1.2 Djibouti's challenge as it strives to increase economic growth is to boost economic competitiveness in order to switch from a rent-seeking economic situation based solely on exploitation of the country's strategic position to production systems that are more labour-intensive and conducive to expansion of the productive base. To that end, the removal of structural constraints, the foremost being limited human capital and an unattractive business climate are priorities that should be supported in the medium-term to develop productive sectors and reduce unemployment. The Bank Group's assistance strategy for 2007-2010 is in line with this perspective as it supports human capital development through improved access to sanitation and other basic facilities and services, poverty reduction and capacity building.

6.2 Recommendation

The Boards of Directors are invited to approve the strategy proposed in this RBCSP for 2007-2010. The assistance strategy shall be financed with the country's grant resources of UA 6.5 million under ADF-X, and with still- to- be- determined resources under ADF-XI.

Djibouti - Bank Group operations

Window	Approval date	signature date	Date of last disb.	Amount apprv'd	Amount disb'd	Amount cancel'd	Undish. balance	Commitment	Status
AGRICULTURE				15.4	13.6	0.1	1.6	15.0	
	ADF	29-Oct-90	11-Apr-91	31-Dec-96	0.54	0.52	0.0	0.0	0.5 Completed
	ADF	21-May-91	11-Mar-92	31-Dec-04	11.9	11.8	0.1	0.0	11.8 Completed
	SRF*	...	25-May-04	31-Dec-04	0.3	0.3	0.0	0.0	0.3 Completed
	ADF	22-Nov-00	30-May-01	31-Aug-05	0.4	0.4	0.0	0.1	0.4 Completed
	ADF	17-Dec-01	11-Mar-02	31-Dec-07	1.5	0.1	0.0	1.4	1.5 Ongoing
	SRF*	...	22-Jul-05	21-Dec-05	0.4	0.4	0.0	0.0	0.4 Completed
	SRF*	12-Dec-06	16-May-07		0.3	0.2	0.0	0.1	0.0 Ongoing
TRANSPORT				12.4	10.8	0.2	1.4	12.2	
	ADF	22-May-89	28-May-89	31-Dec-96	4.31	4.10	0.2	0.0	4.1 Completed
	ADF	25-Nov-91	25-Feb-92	31-Dec-96	1.4	1.4	0.0	0.0	1.4 Completed
	ADB	3-Dec-03	...	...	6.7	5.3	0.0	1.4	6.7 Ongoing
WATER AND SANITATION				29.7	26.8	2.8	0.0	26.8	
	ADF	26-Sep-79	12-Oct-79	31-Dec-83	2.4	0.2	2.2	0.0	4.1 Completed
	ADF	23-Jun-83	9-May-84	30-Jun-94	6.4	6.4	0.0	0.0	6.4 Completed
	ADF	23-Jun-83	9-May-84	31-Dec-97	5.6	5.6	0.0	0.0	5.6 Completed
	ADF	28-Oct-86	8-Jan-87	31-Dec-97	13.2	12.8	0.4	0.0	12.8 Completed
	TAF	29-Jan-91	8-May-91	31-Dec-96	1.03	0.8	0.2	0.0	0.8 Completed
	ADF	4-Nov-92	13-May-93	31-Dec-96	0.6	0.5	0.1	0.0	0.5 Completed
	TAF	11-Mar-98	8-Apr-98	31-Dec-05	0.5	0.5	0.0	0.0	0.5 Completed
ENERGY				20.0	2.8	0.0	17.1	20.0	
	ADF	19-Nov-84	30-Nov-84	31-Dec-92	2.4	2.4	0.0	0.0	2.4 Completed
	ADF	13-Dec-04	22-Jul-05	31-Dec-10	17.6	0.5	0.0	17.1	17.6 Ongoing
FINANCE				3.4	2.8	0.6	0.0	2.8	
	ADF	18-Aug-87	30-Oct-87	31-Oct-99	3.4	2.8	0.6	0.0	2.8 Completed
SOCIAL SECTOR				38.8	28.4	0.1	10.3	38.7	
	ADF	24-Feb-86	7-May-86	31-Dec-03	0.9	0.8	0.1	0.0	0.8 Completed
	ADF	24-Feb-86	1-Dec-89	30-Jun-99	10.1	10.1	0.0	0.0	10.1 Completed
			13-May-93	31-Dec-04	11.6	11.6	0.0	0.0	11.6 Completed
	ADF	15-Dec-92	14-May-93	31-Dec-04	7.6	7.6	0.0	0.0	7.6 Completed
	NTF	14-Dec-92	15-May-93	31-Dec-04	4.0	4.0	0.0	0.0	4.0 Completed
	ADF	8-Jul-98	25-Aug-98	31-Dec-07	6.5	4.5	0.0	2.0	6.5 Ongoing
	TAF	28-Nov-01	11-Mar-02	31-Dec-07	0.7	0.7	0.0	0.0	0.7 Completed
				31-Dec-08	4.0	0.1	0.0	3.9	4.0 Ongoing
	ADF	17-Jul-02	13-Jan-04	31-Dec-08	3.0	0.1	0.0	2.9	3.0 Ongoing
	TAF	17-Jul-02	13-Jan-04	31-Dec-08	1.0	0.0	0.0	1.0	1.0 Ongoing
				31-Dec-10	5.0	0.6	0.0	4.4	5.0 Ongoing
	ADF	17-Jul-04	28-Sep-04	1-Jan-11	4.6	0.6	0.0	4.0	4.6 Ongoing
	TAF	14-Jul-04	28-Sep-04	2-Jan-11	0.4	0.0	0.0	0.4	0.4 Ongoing
MULTI-SECTOR				5.3	4.1	0.3	0.9	5.0	
	TAF	17-Sep-90	8-May-91	31-Dec-98	1.7	1.4	0.3	0.0	1.4 Completed
	ADF	6-Feb-02	11-Mar-02	31-Dec-04	2.4	2.4	0.0	0.0	2.4 Completed
	TAF	28-Nov-01	11-Mar-02	31-Dec-06	1.2	0.3	0.0	0.9	1.2 Ongoing
	ADF				17.6	0.5	0.0	17.1	17.6 Ongoing
					0.0	0.0	0.0	0.0	0.0 Ongoing
	ADB				6.7	5.3	0.0	1.4	6.7 Ongoing
TOTAL				124.9	89.3	4.2	31.4	120.4	
ADF				113.2	79.2	4.2	29.9	109.0	
NTF				4.0	4.0	0.0	0.0	4.0	
ADB				6.7	5.3	0.0	1.4	6.7	
SRF				1.0	0.9	0.0	0.1	0.7	

* Special Relief Fund

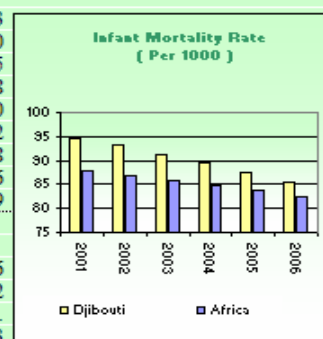
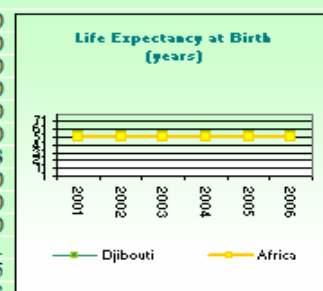
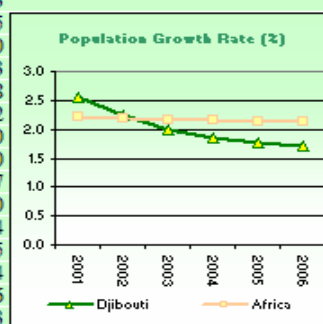
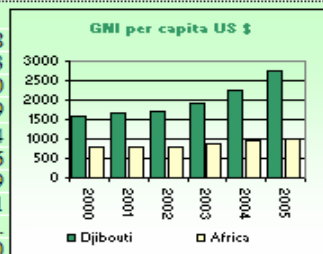
Djibouti: Strategic Framework Matrix

Country challenges	Government's program	Bank Group strategy	Bank Group activities		Other strategies/Bilateral and multilateral			Implementation of the strategy
			Recent and ongoing activities	Proposed activities		MDGs	RBCSP end-of-period objectives	
<p>Pillar I: Promotion of integrated local development.</p> <p>Promote human capital development by increasing access to durable sanitation facilities and expanding basic social services</p>	<p>Improve the health status and living conditions of the people by facilitating access to durable sanitation infrastructure; commercial infrastructure; establish an institutional and regulatory framework that helps to ensure the sustainability of sector investments;</p>	<p>Institution of an institutional and regulatory framework that guarantees the sustainability of investments</p> <p>Support to the priority investment program</p>	<p>Study on the strategic sanitation plan of Djibouti City</p>	<p>Sanitation support project for Djibouti City</p>	<p>Drainage of rainwater, rehabilitation of primary roads and rehabilitation of the liquid and solid waste management system (EU); Rehabilitation of urban roads and reinforcement of the rainwater drainage network (OPEC); Increase of water resources in Djibouti City (JICA) Support to community development (WB)</p>	<p>Carry out sustainable development and ensure environmental viability</p>	<p>The sanitation sub-sector is autonomous in its financial and administrative management</p> <p>Limitation of the risk of pollution of the water table which is the main source of drinking water; abandonment of wastewater discharge into the sea; and stagnation of wastewater on the roads as well as the reduction of water-borne diseases.</p>	2007-2010
	<p>Provide local infrastructure and basic social services through labour-intensive works.</p> <p>Enhance the management capacity of local elected representatives and NGO staff</p> <p>Putting in place of efficient management mechanisms and tools at the district and regional levels.</p> <p>Build the capacity of associations and local gov't structures</p>	<p>Build on achievements, reinforce and ensure the sustainability of gains from previous experiences, notably the Development Social Fund</p>	<p>Development Social Fund</p> <p>Provision of consultancy support mechanisms to micro-enterprises.</p>	<p>Urban Poverty Reduction Program.</p>	<p>Co-financing with the World Bank, the Islamic Development Bank and the Japanese Fund for Social Development.</p> <p>Microfinance and micro-enterprise promotion program by IFAD, UNDP and UNCDF</p>	<p>Raise the incomes of the poor</p>	<p>Civil society and local gov't bodies are key actors in national dev't</p> <p>Microfinance is a real weapon for combating poverty</p> <p>Contribute to the reduction of unemployment and inequality</p>	2007-2010
<p>Pillar II: Capacity-building</p> <p>Promote good governance by building the capacity of the judiciary</p>	<p>Improve the legal system by supplementing the Code of Criminal Procedure with implementation decrees; by reforming the code of civil procedure; by eliminating the duality of jurisdictions</p> <p>Build the capacity of the judicial system through the training of judicial/legal officers</p>	<p>Improve the working conditions of judges and of the entire judicial system and make the legislation accessible with a view to reinforcing legal security</p> <p>Renovate the judicial infrastructure</p>	<p>Study on legal and judicial reforms (2002)</p>	<p>Capacity-building support project for the judiciary</p>	<p>Support to the Audit and Budget Discipline Office Reinforcement of accountability in the use of public funds (ADB, ACBF)</p> <p>Capacity-building for parliament; support to the electoral process, and implementation of decentralization (UNDP)</p>	<p>Develop a global partnership for development</p>	<p>Enable the judiciary to enforce laws and regulations</p> <p>Help create a business environment that is rid of non-commercial risk and able to boost investor confidence.</p>	2007-2010

Djibouti

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Djibouti	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		23	30 307	80 976	54 658
Total Population (millions)	2006	0.8	924.3	5 253.5	1 211.3
Urban Population (% of Total)	2006	76.0	38.4	43.1	78.0
Population Density (per Km ²)	2006	34.8	30.5	60.6	22.9
GNI per Capita (US \$)	2005	1 020	955	1 154	26 214
Labor Force Participation - Total (%)	2005	45.3	42.3	45.6	54.6
Labor Force Participation - Female (%)	2005	46.0	41.1	39.7	44.9
Gender -Related Development Index Value	2003	0.495	0.475	0.694	0.911
Human Develop. Index (Rank among 177 countries)	2004	148	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Popula)	2002	42.1	45.0	32.0	20.0
Demographic Indicators					
Population Growth Rate - Total (%)	2006	1.7	2.1	1.4	0.3
Population Growth Rate - Urban (%)	2006	2.2	3.5	2.6	0.5
Population < 15 years (%)	2006	41.0	41.3	32.4	18.0
Population >= 65 years (%)	2006	2.9	3.4	5.5	15.3
Dependency Ratio (%)	2006	78.6	80.8	57.8	47.8
Sex Ratio (per 100 female)	2006	100.0	99.9	102.7	94.2
Female Population 15-49 years (% of total p	2006	27.0	26.8	27.1	25.0
Life Expectancy at Birth - Total (years)	2006	53.7	51.4	64.1	76.0
Life Expectancy at Birth - Female (years)	2006	54.8	52.2	65.9	79.7
Crude Birth Rate (per 1,000)	2006	33.5	36.5	22.8	11.0
Crude Death Rate (per 1,000)	2006	12.1	14.9	8.7	10.4
Infant Mortality Rate (per 1,000)	2006	85.6	82.5	59.4	7.5
Child Mortality Rate (per 1,000)	2006	128.3	137.7	89.3	9.4
Total Fertility Rate (per woman)	2006	4.6	4.7	2.8	1.6
Maternal Mortality Rate (per 100,000)	2002	546.0	622.9	440.0	13
Women Using Contraception (%)	2002	15.3	26.6	59.0	74.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	16.6	38.2	78.0	287.0
Nurses (per 100,000 people)	2004	33.0	110.7	98.0	782.0
Births attended by Trained Health Personnel	2003	73.0	43.7	56.0	99.0
Access to Safe Water (% of Population)	2004	73.0	62.3	78.0	100.0
Access to Health Services (% of Population)*	2000	13.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2004	82.0	44.2	52.0	100.0
Percent. of Adults (aged 15-49) Living with I	2005	3.0	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2004	734.0	310.2	144.0	11.0
Child Immunization Against Tuberculosis (%)	2005	52.0	78.1	82.0	93.0
Child Immunization Against Measles (%)	2005	65.0	68.0	73.0	90.0
Underweight Children (% of children under 5	2000	35.0	39.0	31.0	...
Daily Calorie Supply per Capita	2004	2 350	2 435	2 675	3 285
Public Expenditure on Health (as % of GDP)	2002	3.3	5.6	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2004/05	39.0	96.7	91.0	102.3
Primary School - Female	2004/05	35.0	90.4	105.0	102.0
Secondary School - Total	2004/05	22.0	43.1	88.0	99.5
Secondary School - Female	2004/05	18.0	36.5	45.8	100.8
Primary School Female Teaching Staff (% of	2003/04	27.2	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2006	28.7	43.3	26.6	1.2
Adult Illiteracy Rate - Male (%)	2005	20.1	34.5	19.0	0.8
Adult Illiteracy Rate - Female (%)	2005	38.6	52.4	34.2	1.6
Percentage of GDP Spent on Education*	2004	6.1	4.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land A	2005	0.0	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2005	0.6	1.0	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; last update : November 2007

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports

Note : n.a. : Not Applicable ; ... : Data Not Available; * : latest data available within 1995-2000

Key macroeconomic indicators 2001- 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
					Est.	Est.	Proj.	Proj.	Proj.	Proj.
National income and inflation										
GDP per capita (in US dollars)	748	750	820	855	894	947	1002	1070	1156	1244
Nominal GDP (in million Djibouti Francs)	101.73	105.05	110.55	118.4	125.98	136.80	148.38	162.40	179.85	198.43
GDP at constant prices per capita (annual %)	-0.9	-0.4	1.2	1.1	1.4	2.3	2.2	3.2	4.4	4
GDP at constant prices (annual %)	2.0	2.6	3.2	2.9	3.2	4.8	4.8	5.7	7	6.6
Inflation rate (%)	1.7	0.6	1.9	3.1	3.1	3.6	3.5	3.5	3.5	3.5
Investments and savings										
Investment	7.9	10.0	18.9	21.5	19.0	29.5	38.1	39.0	41.5	37.3
of which: Private investments	5.4	5.6	7.7	11.8	9.7	22.0	25.6	26.7	31.6	29.2
Gross national savings	-0.6	4.8	22.3	20.2	20.1	20.7	24.2	22.1	23.7	21.4
Public finance										
							(as % of GDP)			
Total revenue and grants	28.3	29.4	34.0	35.6	37.1	35.0	35.0	31.4	30.2	29.2
of which: tax revenue	20.5	21.1	20.6	20.0	20.0	20.3	19.6	19.1	18.7	18.1
Total expenditure	29.7	32.9	36.6	37.5	36.8	37.4	38.4	36.7	33.5	31.0
of which: Investment expenditure	2.5	4.4	6.7	7.7	9.3	7.5	12.4	12.3	9.9	8.0
Balance (pay order basis)	-1.4	-3.5	-2.3	-1.9	0.2	-2.4	-3.4	-5.4	-3.3	-1.8
Balance (cash basis)	-2.0	-4.2	-5.0	-3.0	-2.2	-2.2	-4.2	-4.7	-2.6	-1.2
Monetary survey										
							(% change in money supply as of 31 December of the previous year)			
Money supply	7.5	15.7	17.8	13.9	11.3	10.2	12.9	...	...	...
Net foreign assets	16.1	15.7	26.8	18.6	12.0	15.3	14.7	...	...	...
Net domestic assets	-8.6	0.0	-1.6	-0.6	-0.0	-0.6	-0.2	...	...	...
of which:								...	...	...
Claims on the State	1.1	2.8	0.5	0.8	-0.6	-1.7	-1.2	...	...	...
Claims on the economy	-8.2	-2.9	-1.2	-0.2	0.6	1.1	1.0	...	...	...
External sector										
Current account (US\$ million)	21	32.8	21.5	-8.7	8.3	-68.3	-116	-154.7	-181.1	-177.6
(as % of GDP)	3.8	5.5	3.4	-1.5	1.2	-8.9	-13.9	-16.9	-17.9	-15.9
Gross international reserves (in import months of non-factor goods and services)	2.4	2.7	3.9	3.3	2.9	3.2	2.4	2.4	2.3	2.3
External official debt (of which public enterprises)										
(in US\$ million)	286	333	419	456	429	427	486	588	721	816
As % of GDP	49.9	56.4	66.8	68.4	60.5	55.5	58.2	64.3	71.3	73.1
Ratio of debt servicing to exports of goods and services after rescheduling	6.8	6.6	7.5	9.1	9.0	8.1	5.8	4.8	3.9	3.6

Source: Projections from Djibouti authorities, IMF staff

Monetary survey (in DJF million) 2001-2007

	2001	2002	2003	2004	2005	Prel	Proj.
						2006	2007
Money supply	56.569	65.437	77.057	87.754	97.709	107.718	121.623
Fiduciary circulation	9.370	10.188	11.113	12.358	13.272	15.445	17.076
Deposits	47.199	55.249	65.944	75.396	84.437	92.273	104.547
Sight deposits	19.275	25.327	31.737	35.085	34.456	40.924	46.368
FDJ	13.688	16.304	21.072	23.721	23.746	26.371	29.879
Foreign exchange	5.587	9.023	10.665	11.364	10.710	14.553	16.489
Term deposits	27.924	29.922	34.207	40.311	49.981	51.349	58.179
FDJ	7.161	8.820	11.765	9.099	10.850	13.743	15.571
Foreign exchange	20.763	21.102	22.442	31.212	39.131	37.606	42.608
Net foreign assets	38.417	47.269	59.947	71.101	79.604	91.766	105.301
Central Bank	9.430	10.238	13.775	12.290	11.241	16.954	20.391
Assets	12.496	13.245	17.940	16.736	15.581	20.843	23.655
Commitments	3.071	3.012	4.165	4.446	4.340	3.889	3.264
Commercial banks	28.987	37.031	46.172	58.811	68.363	74.812	84.910
Assets	35.873	44.681	52.636	66.261	76.533	85.301	95.504
Commitments	6.886	7.650	6.464	7.450	8.170	10.489	10.594
Net domestic assets	18.152	18.168	17.110	16.653	18.105	15.952	16.322
Claims on the State	2.959	4.537	4.845	5.459	5.192	4.448	3.380
Central Bank (net)	2.916	3.062	3.539	4.444	4.366	3.249	2.300
Commercial banks	43	1.475	1.306	1.015	826	1.199	966
Claims on the private sector	28.656	27.003	26.226	26.090	26.346	28.523	32.231
Public enterprises	1.758	1.374	1.259	1.099	1.064	951	951
Private sector	26.898	25.629	24.967	24.991	25.282	27.572	31.280
Capital account	-10.432	-10.483	-10.477	-9.309	-8.471	-8.687	-8.687
Other net headings	-3.031	-2.889	-3.484	-5.587	-4.962	-8.332	-10.602
	(% variation of money supply as of 31 December of the previous year)						
Money supply	7.5	15.6	17.7	13.9	13.7	11.4	10.6
Fiduciary circulation	0.3	1.4	1.4	1.6	1.7	0.1	-0.1
Sight deposits	1.1	10.7	9.7	2.7	3.1	4.8	4.5
Term deposits	6.1	3.5	6.5	9.5	8.9	6.5	6.2
Net foreign assets	16.1	15.6	19.3	14.4	13.7	12.1	10.9
Central Bank	0.2	1.4	5.4	-1.9	1.6	1.6	0.9
Commercial banks	15.9	14.2	13.9	16.4	12.1	10.4	9.9
Net domestic assets	-8.5	0.1	-1.6	-0.6	-0.1	-0.6	-0.2
Claims on the State	1.1	2.8	0.4	0.8	-0.6	-1.6	-1.2
Claims on the private sector	-8.2	-2.9	-1.2	-0.1	0.6	1.1	1.0
Capital accounts	-0.3	-0.1	0.0	-20.9	-19.7	-19.7	-19.7
Other net headings	-1.1	0.2	-0.9	-2.7	-3.8	-3.8	-3.8

Source: Projections from Djibouti authorities, IMF staff

Balance of payments
(in US\$ million)

	2001	2002	2003	2004	2005	Prel. 2006	Proj. 2007
Export of goods (f.o.b)	32	36	37	38	40	50	146
Import of goods (f.o.b)	196	197	238	261	277	346	514
of which: Capital-intensive goods	27	42	61	90	74	199	185
Services (net)	115	130	146	136	164	162	198
Credit	182	192	216	213	248	257	338
of which: Services for military bases	108	114	128	126	154	155	216
Maritime transport	31	32	39	37	43	48	60
Debit	66	62	70	77	84	95	140
Goods and services balance	-48	-31	-55	-87	-73	-134	-170
Revenue (net)	13	15	51	65	67	85	64
Current transfers	57	48	26	14	14	-19	-10
Private	-1	-1	-14	-14	-14	-37	-38
Public	58	49	40	28	28	18	28
Current account	21	32	22	-8	8	-68	-116
Capital account	-31	-2	-6	2	-1	100	131
Capital transfers	5	10	-7	20	27	10	-5
Private	0	0	-12	0	0	0	-39
Public	5	10	5	20	27	10	34
Commercial banks	-47	-45	-51	-71	-54	-36	-57
FDI	3	3	14	39	22	108	135
Public sector (net)	8	30	38	14	4	18	58
Errors and omissions	7	-27	-17	-11	-13	-15	0
Overall balance (deficit-)	-2	3	-1	-17	-6	17	15
Financing	2	3	1	17	6	-17	15
Change in foreign exchange reserves (increase-)	-5	-5	-28	7	6	-33	-19
Exceptional financing	7	2	29	10	0	16	4

Source: Projections from Djibouti authorities, IMF estimates and projections