AFRICAN DEVELOPMENT BANK GROUP

DJIBOUTI

COUNTRY STRATEGY PAPER 2023–2027

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RDGE/ECCE

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CURRENCY EQUIVALENTS
June 2022

UA 1 = DJF 241.59
UA 1 = EUR 1.26
UA 1 = USD 1.35
EUR 1 = DJF 191.76
USD 1 =DJF 177.77
UA 1 = SDR 1

WEIGHTS AND MEASURES

1 metric tonne = 2204 lbs.
1 kilogramme (kg) = 2,200 lbs.
1 metre (m) = 3.28 feet
1 millimetre (mm) = 0.03937 inches
1 kilometre (km) = 0.62 miles
1 hectare (ha) = 2,471 acres

FISCAL YEAR
January to December

ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AFD	French Development Agency
AfDB	African Development Bank
AfCFTA	African Continental Free Trade Area
BCD	Central Bank of Djibouti
BREFONS	Build Resilience for Food and Nutrition Security (Multinational Programme for Building Resilience to Reduce Food and Nutrition Insecurity in the Horn of Africa)
CDN	Country Diagnostic Note
CIVICUS	World Alliance for Citizen Participation
CODE	Committee on Operations and Development Effectiveness
COVID-19	Infectious viral disease caused by coronavirus SARS-CoV-2
CPIA	Country Policy and Institutional Assessment
CRFA	Country Resilience and Fragility Assessment
CSP	Country Strategy Paper
DJF	Djibouti Franc
DSSI	Debt Service Suspension Initiative
DRSLP III	Drought Resilience and Sustainable Livelihoods Programme in the Horn of Africa—Phase III
ECA	Economic Commission for Africa
EDD	Electricité de Djibouti (Djibouti Power Utility)
FAO	Food and Agriculture Organisation of the United Nations
FDI	Foreign Direct Investment
FGM	Female Genital Mutilations
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GEF	Global Environment Facility
HDI	Human Development Index
ICI	Institutions-Connectivity-Inclusion
ICT	Information and Communications Technology
IDEV	Independent Development Evaluation
IGAD	Intergovernmental Authority on Development in East Africa
IMF	International Monetary Fund
IsDB	Islamic Development Bank
JICA	Japan International Cooperation Agency
MAPS	Methodology for Assessment of Procurement System
MEFI	Ministry of Economy and Finance, responsible for Industry
OPEC	Organisation of Petroleum Exporting Countries
PAEPARC	Project for Drinking Water Supply and Sanitation in Rural Areas and Secondary Centres
PARISER	Regional Socio-Economic Infrastructure Building and Economic Activity Promotion Support Project
PARCI	Project to Strengthen the Capacity of Central Government Institutions
PBA	Performance-Based Allocation
PEFA	Public Expenditure and Financial Accountability Assessment
PIU	Project Implementation Unit
PPIP	Portfolio Performance Improvement Plan
PPP	Public private partnership
RDGE	Regional Development and Business Delivery Office-East Africa
RLACC	Rural Livelihoods' Adaptation to Climate Change in the Horn of Africa (Programme)
SCAPE	Accelerated Growth and Employment Promotion Strategy
SDG	Sustainable Development Goals
SME	Small and medium-sized enterprises
SMI	Small and medium-sized industries
SWOT	Strengths, Weaknesses, Opportunities and Threats
TFP	Technical and Financial Partners

TSF	Transition Support Fund
UA	Unit of Account
UMP	Union for the Presidential Majority
UNICEF	United Nations Children's Fund
USAID	United States International Development Agency
USD	United States Dollar
WB	World Bank
WFP	World Food Programme

Map of Djibouti

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

EXECUTIVE SUMMARY

1. **The Bank Group's Country Strategy Paper (CSP) 2023–2027 for Djibouti** is aligned with the **Djibouti Vision 2035 and the National Development Plan—'Djibouti ICI 2020–2024',** and with the **Bank's operational priorities (High 5s).** It is also aligned with the strategic directions of the **Guidance Document for the Future Ten-Year Strategy (2023–2032)**. **'Djibouti ICI 2020–2024'** places special emphasis on the equitable distribution of the benefits of growth by promoting inclusive, sustainable and transformative growth. Djibouti has about 1 million inhabitants, covers a surface area of 23,200 km^2 and is classified as a lower middle-income country with Gross National Income (GNI) per capita of USD 3,310 in 2020[1]. The country is affected by pockets of fragility in several dimensions, including dependency on external markets, weak institutional capacity, the impacts of climate change and the influx of refugees.

2. **In recent years, there has been a downturn in Djibouti's economic growth due to a series of external crises and the country is at high risk of debt distress.** Heavily dependent on the tertiary sector, in particular port and logistics activities, the economic growth rate dropped to 1.2% in 2020 followed by a slight recovery of 3.9% in 2021 because of the economic impact of the COVID-19 compared to an average of 6.7% over the 2016–2019 period. As a result of this pandemic, the Tigray (Ethiopia) crisis and the Russia's invasion of Ukraine[2], the GDP growth rate is expected to fall to 3.4% in 2022. The country is expected to come closer to its strong growth path in 2023 with a projected growth rate of 5.2%. On the fiscal front, the impact of the different crises has been mitigated by TFP support (including the Bank). However, Djibouti's risk of debt distress has been assessed as "high" with an unsustainable[3] medium-term outlook because of the persisting high debt levels of public enterprises, a narrow tax base and a low GDP growth rate. Despite these crises, the trade surplus has shown a downward trend. Moreover, the continuing use of the US dollar as an anchor currency for the national currency seems sustainable since foreign exchange reserves are adequate (3.1 months of imports) and inflation is being contained due to government assistance in the form of subsidies on staple products.

3. **The social situation remains fragile, and the socio-economic impact of the successive crises could exacerbate it.** The estimated poverty rate in 2021 was 34.3%. Income distribution remains unequal with a Gini coefficient of 0.44 in 2017. The unemployment rate was estimated at 47% in 2017 but at 63% for women compared to 38% for men. Gender inequalities persist in the economic sphere linked to women's low access rate to productive resources and training capital (illiteracy rates of 57% and 37% respectively for men and women over 15 years old in 2018)**.** In terms of sustainable development, little progress has been made, for, according to the Human Development Report 2020, Djibouti is ranked 166 th out of 189 countries with a score of 0.524 which maintains it in the low human development category.

4. **Djibouti's main challenge remains the absence of structural transformation momentum, coupled with its low level of economic diversification and great vulnerability as noted in the 2022 Country Diagnostic Note[4].** The underlying factors of this major development challenge are the weak private sector development whose competitiveness is impeded by high factor of production costs (electricity, transport, telecommunications, etc.) and land transport constraints, weak human capital, institutional constraints, great climate change vulnerability, to name just a few. Addressing these challenges will help to diversify the economy, create jobs and address the country's drivers of fragility by strengthening social equity and building resilience to economic shocks.

5. **To this end, the main objective of the Bank's CSP 2023–2027 for Djibouti will be to support the country in its efforts to promote more inclusive growth by contributing to the acceleration of its structural transformation and economic diversification.** To achieve this objective, the following single priority area is proposed for the Bank's operations during the period: **"*Socio-economic infrastructure development in the energy and transport sectors*."** This single priority area concerns the following two focus sectors: (i) transport (in particular, road transport) to improve the population's mobility and promote trade; and (ii) energy, to increase the generation and distribution of cleaner, more affordable energy. It draws on the Country Diagnostic Note produced in June 2022 from the CODE recommendations on the review of the CSP 2016–2022 Completion Report (CR). This choice was also based on in-country stakeholder consultations. The following crosscutting issues will help to ensure the effectiveness and quality of the Bank's operations: governance, human and institutional capacity building (including digitalisation), gender equality, climate change, fragility (including urban planning, sanitation and disabled people issues), the problem of water, private sector development and youth employment.

6. **This strategic direction of the new CSP for Djibouti is in keeping with the country's development objectives and the Bank's strategic and operational priorities**. The CSP and its scheduled operations are aligned with: (i) Pillar III of the Djibouti Vision 2035: "a diversified, competitive and private sector-led economy" and (ii) the strategic thrusts of the 2020–2024 National Development Plan - Djibouti ICI - namely "Inclusion" and "Connectivity". They will facilitate progress towards achieving the SDGs. The CSP is in line with the Bank's Ten-Year Strategy 2023-2032, currently under preparation; the Gender Strategy (2021-2025); the Fragility and Resilience Strategy (2022-2026), the Bank's Strategy for Economic Governance in Africa (2021–2025), the Climate Change and Green Growth Action Plan (2021–2025), the Strategy for the New Deal for Energy on Africa (2016–2025), the Transport Strategic Plan (2022–2027), the Eastern Africa Regional Integration Strategy under preparation, the Bank's Paper on Selectivity approved in May 2021. and with the Bank's operational priorities (High 5s).

7. **The design of this new CSP 2023–2027 also draws on the lessons learned from the completion report on the previous CSP and the independent evaluation carried out by IDEV of country strategies and programmes over the 2011–2020 period.** The aim is to promote investments that will improve the country's competitiveness to promote the private sector, which is why two focus sectors were selected, namely energy and transport. This CSP will also promote direct private sector financing, the mainstreaming of crosscutting aspects in the operations, the strategy of economies of scale and improvement of the Bank's portfolio performance.

8. **Funding for the implementation of CSP 2021–2025 will come from various sources**, including, (i) ADF-16 PBA; (ii) ADF-17 PBA; (iii) the ADF Regional Envelope; (iv) the ADB private window, and (v) co-financing. Other resources could be mobilised: trust funds, the Bank's private sector window, etc. Targeted non-lending operations in support of the lending programme will be financed mainly from the administrative budget and resources from ongoing projects.

9. **The Boards of Directors are invited to consider and approve the Country Strategy Paper (CSP) 2023–2027 for Djibouti**.

I. INTRODUCTION

1. **This document proposes the African Development Bank Group's new CSP for Djibouti covering the 2023–2027 period.** Djibouti is a country in transition with many areas of fragility including its heavy dependence on foreign markets and its great vulnerability to climate change. The growth model, based on the development of key infrastructure projects, has undoubtedly contributed to the achievement of strong and sustained economic growth but has been unable to reverse the high levels of poverty and unemployment. Djibouti's main development challenge remains its weak structural transformation coupled with an undiversified economy. The new CSP was prepared based on a participatory process involving the government, civil society, the private sector and development partners. The priorities of this CSP combined with the conclusions of the CSP 2016–2022 completion report and the 2022 Country Portfolio Performance Review as well as the recommendations of CODE which adopted a single priority area, namely $"***Socio-economic infrastructure development in the energy and transport sectors."***

2. **CSP 2023–2027 was prepared in a difficult context and aims to support Djibouti in addressing the different challenges facing the country.** The country is faced with particularly difficult socio-economic conditions due to the negative impacts of a series of external shocks since 2020 including the COVID-19 pandemic, the conflict in Tigray (Ethiopia), the Russia's invasion of Ukraine and the severe drought that has plagued the country since early 2022. The CSP was prepared at a time when Djibouti is trying to revive its economy which has been hard hit by these different crises. While helping Djibouti to address the immediate challenges raised by these crises, CSP 2023–2027 aims to support the country in achieving its development objectives as defined in the Djibouti Vision 2035 and the 2020–2024 National Development Plan and in advancing the implementation of the Bank's operational priorities (High 5s) in Djibouti.

3. This report is organised as follows: following the introduction, Chapter 2 analyses the country context and outlook, Chapter 3 reviews the main conclusions of the 2022 Country Portfolio Performance Review (CPPR), Chapter 4 summarises the lessons learned, Chapter 5 presents the Bank Group's Strategy for Djibouti and Chapter 6 draws conclusions and formulates recommendations.

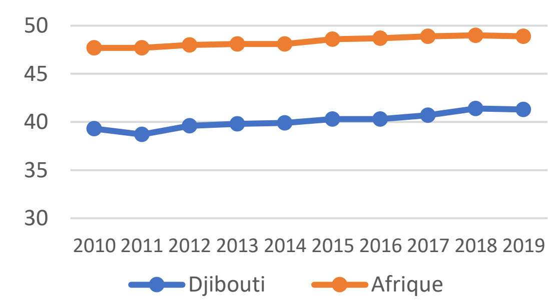
II. COUNTRY CONTEXT AND OUTLOOK

2.1 Political Context and Outlook

4. **President Ismail Omar Guelleh began his fifth term in a fragmented political landscape.** Candidate for his own succession, the outgoing President was re-elected with over 97% of the votes following the Presidential election of April 2021 whose organisation was boycotted by the main opposition leaders because of a lack of transparency. However, the international observers considered that the election was peaceful and free, although they regretted the lack of dialogue between the authorities and the opposition. The Union for the Presidential Majority (UMP), the President's party, won 219 out of the 220 seats to be filled following the regional elections on 11 March 2022. In February 2022, Djibouti was elected for a three-year term on the African Union's Peace and Security Council (PSC).

5. **The socio-economic consequences of the Tigray conflict in Ethiopia and the Russia's invasion of Ukraine continue to affect Djibouti**. Any disruption in Ethiopia, Djibouti's main trading partners, has adverse impacts on Djibouti's economy[v]. as Annex 24 reveals in view of Djibouti's very high dependence on the demand for transshipment services from Ethiopia. In addition to the influx of migrants to Djibouti, the outbreak of clashes between Ethiopian communities on Djibouti's territory is exacerbating the social and humanitarian crises in the country, thus amplifying the consequences of intra-Ethiopian conflict on Djibouti. The hope today results from the "peace agreement" for a "cessation of hostilities" signed on November 2, 2022 between the Federal Government of Ethiopia and the authorities of Tigray. CThe problems raised by this intra-Ethiopian conflict The problems raised by this intra-Ethiopian conflict have been compounded by the impacts of the COVID-19 pandemic and the Russia's invasion of Ukraine, because the global decline in the supply of certain food products has increased consumer prices in Djibouti.

Figure 1: Index for African Governance



Source: Mo Ibrahim Foundation

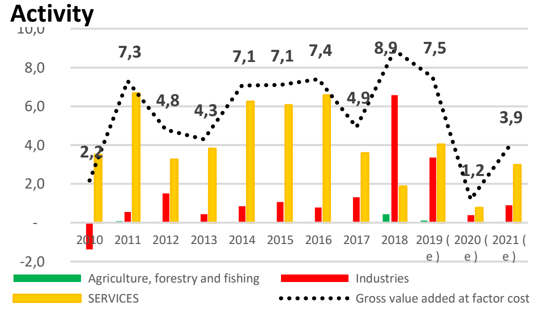
6. **On the Governance front, Djibouti lags behind** (see Figure 1). The Ibrahim Index for African Governance ranked the country 42nd out of 50 countries in 2020 with a score of 41.3/100 trending upwards by an annual average of 0.25 points since 2015. Further efforts are required in the areas of transparency and accountability, as well as regarding freedom of expression. In the Bank's Country Policy and Institutional Assessment (CPIA), the overall score dipped from 3.3 to 3.2 between 2016 and 2020 while the score for economic management fell from 3.5 to 3.3 (see Annex 15). Over the 2016–2022 period, the country maintained its Corruption Perceptions Index (*Transparency International*) score at between 30 and 31 points on a scale of 0 (highly corrupt) to 100 (not corrupt). Compared to 2020 when this score was 27 points, Djibouti improved its ranking from 142nd to 128th between 2020 and 2021.

7. **Djibouti is affected by several dimensions of fragility.** The country is dependent on foreign markets, making it more vulnerable to exogenous shocks. Institutions remain fragile (CRFA 2020), particularly the independence and effectiveness of judicial institutions. Weak civil society limits citizen participation in socio-economic life[vi]. The country is handicapped by the scarcity of water resources, food insecurity and weak institutional capacity. Djibouti is affected by climate change in the form of recurrent droughts or floods[vii]. These scourges are compounded by the steady influx of refugees and prospective illegal immigrants to the Arabian Gulf countries[viii].

2.2 Economic Context and Outlook[ix]

8. **A poorly diversified economy—partly the result of the country's growth model.** With GNI per capita of USD 3,310, Djibouti is a lower-middle-income country. Djibouti's GDP structure remains dominated by the tertiary sector. Between 2000 and 2020, the sector's contribution to GDP averaged 78.6% (see Annex 21). While port activities are the tertiary sector's main drivers, the contribution of sub-sectors such as finance and ICT are steadily being consolidated. The primary sector's contribution to GDP has averaged 3.1% over the period over the 2000–2020 period while the secondary sector's average was 18.3%. Long-term employment dynamics do not reveal any migration of labour from low to high productivity sectors. Analysis of the factors of production shows that growth remains driven by the accumulation of capital and that the labour intensity of production processes remains low. Total factor productivity (TFP) contribution to real GDP growth over the 2000 to 2020 period was negative. This was mainly driven by the capital (4.4 percentage points) and labour (2.3 percentage points) factors. The structural transformation process must be accelerated through industrialisation[x] including agro-industry[xi]. Because of the outward-looking growth model driven by massive investment in infrastructure. There will be a dislocation of the economy based on a modern sector and a traditional sector.

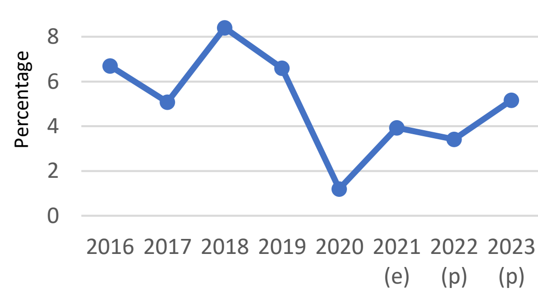
Figure 2 Contribution to Real GDP Growth by Activity



Source: AfDB's Statistics Department– September 2022

9. **Growth performance**: **Djibouti posted average economic growth of 5.3% over the 2016–2021 period** (see Figure 3). While economic growth was relatively high between 2016 and 2019, it dropped to 1.2% in 2020 due to the economic impacts of the COVID-19 pandemic before recovering to 3.9% in 2021, mainly supported by a gradual upturn in port activities. On the supply side, the tertiary sector remains Djibouti's main engine of growth, particularly through the trade and transport subsectors because of the policy of investing in major infrastructure. On the demand side, real GDP growth was driven by end consumption and investments. The trade balance does not support economic growth because of increased import dependency.

Figure 3: Djibouti's GDP Growth

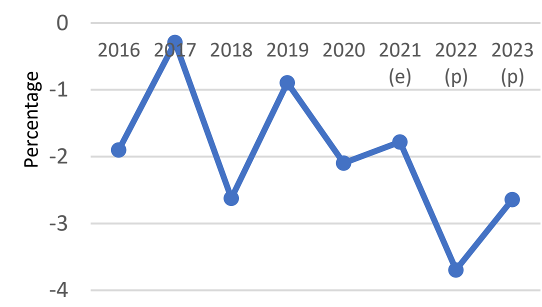


Source : AfDB's Statistics Department– April 2022

10. **Djibouti's medium-term prospects are positive despite rising uncertainties**[xii]. Projections are based on expected real GDP growth rates of 3.4% and 5.2% for 2022 and 2023 (see Figure 3) which could be achieved by the recovery of port and logistics activities. Risks that could undermine these projections include a possible decline in foreign trade with Ethiopia because of the Tigray crisis, an increased risk of public debt distress, a prolonged Russia's invasion of Ukraine and persisting COVID-19 crisis in the world.

11. **On the fiscal front, the impact of the different crises appears to have been mitigated by TFP (including the Bank) support and the Government's efforts.** Between 2016 and 2019, the average fiscal deficit was 1.2% of GDP, widening to 2.1% of GDP in 2020 due to the COVID-19 pandemic. In 2021, the fiscal deficit represented 1.8% of GDP as a result of the continuing pandemic and fiscal measures taken by the Government to support businesses affected by the crisis[xiii] (see Figure 4). Projected fiscal deficits for 2022 and 2033 are 3.7% and 2.6% because of government subsidies on staple products to address the hike in consumer prices as a result of the Russia's invasion of Ukraine.

Figure 4: Fiscal Balance as Percentage of GDP



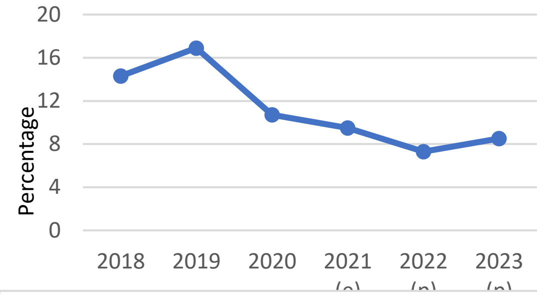
Source : AfDB Statistics Department - April 2022

12. **The increased vulnerability of external debt creates a high risk of debt distress.** While the external debt/GDP ratio trended downwards before the COVID-19 crisis from 71.5% of GDP in 2017 to 64.4% in 2019, it rebounded to 73.1% in 2020 thanks to external financing in response to the COVID-19 crisis and the contraction of GDP. Djibouti's public and publicly guaranteed debt (PPG) was estimated at 71.4% at end-2021. The high level of outstanding debt is mainly due to non-concessional contracts/loans previously contracted by public enterprises (port, railway and water companies). External public debt dominates Djibouti's public debt. Bilateral public debt represents 70% of external debt outstanding while multilateral debt is 30%. However, some of these loans were restructured by China, the country's largest creditor (55% of the bilateral debt). Djibouti was assessed as having a high risk of debt distress[xiv] with an unsustainable outlook because of the high debt levels of public enterprises, a projected narrow tax base and weak growth. The suspension of the Debt Service Suspension Initiative (DSSI) [xv] will more than double public debt service costs. The country's public debt situation limits the new CSP's financing prospects. To improve this situation, the Bank is currently appraising an institutional support operation to support the reforms[xvi] embarked upon by the country to manage its public debt. This project is aligned with the Bank's action plan to strengthen debt sustainability. This operation will aim to improve the governance of public enterprises which hold 76% of public debt.

13. **As regards financial governance, the fiduciary risk assessment carried out by the Bank in 2018, updated in October 2021, indicates that the country risk is average. (Annex 13).** Furthermore, the most recent available concluding statements of the IMF 2019 Article IV missions highlighted the following four (4) main persisting weaknesses in the country's public finance management system (i) lack of clarity of the budget classification system, (ii) a certain fragmentation of the central government budget, (iii) the lack of any real cash flow plan, and (iv) centralisation of the control system. Djibouti has implemented reforms—"Modernisation of Economic and Financial Governance Framework and Tools"—aimed at increasing public revenue and streamlining expenditure[xvii]. However, the country's score in the Bank's CPIA 2020 in terms of budgetary and financial management remains low at 3.3 compared to an average of 3.6 for Africa. A PEFA is being prepared, the first since 2011.

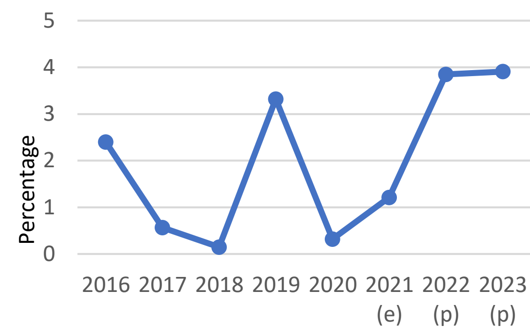
14. **Djibouti's current account surplus has crumbled.** Because of port activities and rent generated by the presence of military bases in the country, Djibouti had structural current account surpluses (see Figure 5)[xviii]. The consequences of the COVID-19 pandemic reduced port activities. This has reduced the balance of services surplus and brought down the current account surplus to 10.7% of GDP in 2020.

Figure 5: Current Balance as a percentage of GDP



15. **Monetary Policy**. Djibouti has continued to fix its currency to the US dollar as its anchor currency. The rate of coverage of the monetary base by external assets was 105% at end-2020, compared to 106.8% in 2016. Foreign exchange reserves represented 3.1 months of imports at end-2020. This monetary stability attracts FDI that will contribute to the structural transformation. The control of monetary aggregates coupled with moderate domestic demand pressure has helped to contain inflation. Between 2016 and 2019, average inflation was 1.6% and the 2019 peak was linked to a generalised increase in food prices. The estimated inflation rates in 2020 and 2021 respectively were 0.3% and 1.2%, and the rate is expected to be around 3.8% over the 2022–2023 period because of the Russia's invasion of Ukraine (Figure 6).

Figure 6: Inflation Trend



Source : AfDB Statistics Department - April 2022

16. **Djibouti's private sector is modest in size and its development is hindered by several structural factors.** It is composed of small and medium-sized enterprises concentrated in the tertiary sector: services (29%), trade (27%) and transit activities (19%). Legislation on starting a business has been simplified and the Centre for Leadership and Entrepreneurship (CLE) was established to support and facilitate entrepreneurship development. The private sector generates 40% of jobs (10% in the formal sector and 30% in the informal sector) and was hardest hit by the pandemic. Many structural problems must be resolved to achieve the objective of a buoyant and competitive private sector. These concern the high cost of factors of production (electricity and ICT), the high cost of labour due to the existence of public sector salary bonuses[xix], low factor productivity, an unattractive tax system for SMEs/SMIs, and limited access to financing. Djibouti does not have a private sector development strategy. However, a diagnostic study on the private sector is being validated. This study is expected to lead shortly to a new strategy.

17. **The government aims to make the country a regional financial hub to support the development of the trading and logistics hub.** The financial sector is not deep but has experienced rapid development, thanks to successive reforms implemented, including opening up the banking market, the introduction of Islamic finances and tightening of supervision. The financial sector is dominated by the banking sector (94.0% of assets) with 13 banks in 2020 comprising 10 commercial banks and 3 Islamic banks. The market is organised around three banks that concentrate 70% of assets[xx]. With the Central Bank of Djibouti's support measures, banking activities increased by 19.9% in 2020 despite the COVID-19 crisis. At end-2020, the consolidated

balance sheet of the commercial banks represented 83.9% of PIB. Credit to the economy was 22.8% of GDP in 2020 compared to 24.5% in 2019 more than half of which was for companies and individual entrepreneurs. The rate of non-performing loans appears to be high, reaching 16.3% by end-2019 and 13.2% at end-2020, while the return on capital was 17.7% in 2019 and 8.8% in 2020[xxi]. Bank-account penetration was 26.0%.

2.3 Sector Context

18. **Agriculture: The agricultural sector is poorly developed[xxii].** Due to the arid climatic conditions and the small area of arable land[xxiii], agricultural development is limited. Djibouti suffers from chronic food insecurity since agricultural production only meets 10% of the population's food requirements[xxiv]. This situation of food insecurity has been exacerbated by the effects of climate change, particularly prolonged drought, impacts of the COVID-19 pandemic and consequences of the war in Tigray, and the Russia's invasion of Ukraine (global inflation), which are causing food price hikes and increasing the risk of shortages because of disruptions to global supply chains. Despite government subsidies to reduce consumer prices, the prices of "food and non-alcoholic drinks" rose by 10% over the first five months of 2022. The number of people faced with high levels of acute food insecurity was expected to increase from 132,000 from March to June 2022 to 192,000 from July to December 2022[xxv]. The agricultural sector continues to attract the attention of the country's development partners[xxvi].

19. **The blue economy**: **There is under-tapped potential in Djibouti which can play a key role in the country's structural transformation.** Djibouti does not have a blue economy development strategy and as a result, the required institutional and regulatory governance has not been established. However, Djibouti has 372 km of coastline and a sea area of 7190 km². Djibouti's coastal zone with a land surface area of 4567 km², corresponds to 20% of the country's total surface area and contains 85% of the total population. The Blue economy (BE) contributes about 19% to national GDP and represents 27% of total jobs. The country's marine and aquatic environment provides ecosystem services with an estimated value of USD 11 billion. The fishing sector is not very developed in Djibouti with an annual production of about 2000 tonnes of fishery products, 80% of which are marketed by women. The country does not yet measure its potential in this area and the role the BE could play in economic diversification, the creation of new opportunities for employment and wealth, the building of resilience and the strengthening of stability. However, further efforts are being made to get greater benefits from fishing and maritime activities by developing an employment-generating value chain in the marine fishing industry (UNECA, 2021)[xxvii]. In addition, other activities connected with the sea could be developed such as blue tourism, marine aquaculture, marine renewable energy and water production from desalinated sea water.

20. **Energy Sector: Djibouti is pursuing its energy mix strategy.** In Djibouti**,** the electricity access rate rose from 51% in 2014 to 70% in 2022, with 20% in rural areas. From a strategy point of view, Djibouti does not have a letter of energy sector policy. However, the country aims to achieve a 100% energy mix by 2030 with the operationalisation of its renewable energy projects with contributions from TFP including the Bank as well as from national and international private sector partners. *Électricité de Djibouti* (EDD) still holds the monopoly over electric power generation, transmission and distribution notwithstanding the generation of electric power by private operators. Because of EDD's problems related to machinery maintenance, technical losses

and revenue collection, electricity prices remain high at 28 US cents per kWh in Djibouti compared to 5 US cents in Ethiopia, from where 65% of the country's electric power requirements are imported. The remaining needs are covered by electric power generated by EDD and estimated at 120 MW, by fuel oil and diesel-fired thermal plants. Based on a 10% annual increase in demand for electricity driven by customer demand and economic activities, the country's daily needs could reach 500 MW in 2025 and 1,000 MW in 2030. To address this ever-growing demand and while hoping for a reduction in the price of electricity, Djibouti has targeted the development of renewable energies insofar as the country has high diversified potential in these sources of energy, including the Ghoubet wind farm (59 MW), the Grand Bara solar plant (30 MW) and the Fialéh Geothermal Project (30 MW).

21. **Transport: the lack of transport is a constraint on development.** Djibouti does not have a Letter of Development Policy for its transport sector which comprises: (i) a Djibouti-Ethiopia railway managed by the Chinese under a 20-year concession contract, (ii) an airport, 70% of whose activities concern military aircraft, (iii) six ports which handle 90% of Ethiopia's imports, (iv) a young airline and a road network including the Djibouti-Ethiopia-South Sudan—Kampala Corridor intended to connect Djibouti with the other countries in the sub-region. Djibouti's urban transport system is not adequate. The capital does not have a satisfactory public transport system that can serve the outlying neighbourhoods. The urban road network is degraded, the city has no motor parks or bus stops, or bus terminuses and daily truck traffic (1200) leaving the ports causes constant traffic jams. To ensure the country's competitiveness and improve the population's productivity, Djibouti needs an efficient transport system to (i) serve the ports and (ii) improve the population's mobility including in Djibouti City. The Djibouti Roads Agency is the public enterprise responsible for implementing road network construction, maintenance and rehabilitation works. It operates and manages a road network, 60% of which comprises paved roads, i.e. 716 km, 40% earth roads (477 km), and 204 km of urban roads, 129 km of which are in acceptable condition[xxviii]. On average, urban transport expenditure consumes 15% of household budgets in Djibouti-City. While the development and surfacing of the northern (Djibouti-Ethiopia-South Sudan—Kampala) and southern (Djibouti-Somalia) corridors support the promotion of regional trade, the development of urban roads and transport infrastructure aims to improve the population's quality of life by facilitating access to social services and job opportunities, especially for women and youth. The transport sector is affected by major institutional capacity gaps which result in poor road network maintenance and delays in sector reforms.

22. **The ICT sector.** The telecommunications sector is still not very competitive compared to the country's potential, especially with the existence of eight submarine fibre-optic cables to which the country is connected. The integrated ICT Sector Strategic Plan (2014–2024) whose priority is to strengthen the digital sector has the goal of transforming Djibouti into an information society with a digital economy. Djibouti Telecom, a public enterprise, is developing into a monopoly. The mobile phone and internet penetration rates are 43.5% and 55.7%[xxix] respectively. ICT prices have fallen in recent years. However, they remain high in relation to the population's standard of living and the country's ICT potential with the result that there are significant inequalities in male/female, urban-rural ICT access[xxx]. Access to high-consumption mobile and telecommunication services[xxxi] was equivalent to 5.1% of gross national income per capita, ranking Djibouti 123rd out of 188 countries in 2020. A new Ministry responsible for the Digital Economy and Innovation was established and the capital of Djibouti Télécom is being opened to a private minority shareholder.

23. **Water/Sanitation: the achievement of universal access to water and sanitation, one of the objectives of Vision 2035, remains a challenge**. Drinking water supply, storm and wastewater drainage and rainfed agriculture are among Djibouti's main weaknesses. Drinking water harvesting requires boreholes over 250 m deep and management of the water that comes out of them at very high temperatures requires expensive equipment. Moreover, drainage management is impeded by sea water rising above the level of the culverts. Rural drinking water coverage was 64% in 2017, compared to 97.4% in urban areas. Existing infrastructure is insufficient to meet growing demand accompanied by population growth. In Djibouti-City, estimated drinking water needs are between 60,000 and 100,000 m^3/day in 2020, while the drinking water supply system can only provide 50,000 m^3/day. In 2030, an additional 17,000 m^3/day will be required to meet minimum needs. On 14 March 2021, the first sea water desalination plant was opened which will provide 22,500 m^3/day in its first phase. In addition, only 19% of the rural population has access to a sanitation system (compared to 41% in urban areas). The rising urbanisation of Djibouti-City has disorganised the urban fabric, where sanitation networks are virtually non-existent. In 2019, the proportion of the population using flush toilets was 13.9% and latrines 62%[xxxii].

24. **Djibouti, unlike other countries in the region, only has limited mineral resources.** The contribution of these resources to the country's socio-economic development remains limited. Over the 2016–2020 period, the average contribution of the "extractive" subsector was only 0.5%. An inventory of mineral resources launched with the support of the United Nations Development Programme (UNDP) is expected to quantify the country's mining potential for the first time. One of the main challenges is the limited capacity of local personnel to negotiate mining agreements with foreign investors. The government's strategies focus on the exploitation of already identified minerals[xxxiii], while encouraging investment in geological exploration for other minerals, such as bauxite, copper, perlite, zinc, geothermal fluids[xxxiv], gold, gypsum, iron and limestone. Particular attention has been given to salt mining[xxxv].

25. **Regional Integration: Djibouti has made progress in terms of regional integration but much remains to be done**. Djibouti has signed and ratified the treaty of AfCFTA and the country is a member of COMESA, IGAD and CEN-SAD. In the AU/AfDB/ECA 2019 Africa Regional Integration Index Report, Djibouti was ranked 10th out of 53 African countries with a score of 0.394. However, Djibouti will have to redouble its efforts in the "macroeconomic integration" and "productive integration" dimensions. In terms of achievements, Djibouti's regional trade remains limited because the country only exports basic products, in particular livestock exports to its neighbours, namely, Ethiopia, Eritrea and the Arabian Gulf countries. Almost 30% of the country's exports are intended for COMESA countries with a very high proportion for Ethiopia. In addition, the country imports oil products, food, vehicles and capital goods mainly from China and the United Arab Emirates. Djibouti only imports 5% of its imports from Africa (Ethiopia). Improvements in Djibouti's regional trade require diversification of the economy and the revival of exports[xxxvi] already at the heart of PND 2020–2024. Djibouti is also one of the last countries in Africa to require an entry visa prior to departure with no visas issued on arrival.

2.4 Social Context and Crosscutting Themes

26. **The social indicators remain weak.** The estimated poverty rate was 34.3% in 2021[xxxvii]. The distribution of income remains unequal with a Gini coefficient of 0.44 in 2017. The

unemployment rate dipped from 54% of the labour force in 2010 to 47% in 2017[xxxviii] affecting young people most[xxxix]. Little progress has been made in terms of sustainable development. According to the 2020 Human Development Report, Djibouti was ranked 166 the out of 189 countries, with a score of 0.524 which puts it in the "low human development" category'[xl]. The main challenge for Djibouti lies in the low "average length of schooling." According to the 2020 Africa SDG Index Report, Djibouti was ranked 35th out of 52 Africa countries with a score of 51.30. Djibouti lags in achieving the SDGs by 2030, especially regarding SDG 15 "Life on Land": reduced pressure on the environment; SDG 2 "Zero Hunger" and; SDG 7 "Affordable and Clean Energy" (See Annex 11).

27. **Djibouti is faced with a qualitative and quantitative shortage of human resources.** The average qualifications of Djibouti's labour force are considered low. In 2018, the literacy rate was estimated at 52.8% for people aged 15 years of age and over and the primary school completion rate at 31.5%. Skilled workers are concentrated in the public sector and unskilled workers dominate in the formal and informal private sector. Skill gaps were observed in the key sectors in which Djibouti has private sector growth potential (logistics, hotels and tourism…). Djibouti is, however, aiming to invest in human capital through its Djibouti Vision 2035. The country is trying to resolve this skills gap problem. ANEFIP (The National Employment, Training and Professional Integration Agency) is the government's right hand in this struggle. Its responsibilities include (i) training, to enhance skills to foster the socio-economic integration of young people; (ii) matching vocational training with private sector needs and (iii) promoting theoretical training followed by a paid internship with a company[xli].

28. **Regarding gender issues, advances have been made in the political and social spheres, but challenges remain in the economic sphere** (see Annex 16). Currently, 25% of ministers, 25% of members of parliament and 30% of local elected officials are women. However, the inequalities that exist in the economic sector are significant, mainly because of the persistence of traditional culture based on a highly patriarchal society. Women's professional integration is with an unemployment rate of 63% compared to 38% for men in 2017, land access difficulties discrimination in inheritance. Women aged 15 years and over are the most illiterate (57% compared to 37% for men in 2018), limiting their ability to integrate into the labour market and participate in decision-making. The civil service has twice as many men as women (UNFPA, 2019). Several measures have been taken to address this situation. Women's economic empowerment was one of the objectives of the National Gender Policy (2011–2021). There are various ongoing (or already completed), TFP-supported projects and programmes to achieve this objective[xlii]. The national legal framework has made relative progress in terms of gender equality and women's and girls' empowerment[xliii].

29. **Djibouti's civil society is not very involved in public policy formulation,** except for UNFD (National Union of Djiboutian Women), the technical arm of the Ministry of Women and Family. In general, civil society organisations (CSOs) lack internal structuring and are not effective in advocating with the administration because of the irregularity of their members' participation in activities which rely on volunteers. Often modest in size and inexperienced, they chiefly operate in promoting gender and environment-based social development. The non-existence of a specific regulatory framework for organisations prevents them from creating an enabling environment for active participation in development. According to the CIVICUS index, Djibouti was in 2020 one of the 24 most closed countries in terms of civic freedoms.

30. **Djibouti has undertaken to mitigate the impacts of climate change.** With a subtropical desert climate, Djibouti is vulnerable to the impacts of climate change which weaken a large part of the population and productive capacity. Since 2015, Djibouti has undertaken to reduce greenhouse gas emissions by 40% by 2030 focusing on renewable energies[xliv]. The first cross-border power transmission line with Ethiopia contributed to a reduction in the use of thermal plants and greenhouse gas (GHG) emissions from 1.57 to 1.08 metric tonnes per capita between 2012 and 2018. The project's second phase, which has already been approved by the Bank should further reduce GHG emissions. In terms of adaptation, drought resilience programmes have been implemented including (i) the facilitation of access to water by constructing water retention dams, wells and sea water desalination plants; (ii) development of greenhouse farming, (iii) improved access to basic infrastructure and (iv) support to improve household incomes. Despite the existence of a legal framework governing national environmental provisions and requirements and TFP readiness to support the country, Djibouti is still faced with many climate and environmental challenges. A note on environmental and social safeguards is appended as Annex 17.

2.5 Country Strategic Framework

31. **In 2014, the Government of Djibouti adopted the Djibouti Vision 2035 and at the end of 2021 approved the new National Development Plan (PND) 2020–2024.** The Djibouti Vision 2035 aims to make the country the flagship of the Red Sea as a trading and logistics hub for East Africa by 2035. The new PND 2020–2024, called "Djibouti ICI" is the second phase of the strategy to operationalise the Djibouti Vision 2035. "Djibouti ICI" is structured around three pillars (**Inclusion, Connectivity and Institutions)** where (i) the "inclusion" pillar aims to consolidate social and economic inclusion; (ii) the "connectivity" pillar aims to strengthen internal connections with regional and non-regional countries, especially in the areas of logistics, water, energy, ICTs and transport; and (iii) the "institutions" pillar aims to strengthen public institutions to improve service delivery and macroeconomic stability. The expected PND outcomes are: (i) Djibouti will achieve sustainable economic and social development; (ii) the economy will be diversified and there will be strong, long-term growth; and (iii) poverty will be reduced and the social indicators improved.

2.6 Aid Coordination and the Bank's Positioning

32. **In Djibouti there are few development partners on the ground and no formal coordination framework has been established**. They include bilateral and multilateral partners. The United Nations System intervenes through its Specialised Agencies[xlv]. Some multilateral development finance institutions which are not based in Djibouti occasionally visit the country. Donor coordination is carried out more at sector level. TFP areas of intervention are focused mainly on Energy, Water/Sanitation and Transport (see Annex 7). The Bank is one of the leaders in the energy sector[xlvi] and plays an active role in the focus sectors which helps to improve TFP concentration.

33. **The Bank provides Djibouti with continuing support for its development efforts including during periods of crisis.** The Bank's operations are focused on infrastructure development (transport, energy and agriculture). In its fight against COVID-19, the Bank supported Djibouti with a crisis response support programme to mitigate the national and regional impacts of COVID-19 for an amount of USD 41.2 million. Even though the Bank does not have a

country office, it participates in aid coordination with the other TFPs, especially in its operational sectors.

2.7 Strengths, Weaknesses, Opportunities and Threats (SWOT)

34 Djibouti's major development challenge is the non-existence of any structural transformation momentum which is linked to the weak diversification of its great vulnerability. This situation increases the country's different areas of fragility, impeding inclusive growth that can improve the living conditions of the entire population and sustainably reduce poverty and unemployment. The underlying challenges of this major development problem are high factor costs (electricity, land transport, telecommunications, financing, etc.), weak human capital, weak institutional capacity great vulnerability to climate change, etc. However, as shown in the country context report, Djibouti has several strengths and opportunities including its geostrategic position, its three modern ports and the laying of eight major underwater optical-fibre cables. Box 1 summarises the strengths, opportunities, weaknesses and challenges.

Box 1: Strengths and Opportunities, Weaknesses and Threats			
Strengths		**Weaknesses**	
- Its geostrategic position on the world's busiest sea route - the three (3) modern port facilities that can accommodate all types of vessels - the existence of the Djibouti Free Trade Zone, with its advantageous conditions for investors	- its stable and attractive monetary and foreign exchange system - its relative political stability despite frequent conflicts and acts of terrorism in the region - its economic performance through its robust growth	- The modest size of the economy preventing any economies of scale or productivity gains - high factor of production costs (energy, telecommunications and labour) - poor quality of human resources	- difficulties in accessing water resources - high level of food insecurity coupled with difficulties in promoting agriculture (small area of arable land) - lack of land transport development
Opportunities		**Threats**	
- The ever-rising regional needs in terms of transit and transhipment; - the global growth of tourism and communication activities, areas in which Djibouti has undeniable potential; - operationalisation of the sovereign fund	the upward trend in commodity prices encouraging the tapping of the country's potential (perlite, cement materials and gypsum); - the hike in energy prices encouraging the use of renewable energies	- Recurring conflicts in the Horn of Africa and the Russia's invasion of Ukraine - new waves of the COVID pandemic due to the low vaccination rate - a public debt crisis after the DSSI suspension in 2021	- its many areas of fragility: climate change vulnerability, dependency on Ethiopia … - development of ports in neighbouring countries including Berbera in Somaliland and Assab in Eritrea - The dispute with DP world

III. CONCLUSIONS OF THE 2022 PORTFOLIO PERFORMANCE REVIEW

35. **The Bank Group's portfolio in Djibouti supports the country's main development objectives and contributes to four (4) of the Bank's five priorities (High 5s).** As of 31 August 2022, the Bank's ongoing portfolio in Djibouti comprised twelve (12) operations for total net commitments of USD 106.2 million (UA 79.09 million), six (6) of which are multinational projects representing an overall investment of UA 43.20 million (see Annex 6.1). The total amount of co-financing mobilised over the 2016 to 2022 period is USD 71.7 million (UA 51.28 million). The portfolio projects, solely composed of sovereign projects, include seven (7) investment projects, three (3) resilience-building projects, one (1) emergency assistance project, and one (1) capacity-

building project. The portfolio covers 5 sectors, including agriculture (37%), energy (34%), social and human capital development (17%), water and sanitation (7.0%) and transport (5%). Overall, the portfolio contributes to the High 5s in the following proportions: (i) Light up and Power Africa (34%); (ii) Integrate Africa (5%); (iii) Feed Africa (37%) and (iv) improve the quality of life for the people of Africa (24%). 54.87% of the portfolio is financed by grants and 45.12% by loans.

Portfolio Performance

36. **Portfolio performance is deemed satisfactory overall with an overall score of 2.73 out of 4 on a scale of 1 to 4.** According to the portfolio performance dashboard for August 2022, 73% of the national portfolio's financing will be implemented without any major difficulties, for only 3 out of 11 financing instruments (27%) are flagged for implementation difficulties. The two instruments that finance the Health Sector Skills Building Support Project are flagged because of procurement and disbursement delays, the Regional Socio-Economic Infrastructure Building and Economic Activity Support Project (PARISER) is flagged for disbursement delays. The portfolio contains no projects at risk. However, it includes two ageing projects, namely, the Geothermal Exploratory Drilling Project (9.2 years) whose financing will end in December 2022 and PAEPARC (Project for Drinking Water Supply and Sanitation in Rural Areas and the Secondary Centres of Ali Sabieh and Arta and Tadjourah 9.8 years).

37. The total portfolio amount is UA 80 million. The cumulative amount disbursed is 59.92% for an average age of 4.8 years. In terms of disbursement, high-performance projects are the Geothermal Drilling Project with a cumulative disbursement rate of 96.4%, and the PAEPARC, DRSLPIII (Drought Resilience and Sustainable Livelihoods Programme in the Horn of Africa-Phase III) and RLACC with respective disbursement rates of 77.3% and 75.8%.

Stakeholder Performance.

38. **Overall, the Bank's supervision performance is deemed satisfactory.** The resumption of field supervision missions in the first quarter of 2022 significantly improved the monitoring and supervision of operations compared to the virtual supervision operations carried out by the Bank in 2021. The frequency of two supervision was adhered to in 2021 and will be in 2022. Furthermore, all newly approved projects in Djibouti were the subject of launching missions during which PIU personnel were trained in the Bank's financial management and procurement procedures. However, the Bank will endeavour to improve the lengthy time taken to process and submit project requests for opinion.

39. **The Government's portfolio management performance is deemed satisfactory**. In fact, MEFI (Directorate of External Financing) is responsible for managing the entire portfolio and coordinating the Bank's missions to Djibouti in close cooperation with the technical ministries responsible for the different projects. Moreover, maintaining the same focal point (DFE) for several for all Bank-funded projects in Djibouti is an important factor facilitating coordination of portfolio project implementation. However, weaknesses remain regarding the justification of the use of project resources and the payment of national counterpart funds for the DRSLP III, PARISER and PAEPARC projects. Regarding procurement, Djibouti's National Public Procurement Commission under the oversight of MEFI is often held responsible for the significant

delays noted in approving the procurement reports (1.5 months), which is a major cause of the slippage noted on project implementation (See Annex 6.2).

Country Portfolio Improvement Plan (CPIP 2022)

40. The Portfolio Improvement Plan updated in March 2022 covers fifteen constraints grouped in four main areas: (i) poor project quality at entry, (ii) slippage on project start-up, (iii) weak project implementation capacity, and (iv) Government portfolio monitoring difficulties. Specific and common project problems as well as improvement measures are presented in the 2022 CPIP (Annex 6.3).

IV. LESSONS LEARNED

41. **The CSP 2023–2027 design takes into account the lessons learned from the implementation of the previous CSP covering the 2016–2022 period.** During its first phase from 2016 to 2020, the previous CSP had two pillars with the following 3 focus sectors: energy, health and governance. However, in 2020, in a concern for selectivity and to build the country's resilience capacity due to the emergence of new challenges, particularly food security, the CSP extension to end-2022 focused on a single priority area covering two focus sectors: energy and agriculture. Governance, climate change, gender and private sector development have become crosscutting themes. Significant results were achieved under the previous CSP 2016–2022. To consolidate these achievements while taking into account the major challenges of the country's development and the Bank's operational priorities (High 5s), the Bank proposes to maintain the single priority area but focus on the energy and transport sectors. This section summarises the main lessons learned from the completion report on the Country Strategy Paper 2016–2022 and 2022 CPPR, adopted by CODE which recommends continuing with the single priority area, namely "Socio-economic infrastructure development in the country's energy and transport sectors," while intervening in the country's key development areas. The main recommendations at the strategic and operational levels are consolidated below and presented in detail in Annex 3.1.

At the strategic level

The Bank should (i) strengthen selectivity in view of the limited ADF country allocation (UA 15 million); and (ii) prioritise regional projects to leverage regional funds in the context of low-allocation countries. TFP should improve coordination and synergy of their operations to heighten the projects' impacts in the field.

At the operational level

The Bank should: (i) continue to build the country's project management institutional capacity; (ii) use project preparation funds (PPF) to the extent possible at the project design stage to finance reliable engineering designs and bolster the coordination and monitoring and evaluation mechanism; (iii) assist the Government in establishing an aid coordination and monitoring and evaluation mechanism; (iv) encourage the Government to use advance contracting to shorten project implementation delays; (v) improve the quality of supervision by adopting a proactive approach based on the risk profile of each project and by mobilizing all the skills necessary to cover all the areas; (vi) address delays in the start-up and implementation of operations by ensuring that key staff for the project implementation unit are recruited at the preparation stage, reducing delays in processing procurement and disbursement requests, and respecting procurement schedules to avoid extensions of project completion dates.

42 **The design of CSP 2023–2027 also takes into account the independent evaluation carried out by IDEV which proposes the following five recommendations, namely** (i) the need to set realistic objectives (strategic and operational) that take into account the level of resources available for the Bank's assistance and national constraints on the implementation of operations; (ii) improve the mainstreaming of crosscutting aspects in project implementation in particular youth employment and private sector promotion beyond procedural compliance (iii) reinforce the results chain between each operation and the corresponding CSP pillars and strategic objectives to achieve the outcomes agreed upon for each pillar and nationally; (iv) improve the effectiveness and efficiency of the Bank's operation by improving the portfolio review, and (v) enable the Bank to accurately and exhaustively report on the development outcomes achieved. These recommendations as well as Management's actions are presented in detail in Annex 3.2.

V. THE BANK GROUP'S NEW STRATEGY 2023–2027

5.1 Rationale, Selectivity, Objective and Priority Area of the Bank's Support

43. **Rationale**. Djibouti's main development challenge is the non-existence of a structural transformation process combined with the weak diversification of its economy and its vulnerability (2022 Country Diagnostic Note). Addressing this challenge will not only contribute to improving productivity and competitiveness of the private sector but also to economic diversification that will encourage job creation, especially for women and youth as well as to reducing the country's drivers of fragility by strengthening social equity and building resilience to economic shocks. The CSP 2023–2027 is the Bank's response to support the Government in its efforts to develop the country.

44. **Selectivity**. Given the scope and diversity of Djibouti's development challenges, the Bank must be selective in addressing these challenges in an efficient, effective and sustainable manner. Consequently, to ensure that Bank support is provided in a targeted manner, the new CSP 2023–2027 identifies a series of selectivity criteria including (i) the country's development challenges and priorities for Bank support consultations with the country's stakeholders and lessons learned from the previous CSP; (ii) continuity based on and by consolidating the Bank's previous support and achievements; (iii) the Bank's comparative advantage ; (iv) opportunities for partnerships with other TFP to leverage additional resources to strengthen the impact and ensure complementarity and synergies; and (v) possibility of mainstreaming key crosscutting themes in the Bank's future support in particular gender equality, climate change, governance, private sector development and institutional capacity building. These selectivity criteria will ensure alignment of the Bank's support with the document entitled "Sharpening the Bank's Strategic Focus: A Proposal to Increase the Bank's Selectivity", approved by Board on May 2022.

45. **Objective and Priority Area of Bank Support**: Based on the selectivity criteria and NDP conclusions, the main objective of the Bank's new CSP 2023–2027 for Djibouti is to support the country in its efforts to promote inclusive growth by supporting the acceleration of structural transformation and economic diversification. To achieve this objective, the CSP focuses on the following single priority area: "Socio-economic infrastructure development in the energy and

transport sectors." Fully in keeping with the Bank's document on selectivity, the Bank's support will be provided in the following two focus sectors: "Energy" and "Transport" The crosscutting themes will be mainstreamed in all the projects.

46. **Strategic Alignment :** The support envisaged by the Bank in the energy and transport sectors under this CSP 2023–2027 for Djibouti is aligned, on the one hand, with Pillar III of the Djibouti Vision 2035, namely "a private sector-led, diversified and competitive economy" and, on the other, with the strategic thrusts of the 2020–2024 National Development Plan—Djibouti ICI, i.e. "Inclusion" and "Connectivity". The new CSP is also consistent with the Bank's Ten-Year Strategy (2023–2032) being finalised, the new Strategy for Addressing Fragility and Building Resilience (2022–2026), the 2021–2025 Gender Strategy "Investing in Africa's Women to Accelerate Inclusive Growth", the 2021 to 2025 Governance Strategy, The Climate Change and Green Growth Action Plan (2021–2025), the Strategy on the New Deal for Energy for Africa (2016–2025), the Strategic Transport Plan (2022–2027), the Eastern Africa Regional Integration Plan under preparation and the following four of the Bank's operational priorities (High 5s), "Light up and Power Africa", "Integrate Africa", "Improve the Quality of Life for the People of Africa" and "Feed Africa".

47. **The Bank's Comparative Advantage :** The selection of this priority area was influenced by the Bank's achievements under previous CSPs and by its comparative advantage in previous operations featured prominently. The Bank has vast experience in these sectors and is one of Djibouti's main partners in infrastructure. This strategic positioning allows continuity of the Bank's actions to meet the country's huge transport and energy infrastructure needs which remain relevant for private sector development.

5.2 Proposed Strategy and Main Expected Outcomes

48. The CSP 2023 to 2027 is focused on a single priority area, namely "***Development of socio-economic infrastructure in the energy and transport sectors."*** The objective of this single priority is to support business development by improving competitiveness to boost private sector activity and diversify the economy by improving the country's national and international transport connectivity to ensure stronger national and international integration and by supplying clean and more affordable energy. To guarantee the achievement of sustainable outcomes in the two proposed focus sectors, the following crosscutting themes will guide the CSP's implementation: governance, human and institutional capacity building, gender equality and fragility (including problems of urban planning, sanitation and disabled people), the problem of water and private sector development and youth employment.

49. Several types of operations could be rolled out to implement the proposed strategy to achieve the expected outcomes. These are investment programmes and institutional support operations combined with economic and sector work, advisory-support services and policy dialogue. As part of the private sector and industrial development support, it is planned to provide Bank non-sovereign financing.

Focus Sector 1: Energy

50. The Bank's support for the energy sector aims to ensure the supply, improve reliability and reduce the price of electricity in Djibouti by developing renewable energies to boost private sector activities. The Bank will continue to provide support to the energy sector through investment projects, namely (i) implementation of the project for the second electric power interconnection line with Ethiopia approved on 7 July 2021, (ii) the project for additional financing for the second Ethiopia-Djibouti interconnection power line which will comprise (a) la construction of a 20 kV medium voltage line between Nagad-Hol-Hol, and b) undergrounding of the Jaban'as-Pameraie 63 kV power transmission line from the Doraleh zone, (iii) the 40MW CREC waste-to-energy project (iv) institutional support for the Djibouti multisector Regulatory Agency (ARMD) established in 2020 to regulate the telecommunications and energy sector; and (v) preparation of the feasibility study for the *Desert to Power (DtP*[xlvii]*)* initiative.

Strategic Outcome 1: Improved access to clean and more affordable energy. Bank support will focus on electric power generation and transmission using renewable energies. In so doing, the Bank is aiming to strengthen economic competitiveness and reduce energy dependency on thermal generators fired by diesel and fuel oil. This support forms part of the expansion of investments made in the energy sector and will provide the population with affordable clean energy to reduce carbon emissions. It will also help to lower small and medium-sized enterprises' production costs, thereby strengthening private sector competitiveness, particularly the country's industrialisation. Special attention will be paid to the problem of water. The main expected outcomes are an increase in the total volume of electricity traded between Djibouti and Ethiopia from 536 GWh/year in 2022 to 696 GWh/year by 2027, and the reduction of greenhouse gas emissions from 400ktCO2e/year in 2022 to 269ktCO2e/year by 2027.

Strategic Outcome 2: Energy sector governance strengthened. The Bank will support the energy sector in pursuing its energy sector reform to improve the sector's overall governance and services. This reform targets the Djibouti Electric Power Utility, EDD (*Électricité de Djibouti*), to enhance its commercial performance and improve the efficiency of its financial management in addressing the electric power generation, transmission and distribution problems encountered, and to address the challenges of equipment maintenance and the obsolescence and lack of distribution grids. This weak performance by EDD partly explains Djibouti's high electricity prices. The envisaged reforms will bring down technical and commercial losses, and reduce fraud and, consequently, electricity prices. Regular low-cost electric power supply will have positive impacts on businesses that will make productivity and competitiveness gains and on households which will reduce spending on electricity. The main expected outcomes are a reduction in the system average interruption duration time from 9.37 h/year/customer in 2022 to 7h/year/customer by 2027 and a 15% drop in electricity prices.

51. In general, the development of renewable energies combined with the improvement in the sector's governance, especially the reduction of technical and commercial losses will result in lower electricity prices because of a reduction in the cost price of its generation and fragility, linked, among others, to the country's energy dependency. This should increase the profitability and productivity of businesses and ensure a subsequent increase in production and formal sector job opportunities including for women and youth as well as greater social inclusion through affirmative action and training efforts in these sectors It will help to promote private sector

development, in particular, the country's industrialisation by lowering production costs and leading to greater diversification and structural transformation of the economy. The energy sector intervention will help to promote green and inclusive growth, reduce the country's fragility and build socio-economic resilience.

Focus Sector 2: **Transport**

52. The aim of this Bank support in the transport sector is to facilitate the population's mobility, improve the condition of roads, reduce travel time and transport costs to stimulate private sector activities. The Bank could use (i) investment projects by modernising and rehabilitating the road network to reduce transport costs, facilitate urban mobility and strengthen regional integration; and (ii) institutional support to build the institutional capacity of the administrations responsible for the sector.

Strategic Outcome 1: **Regional connectivity by land is facilitated**. The Bank's intervention in the road transport subsector aims to rehabilitate the corridors connecting the Port of Djibouti to the country's regions to reduce the time and cost of land transport to promote port activities and boost private sector initiatives. This intervention concerns (i) the extension of the first phase of rehabilitation initiated by the Bank between Djibouti and Addis Ababa, and (ii) the modernisation and improvement of the Lawyaddo — Borama road to connect Djibouti, with northern Somaliland and Ethiopia creating significant regional integration and economic development potential. The Bank will include in its investments a smart transport system by rolling out the Integrated Transport Information System (ITIS) to ensure the fluidity of freight transport between Somalia and Djibouti.

Through this assistance, the Bank aims to (i) cut journey times, (ii) increase freight and passenger traffic (iii) simplify administrative procedures and (iv) provide real-time information to monitor customs clearance and freight movements and reduce the traffic accident rate. In time, the aim is to realise the ambition of the Djibouti Vision 2035, to make Djibouti the flagship of the Red Sea as a commercial and logistics hub for East Africa by ensuring greater connectivity by land between the Port of Djibouti and regional production and consumption centres. This will foster more inclusive growth by creating jobs, particularly for women and youth through a training and recruitment drive in direct and indirect job-creating sectors and by improving the supply of goods from regional countries to Djibouti. The main expected outcome by 2027 is a 6% increase in the volume of goods transported on rehabilitated roads (350,000 tonnes in 2022).

Strategic Outcome 2: **the country's internal connectivity by land is achieved**. The Bank is also planning to provide support to the improvement of road transport in Djibouti, by (i) rehabilitating and asphalting national roads and rural roads and (ii) providing support for the improvement of urban transport in Djibouti City. These interventions include expansion of the Bank's activities through projects in Djibouti's rural areas aimed at improving people's access to basic infrastructure, facilitating the movement of goods and people in the country's hinterland and cutting journey times and transport costs in urban and rural areas. In time, they will improve the population's productivity by improving private sector competitiveness. These are necessary conditions for achieving more inclusive growth. The main expected outcome by 2027 is a 75% reduction in the journey time of a truck of goods in the areas of interventions compared to the 2022 journey time.

Strategic Outcome 3: **The sustainability of road infrastructure has improved**. The Bank's assistance aims to reform the Djiboutian Roads Agency to (i) build its capacity to cover maintenance and major works financing needs; (ii) help to protect the road network; (iii) carry out priority road network maintenance; and (iv) improve the passenger and freight transport system. In time, it will ensure the sustainability of value added provided by new investments, in particular the improvement of competitiveness and job creation opportunities. Emphasis will be placed on improving the quality of roads to reduce recurrent maintenance costs, and reallocating central government budget resources to poverty reduction. To ensure the sustainability of the road network, the administrations responsible for the sector will be strengthened to improve public works planning and management, provide road security and axle load controls. The main expected outcomes by 2027 will be a reduction in the operating costs of heavy-duty vehicles by 10% compared to the 2022 amount (USD 8000).

53. In general, the development of internal road infrastructure will help to (i) reduce fragility by ensuring the fluid movement of goods and people, (ii) improve productivity and competitiveness, (iii) foster private sector initiatives and (iv) create job opportunities for women and youth. In addition, the development of regional corridors would reduce the cost of trading and facilitate integration into regional and global value chains thereby contributing to the economy's structural transformation. It will also help to improve connectivity with regional countries, thereby strengthening regional integration. The Bank should support ADR which manages the Road Maintenance Fund to ensure the maintenance of rehabilitated roads.

54. Crosscutting issues will be mainstreamed in all projects to obtain conclusive outcomes. Apart from improving governance in the two sectors of intervention, each project will mainstream gender and youth-related issues through support for job creation and income-generating activities to improve the living conditions of women and youth in the areas of intervention. Institutional capacity-building actions will be included in each project to support their implementation, particularly regarding procurement. Given the country's vulnerability to climate change and its weak response and risk management capacity, climate resilience-building measures will be factored into each project. In this respect, each project appraisal report in the CSP's two focus sectors will include a section on climate change and a section explaining how the project will contribute to building climate resilience, green growth and low carbon emission development. Furthermore, efforts are being made to promote the involvement of private operators in the CSP's two focus sectors. Given the growing dematerialisation of trade, emphasis will also be placed on digitalisation.

5.3 Indicative Lending and Non-Lending Programme

55. **The rolling indicative lending programme for the first three years of CSP 2023–2027 was established following consultations with the Djibouti Authorities**. These operations are required to implement the strategy retained in the CSP to accelerate the structural transformation of Djibouti's economy and achieve the High 5s in accordance with the envelope of easily mobilised Bank Group resources over this period. A midterm performance evaluation of the CSP will be carried out in 2025 to make any adjustments if required, for the remaining CSP period. The six (6) operations selected comply with the strategic direction of the new strategy (Annex 2.1).

56. **The indicative non-lending programme comprises economic and sector work studies (ESW)** which aim to implement the strategy by strengthening policy dialogue, providing advisory support to the different public administrations, generating knowledge to guide strategic decision-making, preparing lending operations and various supports. In addition to the review of public expenditure in the energy sector, three ESW and various technical assistance and support to institutional capacity building (support to the formulation of an investment plan for the blue economy, contribution to the strengthening of the country's resilience, etc) are envisaged. African Economic Outlook Country Notes will be prepared annually over the 2023–2027 period.

5.4 Dialogue

57. During the CSP 2023–2027 period, as part of the joint twice-yearly and quarterly portfolio performance reviews with the national party, dialogue will focus on (i) institutional capacity building to support the implementation of the Bank's operations; (ii) improvement of the Bank's portfolio performance in Djibouti (iii) governance reforms in the transport and energy sectors; (iv) building resilience to address climate change; (v) debt and public enterprises management; (vi) addressing fragility and building resilience; (vii) improving gender mainstreaming in project design and implementation; (viii) economic diversification and private sector development and; (ix) urban development. This dialogue will be strengthened by the findings of the studies scheduled over the CSP period. It will also be informed by the implementation of the Bank's Policy Reform Dialogue Matrix (PRDM) (see Annex 1C).

5.5 Financing the Strategy

58. **The resources for financing CSP 2023–2027 will come from several sources**: (i) ADF-16 PBA; (ii) ADF-17 PBA; (iii) the ADF Regional Envelope and (iv) the ADB private sector window and (v) co-financing. The CSP will cover two ADF cycles, namely the three years of ADF-16 and the first two years of ADF-17. Djibouti's country allocation should be UA 27 million (UAM) from the ADF-16 cycle. To this amount should be added an allocation of about UA 3 million under TSF. The total amount that can be mobilised for CSP 2023–2027 is UA 35.4 million from ADF-16 and 17, and UA 55 million from the AfDB private sector window. Co-financing is also envisaged with private sector operators and multilateral donors in the energy and transport sectors. Efforts to leverage additional resources could turn to the Climate Change Fund, the sale of surplus carbon credits to COP27, Green Funds and the Africa Disaster Risk Financing Fund.

5.6 Implementation, Monitoring/Evaluation Arrangements

59. The Bank's East Africa Development and Business Delivery Office (RDGE) will have overall responsibility for CSP implementation with support from the Bank's other organisational units. Strengthened by this support, RDGE will assume responsibility for the design, appraisal and implementation of projects as well as their control and monitoring. On the Government side, the Ministry of Economy and Finance responsible for Industry (MEFI) will be the Bank's main interlocutor. However, the sector ministries concerned will be responsible for project identification and implementation. The CSP implementation progress will be assessed based on the Results Monitoring Framework (Annex 1). Monitoring of the different outcomes will be coordinated by the Government of Djibouti (MEFI) through twice-yearly project supervision missions, joint biannual portfolio reviews and periodic meetings. The "Joint Impact Measurement and Job Marker

to better measure job creation effects of projects" will be prepared to assess project impacts. Reporting procedures on the performance of social and environmental measures will be systematically observed. A Mid-Term Review is planned for 2025 and a completion report in 2027. These two reports will evaluate the outcomes achieved by the strategy. Institutional support will be provided to build project implementation capacity to ensure the effectiveness and efficiency of the implementation of the planned projects.

5.7 Risks and Mitigation Measures

60. The main risks that could impede the implementation of CSP 2023–2027 are the persisting conflict in Ethiopia and Russia's invasion of Ukraine, the prolongation of the COVID-19 health crisis beyond 2022 and the debt crisis. Mitigation measures include the following points: support for TFP (including the Bank) for promoting COVID-19 vaccination and budget support, support for debt management reforms and support for efforts to seek a peaceful solution to the Tigray conflict. All the risks and related mitigation measures are described in Annex 20.

VI. CONCLUSIONS AND RECOMMENDATION

61. Djibouti is faced with many challenges caused by multidimensional fragility and a lack of structural transformation dynamics that hinder more inclusive growth and development in the country. In this regard, the main objective of the Bank's 2023-2027 CSP in Djibouti is to support the country in its efforts to promote more inclusive growth by supporting the acceleration of structural transformation through economic diversification, and the country's resilience. To achieve this objective, the following single priority area is proposed for the Bank's interventions: "***Development of socio-economic infrastructure in the energy and transport sectors***". This priority area is based on the NDP 2022 and CODE's guidance on the review of the CSP 2016-2022 Completion Report (CR). It is also based on consultations with stakeholders at country level. It is in line with the orientations of the Djibouti Vision 2035 and the Djibouti ICI Plan. It is also in line with the Bank's five operational priorities and the strategic orientations of the Bank's Ten-Year Strategy 2023-2032, which is currently being prepared..

62. In light of the foregoing, Management invites the Boards of Directors to consider and approve the 2023–2027 Country Strategy Paper for Djibouti..

Annex 1: Djibouti CSP 2023–2027 Results Measurement Framework

Annex 1A: Strategic Alignment Matrix: This matrix demonstrates alignment of the CSP's Priority Areas with both the Government's National Development Plan and the Bank's own priorities. It is not intended to assess performance of the Bank's support.

Priority Area: Socio-Economic infrastructure in the Energy and Transport Sectors

National Development Plan	Bank Group Policies
Djibouti ICI 2020-2024 National Development Plan: Two strategic thrusts: "Inclusion" and "Connectivity". **Djibouti Vision 2035**: Pillar III, namely: " Private-sector-led, diversified and competitive economy"	**Bank's 2023–2032 Ten-Year Strategy**: being finalised **Bank's five (5) operational priorities (High 5s):** (i) Light up and Power Africa; (ii) Feed Africa (iii) Integrate Africa; (iv) Industrialise Africa; and (v) Improve the Quality of life for the People of Africa
Country Sectors /Thematic Strategy	**Bank Sector / Thematic Strategy**
Letter of Transport Sector Development Policy in the perspective of improving and increasing traffic flows on transport networks 2020–2024 Action Plan of the Directorate of Environment and Sustainable Development National Development Policy for the electric power sector per generation segment over the 2017–2027 period', whose main objective is to "develop sufficient supply of clean and robust electric power supply to support the objectives of the Djibouti Vision 2035 to make Djibouti an emerging country."	The Bank Group's Strategy for the New Deal on Energy for Africa 2016 – 2025: (i) increase power generation, expand access to electricity, improve energy accessibility, reliability and efficiency while improving access to clean energy. The Bank's Strategic Transport Sector Plan (2022 – 2027)

Outcomes and Country's Development Indicators

Indicators	Baseline Situation (2023)	Target (2027)
Energy		
Total volume of electricity traded between Ethiopia and Djibouti (GWh/year) Reduction in the system average interruption duration time (h/yr./customer) Reduction in greenhouse gas emissions (ktCO2e/yr.) Reduction in average price for end-user customers (DJF/kWh)	536 (in 2022) 9.37 400 (in 2022) 45.77 (in 2022)	696 7 269 15% in the three years following completion
Road Transport		
Increased volume trade on rehabilitated/constructed roads (tonnes).	350,000 (in 2022)	30%
Upgraded and asphalted roads (km)	40 (in 2022)	41.5
Reduction in average journey time per freight trucks in the intervention area (%)	-2 h in 2022	75%
Indicators	**Baseline Situation (2023)**	**Target (2027)**
Governance		
Mobilisation of domestic resources by improving tax revenue (tax revenue as % of GDP)	11.8 % (2022)	15%
Improvement of public enterprise governance and reduction in the proportion of central government-guaranteed external debt of public enterprises (% of the country's total debt level)	65% (end 2019)	55%

The Bank's planned operations and resources

Generic Areas of Intervention or Instruments	Million USD
<u>Sovereign</u> **Investments: Energy and Transport** -The proportion of biomass and power transmission …… - Project for the Djibouti-South Sudan-Kampala Corridor – Dewele road section and two joint one-stop border posts in Dewele and Galafi -- - Additional financing for the project for a second power interconnection line between Ethiopia and Djibouti.------------- - Integrated Project, including climate change, road infrastructure ………………….. <u>Non-Sovereign</u> Line of Credit for Women (AFAWA) ………………………….. Project 40 MW CREC Waste-to-Energy Project ………………..	**7** **39** **19.5** **30.6** **471.5**
Capacity building and technical assistance…………	**4**
Knowledge products	**1.5**
TOTAL	**179.1**

Annex 1B: Performance Matrix

The performance matrix measures a wide range of results that should be regularly tracked during the CSP period. This does not only include operational results that will be delivered by projects approved in the previous period, but also other essential elements of the CSP including crosscutting issues, financial leveraging, harmonisation, portfolio performance, etc.

Performance Areas	Monitoring Indicators	Baseline Situation (2022 unless otherwise indicated	Target (2027)	Source of Verification
Operational Results: Outcomes/Impacts	**Priority Area: Socio-economic infrastructure development in the energy and transport sectors**			
	Energy :			
	▪			
	▪ Total volume of electricity traded between Ethiopia and Djibouti (GWh/year)	536	696	IPR/PCR
	▪ Reduction in the system average interruption duration time (h/yr./customer)	9.37	7	IPR/PCR
	▪ Reduction in greenhouse gas emissions (ktCO2e/yr.)	400	269	IPR/PCR
	▪ Reduction in average price for end-user customers (DJF/kWh)	45.77 (2020)	15%[1]	IPR/PCR
	▪ Direct and indirect jobs created (M/F) in road construction and maintenance (Number-months)	0	3000 (10% women)	IPR/CPR
	Transport :			
	▪ Volume of trade on rehabilitated/constructed roads (tonnes reduced).	350 000	30%	IPR/PCR
	▪ average journey times of freight trucks in the intervention area (%) reduced	2 hours	75%	IPR/PCR
	▪ Operating costs of heavy-duty vehicles in the intervention area of (USD/year) reduced 5	8,000	10%	IPR/PCR
	▪ Section of the road corridor equipped with a system for receiving real-time information on traffic, accidents and the weather (%)	0	100	IPR/PCR
	▪ Direct and indirect jobs created (M/F) in road construction and maintenance (Number-months)	0	5000 (10% women)	IPR/PCR
	Cross-cutting issues Rate of increase of economically empowered women of the target female population	0%	20%	IPR/PCR
Operational results: Outputs	**Priority Area: Socio-economic infrastructure development in the energy and transport sectors**			
	Energy :			
	▪ Biomass power generation plant established (No/Yes)	No	Yes	IPR/PCR

[1] (within three years of project completion)

	▪ Undergrounding of Jaban'as-Palmeraie 63 kV power transmission line (No/Yes) ▪ The medium voltage 20 kV power line between Nagad-Hol constructed (Yes/No)	No No	Yes Yes	IPR/PCR IPR/PCR
	Road Transport: ▪ Upgraded asphalted roads (km). ▪ ▪ Integrated Transport Information System (ITIS) installed (Yes/No) ▪ Simplified Administration Processes (yes/no)	3,640 km No No	42,415 km Yes Yes	IPR/PCR IPR/PCR IPR/PCR
Crosscutting issues				
Governance	▪ Improvement of domestic resource mobilisation through improved tax revenues (tax revenue as % of GDP) ▪ Improved governance of state-owned corporations and an increase in their contribution to national domestic revenue (in % of fiscal revenue). ▪ Budget transparency marked particularly by the publication of data on budget execution (public accounts) (Yes/No)	11.8% 65% (end-2018) No	15% 55% Yes	IPR/PCR IPR/PCR IPR/PCR
Gender, women and youth empowerment	▪ Sector analytical documents: Gender and energy, Gender and infrastructure/transport, analysis of job and entrepreneurship opportunities to collect gender-disaggregated data in the CSP sectors ▪ Number of women's jobs created in road and energy project activities ▪ Number of youth jobs created as a result of road and energy project activities ▪ Training given to women and youth in the transport and energy sectors and literacy education ▪ Opportunities for paid internships offered to women and young graduates in road and energy projects ▪ Gender clinics organised ▪ Sensitisation on GBV/SEAH including FGM (number of people, F/M sensitised through projects ▪	0 0 0 0 0 0 0	3 500 300 1500 100 3 700	IPR/PCR IPR/PCR IPR/PCR IPR/PCR IPR/PCR IPR/PCR IPR/PCR

Climate Change and environment	▪ Mainstreaming climate change in Bank projects in Djibouti (%) ▪ Les procédures de reporting sur la performance des mesures sociales et environnementales, renforcées	15% 40%	80% 80%	IPR/PCR IPR/PCR
Financial Mobilisation	▪ Co-financing mobilised (Million UA)	0	25	IPR/PCR
Portfolio Performance	▪ Projects reported for implementation challenges (%) ▪ Completion report prepared and published on time (%) ▪ Average time between project approval and loan/grant agreement signing (months) ▪ Time to first disbursement (months)	25% 90% 3.5 5	20% 95% 3 3	AfDB Regional Dashboard/IPRs/CPPR
Sustainability and Capacity Building	▪ Fiduciary clinics organised (number per year) ▪ Existence of a functional monitoring and evaluation system in all projects in the portfolio (Yes/No)	1 No	1 Yes	CPPR IPR
Knowledge Development Activities	▪ Economic and sector work studies conducted (#) ▪ Policy Dialogue Notes Prepared (#)	1 0	4 2	Study Reports/Dialogue Notes
Development Harmonisation	▪ Number of development partners meetings in which the Bank participated ▪ National procurement systems are used for projects (Yes/No)	0 No	3 Yes	CPPR CPPR/IPR

Annex 1C : Bank's Policy Reform Dialogue Matrix (PRDM)

DJIBOUTI									
Reform/ Activity supported	**GCI-VII and/or ADF-15 high-level commitment (for ADF-15 commitments indicate pillars plus objective and objective code)**	**High-5(s) supported**	**Technical Bank department(s) in charge**	**Expected timeline for completion of reform(s)**	**Key expected results and timelines**	**Support Instrument (PBO/RBF/Investment Project/ISP/ESW/TA/etc.)**	**ESW/TA required? (title/purpose, cost secured/not secured, timelines)**	**Status/progress & Key Milestones achieved**	**Policy dialogue activities related to the ESW/ intervention that have been undertaken to date**
Public debt management									
Support for debt managemen t reforms	**Single PILLAR Development of sustainable, high-quality socio-economic infrastructure in the energy and agricultural sectors** **Objective 1:** Improve debt management	Improve the quality of life for the people of Africa	ECGF	31/12//2022	This support will allow the Government to release public resources to finance projects in the energy and agricultural sectors. The outcome indicators are: (i) a 10% reduction in electricity prices between 2021 and 2025; (ii) a 20% increase in the proportion of green energy between 2021 and 2025; (iv) 7% reduction in the food insecurity rate (from 29% in 2021 to 22% in 2025); and (v) debt management software installed at the Ministry of Economy and Finance	PBO	No.	PBO name: Debt Management Reform Support Programme PBO amount: UA 3m PBO Approval date:2023: Given the low ADF-15 country allocation and floods experienced by the country in April 2021, the Government opted for rehabilitation/construction work on damaged infrastructure and will consider the possibility of financing this project under ADF-16 PBO period covered: 2023–2027 **Key Milestones achieved to date:** Production of the Study on COVID-19 impacts and recovery strategies in Djibouti (June 2021). The results of the study concern the finalisation of the new development plan – Djibouti ICI - (2020–2024), and the desire for a rapid recovery of the economy to prevent further debt. This recovery strategy includes the business climate improvement reform to facilitate the attraction of the private sector and prioritise the health sector, including the promotion of COVID-19 vaccines by the Government pursuant to Decree 021–143/PRE making vaccination mandatory for all individuals over 25 years of age who are Djibouti nationals or foreigners resident in the territory before any international travel.	The government's priority has changed. The new project, under preparation is the "Project to support public finance control institutions and public enterprise governance PAIC-GEP" for an amount of UA 3, 5 million. This project's PAR is being evaluated The project was approved on 4 October 2022.

Multi-Sector — Health, Business and Households (COVID-19)									
Consolidation of the health system, private sector support to revive economic activities and mitigate the social impact in response to the COVID-19 crisis	**PILLAR II: Governance, institutional capacity and human capital for inclusive growth** **Objective1:** Creation of decent jobs provide the continent's youth with opportunities to strengthen human capital and forge sustainable links with the labour market (D1) **Crosscutting Themes: Fragility** **Objective 1:** Fragility Assessment: Better understand the challenges of fragility in States in transition (FR1 and FR2) **Objective 2:** Fragility Strategy: Increase operational concentration and support in States in transition (FR5)	Improve the quality of life for the people of Africa	ECGF / AHHD	31 December 2020	(1) COVID-19 testing capacity per day (target tat end-December 2020: 2000 tests per day). (2) Increase in the number of dedicated care centres for COVID-19 patients (target at end-December 2020: 18 dedicated centres). (3) Increase the number of beds available in centres provided with equipment for screening and care of infected people (target at end-December 2020: 2980 beds available). (4) Increase the number of SMEs that have benefited from fiscal measures (target at end-December 2020: 100,000 SMEs including 15,000 women-headed SMEs). (5) Increase the number of producers who have received inputs to support the recovery of food crop and livestock production (target at end-December 2020: 220,000 producers) (6) Increase the number of households in lockdown that have received cash transfers to enable them to meet consumption and health expenditure (target at end-December 2020: 43,000 households including 30,000 women household heads). (7) Number of activated special shops of the National Buffer Stock Management Company for the subsidised sale of cereals to vulnerable households (target at end-December 2020: 150 shops activated).	CRF PBO	No.	PBO name: "COVID-19 CRISIS RESPONSE SUPPORT PROGRAMME ". PBO amount: UA 40m. PBO approval date: 22 July 2020 PBO period covered: 07/2020 - 06/2021 **Key Milestones achieved to date:** of the outcomes planned in Column I were expected at end-2020, indicate those which have been achieved and the "Comments" column why some of the expected outcomes have not been achieved and when they could be achieved. Also list in this column the production of the study on COVID-19 impacts and Recovery Strategies, plus the spinoff from this document in terms of reforms and administrative texts Adoption of a communication plan on the pandemic (communication plan validated by the Ministry of Health) (2) Adoption of the text enforcing the tax relief measures announced by the authorities (circular from the ministry responsible for Finance relating to the application of tax measures falling within the scope of the measures to mitigate the impacts of COVID-19) (3) Reactivation of the special shops of the National Food Buffer Stock Management Company (SONAGESS) (circular letter from the Secretary General of the Ministry responsible for Agriculture to the MAAH Regional and Provincial Directors and the letter from the SONAGESS Managing Director to the Mayors of the beneficiary municipalities for the management of cereal sales points for vulnerable people)	Awaiting the Programme audit

Annex 2 : Lending and Non-Lending Programmes and Contribution to High 5s

Annex 2.1. CSP 2023–2027 Operations Programme

Expected Year of Approval	Sector	Projects	ADF 16 (million UA)	Regional Envelope (million UA)	ADF 17 (million UA)	ADB Private Sector (million UA)	Trust Funds (million UA)	Co-financing (million UA)	Amount in million UA	Amount in million USD	Indicative Gender Category *
2024	Transport	Djibouti-Ethiopia-South Sudan-Kampala Corridor Project: Djibouti — Dewele road sections and two joint one-stop border posts at Dewele and Galafi	**9**	**27,3**				25	55	71,5	GEN II
2024	Energy	Additional financing for the Second Ethiopia-Djibouti Power Interconnection Line	**2,7**	**12,3**					15	19,5	GEN II
2025	Finance	Line of credit for women (AFAWA initiative)				**3**			3	3,9	GEN I
2025	Transport	Integrated Project, including climate change aspects and road infrastructure	**21,6**				**2**		23,6	30,6	GEN II
2026	Multisector	Institutional Support to Djibouti's Multisector Regulatory Agency (ARMD)			**3**				3	3,9	GEN III
2027	Energy	Project 40 MW CREC Waste-to-Energy Project				**55**			55	71,5	
Total			**27**	**39,6**	**3**	**58**	**2**	**25**	**154,6**	**200,9**	

*Proposed estimate to be confirmed at project appraisal in the presence of a Bank Gender Expert from the preparation phase.

The GEN I category is applied when the principal objective of the project directly addresses gender equality (GE) and/or women's empowerment (WE) ; GEN II is applied when one of the outcomes of the project, but not the principal one significantly reduces gender disparities; GEN III is applied when one or more of the project "outputs" aims to narrow these gaps and GEN IV is applied if the project includes one or more gender-inclusive activities but these are marginal to the outputs and outcomes of the project.

Annex 2.2 : Non-Lending Operational programme for CSP 2023–2027

No	Knowledge Activities and Technical assistance	Cost (USD million)
1	Energy Sector Public Spending Review	0.06
2	Study on the impact on Djibouti's economy of the development of the ports of Berbera in Somaliland and Assab in Eritrea	0.06
3	Study on Djibouti's new growth model (preparation started in November 2022)	0.05
4	African Economic Outlook Country Notes over the 2023–2027 period	Not applicable

IIn reserve (financing to be confirmed)		
5	Formulation of a National Blue Economy Investment Plan	0.5
6	Thematic and sector analyses: Gender and Energy, Gender and infrastructure/transport, analysis of job and entrepreneurship activities to allow the collection of gender-disaggregated data, and a Policy Dialogue Note that strengthens statistics on gender.	0.2
7	Support for strengthening the country's resilience	2.4

Annex 2.3 : Contributions to the Bank's High-5s and the National Development Plan "Djibouti ICI"

CSP 2023–2027 Expected Outcomes	Contribution to Bank's High 5s	Contribution to the the National Development Plan "Djibouti ICI"
Energy		
Increase in the total volume of electricity traded between Ethiopia and Djibouti from 536 GWh/yr. in 2023 to 696 GWh/yr.	- Light up and power Africa - Industrialise Africa - Improve the quality of life for the people of Africa	Connectivity-Inclusion and Institutions
Reduction in the average price for end-user customers from DJF 45.77 DJF/kWh in 2020 to 15% within three years of project completion	- Light up and power Africa - Improve the quality of life for the people of Africa	
Reduction in greenhouse gas emissions from 400 ktCO2e/year in 2023 to 269 ktCO2e/year in 2027.	- Light up and power Africa - Improve the quality of life for the people of Africa	
Improved reliability of electric power supply (drop in system average interruption duration time index (h/yr./customer))	- Light up and power Africa—Improve the quality of life for the people of Africa	
Transport		
Increased trade volume on rehabilitated/constructed roads (373,000 tonnes in 2023- 466,250 tonnes in 2027).	- Integrate Africa - Feed Africa - Improve the quality of life for the people of Africa	Connectivity
85% reduction in average freight truck journey times in the intervention area	- Improve the quality of life for the people of Africa	
Reduction in light vehicle operating costs from USD 2900 in 2023 to USD 2755 in 2027 and for heavy-duty vehicles from USD 8000 in 2023 to USD 7600 in 2027	- Integrate Africa - Feed Africa - Improve the quality of life for the people of Africa	

Cross-cutting Issues		
Number of jobs created for women in the context of road and energy project activities (500)	- Feed Africa. - Improve the quality of life for the people of Africa	Inclusion
Number of jobs created for young people in the context of road and energy project activities (300)	- Feed Africa. - Improve the quality of life for the people of Africa	
Climate dimensions mainstreamed in the Bank's projects in Djibouti up from 15% in 2023 to 25% in 2025	- Improve the quality of life for the people of Africa	Institutions
Institutional capacity strengthened	- Improve the quality of life for the people of Africa.	
Private sector strengthened (business environment improved)	- Industrialise Africa - Improve the quality of life for the people of Africa.	

Annex 3: Lessons Learned

Annex 3.1. Implementation of CSP 2016–2022

The following lessons were learned from the CSP's implementation.

For the Bank: (i) use project preparation funds (PPF) to the extent possible at the project design stage to finance reliable engineering designs and bolster the coordination and monitoring and evaluation mechanism; (ii) prioritise regional projects to leverage regional funds in the context of low allocation countries; and (iii) take into account the country's institutional capacity in terms of project implementation. From a strategic standpoint, the Bank should strengthen selectivity given the country's limited ADF allocation (UA 15 million) to ensure synergy between its operations and those of other TFPs to heighten project impacts in the field.

For the Government: (i) the need to bolster the coordination and monitoring and evaluation mechanism; (ii) the use of advance contracting to shorten delays; and (iii) implementation capacity building for administrations responsible for project steering and implementation, in particular, regarding results-based management sustainable development principles, including the establishment of an efficient monitoring and evaluation system, and regarding Bank procedures, in particular, procurement procedures.

For the Development Partners: (i) Closer coordination between TFPs by reducing transaction costs and overlapping to ensure aid effectiveness; (ii) stronger cooperation between TFPs by further systematising joint procedures, for example, the organisation of joint portfolio reviews, joint missions, etc.; and (iii) ensure some flexibility in their rules and procedures to share the documents to be produced.

Annex 3.2 : Recommendations from the IDEV Evaluation and summary of Management's actions.

The evaluation team formulated the following five recommendations for the attention of the Bank's country team and East Africa Region, to be implemented as soon as the preparation of the next CSP begins:

SUMMARY OF MANAGEMENT'S ACTIONS	
RECOMMENDATION	**MANAGEMENT'S RESPONSE**
Recommendation 1— set realistic objectives (strategic and operational) that take into account the level of resources available for the Bank's assistance and national constraints on operations implementation.	**AGREED.** ▪ Management recognises the need to set ambitious but realistic objectives that take into account constraints inherent in the national context and the availability of financing. 1. The new CSP 2023–2027 being formulated/approved (i) will be based on a single priority area, (ii) will define a limited number of expected outcomes and products with realistic targets given the limited volume of Bank commitments and national operational constraints, and (iii) will propose a limited number of transformative and regional projects with a strong impact. [**RDGE, Q4 2022**]
Recommendation 2— *Improve the mainstreaming of crosscutting aspects in project implementation, particularly youth employment and private sector promotion, beyond procedural compliance*	**AGREED.** ▪ Management recognises that further efforts must be made regarding youth employment issues. 2. The Bank has begun to develop a partnership with the International Labour Organisation on a job marker (like the gender marker). The job marker will be applied to sovereign and non-sovereign operations to measure the impact of Bank investments on job creation in regional member countries. [**AHHD, Q4 2023**]
Recommendation 3— *Reinforce the results chain between each operation and the corresponding CSP pillars and strategic objectives to achieve the outcomes agreed upon for each pillar and nationally*	**AGREED.** ▪ Management is in agreement with this recommendation. The results chain is an essential means of showing the Bank's results and must, moreover, be cohesive and clearly articulated. 3. A theory of change will be prepared and taken into account in the design of the new results matrix of the new CSP 2023–2027. A close and clear link will be established between the country's development priorities, the Bank's operational priorities (High-5s), the main CSP objective, the CSP priority area, the operations retained in the indicative operational programme (IOP), the expected outcomes, expected outputs and operations activities retained in IOP. [**RDGE/Q4 2022**].
Recommendation 4— *Improve the effectiveness and efficiency of the Bank's operation by improving the portfolio review.* More regular periodic joint review meetings on the Bank's portfolio could be envisaged in consultation with the government, development partners and other stakeholders while adhering to project supervision mission schedules	**AGREED.** ▪ Management is in agreement with the recommendation to organise more regular meetings with the national party to ensure efficient and timely implementation of projects financed by the Bank. 4. Joint country portfolio performance reviews will be organised every 2 years per the Bank's Guidelines. RDGE will also organise quarterly portfolio monitoring reviews from the fourth quarter of 2022. [**RDGE/Q4 2024**]

SUMMARY OF MANAGEMENT'S ACTIONS	
RECOMMENDATION	**MANAGEMENT'S RESPONSE**
Recommendation 5— *Enable the Bank to accurately and exhaustively report on the development outcomes achieved* by strengthening the project monitoring-evaluation system. In particular, the Bank could consider including indicators linked to the implementation of Environmental and Social Assessment Procedures (ESAP) in the monitoring plan as well as in the related budget in the current project concept note and project appraisal report outlines.	**AGREED.** - Management recognises that shortcomings have been identified in the reporting of environmental and social (E&S) issues over the evaluation period. In its response to BDEV's evaluation of the Bank's Integrated Safeguards System (September 2019), Management undertook to implement a series of actions, in particular, to strengthen resources (in terms of staffing and the operations budget) allocated to the E&S component (Recommendation 1) as well as its performance in monitoring E&S issues either before (recommendation 4) or during (Recommendation 5) implementing operations. Management will continue to monitor compliance with these actions and does not envisage taking any further action to implement this recommendation.

Annex 5: Results of Consultations with National Stakeholders

As part of the preparation of the Bank's CSP for Djibouti over the 2023–2027 period and taking into account the recommendations of CODE upon validation of CSP 2016–2022, a Bank team visited Djibouti from 18 to 22 July 2022 and from 31 July to 5 August 2022, to hold discussions with stakeholders including the identification of pipelines of projects to be financed over the new CSP period.

The mission team successively contacted the Djibouti authorities and Ministerial Departments that could become involved in Bank support operations in Djibouti, especially those concerning the energy and transport sectors; the two focus areas of the new CSP already validated by CODE. Meetings were held with the private sector, civil society and development partners, mainly to determine how to mainstream crosscutting aspects into projects to be financed by the Bank. Specific requests were also made to provide support to vulnerable segments of the population, particularly women, youth and disabled people. A request was also submitted to build the capacity of civil society actors by members of civil society.

The Bank also took advantage of this field visit to meet some executing agencies for Bank projects in Djibouti to improve project implementation through exchanges on the different problems encountered in the field.

Following this mission, pipelines of projects were identified including the CREC 40 MW Waste-to-Energy Project; institutional support for the Djibouti Multisectoral Regulatory Agency (ARMD); a project for additional financing for the Ethiopia-Djibouti Second Power Interconnection Line which will include construction of the 21 kV Jaban'as-Holhol transmission line and undergrounding of the Jaban'as-Palmerais 63 kV transmission line; implementation of the Djibouti-Somalia-Ethiopia modernisation project: Nagad to the Loyada border (15 km) to Djibouti section and the Djibouti-Ethiopia-South Sudan Corridor: Djibouti — Dewele road section and two joint one-stop-border posts at Dewele et à Galafi and establishment of a line of credit for women (AFAWA Initiative). In addition, an indicative list of studies was prepared to support the implementation of these projects and inform country dialogue. These are the study on a new growth model for Djibouti, energy sector public spending review, the study on the impact on Djibouti's economy of the development of the Ports of Berbera in Somaliland and Assab in Eritrea and the preparation of the African Economic Outlook Country Notes over the 2023–2027 period.

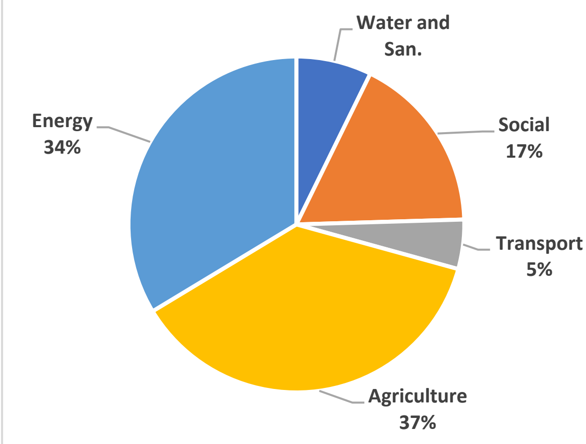
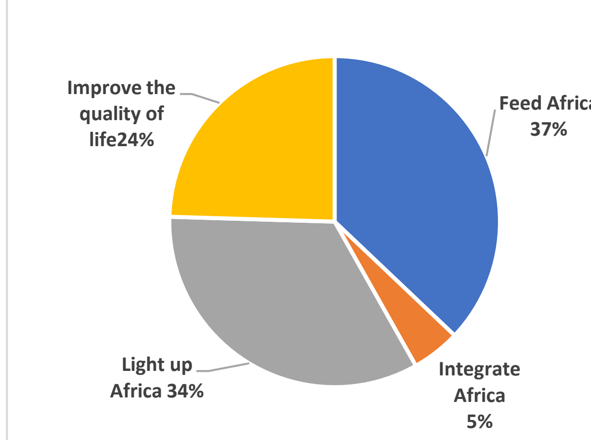
Annex 6: Portfolio Performance Review

Annex 6.1. Ongoing Portfolio

- As of 31 August 2022, the Bank's ongoing portfolio in Djibouti comprised twelve (12) operations. The total portfolio amount is USD 106.2 million (UA 79.9 million). The portfolio covers 5 sectors including agriculture and environment (37%), energy (34%), social and human capital development (17%), water and sanitation (7.0%) and transport (5%).

Table 1: List of Ongoing Projects

28-aoû	Project	Instr.	Approval	Closure	Age (years)	Amount (USD million)	Amount (UA million)	Disbursement Rate (%)	PAR
1	DWSS in rural areas and secondary Centres	ADF — Grant	27-Nov-12	31-Oct-22	9.8	4.6	3.5	87.8	NPPP
		RWSSI	27-Nov-12	31-Oct-22		3.1	2.3	91.7	NPPP
2	Drought Resilience and Sustainable Livelihoods Programme in the Horn of Africa—Djibouti (Phase III)	ADF — Loan	17-Jun-15	30-Jun-23	7.2	15.3	11.5	80.5	NPPP
3	Rural Livelihoods Adaptation to Climate Change in the Horn of Africa (RLACC)	FEM	15-Dec-16	31-Dec-22	5.7	5.2	3.9	75.8	NPPP
4	Regional Socio-Economic Infrastructure Building and Economic Activity Promotion Support Project (PARISER)	ADF — Loan	10-Jul-15	30-Jun-23	7.2	10.0	7.5	37.9	NPPP
5	Health Sector Skills Building Support Project (PARCSS)	ADF — Loan	5-Dec-16	30-Jun-26	5.7	8.0	6.0	21.2	NPPP
		ADF — Grant	5-Dec-16	30-Jun-26		0.4	0.3	8.0	PP
6	Ethiopia-Djibouti Transport Corridor, Phase I	ADF-Grant	19-Jul-19	31-Dec-26	3.1	5.0	3.8	3.9	NPPP
7	Ethiopia and Djibouti Second Power Interconnection Project	ADF-Grant	7-Jul-21	31-Dec-26	1.2	13.3	10	0.5	-
8	The Multinational Programme to Build Resilience for Food and Nutrition Security in the Horn of Africa (BREFONS)	ADF-Grant	24-Nov-21	30-Jan-27	0.8	18.5	13.9	0.5	-
9	Emergency aid for rehabilitation of water infrastructure damaged by the April 2021 floods	SRF-Grant	14-Dec-21	31-Dec-22	0.7	0.4	0.3	100	-
10	Geothermal Exploratory Drilling Project	ADF-Loan	28-Jun-13	31-Dec-22	9.2	0.4	0.3	100	NPPP
		ADF—Grant	28-Jun-13	31-Mar-23	9.2	4.7	3.5	99.5	NPPP
11	Geothermal Exploration Project - Supplementary Financing	ADF - Loan	02-May-18	31-Mar-23	4.3	14.3	10.7	95.3	NPPP
12	Supplementary financing for Geothermal Exploration Project	ADF—Grant	15-Jan-20	30-Apr-24	2.6	3.1	2.4	96.2	NPPP
TOTAL/AVERAGE					4.8	106.2	79.9	59.92	

Figure 1: Sector Distribution	*Figure 2: Distribution by Hi-5*
	

Annex 6.2. Portfolio Quality and Performance

As of 31 August 2022, the portfolio's average age was 4.8 years and the cumulative disbursement rate was 59.9%. The portfolio's overall performance is satisfactory with an overall score of 2.7 out of 4. The percentage of operations reported as having implementation difficulties was 30%. The poor quality of procurement documents and disbursements delays project implementations. Slippage on project implementation is, moreover, exacerbated by the long process (1.5 months) for having procurement reports approved by Djibouti's National Public Procurement Commission, ineffective portfolio monitoring by the government and non-payment by the Government of the counterpart funding for some projects. These shortcomings call for the Bank's close attention to boost the portfolio's performance and obtain the repayment/justification of an amount of UA 43,139 on the special account of the Institutional Capacity Building Support Project (PARCI) closed on 31 December 2016.

Annex 6.3: Country Portfolio Improvement Plan updated in August 2022

Challenges/ Problems identified	Measures to be Taken	Measurable Indicators	Responsible Entities	Timeline
Project Quality at Entry				
1 **Problem common to all projects**: poor quality of project feasibility studies resulting in the underestimation of project costs and implementation schedule in the project appraisal reports (PARISER case)	To the extent possible, use Project Preparation Funds (PPF) when designing projects to finance the preparation of reliable engineering designs	Feasibility studies available for bankable projects before approval	GVT	31 December 2024
Start-up of Operations				
2. Problem common to all projects: Project start-up difficulties due to the Government's delay in recruiting key PIU staff.	From the preparation phase, proceed with the recruitment of key staff for the Project Implementation Unit based on performance contracts to ensure it is operational as soon as the financing agreement is signed	The first disbursement is released no later than 6 months after approval of all new projects	AfDB/GVT	31 December 2023
Project Implementation				
3. Problem common to all projects: Poor quality of procurement documents and disbursement requests	Exercise due diligence before submitting procurement documents and disbursement requests to the Bank	The quality of procurement documents and disbursement requests submitted to the Bank has improved	PIU	31 December 2022
	Continue training of executing agency managers and Ministry officials on the Bank's procurement, disbursement, audit and results-based management rules and procedures-	A fiduciary clinic is organised in 2022	AfDB/GVT	31 December 2022
4. Problem common to all projects: Delays (over 15 working days) in processing and responding to project requests	Adhere to the normal time of 15 working days in which to process and respond to project requests.	The average project request and request response time is below or equal to 15 working days.	AfDB	31 December 2022
5. Midterm reviews of all lending operations are not systematically organised	Systematically organise midterm reviews for all lending operations to assess the implementation progress	Midterm reviews are organised for all active projects	AfDB/GVT	31 December 2024

Challenges/ Problems identified	Measures to be Taken	Measurable Indicators	Responsible Entities	Timeline
	made and take concrete decisions to put the operations on the right track to achieve the development objectives.			
6. Problem common to all projects: The information contained in the project activity reports is insufficient to monitor development outcomes since it does not allude to the performance indicators presented in project results frameworks.	Ensure that the project activity reports present the achievement levels of performance measurement indicators to facilitate the monitoring of development outcomes.	All project activity reports submitted to the Bank present the achievement levels of project performance measurement indicators.	GVT	31 December 2024
	Include specific commitments in the financing agreements and make the country aware of the need to comply with them and take rapid action to ensure the submission of complete reports that will allow project outcomes to be monitored.	All new financing agreements contain specific commitments to make the country aware of the need to avoid faults such as the failure to submit complete reports that will allow project outcomes to be monitored.	AfDB/GVT	31 December 2022
7. **Problem common to all projects**: Failure to comply with the schedule for the submission of project audit reports	See to the timely submission of audit reports	Audit reports for the said projects are submitted on time	PIU/GVT	31 December 2024
	Prepare a monitoring tool/table for the preparation of audits due to be prepared at the beginning of each year and regularly monitored.	All new financing agreements contain specific commitments to make the country aware of the need to avoid any failure to comply with the schedule for the submission of project audit reports.	AfDB/GVT	31 December 2022
8. Irregular submission of project financial monitoring reports to the Bank and yet this is a contractual obligation stipulated in the financing agreements of each bank-financed project	See to the timely and regular submission of financial monitoring reports	Project financial monitoring reports are submitted regularly on time	PIU/GVT	31 December 2022
9. Non-payment of government counterpart funds for DSRLPIII, PAEPARC and PARISER	Ensure the regular payment of counterpart funds for the DSRLPIII, PAEPARC and PARISER projects to facilitate the implementation of the planned activities	Counterpart funds are paid for the projects concerned	GVT	31 December 2022
	Enter in the Budget Law/central government budget the counterpart funds due for Bank projects, amounts	The counterpart contributions due for Bank projects are entered in the Budget Law/central government budget for Djibouti	GVT	31 December 2022

Challenges/ Problems identified	Measures to be Taken	Measurable Indicators	Responsible Entities	Timeline
	calculated based on disbursement schedules prepared for each project.			
10. Problem common to all projects: Non-compliance with steering committee meeting schedule	Comply with the project steering committee meeting schedule	The project steering committee meeting schedule is complied with.	PIU/GVT	31 December 2022
11. Audit of public funds and contracts as part of the Budget Support in response to the COVID-19 crisis	Submit the final version of the ToR for approval by the Bank	The final version of the ToR is submitted to the Bank for approval	PIU/GVT	15 April 2022
12. Problem common to all projects: very long lead times (2.5 months) in having procurement reports approved by Djibouti's National procurement Commission, which slows down project implementation	Considerably reduce the time taken to have procurement reports approved by Djibouti's National Procurement Commission	The time taken to have procurement reports approved by Djibouti's National Procurement Commission is reduced to two (2) weeks.	GVT/ Djibouti National Procurement Commission	31 December 2022
Portfolio Monitoring by the Government				
13. Weak portfolio monitoring by the supervising technical ministries	Organise project implementation monitoring meetings and submit the reports to the Governor's services and the Bank	The minutes of the project implementation progress monitoring meetings are regularly submitted to the Governor's services and the Bank	GVT	31 December 2022
14. Non-existence of performance contracts for PIU staff members	Have annual performance contracts signed by all PIU staff members which will be reviewed periodically. In the contracts for coordinators, administrative and financial officers and procurement officers, it will be necessary to insert a clause on the obligation to implement the recommendation of project supervision and audit missions and take into account the Bank's comments on the procurement documents	All PIU staff members have annual performance contracts that will be periodically reviewed.	GVT	31 December 2022

Challenges/ Problems identified	Measures to be Taken	Measurable Indicators	Responsible Entities	Timeline
15. The Secretary-General at the Ministry of Agriculture, Water, Fishing, Livestock and Fishery Resources also acts as National Coordinator for the two agricultural sector projects (DRLSPIII and RLACC) and yet in his capacity as Secretary-General, he should rather supervise project coordinators and not personally see to project implementation in the field.	Appoint/recruit a new National Coordinator for the two agricultural sector projects (DRLSPIII and RLACC) and allow the Secretary-General at the Ministry of Agriculture, Water, Fishing, Livestock and Fishery Resources to supervise project coordinators among his supervision duties.	The new national coordinator is recruited for the three projects	GVT	31 December 2022

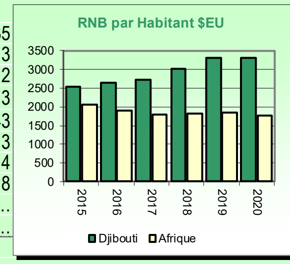
Annex 7: Technical and Financial Partners' Areas of Intervention

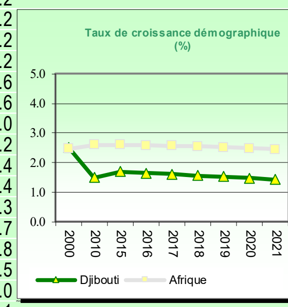
Partners	Macroeconomic management	Governance	Social Protection /Disaster Preparedness	Energy	Private Sector	Water and Sanitation	Gender	Education	Agriculture/Food security/Nutrition	Health	Financial Sector	Housing	Transport	Justice	Environment/climate change	Urban Development	Telecommunications	Refugees/migration
Multilateral Partners																		
AfDB	▲		▲	▲		▲	▲		▲	▲			▲		▲			
European Union		▲	▲		▲	▲	▲		▲					▲	▲			
IMF	▲																	
World Bank	▲	▲	▲	▲	▲		▲	▲	▲	▲	▲	▲			▲	▲	▲	▲
OPEC				▲				▲					▲					
Arab Fund				▲		▲						▲	▲					
UN	▲		▲	▲	▲	▲	▲	▲	▲	▲	▲	▲			▲			▲
IFID						▲			▲						▲			
IsDB				▲	▲		▲	▲		▲			▲			▲	▲	
GEF				▲											▲			
Bilateral Partners																		
AFD		▲		▲	▲	▲		▲						▲		▲		
USAID		▲		▲	▲		▲	▲		▲								
JICA				▲		▲	▲	▲		▲			▲			▲		▲
CHINA						▲						▲	▲					
SAUDI ARABIA						▲			▲			▲	▲	▲				
KUWAIT				▲								▲	▲					
TURKEY						▲												
Total number of partners in the sector	**4**	**4**	**4**	**11**	**6**	**10**	**7**	**7**	**6**	**6**	**2**	**6**	**8**	**3**	**6**	**4**	**2**	**3**

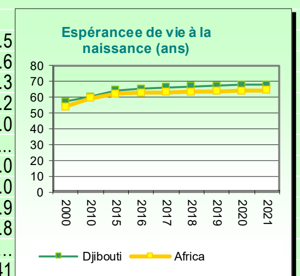
IFID: Arab Maghreb Development Finance Institute; IsDB: Islamic Development Bank
GEF: Global Environment Facility; AFD: French Development Agency.

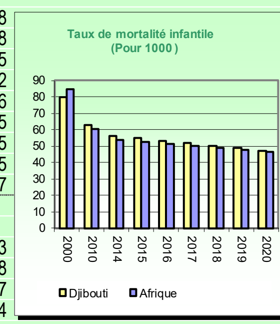
Annex 8: Comparative Socio-Economic Indicators

	Année	Djibouti	Afrique de l'est	Afrique	Pays en Dévelop-pement
Indicateurs de Base					
Superficie ('000 Km²)	2021	23	6,228	30,064	96,535
Population totale (millions)	2021	1.0	385.3	1,371.7	6,518.3
Population urbaine (% of Total)	2021	79.1	28.8	44.3	51.2
Densité de la population (au Km²)	2021	43.2	66.0	46.7	69.3
Revenu national brut (RNB) par Habitant ($ EU)	2020	3 310	957	1 767	4 843
Participation de la Population Active *- Total (%)	2021	31.4	71.5	61.9	58.3
Participation de la Population Active **- Femmes (%)	2021	17.2	65.3	53.3	44.4
Rapport de Masculinité (hommes pour 100 femmes)	2021	110.4	99.4	99.9	106.8
Indice de développement humain (rang sur 189 pays)	2019	166	…	…	…
Population vivant en dessous de 1,90 $ par Jour (%)	2007-19	17.0	34.2	34.1	…
Indicateurs Démographiques					
Taux d'accroissement de la population totale (%)	2021	1.4	2.6	2.5	1.2
Taux d'accroissement de la population urbaine (%)	2021	1.6	4.5	3.6	2.2
Population âgée de moins de 15 ans (%)	2021	28.6	41.1	40.1	27.2
Population âgée de 15-24 ans	2021	18.1	20.7	19.3	16.2
Population âgée de 65 ans et plus (%)	2021	4.8	3.0	3.6	7.6
Taux de dépendance (%)	2021	50.2	79.1	77.6	54.6
Population féminine de 15 à 49 ans (%)	2021	26.0	24.6	24.3	25.0
Espérance de vie à la naissance - ensemble (ans)	2021	67.7	65.8	64.1	71.2
Espérance de vie à la naissance - femmes (ans)	2021	70.0	67.8	65.9	73.4
Taux brut de natalité (pour 1000)	2021	20.1	32.5	32.2	19.4
Taux brut de mortalité (pour 1000)	2021	6.9	6.4	7.7	7.3
Taux de mortalité infantile (pour 1000)	2020	47.2	37.5	46.6	29.7
Taux de mortalité des moins de 5 ans (pour 1000)	2020	32.1	36.0	47.5	39.8
Indice synthétique de fécondité (par femme)	2021	2.6	4.2	4.2	2.5
Taux de mortalité maternelle (pour 100000)	2017	248.0	444.2	475.7	231.0
Femmes utilisant des méthodes contraceptives (%)	2021	28.9	41.1	38.3	59.1
Indicateurs de Santé et de Nutrition					
Nombre de médecins (pour 100000 habitants)	2010-19	…	18.0	38.1	138.5
Nombre d'infirmières et sages-femmes (pour 100000 habitants)	2010-19	…	85.3	106.5	254.6
Naissances assistées par un personnel de santé qualifié (%)	2010-20	87.4	55.4	64.4	79.3
Personnes utilisant au moins des ser. de base en eau potable (% Pop.)	2020	76.0	56.1	69.3	88.2
Personnes utilisant au moins des ser. de base d'assainissement (% Pop.)	2020	66.7	25.6	41.9	74.0
Pourcent. d'adultes de 15-49 ans vivant avec le VIH/SIDA	2020	0.8	2.5	3.0	…
Incidence de la tuberculose (pour 100000)	2020	224.0	168.6	193.2	149.0
Enfants vaccinés contre la tuberculose (%)	2019	95.0	81.1	81.0	88.0
Enfants vaccinés contre la rougeole (%)	2019	83.0	76.5	71.9	84.9
Insuffisance pondérale des moins de 5 ans (%)	2010-20	29.9	14.0	16.8	13.8
Prévalence de retard de croissance	2010-20	33.5	29.5	31.9	…
Prévalence de la malnutrition (% de pop.)	2019	16.2	22.01	17.69	10.41
Dépenses de santé courantes (en % du PIB)	2019	1.8	4.1	5.1	5.3
Indicateurs d'Education					
Taux brut de scolarisation au (%)					
Primaire - Total	2011-21	73.2	104.2	103.0	101.8
Primaire - Filles	2011-21	70.0	102.1	101.0	100.8
Secondaire - Total	2011-21	55.2	36.3	52.7	72.5
Secondaire - Filles	2011-21	55.5	36.5	50.8	72.2
Personnel enseignant féminin au primaire (% du total)	2010-21	32.7	44.8	50.5	63.6
Alphabétisme des adultes - Total (%)	2010-20	…	65.7	68.2	84.5
Alphabétisme des adultes - Hommes (%)	2010-20	…	74.8	72.4	88.5
Alphabétisme des adultes - Femmes (%)	2010-20	…	60.2	61.4	80.5
Dépenses publiques d'éducation (% du PIB)	2010-20	3.6	4.2	4.8	3.7
Indicateurs d'Environnement					
Terres arables (en % de la superficie totale)	2018	0.1	13.5	8.2	11.3
Terres agricoles (% superficie des terres)	2018	73.4	51.2	37.8	37.8
Forêts (en % pourcentage de la superficie totale)	2020	0.3	22.1	22.6	31.7
Emissions du CO2 par habitant (tonnes métriques)	2018	0.5	0.2	1.1	3.4









Source : Base des données du Département des Statistiques de la BAD; *dernière mise à jour:* *Avril 2022*

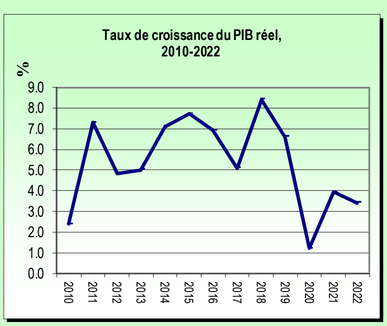
Banque Mondiale WDI*; ONUSIDA; UNSD; OMS, UNICEF, PNUD, Rapports nationaux.*

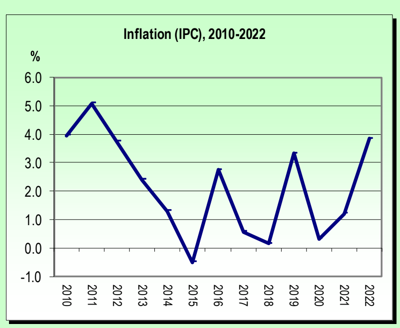
*Notes: n.a. Non Applicable ; … : Données non disponibles. * Participation à la population active, total (% de la population totale âgée de 15+)*

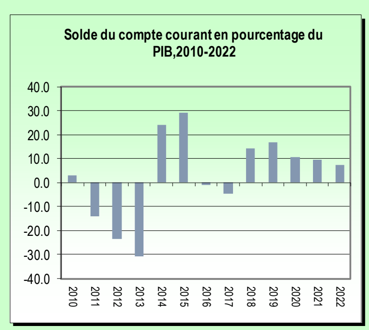
*** Participation à la population active, femmes (% de la population féminine âgée de 15+)*

Annex 9 : Key Macroeconomic Indicators

Indicateurs	Unité	2010	2017	2018	2019	2020	2021 (e)	2022 (p)
Comptes nationaux								
RNB aux prix courants du marché	Million $ E.U.	...	2,577	2,886	3,222	3,270	...	...
RNB par habitant	$ E.U.	...	2,730	3,010	3,310	3,310	...	...
PIB au prix courants	Million $ E.U.	1,067	2,760	3,006	3,346	3,440	3,530	3,714
PIB aux prix constants de 2010	Million $ E.U.	1,067	1,633	1,770	1,887	1,910	1,985	2,052
Croissance du PIB en termes réels	%	2.4	5.1	8.4	6.6	1.2	3.9	3.4
Croissance du PIB par habitant en termes ré	%	0.9	3.4	6.7	5.0	-0.3	2.5	2.0
Investissement intérieur brut	% du PIB	21.7	24.7	5.6	27.5	29.7	27.6	28.3
Investissement public	% du PIB	8.5	21.1	3.9	17.7	19.1	18.7	19.3
Investissement privé	% du PIB	13.2	3.6	1.7	9.8	10.6	9.0	9.0
Epargne nationale	% du PIB	17.2	9.7	10.6	11.8	13.2	...	...
Prix et Monnaie								
Inflation (IPC)	%	4.0	0.6	0.1	3.3	0.3	1.2	3.8
Taux de change (moyenne annuelle)	monnaie locale / $ E.U.	177.7	177.7	177.7	177.7	177.7	177.7	177.7
Masse monétaire, variations annuelles (M2)	%	7.0	20.5	-5.6	9.8	15.0	6.2	...
Vitesse de circulation de la monnaie (PIB / M	%	130.7	96.9	84.0	82.9	92.7	96.0	...
Finances publiques								
Recettes totales et dons	% du PIB	37.0	23.7	23.2	22.3	21.3	20.4	20.2
Dépenses totales et prêts nets	% du PIB	38.5	24.0	25.8	23.2	23.4	22.1	23.9
Déficit (-) / Excédent global (+)	% du PIB	-1.5	-0.3	-2.6	-0.9	-2.1	-1.8	-3.7
Secteur extérieur								
Variation en volume des exportations (march	%	5.9	81.5	11.0	9.8	-31.5	6.3	-17.0
Variation en volume des importations (march	%	-20.2	52.8	0.4	11.2	-30.9	20.2	-11.7
Variation des termes de l'échange	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Solde des comptes courants	Million $ E.U.	31	-132	429	564	366	336	273
Solde des comptes courants	% du PIB	2.9	-4.8	14.3	16.9	10.7	9.5	7.3
Réserves internationales	mois d'importations	1.1	1.6	1.3	1.2	2.4	1.9	...
Dette et flux financiers								
Service de la dette	% des exportations	1.2	1.6	1.5	1.4	1.6	1.3	5.3
Dette extérieure totale	% du PIB	39.5	70.5	69.2	67.1	70.4	74.1	71.6
Flux financiers nets totaux	Million $ E.U.	110	87	172	304	262	...	...
Aide publique au développement nette	Million $ E.U.	132	143	179	262	256	...	...
Investissements nets directs en prov. de l'étr	Million $ E.U.	37	165	170	222	240	...	...







Source : Département de la statistique de la BAD; FMI: Perspectives de l'économie mondiale, avril 2022 et Statistiques financières internationales, avril 2022; Département de la statistique : Plateforme des données (base de donnée), avril 2022; OCDE, Division des systèmes statistiques.

Notes: ... Données non disponibles ' (e) Estimations (p) Projections Dernière mise à jour : mai 2022

Annex 10: Djibouti's IMF Supported Programmes

Djibouti became a member of the International Monetary Fund (IMF) on 29 December 1978, and since then the country has had four programmes supported by the International Financial Institution. However, the country has always received technical assistance from IMF, especially in recent years. This includes the revision of national accounts and balance of payments statistics over the 2013–2017 period, relating to the significant trade flows transiting through the Djibouti Free Trade Areas and re-exports to neighbouring countries, in particular to Ethiopia. Following this revision, GDP was revised upwards by 38% and there was an underlying surplus on the country's current account balance. IMF has also supported the Central Bank of Djibouti (BCD) in preparing financial soundness indicators (FSI).

Article IV Consultations

The most recent IMF mission to Djibouti concerning Article IV consultations was conducted in 2021, following the 2019 mission. The IMF Executive Board concluded the consideration of the Article IV consultation of Djibouti on 23 February 2022, but the publication of the report has been delayed insofar as the Djibouti Authorities appear to require the necessary time to validate it. However, this report is eagerly awaited by development partners such as the Bank which refers to the results of the Debt Sustainability Analysis to determine the type of ADF allocation to be awarded (in the form of grants or concessional loans) to the country.

IMF Support to Address the COVID-19 Pandemic in Djibouti

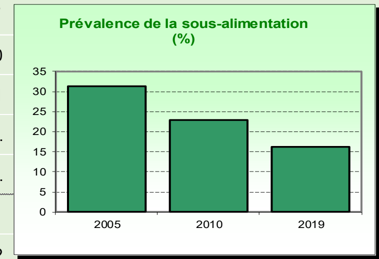
Like all countries in the world, Djibouti experienced the negative effects of the COVID-19 pandemic. The socio-economic impacts of the pandemic have weakened Djibouti's economy. On 8 May 2020, the IMF's Executive Board approved a disbursement to Djibouti of 43.4 million dollars under the Rapid Credit Facility (RCF) and debt relief under the IMF's Catastrophe Containment and Relief Trust (CCRT) to address the COVID-19 pandemic.

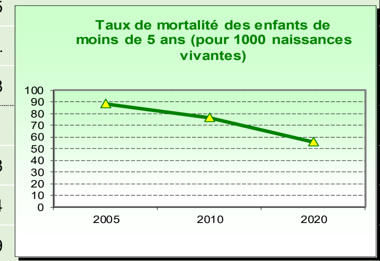
Djibouti has benefited from the Debt Service Suspension Initiative (DSSI), an initiative supported by IMF and the World Bank whereby Djibouti's debt service, amounting to USD 54 million, was deferred to end-2021 and USD 7.6 million was suspended.

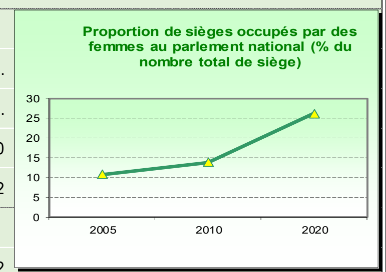
Recently, following the new allocation of IMF Special Drawing Rights (SDR), Djibouti has received SDR 30.5 million, equivalent to USD 43.3 million.

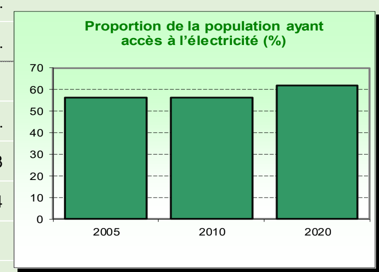
Annex 11: Progress made towards achieving the Sustainable Development Goals

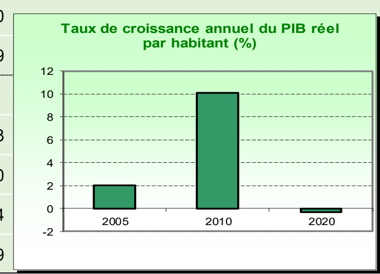
Objectif 1: Éliminer la pauvreté sous toutes ses formes et partout dans le monde	2000[1]	2010[2]	2021[3]
Proportion de la population vivant au-dessous du seuil de pauvreté fixé au niveau international de 1,90 $ EU par jour en PPA	20.2	...	17.0
Proportion de la population vivant au-dessous du seuil de pauvreté fixé au niveau national (%)	...	...	21.1
Employé en dessous du seuil de pauvreté international de 1,90 $ US par jour, 15 à 24 ans (%)	...	...	...
Employé en dessous du seuil de pauvreté international de 1,90 $ US par jour, 25 ans et plus (%)	...	...	...
Objectif 2 : Éliminer la faim, assurer la sécurité alimentaire, améliorer la nutrition et promouvoir l'agriculture durable			
Prévalence de la sous-alimentation (%)	31.3	22.9	16.2
Proportion d'enfant souffrant gravement ou modérément d'insuffisance pondérale	27.1	...	33.5
Indice d'orientation agricole des dépenses publiques	...	...	...
Total des apports publics alloués au secteur agricole (Millions de $ EU constants 2018)	1	1	8
Objectif 3 : Permettre à tous de vivre en bonne santé et promouvoir le bien-être de tous à tout âge			
Mortalité Maternelle ratio	393	283	248
Proportion d'accouchements assistés par du personnel soignant qualifié (%)	60.6	78.4	87.4
Taux de mortalité des enfants de moins de 5 ans (pour 1000 naissances vivantes)	88.7	76.6	55.9
Incidence paludisme (pour 1000 habitants)	3.4	1.6	97.6
Objectif 4 : Assurer l'accès de tous à une éducation de qualité, sur un pied d'égalité, et promouvoir les possibilités d'apprentissage tout au long de la vie			
Proportion d'enfants et de jeunes en fin de cycle primaire ayant un niveau minimum de compétence en: Lecture (%)	...	...	...
Proportion d'enfants et de jeunes en fin de cycle primaire ayant un niveau minimum de compétence en: Mathématique (%)	...	...	...
Indice de parité des enseignants formés, primaire (ratio)	...	1.0	1.0
Aide publique totale au développement consacrée aux bourses d'études (Millions de $ EU constants 2018)	...	1	2
Objectif 5 : Parvenir à l'égalité des sexes et autonomiser toutes les femmes et les filles			
Proportion de sièges occupés par des femmes au parlement national (% du nombre total de sièges)	10.8	13.9	26.2
Proportion de femmes qui prennent en connaissance de cause, leurs propres décisions concernant l'utilisation de contraceptive (% femmes agées de 15-49 ans)	...	...	...
Proportion de femmes qui prennent en connaissance de cause, leurs propres décisions concernant les sions de santé maternelle (% femmes agées de 15-49 ans)	...	...	...
Objectif 6 : Garantir l'accès de tous à l'eau et à l'assainissement et assurer une gestion durable des ressources en eau			
Proportion de la population utilisant des services d'alimentation en eau potable gérés en toute sécurité	...	...	...
Niveau de stress hydrique : prélèvements d'eau douce en proportion des ressources en eau douce disponibles (%)	6.3	6.3	6.3
Aide publique totale au développement consacréeà l'éau et à l'assainissement (Millions de $ EU constants 2018)	1.7	7.6	43.4
Objectif 7 : Garantir l'accès de tous à des services énergétiques fiables, durables et modernes à un coût abordable			
Proportion de la population ayant accès à l'électricité (%)	56.3	56.2	61.8
Proportion de la population utilisant principalement des carburants et technologies propres (%)	5.0	6.0	10.0
Part de l'énergie renouvelable dans la consommation finale d'énergie (%)	33.1	32.5	27.9
Objectif 8 : Promouvoir une croissance économique soutenue, partagée et durable, le plein emploi productif et un travail décent pour tous			
Taux de croissance annuel du PIB réel par habitant (%)	2.0	10.1	-0.3
Taux de chômage, âgés de 15-24 ans (%)	...	...	73.0
Taux de chômage, âgés de 25 ans et plus (%)	...	...	18.4
Proportion de jeunes non scolarisés et sans emploi ni formation (%)	...	...	19





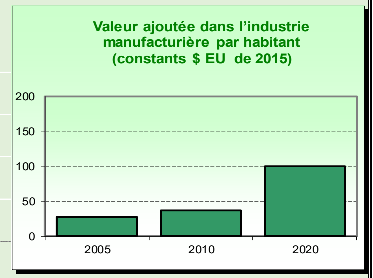


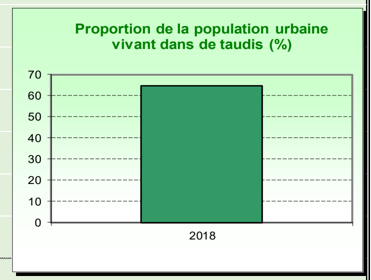


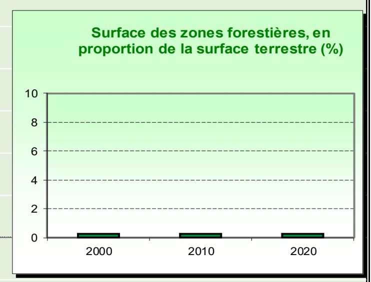


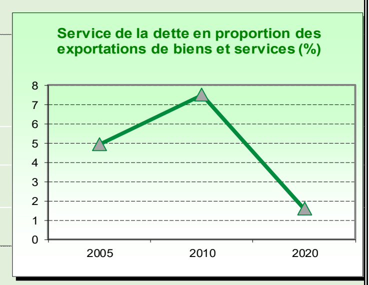
Sources : Base des données du Département des Statistiques de la BAD; *dernière mise à jour:* *Mai 2022*
Division statistique des Nations Unies, Base de données en ligne sur les Objectifs de développement durable (https://unstats.un.org/sdgs/).
Notes: n.a. Non Applicable ; ... : Données non disponibles.
[1] Dernière année disponible dans la période 2000-2005; [2] Dernière année disponible dans la période 2006-2010; [3] Dernière année disponible dans la période 2011-2021

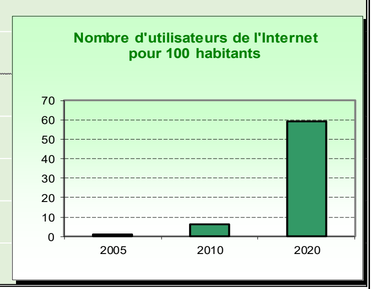
Objectif 9: Bâtir une infrastructure résiliente, promouvoir une industrialisation durable qui profite à tous et encourager l'innovation	2000[1]	2010[2]	2021[3]
Valeur ajoutée dans l'industrie manufacturière par habitant (constants $ EU de 2015)	28	37	103
Emploi dans l'industrie manufacturière, en proportion de l'emploi total (%)	...	...	0.2
Émissions de dioxyde de carbone provenant de la combustion de carburants (millions de tonnes)	...	...	...
Apport total au secteur public alloué aux infrastructures (Millions de $ EU constants)	3	43	94
Objectif 10 : Réduire les inégalités dans les pays et d'un pays à l'autre			
Part du travail dans le PIB (%)	42.1	41.8	40.8
Montant total des ressources allouées au développement (Millions $ EU constants)	96	110	304
Coûts des envois de fonds en proportion du montant transféré (%)	...	...	...
Objectif 11: Faire en sorte que les villes et les établissements humains soient ouverts à tous, sûrs, résilients et durables			
Proportion de la population urbaine vivant dans de taudis (%)	...	...	64.5
Nombre de décès attribuables à une catastrophe	50.0	69.0	28.0
Pertes économiques directes résultant de catastrophe par rapport au PIB (%)	0.0000	0.0001	0.0001
Objectif 12: Établir des modes de consommation et de production durables			
Consommation matérielle nationale par habitant , charbon (tonnes)	...	...	...
Consommation matérielle nationale par habitant , gaz naturel (tonnes)	...	...	...
Déchets électroniques générés par habitant (kg)	0.4	0.6	1.0
Objectif 13 : Prendre d'urgence des mesures pour lutter contre les changements climatiques et leurs répercussions			
Nombre de personnes décédées, disparues touchées lors de catastrophes, pour 100 000 personnes	6.4	8.2	3.23
Proportion d'administrations locales ayant adopté et mis en place des stratégies locales de réduction des risques de catastrophe, conformément aux stratégies suivies à l'échelle nationale	...	...	...
Objectif 14 : Conserver et exploiter de manière durable les océans, les mers et les ressources marines aux fins du développement durable			
Surface des aires marines protégées par rapport aux aires maritimes (Zones économiques exclusives)(%)	...	...	0.000
Proportion moyenne de zones marines clés pour la biodiversité (KBAs) couvertes par des aires protégées (%)			
Objectif 15 : Préserver et restaurer les écosystèmes terrestres, en veillant à les exploiter de façon durable, gérer durablement les forêts, lutter contre la désertification, enrayer et inverser le processus de dégradation des terres et mettre fin à l'appauvrissement de la biodiversité			
Surface des zones forestières, en proportion de la surface terrestre (%)	0.2	0.2	0.3
Taux de changement net annuel de la surface forestière (%)	...	0.0	0.4
Indice de la Liste rouge	0.85	0.84	0.81
Objectif 16 : Promouvoir l'avènement de sociétés pacifiques et ouvertes à tous aux fins du développement durable, assurer l'accès de tous à la justice et mettre en place, à tous les niveaux, des institutions efficaces, responsables et ouvertes à tous			
Proportion de la population carcérale en instance de jugement (%)	...	...	...
Proportion d'enfants de moins de 5 ans ayant été enregistrés par une autorité d'état civil (% d'enfai	...	91.7	...
Objectif 17: Renforcer les moyens de mettre en oeuvre le Partenariat mondial pour le développement durable et le revitaliser			
Proportion du budget national financé par les impôts nationaux (% PIB)	...	...	...
Volume des envois de fonds de travailleurs migrants ($EU) en proportion du PIB total (%)	3.6	2.9	1.9
Service de la dette en proportion des exportations de biens et services (%)	5	7.5	1.6
Nombre d'utilisateurs de l'Internet pour 100 habitants	1.0	6.5	59.0











Sources : Base des données du Département des Statistiques de la BAD; *dernière mise à jour:* *Mai 2022*
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[1] Dernière année disponible dans la période 2000-2005; [2] Dernière année disponible dans la période 2006-2010; [3] Dernière année disponible dans la période 2011-2021

Annex 12: Djibouti: Note on Fragility and Resilience

I. Introduction

Djibouti is bordered by Eritrea to the North, Ethiopia to the West and South-West and Somalia to the South. The Gulf of Tadjourah, which opens on to the Gulf of Aden, crosses the Eastern half of the country and provides a large part of its 372 km of coastline. The country's Lilliputian aspect belies its regional and geopolitical importance. The capital is the site of a modern deep-water port that serves Indian Ocean and Red Sea traffic and hosts a French naval base. Djibouti is also the terminus for the only railway line serving Addis Ababa, The neighbouring Ethiopian capital. The country is internationally recognised as a geological treasure. Located at the triple junction of the Red Sea, Gulf of Aden and East African Rift Systems, the country experiences. Slight earth tremors are frequent and much of the land is strewn with basalt from past volcanic activity. Djibouti receives a considerable number of refugees. In addition to thousands of economic refugees who constantly enter Djibouti illegally and illegally take up various jobs (usually in Djibouti City), the country is periodically flooded by waves of refugees fleeing political persecution in neighbouring countries. Djibouti has few natural resources and a limited capacity for agricultural and industrial activities. The country also has high unemployment, external debt and regular fiscal deficits. The government continues to focus on services linked to finance, telecommunications and trade, consolidating the country's position as a major regional business and trading centre in the Horn of Africa. As a result, the economy is heavily dependent on the services sector which represents about four-fifths of the country's gross domestic product. Djibouti Vision 2035 which aims to make the country the flagship of the Red Sea as a trading and logistics hub for Easter Africa by 2035, is based on the logistics services defined in the medium-term strategic development goals and paves the way forward for Djibouti's future by implementing joint strategies with the country's different technical and financial partners to achieve the objectives set in the National Development Plan covering the 2020–2024 period to unlock its economic potential for the population's benefit.

II. Overview of the Country Resilience and Fragility Assessment (CRFA)

Djibouti's CRFA shows that the country has major capacity gaps that prevent it from containing in the near-term the pressures on it from the different sub-dimensions which provide the basis for the country's resilience and fragility assessment. The country has, however, built strong capacity in the areas of security, externality and impacts of regional contagion, climate and environmental impacts and social cohesion.

1. Regarding the ***Legitimate and Inclusive Power dimension,*** Djibouti has a strong representation capacity in the political system partly due to the introduction of a 25% rate for women in the 2018 legislative elections which helped to increase the number of women in the National Assembly from 7 in 2013 to 15 and regional representation, and even more importantly, strong youth involvement in the political debate resulting them securing 9.23% of seats in parliament. However, this capacity declined slowly in 2021 compared to 2020. The boycott by most opposition political parties at the 2018 elections has contributed to Djibouti's weak political participation capacity since 2020. However, significant progress was made in 2021 regarding the engagement of Djibouti citizens in political discourse. However, the Government's efforts to combat corruption contributed to the improvement in the country's corruption perception index (CPI) score from 27/100 in 2020 to 30/100 in 2021. Further efforts must be made to combat corruption practices in the public sector for strong pressure continues to exist from corrupt practices. Even though there has been apparent progress in reducing pressure due to political instability, maintaining an independent electoral commission will increase people's trust in the electoral system. Build political participation capacity and restore peace and stability in Djibouti.

2. On the ***security front***, Djibouti has a strong capacity in terms of policing institutions with a very significant budget to provide for the police force. Most Djibouti citizens have confidence in their security forces to enforce the law and protect the population, their assets and the country's key transport infrastructure. The security forces are well organised with a clear description of their duties and

responsibilities. While the national police supervise safety and security in Djibouti-City and immigration borders, the national gendarmerie supervises the protection of the outlying areas of Djibouti City and transport infrastructure including seaports and airports. The capacity of its defence institutions declined slightly in 2021 compared to 2020 but remains strong. Since 2018, military spending in the Horn of Africa is estimated at 3.7% of GDP. Situated at the estuary of the Red Sea in the Horn of Africa, Djibouti is a geostrategic epicentre where foreign powers such as France, the United States, China, Japan and Italy have maintained military bases not only to assist security in Djibouti but also to protect global interests in the terror of war. A high level of cooperation with the internationally deployed forces to combat terrorism and piracy has contributed to a significant decline in organised collective violence. In addition, progress has been made in reducing the number of displaced people and the flow of refugees from neighbouring Somalia and Yemen. While efforts have been made to maintain pressure on criminal violence and the relatively low level of armed conflicts, the levels of violent crimes and deaths from social violence per capita rose in 2021 compared to 2020.

3. **The Justice Sector,** Djibouti is building its judicial institutions. Although Article 71 of the 1992 Constitution amended through 2010, establishes the independence of judicial power from legislative and executive power, such a constitutional guarantee is not fully protected in Djibouti. The weak independence capacity of the judicial institutions shows that judicial power continues to suffer from executive interference. The level of public trust in the judicial system and its enforcement not only remains low but declined in 2021 compared to 2020. Djibouti's excellent performances in the enforcement of property rights and contract law as well as the protection of investors' rights in 2020 were severely affected in 2021. However, the effectiveness capacity of judicial institutions increased considerably in 2021 because of the ability of the judicial power to provide very high-quality judicial processes and test options for alternative dispute settlement mechanisms. Although citizens have a choice between Islamic law and civil law regardless of their religion to settle civil matters, access to legal services and civil justice is not widespread in Djibouti. Moreover, because of the non-existence of legal authority and an efficient checks and balances system, pressures associated with the impunity of public office holders for abuse of power have been extremely high since 2020, despite a significant improvement in the country's CPI score in 2021.

4. ***Regarding economic and social inclusion,*** with solid economic management tools, Djibouti made significant progress in building its economic effectiveness policy in 2021 compared to 2020. A three-point increase in its CPI score helped to create a business environment that is beginning to attract foreign direct investors. Investors experience no major difficulties in starting their business. The 2021 Ease of Doing Business report ranks Djibouti 99th out of 190 countries which represents a significant improvement compared to its ranking of 112th out of 190 in the 2020 report. Djibouti building strong telecommunications and internet connectivity capacity, and is facilitating access to electricity for its residents. In 2021, almost 62% of its population, 72.15% of who9m live in urban areas compared to 24.79% in rural areas have access to electricity. However, despite this progress, access to social services including education, health and nutrition, has declined since 2020 and its capacity remained low in 2021. Moreover, improved access to water and sanitation, especially in rural areas remains a daunting challenge that Djibouti faces. The Human Development Index (HDI) ranks Djibouti very low at 166th out of 189 countries. Despite a sharp drop in income disparities in 2021, pressure persists due to economic disparities and poverty. With Vision 35, Djibouti could create more economic opportunities through infrastructure projects to achieve its Djibouti International Free Trade Zone goal as well as economic diversification and poverty reduction.

5. ***In terms of social cohesion,*** although progress was made in 2020 and 2021 to restore these freedoms and basic human rights, the organisational capacity of civil society has remained low and static. The level of residents' movements for social interaction, which was quite high in 2019, has declined since 2020 because of restrictions imposed during the COVID-19 pandemic. Despite some progress in transport infrastructure, access to rail transport is not widely available throughout the country to facilitate the population's ability to move around. The inclusion of more opposition parties given that some parties may have been geographically concentrated could ease pressures from polarisation based on group identities. Another fragility risk factor which has a negative impact on society's cohesiveness is rising, especially

youth unemployment. While the national unemployment rate was about 28.4% in 2021, young people are hardest hit with an unemployment rate exceeding 81%, with a rate of 80.26% for men and 82.5% for women. A more relaxed political atmosphere with greater protection of freedom of expression, association and assembly as well as strong economic policy effectiveness capacity focused on women and youth to help to create more employment opportunities for that group of people would foster the emergence of a dynamic, civil society and help to build resilience.

6. Regarding the dimension relating to external factors and regional contagion effects**,** Djibouti has excellent economic shock resilience capacity. The country is well integrated into East Africa. It is a member of Eastern and Southern Africa (ESA). It had a much stronger economic integration capacity in 2021 than in 2020. It is a member of the Common Market of Eastern and Southern Africa (COMESA), which has signed a Trade and Investment Framework Agreement with the United States. Djibouti is also a party to many regional and international economic agreements, including, but not limited to the Arab League Investment Agreement and the Arab Economic Unity Agreement. The initiatives of the Djibouti International Free Trade Zone could help to further promote trade between African countries, strengthen economic integration and eliminate regional contagion effects. Djibouti remains a target for terrorist groups operating in Somalia, not only for having provided troops to the AU peacekeeping mission in Somalia (AMISOM) but also particularly for having hosted many foreign military bases which are engaged in anti-terrorism and the combat against piracy in the East African Region. Strong pressure from insecurity in neighbouring Somalia and the proliferation of jihadists and terrorist groups in the region are security threats to Djibouti. Rising pressure associated with regional marginalisation based on group identity and extremely high national unemployment rates (exceeding 28%) and youth unemployment rates (81%) could make Djibouti vulnerable to radicalisation and domestic terrorism. A high cross-border crime rate and an increase in moderate risks of COVID-19 in neighbouring countries are a source of concern.

7. ***Regarding climate and environmental impacts,*** Djibouti made significant progress in building its emergency preparedness capacity in 2021 compared to 2020 when such capacity was somewhat strong. Although its prevention of, and response to natural disasters and humanitarian emergencies is strong. They have not reached a level where they could alone absorb the pressure from environmental degradation without building environmental policy capacity as was the case in 2021 when such capacity was weak. Djibouti has also made significant progress in reducing pressure associated with vulnerability to natural disasters and food and nutrition insecurity. The country could leverage its strategic geographic location at the mouth of the Red Sea to secure more investments by Ethiopia which receives about 90 to 95% of its imports from the ports of Djibouti and Asian European and Middle East trading partners to address the problem of malnutrition and undernourishment, risks of crises and natural disasters as well as water shortages that remain high. Despite the efforts made to shift from fossil fuels to 100% renewable energies by 2020 and become energy self-sufficient as envisaged by Vision 2035, the country remains heavily dependent on imports of aerodynamic, solar and geothermal energy to build its resilience to climatic impacts and remove the pressure associated with natural disasters.

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dependent on imports of aerodynamic, solar and geothermal energy to build its resilience to climatic impacts and remove the pressure associated with natural disasters.

III. Main development challenges and prospects for building Djibouti's resilience

In its path, the country's socio-economic development has encountered many difficulties that have weakened its economic growth, social prosperity and national cohesion. Its aim of transforming Djibouti's vast potential into an emerging economy has been considerably delayed by drivers of fragility which have slowed down the momentum towards inclusive socio-economic development. These obstacles to the country's progress towards shared prosperity have not only scaled back the human development indicators but have also weakened the level of economic and social inclusion characterised by a high level of poverty, economic inequalities, and income disparities. The country's focus on private investment to boost its development and promote job creation has not had the expected effect for the regulations governing business are not conducive to foreign direct investment. This pressure goes beyond the business environment impacting the justice sector responsible for settling trade disputes and promoting a culture of accountability in relation to the management of public property. However, these investments have had a much weaker impact on economic growth than they should have due to both endogenous and exogenous factors that are described below.

Human capital development is out of step with job market demand to be able to stimulate foreign direct investment and promote private sector development. Djibouti's development policies are focused on human capital development to achieve economic growth, sustainably reduce poverty and improve the lives of all its citizens. Despite the efforts made by the country, especially in the sectors of education, early childhood, health and social protections, many challenges remain, exacerbated by external shocks such as COVID-19 and climate change. In Djibouti, only 45% of the population of working age, i.e., people aged 15 years and over participate in the labour market. To rise to the challenge, Djibouti must prepare its population for tomorrow's world and unlock the potential of its youth to make it a driver of growth.

High factor of production costs are impeding private sector development and the country's economic diversification. Djibouti's economy is dominated by services, with only marginal production of goods. The manufacturing and agricultural sectors remain weak mainly because of high taxation and high factor of production costs (work, energy and transport). International trade remains important for Djibouti, because of its heavy dependency on imports and the trade in goods and services to GDP ratio averages 94%. In general, Djibouti's trade policy aims to promote the diversification of its productive system with a higher private sector contribution to GDP (excluding port activities), a higher share of the secondary sector and the formalisation and restructuring of businesses.

Weak institutional capacity is affecting the economic and social performances required to support inclusive economic growth. Capacity building remains one of the main drivers of sustainable and inclusive development. However, a capacity-building culture to achieve the development objectives is not yet institutionalised in the practices of State structures and undermines the credibility of institutions to be able to provide its citizens with public services.

Djibouti's climate change vulnerability makes it unable to guarantee food security because of the scarcity of heavy rainfall combined with severe climatic conditions. The scale of Djibouti's environmental and climatic vulnerability regularly exposes it to the impacts of natural disasters characterised by floods, violent winds and desert locusts. The population's severe living conditions cause recurrent food insecurity and child malnutrition compounded by fluctuating food prices which erodes the purchasing power of the vulnerable socio-economic categories, unable to obtain staple foods. In addressing these challenges, the country's preparedness for natural disaster emergencies suggests a need for institutional capacity building and repositioning of the country's environmental policy to rapidly help the victims of climate hazards and develop new policies that take current climate realities into account.

IV. Leveraging the Country's Resilience

Djibouti is faced with many challenges, the most important of which concern human capital, the factors of production, institutional capacity and climate change vulnerability. Contrary to its weaknesses, the country has strengths on which it can rely to build resilience in those sectors weakened by both endogenous and exogenous shocks. The activities concerned include (i) weak infrastructure and development support services; (ii) an economic and financial governance gap; (iii) under-tapping of blue economy potential; (iv) a business climate requiring strengthening for private sector development and agriculture that is vulnerable to climate hazards. Addressing these challenges will require the country's strong commitment to move forward on a development path with a vision based on dynamic regional integration around economic cooperation and diversification to accelerate growth that will benefit all segments of the population. This drive to accelerate the economy should be based on improving the business climate, developing sources of renewable energy and developing logistics services and infrastructure, reducing production costs and promoting a financial system that will fully play its financial intermediation role, which will be more innovative with a more international and regional orientation.

Limited access to basic social services such as education, health and social protection for women and youth wipes out their contribution to wealth creation and deprives them of economic opportunities. Supporting growth and reducing poverty require social sector development and the establishment of a rigorous good governance framework. Accelerated inclusive, sustainable and income-generating growth will require the promotion and effectiveness of strong institutions that will guarantee political stability, respect for human rights and personal freedoms and a justice system that is reliable for all. The social peace framework will attract foreign investors and ensure the smooth implementation of the necessary reforms to achieve sustainable development objectives.

V. Conclusion and Recommendations

Despite the efforts made during the previous CSP to close the economic and social gaps and accelerate the country's development, major challenges remain. Although it has limited potential, the country remains vulnerable to shocks and is faced with problems relating to governance, different inequalities, corruption and a lack of adequate socio-economic infrastructure to support inclusive growth.

The infrastructure sector in the broadest sense of the term provides hundreds of job opportunities and may be one of the strongest drivers of economic growth while integrating structural transformation and economic diversification. Access to energy is also essential for developing local manufacturing and supporting social service delivery to reduce poverty, promote employment opportunities and sustainable human development.

The tertiary sector which contributes over 70% to the country's GDP is a powerful sector capable of rapidly eradicating extreme poverty and fostering shared prosperity. Growth in the manufacturing sector can increase the incomes of the poorest segments of the population more than twice as fast as other sectors. Therefore, the priority area of the CSP (2022–2026) is justified given the combination of challenges still facing the country. Scaling up activities in these sectors will help to improve economic and social inclusion. These two sectors in addition to providing opportunities for promoting micro, small and medium-sized enterprises also have the potential to begin to build strong resilience by improving the living conditions and creating opportunities for vulnerable people by gradually improving the public services access rate, reducing economic and income inequalities including the poverty rate to achieve inclusive growth. Moreover, capitalising on the achievements of the previous CSP will, though the operations to be implemented under the new strategy will address the complex issue of food security and child malnutrition

Annex 13 : Djibouti - Country Risk Assessment (financial management)

I. Introduction

1.1 The fiduciary risk assessment linked to Djibouti's public finance management system was originally carried out in June 2018 as part of the Mid-Term Review of the Country Strategy Paper for Djibouti by the Bank's Fiduciary Services Department. As part of the Djibouti CSP 2023–2027 preparation process, **an update of the assessment in October 2022** is appropriate to take into account the recent developments observed in the country's public finance management system and to reassess the related fiduciary risk. This assessment is always carried out per the Financial Management Policy for Bank-Funded Operations and the February 2014 Directive on the Promotion of the use of National Public Finance Management Systems. This Djibouti Fiduciary Risk Assessment Report focuses on the following three main points: i) An introduction; ii) an executive summary; iii) the detailed results of the assessment describing the status of each indicator and the risks.

.1 The objective of the fiduciary risk assessment is to respond to the Bank's commitment under the Paris Declaration to maximise the use of national public finance management systems to manage Bank-funded projects and programmes. It is necessary first to assess the existing public finance management system in Djibouti to determine whether it is adequate and provides comprehensive and real-time information on projects and programmes financed by the development partners including the Bank, then to identify capacity-building needs that will allow the gradual use of the national public finance management system.

2.2 The assessment did not have recent data on the country's public finance management system since the most recent assessment in the country was the PEFA assessment in 2021. A new PEFA assessment was being carried out in 2022 but the conclusions were not yet available at the time of this update. Therefore, the assessment drew on the most recent reports available to it, in particular the IMF Article IV report validated by its Executive Board in October 2019 (*since the 2021 report had not yet been distributed by the Executive Board*), and on the General Public Report (RPG) by the Court of the Auditors on the execution of the 2018 central government budget. The main conclusions of these studies and their implications for Djibouti's public finance management assessment are presented in the following paragraphs.

The country's overall fiduciary risk is maintained at its level of "Moderate". The mission agreed to maintain the previous assessment based on PEFA 2011 given the low number of findings following the work. Indeed, significant progress has been noted generally in the country's public finance management system. Djibouti has carried out reforms regarding the "Modernisation of the economic and financial governance tools" aimed at improving public revenue and streamlining expenditure. These reforms resulted in the merging or elimination of some national cost centres, mainly national public bodies in January 2022. Furthermore, the country's fiscal deficit narrowed slightly between 2020 and 2028 (*from 2.1% of GDP to 1.8% of GDP*). This slight reduction in the deficit despite the special context linked to COVID-19 is more the result of the tax measures taken by the Government to support businesses affected by the crisis rather than more prudent management of central government budgetary resources or a stronger central government revenue collection performance. The assessment also noted an improvement in the business climate coupled with efforts made to enhance the effectiveness of the public procurement system. Lastly, concerning Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Djibouti has strengthened its legal and regulatory framework and recently became a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), the central bank tightened AML/CFT supervision of banks, currency exchange offices and money transfer offices, while the Financial Intelligence Unit (FIU) further expanded the analysis of suspicious transactions. Furthermore, at the level of the supreme control functions, the Court of Auditors, which has long been criticised regarding its independence, now enjoys the management autonomy and independence required to guarantee the objectiveness, neutrality and efficacy of its work.

However, there are still four shortcomings in the country's public finance management system. The International Monetary Fund (IMF) Staff Report on the 2019 Article IV Consultation published in October 2019 indicates the following four (4) main weaknesses, namely: (i) lack of clarity of the budget classification system, (ii) a certain fragmentation of the central government budget, (iii) the lack of any real cash flow plan, and (iv) centralisation of the control system.

Therefore, fiscal policy reforms are required to leverage more domestic resources to create fiscal headroom for priority expenditure and debt reduction. The existing national procurement has some weak points including the risk of conflicts of interest due to over-concentration of contract award and regulatory control functions as well as the absence of civil society in handling disputes — which extend to its application. Moreover, cash flow forecasts must be improved and the accounts of government services must be merged into a Single Treasury Account (STA) to limit the appearance of internal and external payment arrears. The introduction of the STA necessarily requires an analysis of existing bank agreements and accounts as well as a review of IT resources of the Central Bank and ministries concerned. Furthermore, the Court of Auditors' RGP 2020 noted a series of shortcomings that the country will have to address as soon as possible, namely **(i)** slippage in implementing programme-based budgeting (*programming-budgeting-monitoring/evaluation* chain*)*; **(ii) Weaknesses linked to the production of financial and accounting information**: partial rendering of accounts to the Ministry of Budget. The poor quality of accounts received coupled with the non-exhaustiveness of these accounts, etc.; (iii) **Shortcomings in determining the budgetary outcome**: *the budgetary balance as determined by the Budget Bill Review Law does not include the overall budget balance. It does not contain profits or losses noted in the implementation of special account arrangements. It does not include any profits or losses that might arise from the management of cash flow operations;* ***(iv)*** **Weaknesses noted in the management of the 2018 central government budget as well as revenue management shortcomings:** The non-existence of any monitoring and evaluation of the impact of the new fiscal measures. Irregularities in monitoring the revenue authorities, etc., (**v) Weak expenditure management, especially** in staff expenditure management, management of the use of "Goods and Services" with credit transfers not based on a regulatory act and the failure to update the budget nomenclature appearing in the draft budget review law.

III. Detailed Findings of the Assessment

3.1 Concerning public finance management, the mission noted an improvement since the previous assessment. The mission noted: (i) the existence of a budget nomenclature; (ii) the clearance of outstanding arrears; (iii) the timely approval of the budget by the legislative authorities; (iv) initiation of the modernisation of the IT system with the installation of the integrated public finance management system; (v) the existence of a Chart of Accounts at the Directorate of Public Treasury; (vi.) Strengthening of the General State Inspectorate which has a Charter of Values, a procedures manual, a master file and working files and; (vii) the establishment of an Anti-Corruption Commission.

The overall country risk remains "**Moderate**" due to certain weaknesses noted, in particular: (i) budget classification which does not provide a sufficiently detailed perspective of inter-sector resource allocations; (ii) failure to enter the budget tax expenditure which represents central government's loss of revenue as a result of tax exemptions; (iii) slippage in implementing programme-based budgeting (*programming-budgeting-monitoring/evaluation* chain*)*;(iv) the failure by the expenditure commitment division of the Directorate of Budget Verification to verify the services delivered and work completed; (v) the non-existence of a budget execution manual; (vi) weaknesses linked to the production of financial and accounting information: partial rendering of accounts to the Ministry of Budget. The poor quality of accounts received coupled with the non-exhaustiveness of these accounts, etc.); (vii) **weaknesses in**

determining the budgetary outcome: *the budgetary balance as determined by the Draft Budget Review Law does not include the overall budget balance. It does not contain profits or losses noted in the implementation of special account arrangements. It does not include any profits or losses that might possibly arise from the management of cash flow operations;* (viii) delays in the production of monthly statements indicating budgeted amounts, amounts committed, amounts paid and cash assets because of Directorate of Public Treasury's two obsolete software programmes; (vi) the failure by the Directorate of Public Treasury, information on cash assets to the Directorate of Budget Execution; (ix) the non-existence of an accounting procedures manual at the Directorate Public Treasury; (x) inadequate monitoring by the Directorate of Public Treasury of project accounts from external financing opened at commercial banks; (xi) non-existence at the General State Inspectorate of a work plan, working papers, a master plan, working files and official reports; (xii) the establishment of the Directorate of Audit and Portfolio at the Ministry of Finance which creates confusion with the General State Inspectorate; (xiii) the non-existence at the court of accounts of a work plan, working papers, a master file, working files and a procedures manual. The aforementioned weaknesses must be addressed by the Government of Djibouti to ensure compliance of the systems with the Paris Declaration.

Detailed Risk Assessment.

	FACTORS	SCORES	INITIAL RISK	MITIGATION MEASURES	RESIDUAL RISKS
	Budget				
	Budget credibility	**2.7**	**Low**		**Low**
	Exhaustiveness and transparency	2.5	Moderate		Moderate
	Budget classification which does not provide a sufficiently detailed perspective of inter-sector resource allocations. The failure to enter in the budget tax expenditure which represents central government's loss of revenue as a result of tax exemptions.			Provide details at budget classification level of inter-sector resource allocations. Enter in the budget tax expenditure which represents central government's loss of revenue as a result of tax exemptions.	
	Budgeting based on national policies.	**2.7**	**Low**		**Low**
	Budget predictability and execution control.	2.5	Moderate		Moderate
	The Directorate of Budget Execution verifies before payment authorisation the supporting documents for services delivered and work completed through its Committed Expenditure Division. It does not, however, verify services delivered and work completed. Furthermore, the Directorate of Budget Execution does not have a budget execution manual.			Have services delivered verified by the Committed Expenditure Division. Have a Budget execution Manual prepared.	
	Accounting, recording of information and financial reporting	0.75	Substantial		Substantial

	Failure to submit timely monthly statements indicating budgeted amounts, committed amounts, amounts paid and cash assets because of the two obsolete software programmes at the Directorate of Public Treasury. However, the Government has begun to install the integrated public finance management system. Furthermore, the Directorate of Public Treasury has failed to transmit information on cash assets to the Directorate of Public Execution The Directorate of Public Treasury does not have an accounting procedures manual. The cash balances of the central administration are poorly consolidated. However, project accounts are opened with commercial banks and undoubtedly monitored by the Directorate of Treasury but the fact that they were not opened at the Central Bank is a departure from the principle of a single treasury account and undermines the security and optimisation of central government's treasury management.			Finalise the installation of the integrated public finance management system. Transmit to the Directorate of Budget Information, information on cash assets. Prepare an accounting procedures manual. Have accounts on externally financed projects opened at the Central Bank.	
	Internal auditing	2.5	Moderate		Moderate
	The General Inspectorate of Finance cannot take initiatives concerning missions. Missions are authorised by the Oversight Ministry, namely the Ministry of Economy and Finance. It has no work plan, working papers, a master plan or working files. Reports are not submitted in the format discussed and approved by the Inspector General. A Directorate of Audit and Portfolio has been established at the Ministry of Finance. Its responsibilities may create confusion with those of the General Inspectorate of Finance.				
	External supervision and auditing	0.75	Substantial		Substantial

	The Court of Auditors has no work plan, working papers, a master plan or working files. Nor does it have a procedures manual. Nor is there any evidence of follow-up to its recommendations.			Send some of the magistrates of the Court of Auditors to sister institutions in certain countries to hear about good practices.	
	Combating corruption	2.7	Low		Low
	Djibouti's Anti-Corruption Commission was established in 2014 by Decree issued by the President of the Republic. The Commission Chair has been appointed as well as the members. It now has premises and is operational.				

Budget

Budget Credibility

According to PEFA 2011, budget credibility is fairly good, and the fiduciary risk is slow overall. It has not evolved, especially in terms of contingencies and the stock of arrears compared to the 2009 report. The gap between the expenditure provided for in the initial Finance Law passed by the National Assembly in December and expenditure effectively made has on average narrowed (Note B). Arrears from before the PEFA Assessment have all been cleared. Revenue collected over the past three fiscal years has exceeded forecasts. In light of the foregoing, the fiduciary risk is deemed **low**.

Initial fiduciary risk		*Low*

Exhaustiveness and Transparency

The mission noted that per PEFA 2011, the budget classifications according does not provide a sufficiently detailed perspective of inter-sector resource allocations (Note C). PEFA was unable to assess the 9 types of information required under the heading "exhaustiveness and transparency". Budget exhaustiveness is also limited because of the failure to enter the budget tax expenditure which represents a loss of revenue for central government due to tax exemptions. The Budget document tabled before parliament has made considerable progress and access by the public to budget information has improved. In light of the foregoing, the mission considers that budget exhaustiveness and transparency are fairly satisfactory, and the financial risk is **Moderate.**

Initial fiduciary risk	*Moderate*

Budgeting based on national policies

Since PEFA 2011, efforts have been made regarding budget preparation. There is a budget nomenclature. The budget is well prepared and the legislative authorities approve the budget on time. In light of the foregoing the mission considers that overall, national policy-based budgeting is satisfactory and the fiduciary risk **low.**

Initial fiduciary risk	*Low*

Budget predictability and execution control

According to PEFA 2011, legislation on taxpayers' contributions is complete (Note B) and access by taxpayers to information on tax obligations and administrative procedures easy (Note A). A taxpayer registration system exists (Note A). Transfer to the Treasury Account of amounts recovered in respect of taxes, levies and customs duties is facilitated by the fact that these amounts are recovered by Treasury officers (Note A). The complete reconciliation of the financial authorities' and Treasury's transactions is carried out regularly (Note A). The mission noted that the Directorate of Budget Execution verifies before payment authorisation the supporting documents for services delivered and work completed through its Committed Expenditure Division. It does not, however, verify services delivered and work completed. Furthermore, the Directorate of Budget Execution does not have a budget execution manual. In light of the foregoing, Budget Predictability and Execution Control are considered to be fairly satisfactory and the fiduciary risk **moderate**.

Initial fiduciary risk	*Moderate*

Accounting, recording of information and financial reports

The Directorate of Public Treasury pays all expenditure and is also responsible for keeping the accounts and preparing the financial statements. The mission noted that monthly statements were prepared indicating budgeted amounts, amounts committed, amounts paid and cash assets because of the Directorate of Public Treasury's two obsolete software programmes. There were delays in producing them because of the Public treasury's two obsolete software programmes. However, the Government of Djibouti has embarked upon the modernisation of the IT system by installing the integrated public finance management system. The mission noted the failure of the Directorate of Public Treasury to transmit information on cash assets to the Directorate of Budget Execution. It also noted that the Directorate of Public Treasury has a Chart of Accounts. However, it does not have an accounting procedures manual. Financial statements are prepared and audited. According to PEFA 2011, cash flow forecasts are prepared for the fiscal year and updated monthly based on actual cash inflows and outflows (Note A). The degree of reconciliation of the central administration's cash balances is not very good (Note C). Accounts for externally financed projects are opened with commercial banks. However, they are undoubtedly monitored by the Directorate of Treasury but the fact that they were not opened at the Central Bank is a departure from the principle of a single treasury account and undermines the security and optimisation of central government's treasury management. In light of the foregoing, the mission considers that accounting is unsatisfactory on the whole and that the fiduciary risk is s**ubstantial**.

Initial fiduciary risk	*substantial*

Internal auditing

The General Inspectorate of Finance cannot take initiatives concerning missions. Missions are authorised by the Oversight Ministry, namely the Ministry of Economy and Finance. It has no work plan, working papers, a master plan or working files. Reports are not submitted in the format discussed and approved by the Inspector General. The mission also noted that there was no vehicle to allow inspectors to travel quickly on mission. The General State Inspectorate is attached to the Office of the Prime Minister. It has an official work programme. However, some missions are requested by the President of the Republic and certain ministries. It has a Charter of Values, a procedures manual, a master file and working files. A Directorate of Audit and Portfolio was established whose responsibilities have not yet been defined but could lead to confusion with those of the General Inspectorate of Finance. According to PEFA 2011, internal auditing is carried out by the General Inspectorate of Finance (IGF) and the State General Inspectorate (IGE) but IGF is extremely underutilised for it does not carry out any controls at the Ministry of Finance (Note C). PEFA 2011, also indicates that IGF and IGE reports are systematically notified. These notifications are backed up by recommendations. These reports are published on the Ministry of Finance and IGE websites (Note B). In light of the foregoing, the mission considers that internal auditing is fairly satisfactory on the whole and that the fiduciary risk is **average.**

Initial fiduciary risk	*Moderate*

<u>Supervision and External Auditing</u>

The Court of Auditors is responsible for certifying the financial statements stemming from the budget's execution. Since the Court lost all its documents following a fire that broke out on its premises in 2008, it now has new premises. Its members are magistrates appointed by the President of the Republic of Djibouti and it is affiliated with INTOSAI and AFROSAI. The mission noted that it has no work plan, working papers, a master plan or working files nor does it have a procedures manual. According to PEFA 2011, the Court of Auditors is responsible for monitoring its own recommendations. However, there is no evidence that this monitoring is carried out (Note D). In light of the foregoing, the mission considers that supervision and external auditing are unsatisfactory and that the financial risk is **substantial**.

Initial fiduciary risk	*substantial*

<u>Combating Corruption.</u>

Djibouti's Anti-Corruption Commission was established in 2014 by Decree issued by the President of the Republic. Its members have been appointed. It now has premises and is operational. In light of the foregoing, the mission considers that the combat against corruption is satisfactory and that the fiduciary risk is **low**.

Initial fiduciary risk	*Low*

Annex 14: Country Procurement System Assessment

Pillar I: Legal and Regulatory Framework

Djibouti's public procurement system is based on a legal framework that was last updated by the 2009 reform [Law enacting the new Public Procurement Code (PPC)] and the more recent 2017 reform [Law on Public Private Partnerships (PPP Law], which established legal rules respecting public procurement guiding principles. An opening towards modern Information and Communication Technologies (ICT) was also noted as a driver of public procurement efficacy and transparency. This direction is clearly expressed in the Charter on Ethics and Transparency in Public Procurement which urges contracting administrations to give preference to ICT as information dissemination media but also as a procurement framework. In short, the legal framework for public procurement generally complies with the basic principles. However, it can be further improved both in terms of exhaustiveness and clarity of the regulations as well as the cohesiveness of the different legal, regulatory and application procedures. **The Pillar I risk level is "substantial" and the main weaknesses identified in this regard are as follows**:

(i) The public procurement legal framework remains incomplete and the limitations of the scope of the law lacks precision. Indeed:

a. Several provisions of the PPC and PP Law are not yet applicable because of the lack of regulations or enforcement tools provided for by these laws;

b. The contracts of several contracting authorities are implicitly excluded from the scope Public Procurement Code (PPC). The State as defined by the Code (Article 1, paragraph 1.2) does not cover all public purchasers or all the contracts that could be awarded on behalf of public buyers. This definition excludes contracts of the Higher Institutions of the Republic such as the Presidency of the Republic, National Assembly and the Office of the Mediator of the Republic;

c. Special arrangements are not effectively controlled: for example, an emergency for justifying certain exceptions to the law (reduction in the minimum time required to prepare bids or applications) is left to the discretion of the contracting administrations which are simply required to inform the National Public Procurement Commission (CNMP). However, the Code does not clearly define the constituent elements of an emergency in these specific cases. The PPC (Article 17.2.1) also removes military spending from CNMP's control but does not specify what constitutes the military nature of expenditure, leaving the door open to differing interpretations regarding the scope of this waiver.

(ii) The following inconsistencies remain in the legal and regulatory framework (implementing texts and documents):

a. National Standard Documents adapted from those used by the World Bank (WB), are not consistent with or contradict the PPC. In addition, the WB models were originally intended for contracts up to values of USD 10 million. Therefore, they are too complex for contracts less than USD 30,000 for which they are used in the context of Djibouti;

b. Some provisions of the public procurement legal and regulatory texts are not placed at an appropriate hierarchical level. Indeed, several provisions of a regulatory nature (procedural) are addressed in the law and conversely. These include the bidding and *ex-ante* control thresholds which are, under the law, ethical or eligibility rules, procurement methods for intellectual services which are in the implementing texts without being set out beforehand in the law, etc. This inappropriate classification increases the vulnerability of the legal provisions concerned which become much less open to adjustments. Similarly, provisions of a regulatory nature which are specified in the law become inflexible for they are subject to a vote in the National Assembly;

c. The Public Procurement Procedures Manual is not adapted to the training needs of public procurement actors. It focuses rather on the response times of the different actors and fails to address and provide guidance on several key procedural aspects (procurement planning, preparation of technical specifications, bid evaluation, contract management, the organisation of procurement document archiving, etc.).

(iii) Secondary policy objectives are not adequately taken into account in the relevant CMP provisions, in particular, sustainable development, support to SMEs, support to impoverished regions, the sustainable public procurement policy, etc., which are set out in the country's strategic planning reference documents, namely Djibouti Vision 2035 and the Accelerated Growth and Employment Promotion Strategy (SCAPE), are not translated into legal or regulatory provisions applicable to public procurement.

(iv) Cumbersome public procurement procedures demonstrated by:

a. the very low threshold for triggering the bidding process and *ex-ante* review by CNMP (USD 28,000 equivalent) and;

b. Overlapping of national and donor procedures and the high level of procurement stages which are subject to *ex-ante* control by CNMP, followed by *ex-ante* review and the no objection opinion of the respective donors.

Pillar II. Institutional Framework and Management Capacity

The PPF and the PPP law established an institutional framework for procurement and public-private partnerships, which covers the key management and control, system regulation and dispute resolution functions of the processes. This institutional framework is, however, faced with the following major challenges,

(i) several structures planned under the texts are still not operational,

(ii) a strong functional focus which is a source of incompatibilities,

(iii) insufficient or inadequate resources (material, financial and human). **The risk rating for Pillar II is substantial** and the main weaknesses identified are as follows:

a. Too much functional centralisation which is a source of incompatibilities since the institutional framework essentially relies on CNMP which, in addition to its regulatory and dispute resolution functions assumes most of the functions relating to the award and execution of contracts (exceeding DJF 5,000,000). It is also responsible for the organisation of procurement audits. The decisions taken or approved by CNMP as part of its *ex-ante* contracting or control functions are likely to be challenged and appealed before the CRD, which it chairs and of which it is a full-fledged member. Similarly, the scope of procurement audits is likely to cover activities and decisions which fall within the remit of CNMP. The mere perception of any conflict of interest caused by this situation could weaken the credibility of CRD decisions or the conclusion of audits commissioned by CNMP;

b. The procurement institutional framework is not yet fully operational: indeed, CNMP has not yet fully assumed its responsibilities due to a lack of significant financial and human resources and appropriate tools to monitor the system's efficiency. The CRD members have not been been appointed and no appeal or dispute has been referred to this committee in its 10 years of existence. Lastly, the governance bodies provided for by the PPP Law (PPP Unit, PPP Regulatory Commission and PPP Fund) are not yet operational due to the non-existence of texts determining their financing, organisational and operational modalities.

Pillar III. Procurement Operations and Related Practices

In 2015, the Government established Djibouti's National Agency for State Information Systems (ANSIE) whose aim is to interconnect all the country's administration by a broadband network and develop crosscutting computer applications to be hosted in a single data centre to improve the administration's effectiveness and efficiency. Another of ANSIE's objectives is to develop online service delivery models for citizens as well as health, e-education and e-commerce sector projects to address the country's education and health sector challenges. More specifically, concerning public procurement, under the Public Administration Modernisation Support Project (PAMAP) placed under the coordination of ANSIE it is planned, to create a dedicated space for the online publication of public procurement information and data.

The national private sector is organised around the Djibouti Chamber of Commerce which is the Government's main interlocutor in negotiations on measures to strengthen the sector. Since 2004, public procurement reforms are carried out in cooperation with the private sector and civil society and the Government has established a formal framework that will allow open dialogue with the private sector. The Government also attaches strategic importance to SME development as reflected in the establishment of the Djibouti Economic Development Fund (FDED) whose aim is to support the establishment or expansion of SMEs by awarding credits or providing customised technical assistance. **The risk rating for Pillar III is "Moderate"** and the analysis of this pillar has identified shortcomings that should be addressed:

(i) The following constraints on Djibouti's public procurement system:

a. absence of any mainstreaming of public procurement in the national budget preparation process. In particular, procurement plans are not submitted as part of the budget preparation process and are not revised to factor in budget allocations before expenditure is committed;

b. The non-existence of a modern procurement performance data collection and monitoring system,

c. The non-existence of any continuing training in procurement and related areas.

(ii) The following practices that do not comply with the Procurement Code:

a. Failure to comply with the obligation to organise competitive bidding for contracts whose value does not exceed DJF 5 million,

b. Repeat orders from the same suppliers and the award of split contracts to the same contractors for a total cost far higher than the bid launching threshold;

c. Contracts not exceeding DJF 5,000,000 that are often awarded to a single supplier without a comparison between three competing pro forma invoices; and

d. The award of contracts exceeding DJF5,000,000 by direct agreement, without authorisation from the Public Procurement Commission and non-compliance with the obligation to publish contract awards, etc.

(iii) Weak private sector capacity to meet public procurement requirements. In Djibouti, businesses do participate in open competition for access to public contracts and are chiefly competitive for works contracts in terms of the number of contracts awarded. However, these are often small contracts and the financial share of the country's private sector in public procurement remains marginal at around 20%.

Pillar IV. Integrity and Transparency of the Public Procurement System

The political will to ensure transparency and enhance good governance in the management of public affairs in general is clearly expressed in the national strategy and policy statements [Djibouti Vision 2035: Pillar 2.3.2.,on good governance], and in the specific public procurement framework (Charter of Ethics and Transparency in Public Procurement). The country also has laws and regulations organising the control of public procurement and combat corruption and other prohibited procurement. Lastly, accountability is recognised by PPC (Art 28.1 (Responsibilities of Public Officials). However, the mechanism established still has some practical shortcomings and the procurement control and good governance mechanism is not yet fully operational. **The risk rating for Pillar IV is "substantial"** and **the main shortcomings identified are as follows**:

a. The annual procurement audits planned by PPC have not been performed and the control bodies do not have the technical capacity, nor the tools to perform specialised procurement audits on both process compliance and public procurement efficiency;

b. There is no available information for evaluating the activities of the Independent National Commission for Preventing and Combating Corruption (CNIPLC) established by Law 03/AN/13/7th R of 16 July 2013; and

c. There is no mechanism allowing direct involvement in controlling contract award or execution.

Fiduciary Risks:

Given the weaknesses noted, the legal and regulatory framework governing public procurement in Djibouti is non-compliant with international standards and the Bank's Policy on Procurement and Good Practices and the **risk associated with its use is substantial**. Djibouti's national public procurement system has been weakened by the following fiduciary risks: (i) lack of public procurement regulatory authority to guarantee the efficacy of the procurement system, (ii) weak internal control at the contracting authority level, (iii) divergences between certain provisions of the standard documents and standard international systems, (iv) lack of qualified human resources at CNMP level and (v) non-existence of a capacity-building strategy for the different public procurement actors.

Conclusion:

The Bank will continue its ongoing, constructive dialogue with the Djibouti Authorities to improve the public procurement system. The Bank will work with the World Bank to prepare an action plan to strengthen the national public procurement plan system based on the MAPS II methodology. Pending implementation of an action plan to correct the shortcomings, the Bank will take the necessary measures at the time of project appraisal to ensure that: (i) a procurement plan is agreed upon and monitored; (ii) the executing agency has sufficient capacity to carry out internal monitoring and control, and (iii) a programme has been established to build the capacity of procurement chain actors.

Annex 15: Djibouti CPIA 2020

Country Year Ranking	Groups / Criteria	Score	Variation	East	Djibouti 2020 Africa
38	Overall CPIA	3.2		3.3	3.5
40	Economic management	3.3		3.3	3.7
34	Fiscal policy	3.5		3.3	3.7
19	Monetary policy	4.5		3.7	4.0
44	Debt policy	2.0		2.8	3.4
30	Structural policies	3.5		3.3	3.5
37	Financial sector development	3.2		3.3	3.4
15	Trade policy	4.1		3.5	3.6
37	Business regulatory environment	3.2		3.1	3.5
46	Social inclusion/equity	2.9		3.4	3.5
32	Gender equality	3.3		3.4	3.5
46	Equity of public resource use	2.7		3.3	3.5
42	Human resource development	3.0		3.6	3.6
44	Social protection and labour	2.7		3.2	3.4
43	Environmental policies and regulations	3.0		3.5	3.7
36	Governance	3.2		3.2	3.4
36	Property Rights and Rule-based Governance	3.1		3.2	3.4
36	Quality of public administration	2.8		3.0	3.2
34	Quality of budgetary and financial management	3.3		3.4	3.6
31	Efficiency of revenue mobilisation	3.8		3.5	3.8
34	Transparency, accountability and corruption in the public sector	3.0		2.9	3.2
34	Infrastructure & Regional Integration	3.2		3.4	3.4
37	Infrastructure development	3.1		3.4	3.4
25	Regional integration	3.5		3.3	3.4

Source: African Development Bank Group

Annex 16: Gender Diagnostic Note

Social Context and Crosscutting Themes: Gender Diagnostic Note

Introduction

The Gender Diagnostic Note assesses gender gaps, gender equality and women's empowerment in Djibouti. The assessment identifies potential entry points for the African Development Bank's 2023–2027 Strategy for Djibouti.

Djibouti is one of three countries on the continent that does not have an Africa Gender Index (AGI), prepared annually by AfDB and UNECA, because of the extreme lack of indicators. However, the Ibrahim Index of African Governance (IIAG) 2020, provides an overview of gender disparities in Djibouti.

Classification	**Rank/54**	**Score (XX/100)**	**Year**	**Trend 2010–2019**
Gender Indicator	52	31.8	2019	+2.3
Political Representation	28	50.8	2019	+9.2
Equality and Civil Liberties	50	36.2	2019	-1.1
Socio-economic Opportunities	42	31.0	2019	+1.9
Equal Access to Public Services	52	9.4	2019	-0.5

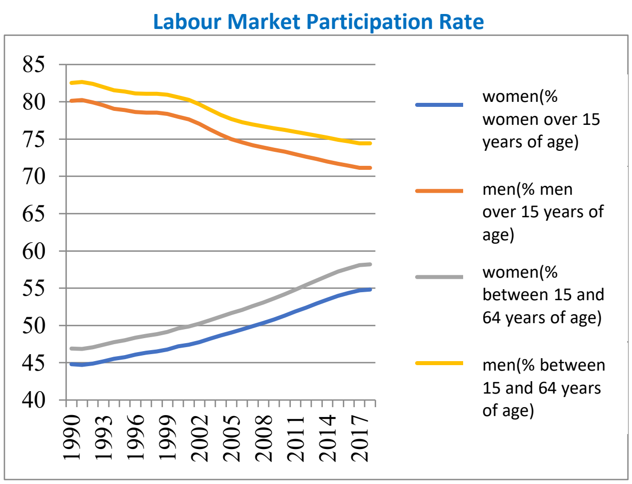
Source: Ibrahim Index of African Governance (2020)

According to the Ibrahim Index of African Governance (IIAG) 2020, Djibouti was ranked 52nd out of 54 countries regarding gender with a gender score of 31.8/100 and a 2.3-point improvement since 2010. This indicator measures and aggregates data on (i) women's political participation and representation for which Djibouti scores 50.08/100, (ii) equality of social liberties for women, 36.2/100, (iii) socio-economic opportunities for women, 31/100, (iv) equal access to public services for women, for which scores 9.4/100, as well as (v) laws on gender-based violence for which no score is available.

Review of policy, legal and institutional policies for promoting gender equality in the country

Significant institutional progress in favour of gender has been made by the Government of Djibouti following the enshrinement in the country's Constitution of the right to gender equality, the ratification of international protocols on gender equality and updating of the national gender policy (PNG) for the 2011–2021 period. However, national, policy and budgetary instruments to implement these provisions are insufficient. In fact, in 2008, Djibouti established a ministry with full jurisdiction for women's advancement, the Ministry of Women and Family (MFF). An assessment published in 2014 points out that the financial and human resources allocated to this ministry are insufficient and limit its capacity to boost and implement dedicated actions. It prepares and implements the Government's policy for mainstreaming gender in the country's development process. In 2011, Djibouti adopted its ten-year national gender policy which ended in 2021. Its institutional implementation plan encountered implementation difficulties though recognised as the gender reference framework with a financial resource gap. The budget share of the institution responsible for gender issues was unable to comply with the planned annual increase (instead rising from 0.28% to 0.46%). This situation has cut out the strategic and operational steering body necessary to mainstream gender in the sectors, in the collection and dissemination of the outcomes of operations as well as in their harmonisation as provided for under the PND.

The national legal framework has made relative progress in terms of gender equality and women's and girls' empowerment. Law 003/AN/18/8Eme L, establishing the Civil Code adopts a Family Code prohibiting early marriages, forced marriage and repudiation. Law 55/AN/09/6ème L of 19 July 2009 violence against women, specifically on female genital mutilation (FGM), criminalises female genital mutilation. It criminalises and punishes anyone with knowledge of FGM, whether planned or already performed, who does not immediately notify the public authorities. The 2018 reform of Djibouti's Labour Code protecting against moral and sexual harassment provides a precise definition of harassment, and enshrines the presumption of harassment. Although the Criminal Code, as amended in 2009 criminalises female genital mutilation (FGM) and simplified redress procedures, this has resulted in only one rare case of litigation and only one conviction (Ministry of Women and Family, 2019). The progress also includes the replacement of Sharia courts by a Personal Status Tribunal established in 2003. It is now competent to rule on family disputes (marriage, divorce, custody of children, alimony, etc.) for all litigants of the Muslim faith (98% of the population). Non-Muslims fall within the jurisdiction of the Civil Code and may refer to the Civil Chamber of the Court of First Instance. However, this right coexists with a customary law including provisions that can legitimise the marginalisation of women, such as in marriage (inability to enter into a marriage without the consent of a guardian), freedom of movement, unequal inheritance rights (when the Family Code guarantees equal land tenure rights for both women and men (Article 101), the handling of issues relating to rape cases leaving the door open for arbitrary discrimination



Source: International Labour Organisation ILOSTAT Database

state, challenges and strategies for gender equality in the economic, social, citizens' voice and affirmative action dimensions.

Economic Dimension

In Djibouti, despite very strong economic growth (8.4% of GDP in 2018), there is still massive unemployment, particularly of women (35.9% compared to 22.1% for men).

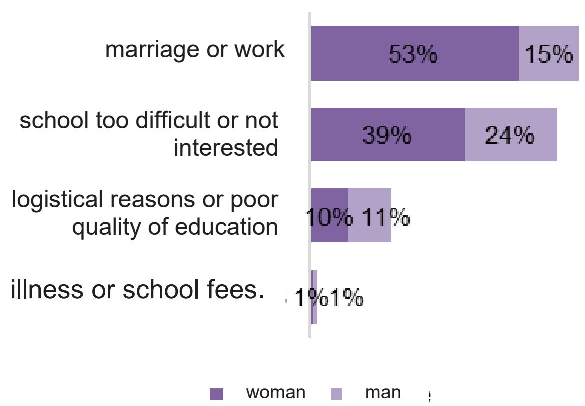
The country continues to experience gender inequalities in the labour market, particularly in terms of labour market participation. The trend of labour market participation rates over a long period is shown in Figure 3.6. While there is an increase in the women's participation rate over the period due to the different actions taken by the country's authorities, this rate remains low compared to the rate for men and reveals that almost 45% of women over 15 years of age (or between 15 and 64 years of age) do not actively participate in the labour market by working or seeking work. Therefore, there is a wide gender gap concerning the amount of available labour for producing goods and services, even though the trend is upwards. The steadily increasing entry of young people into the labour market intensifies competition in a context where the resources and assets of women/girls are unevenly distributed from the start. This situation is reflected in the unemployment rates for men that declined three times faster (from 54.6% to 38.7%) than the rates for women (from 68.6% to 63.4%), between 2002 and 2017.

In addition, Djibouti, by adhering to the SDGs, has undertaken to achieve women's economic empowerment (SDG.5 and SDG 8). But they have limited access to economic resources and opportunities. As regards land, which is already scarce (in particular, arable land), only one-third (32.7%) of arable land/farms belongs to women in rural areas. The situation is more equal in urban areas where one out of five (21%) plots/houses are owned by women. Regarding other means of production, women only own 25% of livestock while 90% of extensive stock breeding is carried out by men. They are also affected by the impacts of droughts or floods caused by climate change, mainly gathering together around water points, and villages in the outlying areas of towns where small ruminant breeding is less remunerative. More generally, the situation is the same in almost all the productive sectors of the economy, with women living in precarious conditions and making up a large part of the population with no remunerated activity.

Social Dimension

Education: The number of Djiboutian general and technical teaching staff is increasing but the proportion of young women is stagnating, even declining, running the risk of women's poverty persisting. With a barely increasing literacy rate (from 43.7% in 2011 to 48.2% in 2017), more women are deprived of any advantages in the labour market, especially **rural women**. This result falls far short of the target of a 40-point increase by 2016. The objective of parity has not been achieved in primary education with a gender parity index which has even declined slightly (from 0, 98 in 2009 to 0.86 in 2017) which could prevent parity being achieved in junior secondary (0.82), secondary (0.83), technical (0.72) and higher (0.61) education given the widening of gender gaps as the number of years of study rises. This decline in Djibouti is due to a slow girls' enrolment trend (net enrolment rate (NER) from 65.7% in 2011 to 68.7% in 2017) and retention rates (gross enrolment rate (GER) of 68.8% in 2011 to 78.9% in 2017). The impact of awareness raising on girls' retention rates, the constructive of gender-sensitive school facilities and canteens, is tangible regarding the retention rates for girls in rural areas (GER of 21.9% in 2011 to 58.7% in 2017) but has in no way managed to significantly reduce **school drop-out rates** for girls.

Maun reasons for dropping out of school, by gender (Insuco Survey)



Health: Despite the increased mobilisation of public resources to improve cover for the population in terms of access to health care, health disparities exist, and many challenges have to be addressed to consolidate achievements and continue to broaden access to health care for the population, especially in rural areas and disadvantaged urban areas. The maternal mortality rate is very high at 383 deaths per 100,000 live births (CSP), gender gaps also exist to the detriment of boys who have more pronounced stunting rates (32% compared to 27% for girls), more acute malnutrition (19% vs 16%), as well as greater vulnerability in terms of health. Djibouti must take up the challenge of accelerating food and nutrition security. From 2010 to 2013, stunting stagnated at 29.7% and acute malnutrition rose from 10.9% to 17.8% among children from 0 to 5 years of age. Wasting among women (extreme thinness) of reproductive age remains high. Inadequate nutritional practices cause this along with micronutrient deficiencies. Lack of access by women to knowledge, assets and power in the household is an obstacle when seeking care.

According to UNAIDS data[2], in Djibouti, in 2019, there were 6,800 adults living with HIV (56% of whom were women and 44% men over 15 years of age) and between 500 and about 1,000 children (UNAIDS[3]). This prevalence rate among adults aged between 15 to 49 years of age is reported to be 0.8% but trending downwards. In terms of family planning and protection from sexually transmitted diseases (STDs), the country has failed to achieve the objective of a targeted five-point increase by the PNG with 17% of unmet

[2] UNAIDS, Djibouti, https://www.unaids.org/fr/regionscountries/countries/djibouti, consulté le 30/01/21.
[3] Report on the national response to the HIV/AIDS epidemic, 2014; Country factsheets, HIV/AIDS Estimates, 2017.

needs. In the study area, the most recent HIV/AIDS information campaign was reported to have been carried out in Dikhil in 2007 and Ali Sabieh in 2018. The population (male/female) knows that the HIV/AIDS virus exists but doesn't necessarily know the transmission channels or prevention mechanisms or even its own HIV status. In rural areas, 56% of non-single women said they knew something about HIV (whereas this percentage was 66% in 2002) but *85% of women who know about AIDS did not know that the failure to use condoms was a transmission risk*.

Water and Sanitation: About 13% of female-headed households do not have access to water compared to 10% for their male counterparts. As an alternative, 8% of female-headed households use traditional wells (compared to 6% of men) to fetch water (rivers, water courses, rainwater, underground cisterns). Female-headed households are also affected by unequal access to paid water (70% compared to 77%) by an internal or external connection installed by Djibouti's National Water and Sanitation Agency (ONEAD). The main cause is inequality in the ability to pay. Even among households that have access to water, 11% of female-headed households and 8% of male-headed households are obliged to get their water supply from public standpipes and/or boreholes. Such situations strain women's time-use insofar as it is an exclusively female task independent of the gender of the household head. It increases female household heads' domestic chores, cutting back on their time for productive or leisure activities or time for resting. This gendered task also impacts people's lives and the schooling of girls who are required to compensate by fetching water.

The use of improved toilets is very unequal between urban and rural households, in the first case 85% have access to them and in the second case only 19%. Depending on the gender of households there are four points of difference to the detriment of those headed by women (69.3% compared to 73.8%). Open defecation concerns 19% of female-headed households compared to 15% for male-headed households. In the case of household waste, 43% of rural households discharge their waste in the open countryside compared to 9% in urban areas. This correlated to the availability or not of a waste disposal service. In short, *access to drinking water in Djibouti is a challenge, especially for women, girls and poor rural girls*. This limited access to water which assumes several forms (no running water, distance from sources of water, fetching water, inadequate hygiene practices, lack of sanitation infrastructure), leaves them more exposed to avoidable waterborne diseases such as cholera, dysentery, typhoid fever, poliomyelitis and hepatitis A and E.

Voice and Agency Dimension

As a result of the political impetus, women's representation in political decision-making bodies has progressed in Djibouti. Their overall representation rate rose from15% for the 2006–2011 period compared to 2012–2019, i.e. an 11-point gain. A law enacted in 2018 fixed a minimum quota of 25% for women in eligible positions in the legislative branch as well as in central government administration. In the National Assembly (N.A.) and senior administrative positions, this had tangible impacts. Women occupy 25% of seats in the N.A. since February 2018 and this rate was 11% in the legislative branch in 2013. The institution has a woman Vice-President, two women Presidents and two women commission chairs; and the commissions chaired are removed from the usual clichés (legislature, production and trade, national defence and security, environment). Women also occupy 25% of senior administrative positions (compared to 2% in 2002). On the other hand, their presence in high political functions (Minister, Ambassador, Constitutional Council) has declined considerably. It fell from 14% to 9% between 2002 and 2018 (PNG 2011–2021) but in 2022, 25% of women were ministers. For high political and administrative posts, these figures fall short of the 30% rate proposed by the Beijing Platform of Action but Djibouti is planning to achieve a 40% rate by 2035 (Djibouti Vision 2035). These results are positive, gradual and stable. The achievement of parity in high political and administrative functions continues to be a challenge, especially in the economic and productive sectors.

Although Djibouti has ratified the Maputo Protocol on harmful traditional practices, it carries out information and sensitisation campaigns throughout the country and has criminalised female genital mutilation which remains very widespread. This crime, punishable by a fine and 5 years imprisonment (AFD, 2020), affected 78.4% of women between 15 to 49 years of age in 2012 (main Djibouti EDS-PAPFAM report, 2012). However, in ten years between 2002 and 2012, the FMG prevalence rate fell by 18.8 points (in 2002 this affected 97.2% of this population). The sensitisation campaigns to help women understand the harmful consequences of FGM and the adoption of legislative measures contributed to it (AFD, 2020). According to a report sent by the Government of Djibouti to the United Nations Commission on Human Rights in September 2013, 93% of the population of reproductive age was reported to have suffered from FGM ('UNICEF) among women between 15 and 49 years of age over the 2004–2015 period (United Nations, February 2016). According to the Penal Code, rape is a crime however domestic violence and marital rape are not explicitly criminalised (AFD, 2020). Djibouti's PNG points out the absence and/or inaccessibility of a database on GBV which diverts some attention from the need to safeguard the physical and moral integrity of both sexes, a dimension that is, however, considered to be critical in terms of gender equity and equality (PNG Outcome 1). Over half of the women interviewed legitimise domestic violence, 53.4% in the case of a spouse's negligence and 51.9% in the case of refusal to have sex (Annex 5 AfDB CGP, 2019: Country Response — Country Commitments). *Increased vulnerability has been reported among refugees, stateless people and migrants*. Protected by several laws[4], the latter are however over-exposed to the risk of human trafficking (forced labour for men and sexual exploitation for women and children) as well as all forms of violence, in particular sexual violence in their situation of confinement in camps.

Existing Bank operations for moving forward in terms of gender equality (gender mainstreaming in the Bank's portfolio)

Recently several projects have begun to effectively mainstream gender, three of which are in high categories:

- Power Interconnection Line between Djibouti and Ethiopia (**GEN II category**) with a USD **351,341** jointly prepared and adopted with project task managers and the Project Implementation Unit (PIU). The project approved in 2021 will benefit from the gender expertise at PIU and many relevant activities in favour of women's employment in this sector in which women are underrepresented and which will be retained in 2023–2027, as well as income-generating activities.

- The BREFONS agricultural project in Djibouti (**GEN II Category**). A great amount of time was dedicated to the joint preparation of a USD **347,030 PAG** and training for the PIU (including the coordinator and M&E expert), particularly at the time of the project launching in May 2022. Gender is being mainstreamed in all the bidding ToR including the engineering designs and works by including a gender expert in PIU.

- Project to support Good Governance and Control Institutions and Public Enterprises (PAIC). After a questionnaire was sent to all the beneficiary structures arousing their interest in gender issues and receiving requests for training and having gender audited in their structures. The field mission was also an eye-opener on GBV in the workplace (i.e. moral harassment) and the role of CSO. This is a GEN III category project with GAP for

[4] Law 133/AN/16/7ème L of 24 March 2016 making provision for the non-deportation of refugees and protection measures and the new National Law in 2017 and associated decrees guaranteeing the integration of refugees into national systems such as health, education and the labour market.

an amount of UA 120,000 which will include gender TA, training sessions, gender audits and awareness raising on GBV.

- Draft integrated urban and climate study, **GEN II** category which will include consultations with CSO, 60% of which will be with women for which the budget will be USD**146,000** i.e. **4%** of the total budget (USD3,640,000), dedicated to direct support to gender equality promotion and women's empowerment promotion, including a study on "Gender, Urban Infrastructure and Climate Resilience in Djibouti City".

Gender mainstreaming in projects is improving and is concretely reflected in the design of projects in Djibouti since the evaluation of the previous CSP recommended the mainstreaming of crosscutting aspects including gender promotion in the new CSP.

Entry points and proposed operations to combat gender inequalities.

Djibouti does not have a country office and gender is an emerging crosscutting theme for which there are no dedicated human resources in the national teams. The Ministry responsible for Gender is updating the ten-year **National Gender Policy** which expired this year. It seeks to develop a strategy/action plan which will include **the updating of gender focal points in ministries**. There is a lack of statistics in all areas including gender (absence of Djibouti in the AGI — Africa Gender Index developed by AfDB and UNECA). AfDB has a recent gender profile published last year but **additional data linked to sectors supporting CSP projects** will assist in mainstreaming gender and help the country to leverage more resources on this theme.

In the absence of a good internet connection for holding virtual meetings, physical meetings have often been invaluable. **Gender expertise must be sought for missions** (even virtual), **from the preparation phase**, from both AfDB and the government team.

To improve gender equality and women and girls' empowerment, the following recommendations must be considered:

1. Systematically operationalise gender equality-sensitive policies, strategies and laws by providing budget support;

2. Provide training for women in leadership and personal development to further improve women's representation in the political sphere;

3. Develop the microfinance sector as a key driver of financial inclusion, and take innovative actions that will foster equal access to property ownership, succession and inheritance as well as access to productive resources to improve women's status on the labour market;

4. Take actions to reduce inequality in access to education and health in project GAPs or through trust funds;

5. Document gender analysis and the gender action plan to justify the categorisation according to the Gender Marker System in the portfolio of projects proposed for CSP, in particular in relation to their impacts on employment to ensure equitable wealth distribution based on gender, regions and other relevant variables such as age, level of education, residential environment or socio-economic status;

6. Support gender institutionalisaHtion in ministries, and public structures in the agricultural, transport, energy, finance and industrial sectors.

7. Support the government in building the capacity of government officials through a technical training course to subsequently enable them to prepare gender-sensitive policies, strategies and action plans; and

8. Support the creation of a fairer socio-economic environment.

9. Support the monitoring and evaluation of operations including the collection and analysis of gender-disaggregated data to have a clearer understanding of the real impact of operations on women's quality of life and identify corrective measures if required.

10. Ensure the presence of an AfDB gender expert as well as on the government side at least in all preparation missions.

11. Mainstream gender in country policy dialogue drawing on recent gender profiles.

12. Necessarily include in projects sector studies/analyses on gender and support for gender training adapted to the proposed sectors.

Annex 17: Note on Environmental and Social Safeguards

Regarding environmental and social safeguards, the country has a legal framework covering environmental assessment and several laws and decrees determining the national provisions and requirements in other environmental areas. Notwithstanding the existence of this legal framework, the country is faced with many environmental challenges linked to rapid urbanisation, exposing it to problems of pollution (production of solid and liquid waste). Fast-growing urbanisation in the coastal area, which concentrates most of the country's population and socio-economic activities is causing environmental degradation concerning water resources management and marine biodiversity (coral reefs and mangrove swamps), fishery resources and marine mammals. The reduction in biodiversity associated with the establishment of unplanned agricultural regions is leading to the gradual disappearance of superficial soils caused by water and wind erosion. In Djibouti City, problems of flooding are also exacerbated by downpours, the overflowing of the Ambouli Wadi and the fact that in some areas the city is below sea level. The main feature of the institutional framework for managing the country's environmental issues is the involvement of several sector ministries. However, it is hampered by poor coordination between these sector ministries.

Several technical and financial partners have supported development through projects aimed at environmental protection. These include: (i) project to implement adaptation techniques in the fragile ecosystems of the Central Plains of Djibouti; (ii) Ozone program; (iii) the project to mitigate sectoral pressures on marine and coastal biodiversity and strengthen the system of protected areas in Djibouti, which contributes to the rehabilitation of marine ecosystems; (iv) development of agro-pastoral schemes as a climate change adaptation strategy for poor rural communities; (v) the Program for Drought Resilience and Development of Sustainable Means of Livelihood in the Countries of the Horn of Africa financed by the African Development Bank and which has contributed on the environmental level to improving the quality of agro-pastoral ecosystems

Annex 18: Strengths and Opportunities/ Weaknesses and Threats

STRENGTHS ✓ Its geostrategic position on the world's busiest sea route; ✓ its relative political stability despite frequent conflicts and acts of terrorism in the region; ✓ its economic performance through its robust growth; ✓ its stable and attractive monetary and foreign exchange system; ✓ the three (3) modern port facilities that can accommodate all types of vessels; and ✓ the existence of the Djibouti Free Trade Zone, with its advantageous conditions for investors.
OPPORTUNITIES ✓ The ever-rising regional needs in terms of transit and transhipment; ✓ the upward trend in commodity prices encouraging the tapping of the country's potential (perlite, cement materials and gypsum); ✓ the global growth of tourism and communication activities, areas in which Djibouti has undeniable potential; ✓ the spike in energy prices encouraging the use of renewable energies; and ✓ operationalisation of the sovereign fund.
WEAKNESSES ✓ The modest size of the economy preventing any economies of scale or productivity gains; ✓ high factor of production costs (energy, telecommunications and labour); ✓ poor quality of human resources; ✓ difficulties in accessing water resources; ✓ high level of food insecurity coupled with difficulties in promoting agriculture; and ✓ lack of land transport development.
THREATS ✓ Recurring conflicts in the Horn of Africa and the Russia's invasion of Ukraine; ✓ new waves of the COVID pandemic due to the low vaccination rate; ✓ its many areas of fragility: climate change vulnerability, dependency on Ethiopia; ✓ development of ports in neighbouring countries including Berbera in Somaliland and Assab in Eritrea; and ✓ a public debt crisis after the DSSI suspension in 2021.

Annex 19: Provide stronger support in the new CSP **2023–2027 for trade facilitation on the Horn of Africa region, industrial development and private sector development in general**

The promotion of private sector-led growth in Djibouti can help the country to create decent jobs, improve economic inclusion and build resilience. Such a policy option could boost structural transformation if it is based on the manufacturing industry in particular and if it benefits from trade facilitation in the Horn of Africa.

In this context, the new CSP 2023–2027 aims to provide increased support to industrial and private sector development by:

- reducing electricity access costs by increasing electric power supply in terms of quantity and quality,
- significantly reducing transport costs by developing road transport infrastructure
- ensuring stronger private sector participation in achieving development objectives in particular economic diversification by value chains and job creation for youth and women through small and medium-sized enterprises.

In so doing, the Bank will contribute to the removal of two major industrial and private sector bottlenecks in Djibouti for the cost of electricity and transport form part of the main components of the production function of private operators and industries.

This Bank support is in line with Pillar 2 "facilitation of access to integrated infrastructure" of the Bank's 2021–2025 Private Sector Development Strategy.

Moreover, the new CSP 2023–2027 also envisages providing increased support to industrial and private sector development by:

- supporting the country's efforts to involve private operators more closely in the development of energy and transport infrastructure (e.g., the Bank could provide the country with technical support for the ongoing preparation of the public-private partnership regulatory and institutional framework and for implementing the framework following its approval),
- building the country's human institutional capacity, which should improve the business environment,
- revitalise private sector activity by mitigating the risks linked to private sector participation in projects, and
- exploring the possibility of awarding lines of credit to local commercial banks which could, as a result, increase the supply of credit to national private economic operators.

This second category of Bank support to industrial and private sector development is consistent with Pillar 1 "Improve the business climate," and Pillar 3 "Create a business-enabling environment" of the Bank's 2021–2025 Private Sector Development Strategy.

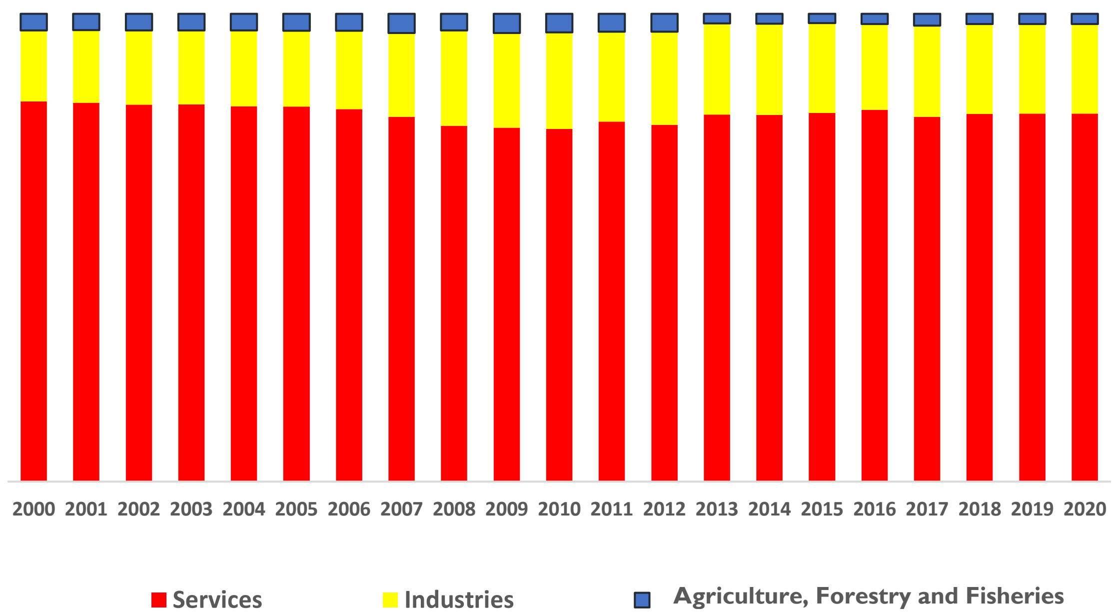
Lastly, regarding the increased support the Bank is intending to give Djibouti under the new CSP 2023–2027 to facilitate trade in the Horn of Africa region, it is worth noting:

- the Bank's contribution to the development of cross-border transport corridors, and
- Advocacy by the Bank with the Government to encourage it to:
  - Implement reforms aimed at creating a transparent, cohesive and predictable environment for cross-border transactions based on simple, harmonised procedures and practices and documentation, freight and transit requirements;
  - Establish and operationalise one-stop border posts at Galafi, on the Dewele/Gaulile border with Ethiopia and the Lowyada border with Somalia; and
  - Adopt electronic monitoring of freight and regional one-stop shop systems to facilitate the customs clearance of goods and reduce transit times.

Annex 20: Risks and Mitigation Measures

Potential Risks		Mitigation Measures
Prolongation of the COVID-19 crisis beyond 2022. The resurgence in COVID-19 could impede CSP implementations because of the many restrictions and additional expenditure incurred.	High	TFP (including the Bank) support in promoting COVID-19 vaccination and providing budget support.
The debt crisis could disrupt projects requiring new debts under CSP and limit the government's ability to repay previous borrowings.	High	TFP (including the Bank) support for the country's debt management reforms including the restructuring and/or rescheduling of its debt and streamlining public debt.
Persisting sub-regional crises, especially the crisis in Ethiopia and the Russia's invasion of Ukraine. This could further deteriorate the economic situation and social and security conditions in the country and will, therefore, disrupt the CSP's implementation.	High	Bank support for Djibouti's efforts to seek peaceful conflict resolution and possibly adapt their interventions depending on the country's possible constraints.
Weak human and institutional capacity, which could seriously impede the implementation of CSP projects	Moderate	Continue to support TFP (including the Bank) capacity-building efforts
Rising climate change vulnerability, which could diminish the CSP outcomes and limit the achievement of its objectives.	Moderate	Bank support in mobilising TFPs to meet its climate change commitments in its Nationally Determined Contribution (NDC).
Weak resilience to economic shocks	Moderate	Continue to fight against fragility and build the population's resilience.
Corruption and impunity of leaders	Low	Support the Bank in improving governance. The Bank's PAIC-GEP project in Djibouti which is being validated provides support to public finance control institutions.

Annex 21: Figure showing the sector contribution to GDP over the 2000–2020 period (as a percentage)



Source : AfDB Statistics Department

Annex 22: Djibouti's Country Financing Parameters proposed for approval are presented below.

Item	Parameter	*Comments/Explanations*
Counterpart funds *Limit for the percentage of costs associated with a specific project that the Bank may finance*	Up to 95% for projects Up to 100% for studies and technical assistance	The Bank can finance up to 95% of the costs associated and on a case-by-case basis up to 100%. It may also finance up to 100% of technical assistance and study costs. The fact of increasing ADF window project financing costs up to 95% for the ADF window and up to 100% if necessary will ease budgetary pressure to ensure compliance with debt service payment timelines, and maintain social support to citizens, in particular against a backdrop of negative impacts linked to the resurgence of COVID-19 and the country's fragile situation. At an operational level, this high coverage rate of project costs by the Bank will eliminate project implementation delays caused by non-payment of national counterpart funds
Taxes and Duties *Are there taxes and duties that the Bank would not finance?*	No. The principle whereby projects financed by the Bank Group are exempted from taxes and customs duties will remain valid.	Djibouti's tax system is considered to be reasonable and taxes do not represent a very high percentage of total costs. Moreover, taxes and duties do not directly target projects, activities or expenditures financed by the Bank except for VAT since projects are exempt from import duties and taxes. The inclusion of VAT in eligible expenditure for Bank financing will assist the Government in improving tax revenue collection and release resources to finance other social sector projects that the country badly needs including social protection projects.
Recurrent costs *Limits that would apply to the overall amount of recurrent costs that can be financed by the Bank.*	No country limit	The Eligible Expenditure Policy stipulates that recurrent costs constitute eligible expenditure and recommends that the Bank Group finances recurrent costs linked to income and non-income-generating projects up to 100% on a case-by-case basis. However, the Bank will continue to calculate estimated recurrent costs and indicate how financing will be sustainably provided.
Local Currency Costs *Have the following conditions for financing expenditure in local currency been met?: (i) the financing needs of the country programme exceed the public sector's own resources (i.e. those resulting from taxation or other revenue) and the expected level of domestic borrowing; and (ii) the financing of expenditure in foreign exchange alone is not sufficient to efficiently implement the project under consideration.*	Yes	Few operations currently include local currency components. However, Djibouti fulfils the conditions for local currency financing of expenditure. The Bank can finance local currency expenditure up to any percentage required by the project concerned. The Bank will continue to finance local currency costs provided that such components in local currency are necessary. The investment operations envisaged in the energy sector and transport sector over the next 5 years will probably require such local currency components and their financing will be determined on a case-by-case basis.

Provisional expenditure on infrastructure projects	Up to 100%, on condition that four conditions are met	The Bank may finance up to 100% of provisional expenditure on income-generating or transformative socio-economic infrastructure projects at the government's request if it is established that (i) they are an integral part of the project/programme at appraisal ; (ii) represent a small percentage of project/programme costs which cannot be financed by the project executing agency ; (iii) contribute to the attainment of the development goals of the project/programme; and (iv) they can be supported on a sustainable basis by the Executing Agency beyond the 3-year transitional period.

Conclusion and Recommendations

1. The Government of Djibouti's ability to release the national counterpart funds to finance projects and programmes is very limited because of the sharp downturn in economic growth over the past three years, the high risk of debt distress and the additional budgetary effort caused by a fragile situation exacerbated by the COVID-19 pandemic. In addition, because of the persisting multifaceted negative impacts of the COVID-19 pandemic, the armed conflict in Tigray (Ethiopia) and the impact of the Russia's invasion of Ukraine, the increase in expenditure and decline in public revenue have increased pressure on the government's short and medium-term headroom. This situation could persist longer which could further limit the Government's ability to pay its counterpart funds in the context of Bank-financed projects. To overcome this emerging constraint, the Bank must be flexible in determining the percentage of the Government's counterpart funding. This note on the country's financing parameters makes the following recommendations:

i. Adjustment of the percentage of the Government's counterpart contribution to the ADF window for sovereign operations in Djibouti "*be below 10%*" of the cost of the project/programme and "*could be 0%, on a case-by-case basis*" of the total project/programme cost.

ii. Maintain the percentage of the counterpart contribution for technical assistance projects and programmes at "*not less than **5%** of the total project/programme cost and not less than **5%** of the total cost of studies and **0%,** on a case-by-case basis.*"

2. The proposed flexibility will not only help to alleviate the constraints limiting the government's financial leeway and possibly release resources to pursue other development objectives including the continuing provision of social services to citizens and the reduction in social costs of the pandemic. The Bank team will pursue the dialogue already engaged with the government on boosting the collection of domestic revenue, on reducing recurrent costs and improving fiscal headroom. In accordance with the new CSP and complementing the efforts made to increase domestic revenue collection, the Bank will continue to help the Government to build institutional and human capacity for the drafting and implementation of adequate policies.

3. Therefore, the Bank is invited to consider and approve this Note on Djibouti's Country Financing Parameters which was prepared in conjunction with the new CSP.

Annex 23 : Theory of Change

In line with the recommendation No 3 of the IDEV evaluation of CSPs over the period 2011-2020, the new CSP has been underpinned by a **theory of change (ToC)** based on the Bank's results tools, namely alignment and performance matrices. The alignment matrix (Annex 2.3 of the new CSP) demonstrates the relevance of the priorities of the new strategy in relation to the strategic and operational thrust of Djibouti (Vision 2035 of Djibouti and Djibouti ICI 2020-2024) and the Bank's Ten-Year Strategy 2023-2032 under finalization process, the Bank's operational priorities (High-5), and the Bank's relevant sector and thematic strategies. The performance (or results) matrix (Annex 1A and 1B of the new CSP) will facilitate the monitoring of the Bank's performance in delivering the expected results of the new strategy. Thus, the new CSP 2023-2027 explicitly develops a solid ToC based on (i) a robust Country Diagnostic Note (CDN), and (ii) lessons learned from the implementation of the current strategy. The new CSP is also anchored on a robust results measurement framework. In this context, the Bank will support initiatives aimed at implementing results monitoring plans, including solutions to generate the data (such as gender-disaggregated data) needed to monitor achievements. The results matrix of the new CSP reveals a close and clear link between the country's development priorities, the Bank's operational priorities (High-5), the main objective of the CSP, the priority area of the CSP, the operations included in indicative operational program (IOP), the expected outcomes, the envisaged outputs, and the activities to be carried out through projects included in the IOP.

Matrix of Theory of change for CSP 2023-2027 Djibouti

OBJECTIVE		
To support the country in its efforts to promote inclusive growth by supporting the acceleration of structural transformation and economic diversification		
Impact Indicators	**Baseline Situation**	**Target *2030***
Poverty rate --	34,3% (2021)	30%
Gini index --	0,44 (2017)	0,40
Percentage of manufacturing sector to GDP -------------------------------	4,8% (2021)	6,8%

OUTCOMES		
Single Priority Area: Socio-economic infrastructure development in the energy and transport sectors		
Energy	***Baseline Situation***	***Targets***
1. Reduction in average price for end-user customers (DJF/kWh)(%)	45,77(2020)	40 (2027)
2. Reduction in greenhouse gas emissions (ktCO2e/yr)	400 (2022)	269 (2027)
3. Reduction in the system average interruption duration time (h/yr/customer)	9,37 (2022)	7 (2027)
4. Raise of total volume of electricity traded between Ethiopia and Djibouti (GWh/yr)	536 (2022)	696(2027)
5. Proportion of renewable energy in total energy supply	85% (2022)	90% (2027)
Transport		
6. Increased volume trade on rehabilitated/constructed roads (tonnes) (%)	350 000 (2022)	30% (2027)
7. Average journey times of freight trucks in the intervention area(h)reduced (%)	2h (2022)	75% (2027)
8. Operating costs of heavy-duty vehicles in the intervention area of (USD/year) reduced (%)	8000 (2022)	10% (2027)
Cross-cutting issues		
9. Rate of increase of economically empowered women of the target female population (credits AFAWA)	0% (2022)	20% (2027)

10.	Improvement of public enterprise governance and reduction in the proportion of central government-guaranteed external debt of public enterprises (% of the country's total debt level)	65% (2019)	55% (2027)
11.	Mobilisation of domestic resources by improving tax revenue (tax revenue as % of GDP)	11,8% (2022)	15% (2027)
12.	Mainstreaming climate change in Bank projects in Djibouti (%)	15% (2022)	80% (2027)
	OUTPUTS		
	Single Priority Area: Socio-economic infrastructure development in the energy and transport sectors		
	Energy	***Baseline Situation***	***Targets***
1.	Biomass power generation plant established (No/Yes)	No (2022)	Yes (2028)
2.	Undergrounding of Jaban'as-Palmeraie 63 kV power transmission line (No/Yes)	No (2022)	Yes (2025)
3.	The medium voltage 20 kV power line between Nagad-Hol constructed (No/Yes)	No (2022)	Yes (2025)
	Transport		
4.	Upgraded asphalted roads (km)	0 (2022)	15 (2025)
5.	Integrated Transport Information System (ITIS) installed (Yes/No)	No (2022)	Yes (2025)
6.	Simplified Administration Processes (yes/no)	No (2022)	Yes (2025)
	Cross-cutting issues		
7.	Training given to women and youth in the transport and energy sectors and literacy education	0 (2022)	1500 (2027)
8.	Number of women's jobs created in road and energy project activities (#)	0 (2022)	500 (2027)
9.	Budget transparency marked particularly by the publication of data on budget execution (public accounts) (Yes/No)	No (2022)	Yes (2025)
10.	Reporting procedures on the performance of social and environmental measures, strengthened	No (2022)	Yes (2025)
11.	Co-financing mobilised (Million UA)	0 (2022)	25 (2027)

Annex 24: Note on the impact of the conflict in Ethiopia on Djibouti

The war in Tigray that started on 4 November 2020 is a civil war between the Ethiopian federal government and the Tigray People's Liberation Front (TPLF). Initially confined to Tigray, the conflict is spreading to other parts of Ethiopia. This war has a regional dimension with the involvement of Eritrea in support of the Ethiopian federal government and gradually turns into an 'ethnic' conflict. After a five-month truce, the war between the protagonists seems to have resumed since 24 August 2022. On 2 November 2022, a "peace agreement" for a "cessation of hostilities" was signed between the federal government of Ethiopia and the Tigrayan authorities.

Djibouti is the first to suffer the collateral damage of the Ethiopian conflict, with negative repercussions on the country's socio-security and economic conditions. From a socio-security perspective, the conflict in Ethiopia has led to the displacement of people who have taken refuge in Djibouti. This additional influx of refugees will undoubtedly increase the significant burden on Djibouti regarding refugees already in the country. Furthermore, this influx will exacerbate deadly clashes between Ethiopian communities living in Djibouti and the extent of material damage suffered on both sides. A situation that threatens to deteriorate the security situation in the country.

Economically, the two economies are so interdependent. On the one hand, Djibouti imports water and a large part of its electricity needs from Ethiopia. The country also buys fresh agricultural products (cereals, fruits and vegetables) and *khat*[5] from Ethiopia. In addition, a very large part of Ethiopia's external trade transits through Djibouti's ports (goods, fuels). In 2021, this Ethiopian traffic accounted for 88.4% of overall traffic in Djibouti's ports, an important source of income for Djibouti.

[5] In Djibouti, nearly half of all men consume khat daily. In the INSTAD 2022 statistical yearbook, Djibouti imported 9063 tons of khat in 2021, valued at nearly USD 52.5 million.

Therefore, the conflict in Ethiopia has disrupted supplies to Djibouti, reducing the supply of Ethiopian products arriving on the Djibouti market and increasing the prices of fresh products[6]. Djibouti's water and electricity supplies could be affected if the conflict escalates. Such a conflict has also somewhat slowed the strong growth of Ethiopian foreign trade, due to some difficulty in the circulation of goods trucks in Ethiopia and a certain slowdown in economic activities in general[7]. As a result, this disruption on the progress of Ethiopian traffic affects Djibouti's revenue collection targets due to Ethiopia's use of Djibouti ports.

In sum, the conflict in Tigray, Ethiopia, has contributed to a slowdown in Djibouti's economic recovery in 2021 and 2022, with growth rates of 3.9% and 3.4% respectively. A continuation of this conflict would pose a serious threat to Djibouti's short- and medium-term economic prospects. It is hoped that the 'peace agreement' for a 'cessation of hostilities' signed on 2 November 2022 between the federal government of Ethiopia and the Tigrayan authorities will be the trigger for ending the conflict. What can clarify Djibouti's short- and medium-term economic prospects.

[6] Between February 2021 and February 2022, fresh produce prices have already risen by 4.4% compared to a 0.2% increase a year earlier.
[7] Ethiopia's economic growth was 5.6% in 2021 versus 6.1% in 2020.

FOOTNOTES

[1] African Development Bank. Djibouti's Key Macroeconomic Indicators.

[2] Agreed wording at the African Development Bank Group Annual Meetings 2022 in Ghana - Algeria, China, Egypt, Eswatini, Namibia, Nigeria and South Africa entered areservation and proposed "Russia-Ukraine Conflict"

[3]. The external debt to exports ratio should not exceed an average of 8% over the 2020–2030 period (IMF-2020).

[4] Link to access the 2022 Country Diagnostic Note is: Note de Diagnostic Pays 2022 de Djibouti - May 2022

[v] On the economic front, the two economies are very interdependent that any upheaval in Ethiopia, Djibouti's main trading partner, is bound to have immediate repercussions in the country. Since 90% of Ethiopian foreign trade transit through Djibouti's ports, the current conflict between Ethiopia has caused a decline in import and transit traffic in Djibouti's ports. This decline in traffic has affected Djibouti's customs revenue, 80% of which comes from Ethiopian traffic. In the other direction, products imported from Ethiopia such as cereals, fruit and vegetables cannot easily be transported to Djibouti, thereby raising consumer prices.

[vi] Djibouti's civil society is not very involved in public policy formulation, except for UNFD (National Union of Djiboutian Women), the technical arm of the Ministry of Women and Family. Freedom of the press and the right of assembly do not yet appear to be perfect in the country despite legislative progress made. According to the CIVICUS index, Djibouti was in 2020 one of the 24 most closed countries in terms of civic freedoms. The adoption of a specific regulatory framework for associations could boost civil society's active participation in the country's development process.

[vii] According to the 2020 Environmental Performance Index, Djibouti obtained a score of 28.10 out of 100, and was ranked 169th out of 189 countries, indicating a weak performance.

[viii] 49% of women asylum seekers in 2017. Source: Djibouti Country Gender Profile, 2019, AfDB — UN Women.

[ix] Developments in this section draw on the Country Diagnostic Note.

[x] Djibouti has the Djibouti Free Trade Zone (in Djibouti's port sector and financed by the Government and China), inaugurated in 2018. It claims to be Africa's biggest port. The country aims to become East Africa's industrial and commercial hub. There are no sector limitations on setting up in the zone. To benefit from Djibouti's industrialisation potential, it is necessary to train Djiboutians, improve the corridors and roads from the port to neighbouring countries and reduce the cost of factors of production such as energy, ICT, etc.

[xi] Agro-industry based on livestock products and perhaps in future on fishery products.

[xii] "Great Horn Investment Holdings" established in 2016 with fixed capital of USD 85 million and the Djibouti Sovereign Fund established in June 2020 and in ten years expected to have capital of USD 1.5 billion.

[xiii] The reduction in the minimum flat-rate tax to be paid by tourism sector businesses to 0.5% of turnover compared to 1% previously.

[xiv] The most recent debt sustainability assessment carried out by IMF in Djibouti was in May 2020. The assessment concluded that Djibouti had a high risk of debt distress. However, debt was deemed sustainable. The debt service-to-export ratio is expected to exceed 8% between 2022 and 2030. However, this situation could deteriorate due to the series of crises that have affected the country since 2020 and the suspension the debt service suspension initiative (DSSI).

[xv] Total debt service rescheduled over the 2020 and 2021 period was USD 54 million and USD 7.6 million was cancelled. However debt servicing is expected to triple in 2022 to reach almost 5% of GDP following the expiry of DSSI.

[xvi] They include the establishment of the National Public Debt Committee (CNEP), chaired by the Prime Minister; the decision to only contract soft loans and transparency by improving production practices and the dissemination of statistics (website).

[xvii] As an illustration, in the 2022 Finance Law, the Government took several measures to increase revenue in some tax categories (payroll tax, tax on professional profits, value-added tax…). The measures to streamline expenditure concern (i) the payroll (recruitment. promotion and reclassification freeze, strengthening of audits and controls, prohibition of exemptions to retirement), (ii) public procurement with priority for grouped purchases for consumption expenditure and its reduction, (iii) implementation of the public enterprise reform with effects on state transfers and subsidies to them, (v) streamlining of expenditure in official missions abroad (Embassies), (vi) reduction in the number of participants in official missions abroad, (vii) reduction in investment expenditure for priority expenditure.

[xviii] From 2018, Djibouti has factored the free zone activities into the macroeconomic aggregate calculation.

[xix] In fact, the public sector salary bonus in the public sector implies a higher opportunity cost for working in the private sector which encourages private businesses to increase their salary levels to remain competitive on the market.

[xx] These three banks are all foreign banks.

[xxi] This drop was due to the impact of the COVID-19 pandemic on bank profits in 2020.

[xxii] The primary sector only represented an average of 3.1% of GDP from 2000 to 2020. Agricultural jobs only represented 25% of total jobs (World Bank 2019).

[xxiii] According to the World Bank around 0.086% of land in Djibouti was deemed arable. https://www.worldatlas.com/articles/what-are-the-major-natural-resources-of-djibouti.html

[xxiv] WFP (World Food Programme) Country Strategic Plan, 2020–2024.

[xxv] Republic of Djibouti: CPI analysis of acute food insecurity, May 2022 – Integrated Food Security Classification Framework - MAEPE-Djibouti with FAO and WFP technical support.

[xxvi] Since 2013, The Bank has provided the country with UA 36.1 million to increase the means of livelihood in rural areas such as access to water, support for livestock and market garden crops. The BREFONS programme recently approved by the Bank will further contribute to improvements in the population's living conditions (also for women and youth), and the country's food and nutrition security. The programme aims to (i) increase on a sustainable and resilient basis agricultural, silvicultural and pastoral productivity and production, (ii) increase agricultural, silvicultural and pastoral chain revenue and (iii) build people's capacity to be better prepared and be able to manage risks and climate change variations.

[xxvii] According to the Economic Commission for Africa (CEA), the blue economy contributes 19% to national GDP and 27% to total employment. The country's marine and aquatic environment provides ecosystem services whose estimated value is USD 11 billion. UNECA – Socio-economic and ecological assessment of the blue economy in Djibouti, Preliminary report – May 2021.

[xxviii] According to the 2020 Transport Index 2020 (AfDB), Djibouti is ranked 21st out of 51 countries.

[xxix] According to Hootsuites and We are Social Digital Report 2021 data.

[xxx] Rural and urban households do not have the same opportunities for access to the internet (2% compared to 5%), mobile phone (20% compared to 80%) and to at least one NICT resource (22% compared to 80%). Similarly for female-headed households for access to the internet (20%

compared to 25% for male-headed households), to mobile telephones (67% compared to 78%), and to at least one NICT resource (68% compared to 79%). Source: Djibouti Gender Profile, 2019, AfDB — UN Women.

[xxxi] 140 mn+70sms+1,5GB for 3G or more. ICT Price trends 2020, https://www.itu.int/

[xxxii] Djibouti Institute of Statistics INSTAD. National Disability Prevalence Survey 2019.

[xxxiii] Minerals being extracted include clay, granite, limestone, marble, salt, sand and aggregates.

[xxxiv] NaCl and Li can be extracted from them.

[xxxv] Salt—historically known as "white gold" and the main mineral produced in Djibouti — is the top priority for large-scale industrial development. 155 m below sea level, Lake Assal is reported to have the most untapped reserves of salt in the world equivalent about 100 million tonnes of salt. Lake Assal is surrounded by a solid brine salt deposit containing about 340 g/l of salt which is 10 times saltier than sea water. The solid salt thickness varies up to 60 metres over a total surface area of 60 km^2. The brine pool covers a surface area of 50 km² and is 25 m deep. The reserves represent several billion tonnes and is considered as an inexhaustible source because of the brine content and the continuous flow of sea water.

[xxxvi] Djibouti's mainly exports livestock (cattle, sheep/goats and camels).

[xxxvii] World Bank. "Djibouti's Economic Update" October 2021.

[xxxviii] Results of Djibouti's fourth household survey for social indicators (EDAM4-IS), October 2018.

[xxxix] Unemployment rate for 15- to 24-year-olds: 86.2% and for 15–34-year-olds: 65.1% (EDAM4-IS, 2017).

[xl] In 2013 the country was ranked 170^{th} out of 187 countries with a score of 0.467 (CSP 2016-2020).

[xli] ANEFIP satisfies the dual requirement of capacity building and learning in a professional environment. In the previous CSP, the Bank already supported ANEFIP.

[xlii] Including the Women's Empowerment and Community Development Programme, the Women's Literacy Education Programme and the Support Programme for Girls and Women living in Precarious Situations.

[xliii] Country Gender Profile—Republic of Djibouti "Gender, Women's Empowerment and Poverty" — African Development Bank, July 2019.

[xliv] Climate change is mentioned in the Djibouti 35 Strategy and the Djibouti ICI Plan, as crosscutting aspects.

[xlv] United Nations Development Programme; World Food Programme, UNICEF, World Health Organisation, United Nations Fund for Population Activities, International Organisation for Migration, HCR, FAO, United Nations Office for Project Services, United Nations Office on Drugs and Crime, United Nations Educational, Scientific and Cultural Organization; and the Joint United Nations Programme on HIV/AIDS.

[xlvi] Despite the Bank's low allocation to Djibouti the Bank was the TFP that had invested massively early on in the country's energy sector by financing the first power interconnection with Ethiopia in 2011. Its reputation from this was the reason for so much co-financing in Bank projects in Djibouti's energy sector: geothermal drilling (WB, GEF, OFID, AFD) and the second power interconnection with Ethiopia (WB).

[xlvii] The DtP project which aims to accelerate socio-economic development through the large-scale roll out of solar technologies will be implemented using a combination of public and private sector interventions involving four Eastern Sahel Countries: Djibouti, Eritrea, Ethiopia and Sudan.