

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA21814

Project Name	Djibouti - Telecom Sector Reform (P146219)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Djibouti
Sector(s)	Telecommunications (100%)
Theme(s)	Legal institutions for a market economy (35%), Regulation and competition policy (55%), State-owned enterprise restructuring and privatization (10%)
Lending Instrument	Investment Project Financing
Project ID	P146219
Borrower(s)	Ministry of Economy and Finance
Implementing Agency	Ministry of Communication, in charge of Posts and Telecommunications
Environmental Category	C-Not Required
Date PID Prepared/Updated	03-Mar-2015
Date PID Approved/Disclosed	09-Mar-2015
Estimated Date of Appraisal Completion	27-Feb-2015
Estimated Date of Board Approval	19-May-2015
Appraisal Review Decision (from Decision Note)	<p>The Chair authorized the upgrade from pre-appraisal to appraisal subject to the team addressing the issues highlighted below:</p> <ol style="list-style-type: none"> 1. Reforms to date and Political will: The chair urged the team to clearly reflect the political will for the Government to open the sector to competition. A timeline of decisions/actions taken by the Government since the 2004 Law enactment to this day should be prepared and included in the Project Document. More information about the content of the draft 2004 Law needs to be included in the PAD. 2. Project Design: The meeting called for a simplified project design with fewer components and a sharper PDO to clearly define the project objective of bringing a second effective license in the sector. 3. Risks: The chair pressed the team to reflect the political risks related to the position of power of Djibouti Telecom and clearly explain in the PAD the composition of Djibouti Telecom's ownership, its governance model, and its current financial/political

	<p>position. The Political and Governance Risk rating is increased to HIGH.</p> <p>4. Implementation Readiness: The meeting chair asked the team to work closely with the Lawyer and Quality team to prepare an implementation readiness checklist for the project and insure that there are no effectiveness conditions. The project Preparation Advance (PPA) should be signed prior to the negotiations and should cover all implementation readiness actions such as set up of Project Implementation Unit (PIU) and preparation of the Project Operations Manual (POM).</p>
--	--

I. Project Context

Country Context

Djibouti is a small low-income country located in the Horn of Africa at the southern end of the Red Sea with limited resources, arable land, rainfall, and water. Its economy is mainly dependent on trade activities and Foreign Direct Investments (FDI). The country is internally at peace and secure and plays a neutral role in the frequently tense regional politics of the Horn of Africa. It has also strengthened relations and partnerships with other nations and these partnerships have resulted in improved external revenue flows.

Although Djibouti remains at risk of debt distress, 2014 exhibited strong signs that the economy has strengthened mostly driven by sustained revitalization of Djibouti's ports. Djibouti's ports are the foundation of the economy and their management partnerships with Dubai, resulted in a significant increase in activity, efficiency, investment and revenues. The instability in Yemen, as well as the sturdy economic activity in Ethiopia, resulted in investors' increased interest in Djibouti.

However, this economic growth has yet to be translated into job creation. Unemployment is very high among the population of about 1 million, with youth unemployment estimated to be as high as 75 percent. In a country with absolute poverty estimated at 41.9 percent, youth unemployment is a critical factor to consider especially given that 40 percent of Djibouti's population is under age 15 and only 15 percent over age 40. In addition, war and conflict devastated neighboring countries are spilling a relatively large number of refugees into Djibouti, further aggravating the economic and social situation.

To attain the objectives set in its national initiative for economic growth and poverty reduction, Djibouti has to diversify its sources of growth, reducing its dependence on ports and related services. The government of Djibouti recognizes that the telecommunications sector provides huge potential and is able to generate additional fiscal revenues for the country that could be leveraged to achieve its economic growth objectives.

Access to the internet provides a tangible opportunity to help developing countries fight poverty. It is a recognized enabler of economic activity and an engine for information sharing effectively complementing primary and basic economic activities. The Internet is an excellent engine for economic growth, job creation and social development and many studies to date evidenced that increased internet penetration leads to significant increase in GDP growth, productivity and improvements in health, education and other sectors. Affordable access to the internet and voice communications could have a transformative impact across nearly all sectors of Djibouti's economy, and enable improved service delivery and economic opportunities for the poorest citizens. Information and Communications Technologies (ICT) can further be used to deliver government services to citizens even in remote rural areas while significantly reducing the

transaction costs for both citizens and service providers. Development of the ICT industry itself can play an important role in job creation as it can be a source of both high and low skilled employment.

Sectoral and institutional Context

Djibouti is one of the three remaining African countries (along with Ethiopia and Eritrea) to have a monopoly on the entire telecommunications sector. The absence of competition explains the current sector weaknesses, inter alia: high communications and connectivity costs, lack of service diversification and limited efforts to grow the customer base and poor quality of the network.

Djibouti Telecom has focused its commercial and investment efforts on developing the international market to the detriment of the domestic market. The absence of competition on the national market provides no incentives to expand the customer base (through commercial efforts and investment in local access and domestic backbone physical infrastructure). As a result, access to telecommunications services remains extremely limited compared to other African countries.

Mobile telephone and Internet services are expensive and of poor quality. In 2013, mobile penetration rate was one of the lowest on the continent at 28 percent, and Internet usage was also low at 8.26 percent. Owing to the prohibitive cost of subscription and the low quality of services, the penetration rates of fixed broadband services (ADSL) and mobile broadband services (3G) were only of 2.2 percent and 1.6 percent respectively. According to the International Telecommunications Union (ITU), broadband penetration grows rapidly after the level of retail broadband price falls below 3-5% of average monthly income. International best practice has demonstrated that the introduction of competition is a key driver to lowering the retail price of broadband and therefore increasing penetration.

In Djibouti, the cost of access to broadband internet services via subscription is prohibitive for 60 percent of the poorest citizens. 318 percent of their disposable income for mobile broadband and 91 percent for fixed broadband. In Morocco where the sector is liberalized, the same household bracket spends 26 percent and 23 percent respectively for the same services.

Since its creation in 1998, Djibouti Télécom has developed a now internationally recognized expertise in submarine cable management. Countries in the sub-region, including Saudi Arabia, often rely on Djibouti Télécom's expertise to solve technical problems with their own cables. Djibouti Télécom has focused on the development of its international connectivity and with six submarine cables; the company manages an enormous international capacity, disproportionate to the Djibouti population (about 1 million). As an illustration early 2012, the submarine cable capacity per capita was 7,829 kbps (with only four cables) compared to 481 kbps in Egypt (thirteen cables). In addition, Djibouti Télécom has recently acquired a Point of Presence (POP) which allows to drain Internet traffic from within the sub-region, and to offer high quality of service to local Internet Service Providers (ISPs). Djibouti is currently the only country on the African continent to own a POP of that capacity. Furthermore, the country continues to build its infrastructure with two new cables coming within the next 12 months (Sea-Me-We 5 and a new Djibouti-Yemen cable), as well as a terrestrial link to the Eritrea border. The development of additional international connectivity will allow Djibouti to further enhance regional integration in the Horn of Africa. Despite this growing international connectivity, the penetration rate of telecom and ICT services in Djibouti remains extremely low. The proposed project aims at tackling this paradox and establishing sound foundations for a sustainable sector development in Djibouti both domestically and as a regional hub.

The Government of Djibouti understands the importance of a performing telecommunications sector for the economy and has launched a series of reforms aiming at transforming Djibouti into a

digital society. In 1998, the “Office of Posts and Telecommunications” was transformed with the creation of state-owned Djibouti Post, Djibouti Telecom, and the Ministry of Communication. In 2004, a new telecommunications law was passed aiming at setting the conditions for greater sector growth, attracting foreign direct investment, promoting the emergence of new sectors of activities, and helping consolidate Djibouti’s position as a regional hub. The Government requested the World Bank's support in 2012 to conduct a study on growth poles, including the ICT sector. The policy dialogue progressively led to the Project under consideration.

II. Proposed Development Objectives

The PDO is to provide support to the Government in opening up the ICT sector to competition and setting up the institutional and regulatory foundations of a sustainable open and competitive market in Djibouti.

III. Project Description

Component Name

Enabling environment for an ICT sector open to competition

Comments (optional)

The objective of this component is to strengthen the legal, regulatory and institutional framework of the ICT sector in Djibouti and prepare all necessary elements and inputs to set up a regulatory entity. Specifically this component will finance the improvement of the legal and regulatory framework, studies and up-front technical work necessary for the set-up of an autonomous regulatory entity, and capacity building for the MOC as described in the 2004 Law on telecommunications.

Component Name

Telecom sector opening and study on Djibouti Télécom strategic repositioning

Comments (optional)

This component will (i) finance a study to identify the strategic options for opening the sector to competition (this study aims at informing the Government on the key determining features of the second license and how the license design may impact sector growth in the long run), and (ii) support the tender process and the award of a second license to introduce competition and foster dynamism in the telecommunications sector in Djibouti. This component will also (iii) fund a study to identify the different options for the strategic repositioning of Djibouti Télécom with the goal of transforming it into a world-class operator (opening of Djibouti Télécom’s capital to a private investor).

Component Name

Project Management

Comments (optional)

This component will finance the establishment of the Project Implementation Unit (PIU) within the Ministry of Communication, the implementing entity as well as a part of its operational needs.

IV. Financing (in USD Million)

Total Project Cost:	2.00	Total Bank Financing:	2.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00

International Development Association (IDA)	2.00
Total	2.00

V. Implementation

The Project will be implemented according to the World Bank guidelines and through the Ministry of Communication (MOC). A Project Implementation Unit (PIU) will be created within MOC and will be responsible for the overall coordination, implementation, and supervision of the project. The project will be implemented at the General Secretary office of the MOC and the Secretary General will be the Project coordinator, assisted by a project team that will include a Project Manager, procurement specialist and FM specialist. The project implementation will rely as much as possible on existing institutional structures and staff.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

World Bank

Contact: Isabelle Huynh
 Title: Senior Operations Officer
 Tel: 473-4373
 Email: ihuynh@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Economy and Finance
 Contact: Ali Mohamed Ali
 Title: Director of External Financing
 Tel: 25321358135
 Email: Email: aligadileh@yahoo.fr

Implementing Agencies

Name: Ministry of Communication, in charge of Posts and Telecommunications
 Contact: Ali Hassan Bahdon
 Title: Ministre
 Tel: 253356501

Email: mccpt@intnet.dj

VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>

Public Disclosure Copy

Public Disclosure Copy