

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2258

Project Name	Djibouti - Telecom Sector Opening (P146219)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Djibouti
Sector(s)	Information technology (20%), Telecommunications (80%)
Theme(s)	Regulation and competition policy (100%)
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	01-Apr-2014
Date PID Approved/ Disclosed	02-Apr-2014
Estimated Date of Appraisal Completion	26-Sep-2014
Estimated Date of Board Approval	16-Dec-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and 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 high risk of debt distress, 2012 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. Its management partnerships with Dubai, as well as the administration of customs and Djibouti Airport operations, resulted in a significant increase in activity, efficiency, investment and revenues in Djibouti's ports. 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 not created sufficient jobs to reduce the level of poverty. Unemployment is very high among the population of about 865,000 (2011) with youth unemployment estimated to be above 70 percent. In a country with extreme poverty estimated at 41.9 percent, youth unemployment is a critical factor to consider. Especially given that nearly 40 percent of Djibouti's population is under age 15. In addition, war and conflicts, devastating 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 "Vision 2035", Djibouti has to diversify its sources of growth, reducing its dependence on ports and related services. The Government of Djibouti recognizes that telecommunications sector provides huge potential, able to generate additional fiscal revenues for Djibouti. In a context where the country fiscal deficit is growing (i.e. with an increase from 2.7 percent to 3.1 percent of GDP between 2012 and 2013) these additional revenues could be leveraged to achieve its economic growth objectives. Indeed, increased access to telecommunications services would benefit the economy as whole, empowering entrepreneurs and local traders to expand their business and to facilitate trade regionally. Evidence shows that information and communications technologies (ICT) can further be used to deliver services to people even in remote rural areas, such as education, health and government services, significantly reducing the transaction costs for both citizens and service providers. While it is increasingly acknowledged that ICT is an enabler for various sectors, the ICT sector itself could generate modern and salaried jobs for Djibouti's youth.

Sectoral and Institutional Context

Djibouti is one of the three remaining African countries (along with Ethiopia and Eritrea) to have a complete monopoly of the entire telecommunications sector. Despite positive trends, access to telecommunications services remains extremely limited compared to other African countries. Mobile telephone and Internet services are expensive and of poor quality. In 2012, mobile penetration rate remained limited at 20 percent and internet usage is around 6 percent. Only 3 percent of Djiboutian households have Internet access at home, owing to the prohibitive cost of subscription. "According to the ITU, broadband penetration grows rapidly after the level of retail broadband price falls below 3-5% of average monthly income". In Djibouti, fixed and mobile broadband prices represent 22.09% and 77.15% respectively, of the GNI per capita per month.

The deficiencies in the telecommunications sector are a major obstacle to Djibouti's competitiveness, and cheaper and higher-quality services are necessary to (i) promote the emergence of new sectors of activity, (ii) solidify its position as a regional hub, and (iii) further attract foreign investors. Paradoxically, Djibouti has a powerful but largely underutilized infrastructure of undersea cables. In order to promote the development of the sector and improve its performance, the government is ready to take actions and has requested Bank's support in 2012. Government re-shuffle of April 2013 resulted in appointment of a new Minister of Communications and new Head of Djibouti Télécom. Both re-engaged with the Bank in a sector dialogue, aimed at launching profound sector reforms. The partial privatization of Djibouti Télécom (through opening of its capital to a world-class operator) and liberalization of the mobile and internet markets (through the introduction of a second mobile license) are considered. Regarding the second license, the new mobile operator will need to be facilities based in order to have the expected results (an MVNO would not bring the market growth expected under the project).

From a regulatory point of view, the 2004 Telecom Law stipulates the creation of an autonomous regulatory entity. However, the regulator has never been established, and the regulatory function currently falls under the Ministry of Communication. Some of the key duties such as spectrum management and monitoring, and QoS monitoring are currently carried out by Djibouti Télécom, which concentrates most of the technical capacity in the sector. Component 1 of the proposed project will address this key issue by supporting the establishment of an autonomous regulator, building its institutional and technical capacity, at the earliest stage of the project implementation. The establishment of an autonomous regulatory body was a major request made during the last World Bank mission (January, 2014) by the Minister of Telecom who wants to align its strategy with the best international practices.

For the past 20 years, 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. Since 1994, Djibouti Télécom has focused on the development of its international connectivity. With six submarine cables operational now, Djibouti Télécom manages an enormous international capacity, disproportionate to the Djibouti population. As an illustration, early 2012, the submarine cable capacity per capita was 7829 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) from the international provider Level 3. This allows Djibouti to drain most of the Internet traffic in the sub-region, and to propose high quality of service to ISPs operating there. Djibouti is now the only country on the African continent to own a POP of that capacity. Furthermore, Djibouti continues its infrastructure development with 2 new cables coming within the next 12 months (Sea-Me-We 5 and a new Djibouti-Yemen cable), and a terrestrial link to the Eritrea border. The Government of Djibouti is looking for donors to help finance these links (the French Development Agency has already indicated that they would be ready to finance the connection to Sea-Me-We 5 submarine cable). The development of additional international connectivity will allow Djibouti to further enhance regional integration in the Horn of Africa. However, despite this growing international connectivity, the penetration rate of telecom and ICT services in Djibouti remains extremely low. As a matter of fact, Djibouti has one of the lowest household penetration rates for mobile and fixed broadband in the MENA region (with respectively 6 percent and 3 percent compared to 58.6 percent and 14.5 percent in Egypt, for example).

With the high unemployment rate, the development of job opportunities is a key priority for the government. The development of Business Process Outsourcing (BPO) activities, like call centers for instance, would provide new opportunities to young graduates who bring language skills (most of them are bilingual in French and Arabic). The development of BPO and the associated IT-enabled industry would make use of the international capacity developed by Djibouti Télécom, and would create many jobs opportunities in Djibouti. International experience shows that a call center could create between 700 and 1000 jobs immediately and up to 5,000 jobs over five years. A number of studies and scenario analysis, underpinning the rationale for this project, have been funded by the PPIAF grant facility. All the figures and assumptions presented in this document are derived from that body of economic work. A BPO component has been discussed at length during a series of missions to Djibouti over the last two years, but it was agreed that such component could possibly be part of a second phase of the project.

Relationship to CAS

The new CPS (2014-2017) supports the government's strategy in the telecom and ICT sector. The proposed project will directly contribute to the CPS Outcome 2.2 "Improved access to quality

broadband services at a reduced price” by improving the performances of Djibouti Télécom and increasing the level of competition in the mobile phone and internet sectors.

The Bank will support the restructuring and strategic repositioning of Djibouti Télécom by opening Djibouti Télécom’s capital to a world class private operator. To increase competition, the Bank will help the government manage the complex process of defining and selling a new license to an international operator. This new license will bring healthy competition to the mobile and Internet sectors, improving the quality of service, and eventually increasing the penetration rate to a 70 percent target. In addition, the arrival of a second operator is expected to create about 250 jobs directly and more than 500 jobs indirectly, not counting the short-term employment opportunities created by the development of the second operator’s infrastructure across the country. For the past two years, Djibouti Télécom has been trying to encourage the creation of small and medium enterprises (SMEs) in the sector, but the sole operator has not generated enough demand for these start-ups: competitive environment stimulates investment and market growth, fostering the development of SMEs in the sector.

These project activities are fully aligned with the new CPS and the Djibouti government priorities.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The PDO is to create an enabling environment in the telecom and ICT sector by: (i) strengthening the policy, legal and regulatory framework of the telecom and ICT sector; (ii) restructuring Djibouti Télécom, through the opening of its capital to a world class private operator; and (iii) opening the sector to competition, through the award of a new license to an international telecom operator.

Key Results (From PCN)

- Adoption of a strategic 5-years Sector Policy;
- Revision of the 2004 Telecom Law and its enforcement mechanisms (i.e. application decrees);
- Creation of an autonomous regulatory authority;
- Creation of at least 250 jobs directly, and more than 500 indirectly;
- Increase access to internet services.

III. Preliminary Description

Concept Description

The proposed project has four components that are described below:

Component 1: Setting-up of an enabling environment (\$US 0.5 million). This component will finance the improvement of the legal and regulatory framework and the set-up of an autonomous regulatory entity.

Component 2: Strategic repositioning and restructuring of Djibouti Télécom (\$US 0.7 million). This component will fund the strategic repositioning of Djibouti Télécom to transform it into a world-class operator (opening of Djibouti Télécom’s capital to a private investor). More specifically, this component will fund the transaction advisor that will assist the government during the transaction.

Component 3: Telecom sector opening and feasibility studies for infrastructure development (\$US 0.5 million). This component comprises two activities: (i) the award of a second license to introduce competition and foster dynamism in the telecom sector in Djibouti; and (ii) financing of technical studies for the construction and management of the telecom infrastructure, through a PPP arrangement.

Component 4: Project Management (\$US 0.3 million). This component will finance the establishment of the project implementation unit within the Ministry of Telecom, the implementing agency.

IV. Safeguard Policies that might apply

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

V. Financing (in USD Million)

Total Project Cost:	2.00	Total Bank Financing:	2.00
Financing Gap:	0.00		
Financing Source		Amount	
BORROWER/RECIPIENT		0.00	
International Development Association (IDA)		2.00	
Total		2.00	

VI. Contact point

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