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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-Oct-2023 | Report No: PIDA0065



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies) Djibouti	Region MIDDLE EAST AND NORTH AFRICA	Operation ID P178836	Operation Name Djibouti Agri-Food Value Chain Development Project
Financing Instrument Investment Project Financing (IPF)	Estimated Appraisal Date 12-Oct-2023	Estimated Approval Date 14-Dec-2023	Practice Area (Lead) Agriculture and Food
Borrower(s) Ministry of Economy and Finance	Implementing Agency Ministry of Agriculture, Water, Fisheries, Livestock, in charge of Halieutic Ressources		

Proposed Development Objective(s)

The project development objective is to improve competitiveness and resilience of selected agri-food value chains in the territorial areas targeted by the project.

Components

- Public infrastructure and services for agri-food value chain development
- Support to agrifood investment and access to financing
- Project management
- Contingent Emergency Response Component

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Operation Cost	18.49
Total Financing	18.49
of which IBRD/IDA	15.00



Financing Gap	0.00
DETAILS	
World Bank Group Financing	
International Development Association (IDA)	15.00
IDA Credit	15.00
Non-World Bank Group Financing	
Counterpart Funding	1.49
National Government	1.49
Commercial Financing	2.00
Unguaranteed Commercial Financing	2.00
Environmental And Social Risk Classification	
Moderate	
Decision	
The review did authorize the team to appraise and negotiate	

B. Introduction and Context

Country Context

1. **Djibouti is a lower middle income¹ and a highly urbanized country; its economy depends on its strategic geopolitical situation in the Horn of Africa (HoA) at the crossroads of continents;² it is essentially based on its port activity and the existence of foreign military bases.** Djibouti’s Gross Domestic Product (GDP) per capita is US\$ 3180 (2023) which places the country in the lower middle-income group. Close to 80 percent of the population lives in Djibouti City and small urban centers. Djibouti’s port infrastructure serves as a transit facility for Ethiopian imports and exports; and the military bases³ pay fees to use its territory for military activities. Prior to the COVID 19 pandemic, Djibouti’s economic performance was strong.

2. **In recent years, Djibouti’s economy has been hit by adverse external shocks, but it is expected to recover gradually over the medium term.** Logistical tensions associated with the war in Ukraine combined with soaring global prices, a severe drought in the HoA and sluggish Ethiopian demand, slowed GDP growth to 3.6 percent in 2022, down from 4.8 percent in 2021. Despite these shocks, the domestic demand remains sustained, as evidenced by continued double digit increases in energy consumption, construction activities and imports. Over the medium term the economy is

¹ See <https://www.macrotrends.net/>

² Djibouti has a land mass of 23,200 square kilometers and a population estimated at about 990,000 (2022).

³ Military bases from France, Italy, the United States, Japan, China, and the North Atlantic Treaty Organization (NATO), as well as for other countries with forces supporting global anti-piracy efforts.



expected to recover driven by the structural reforms to be undertaken as part of the National Development Plan (NDP), Djibouti's Inclusions, Connectivity, Institutions (*Inclusions, Connectivité, Institutions*, ICI) program, public and private investment programs (including the development of the Damerjog Industrial Park Project), and a rebound in the Ethiopian demand of transport and logistics services following the peace agreement signed in November 2022 between the Tigray rebels and the Ethiopian federal government. GDP growth is therefore projected to accelerate to 4.7 percent in 2023 and to 6 percent in 2024.

3. **Djibouti's development has not been equitable with a large fraction of the population remaining below the poverty level; rural areas have lagged behind and displayed high poverty rates.** Poverty affects about 23 percent of Djiboutians⁴ and is more pronounced among rural populations. In 2019, 17 percent of the population lived in extreme poverty, with less than US\$1.90 per day⁵. Although inequality has been on a decreasing trend, it remains high, underscoring the fact that growth has not been inclusive. The regional distribution shows that extreme poverty is much lower in Djibouti city vs. the rest of the country due to marked differences in welfare status. The extreme poverty in the regions show rates more than three times as high (45.0 percent) as Djibouti city (13.6 percent)⁶. This is accounted by the fact that since Independence development policies have focused on urban areas, mainly Djibouti city despite the fact that the rural population still represents 22 percent of the entire population (2022)⁷.

Sectoral and Institutional Context

4. **The agriculture sector has grown slowly but steadily in past years; potential sources exist that can boost sector growth.** The sector grew significantly (37 percent increase over the period 2013-21⁸) from a low base, spurred in part by existing economic opportunities for local agri-food products on the domestic market. Indeed, with the emergence of a middle class in Djibouti city, market opportunities domestic demand is expanding, with the market currently supplied almost completely by imports. Hence, the primary challenge for the national agri-food sector is to further develop production levels to take advantage of the market demand in Djibouti city, competing with imports from Ethiopia. Tapping the agri-food potential can be achieved through more efficient and climate sensitive production technologies and integration into more profitable marketing channels linked to Djibouti-city and secondary city markets. The potential for increased production certainly exist: (i) for crop production, out of a potentially cultivable area of 120,000 ha, including 10,000 ha irrigable along the riverbeds (*wadis*), currently only 1,300 ha are being cultivated; hence, there is ample room to expand irrigated areas by mobilizing surface and underground water resources, particularly through efficient climate smart irrigation techniques; and (ii) similarly, the livestock income-generating value chain is still under-developed; yet, the country has strong know how in this value chain that offer interesting development opportunities. Climate change negatively impacts already scarce water resources, which is particularly critical for farmers who depend on rainwater for crops and animals.

5. **Capturing agri-food opportunities requires a quantum jump in competitiveness and innovation building upon new climate smart and digital technologies, with a focus on emerging growth poles.** Agriculture production conditions in Djibouti are difficult: the scarcity of surface water, linked to limited precipitation (200 mm yearly on average), rocky terrain, high temperatures and reduced area of fertile soils, combine to make it a challenge to tap Djibouti's crop and livestock development potential. The government is promoting a new rural development paradigm that takes these

⁴ *Macro Poverty Outlook for Djibouti: April 2023*, Macro Poverty Outlook (MPO) Washington, D.C.: World Bank Group.

⁵ *Challenges to Inclusive Growth: a Poverty and Equity assessment of Djibouti*, World Bank, March 2019.

⁶ Djibouti's Statistics Office: data from the Nationally representative Multi-Topic Household Consumption Survey completed in December 2017 (EDAM-IS 2017); reported by the WBG Poverty and Equity department.

⁷ Rural population was close to 50 percent in the 1950s; it decreased dramatically thereafter to about 25 percent in the 1980s; it is now about 22 percent: UN Population Division, *Urbanization Prospects (2022)*

⁸ World Bank National Account Data: Value added for Agriculture, Forestry and Fishing 2013-2021; GDP grew from DJF 1157 million in 2013 to DJF 1587 million in 2021 (37 percent increase) Central Bank of Djibouti, reported by Tradingeconomics.com



conditions into account and aims to concentrate investments in rural areas of higher economic potential to maximize the impact of scarce resources and to attract private investments. The new paradigm therefore focuses on strategic investments to create an enabling environment for viable private sector activities centered around economic development poles. The attendant strategy includes ensuring the provision of basic infrastructure and social services that will serve private sector operators, including specific support regarding the organization of producers and value chains.

6. **The development of agri-food value chains requires establishing basic public infrastructure and services which are currently lacking; this should be better aligned with areas of growth potential.** Rural areas lack basic public infrastructure and services for agri-food sector development. These infrastructures and services relate to the need to procure water (e.g., boreholes and wells), as well as to ensure connectivity to access energy and markets; they also relate to civil works to clear arable land from rocks due to the past volcanic activity that prevent proper soil tilling. Following the priorities outlined in an assessment for Djibouti's Rural Sector⁹ prepared with support from the Bank, the establishment of public infrastructure should prioritize areas that have growth potential as they can serve as growth poles, and in turn generate beneficial spillovers to surrounding areas. This involves a shift in the current approach for the planning of public services and a focus on the provision of public services in areas with economic growth opportunities in each of the regions. Growth poles would be considered areas where agri-food development is possible based on arable soil and water availability (surface and underground) as identified based on appropriate agro-pedological and water sources analyses, and with adequate access to markets (e.g., good rural roads).

7. **The country lacks adequate adaptation and promotion programs to transfer the latest innovative solutions and technologies from more advanced countries and mobilize its agri-food potential.** The agri-food sector needs to make a technological leap forward to address the adverse production constraints that characterize the sector and support its adaptation to climate change. To facilitate the required technological advances in the sector, a necessary starting point would be consolidating the scientific, technical, and economic bases of production under Djiboutian conditions (including quality standards), having technical and economic references validated in the Djiboutian context, as well as model plans for profitable investments and guides of good practices. Faced with climate change and other adverse circumstances for agriculture production (limited availability of land and water, some saline soils, rocky terrain and extreme temperature conditions, etc.), Djibouti should strengthen its applied research and development on the agricultural production technologies most suited to national conditions, including the validation of technical protocols and climate-smart practices. Additionally, the GoD should ensure the promotion of this knowledge among the various audiences for whom it is intended (producers, processors, major investors) through efforts to: (i) sensitize target stakeholders regarding new farming techniques and organization, etc.; (ii) inform producers about market demand and economic opportunities, etc.; and (iii) disseminate successful in country and external experiences.

8. **Djibouti's agri-food producers are yet to be organized; and the country lacks a well suited legal and regulatory framework for the sector.** There are about 2080 agricultural farming units in Djibouti which cultivate about 1,620 ha and produce about 2,900 tons of products yearly (2020/21, INSTAD). Some producers are organized into cooperatives (a total of 49 in the country); but they are yet to be brought together into modern agricultural value chains. This is explained by the fact that the regulatory framework for the socio-economic organization of the sector is not yet established into well delineated professional organizations by branches of activity (production, marketing, transport, distribution, etc.). The regulatory framework also needs to be revised for the formal access to agricultural land. The issuance of titles and authorizations to cultivate land in rural areas is protracted and cumbersome; the process to get permits, should be streamlined to facilitate investors' activities as they plan to put farmland into production. It is clear that a strengthened legal and regulatory framework for the sector will facilitate the activities of agri-food producers, processors and investors. For instance, standardization and labeling efforts are still nascent in the sector. To better promote Djiboutian products, the country should strengthen technical, sanitary/ phytosanitary and commercial standards, mainstream climate change

⁹ World Bank (2021): *Approches innovantes pour promouvoir l'inclusion économique et la résilience des populations rurales de Djibouti*.



considerations in regulations, and engage in a policy stressing quality certification (organic, halal, kosher, environmental labels, etc.) and the Djiboutian origin of products.

9. **Rural entrepreneurs face difficulties in accessing commercial funding.** The financial inclusion of entrepreneurs is a sine qua non to promoting agri-food investment in the agri-food sector. In this regard, facilitating investment operations in the sector will require improving access to finance. At present, 72 percent of Djiboutian households have no access to banking services and this situation is even more pronounced in rural areas, where self-financing capacities are also very limited. Although savings banks, commercial banks and Islamic finance institutions are represented in the regions, the agricultural sector is generally considered to be risky and the rural population lack the guarantees necessary to access loans. Commercial banks are interested in getting engaged in the agri-food sector, yet lack the necessary knowledge of the sector.¹⁰ To build on this interest it is necessary to support a shift towards bankable investments vetted by commercial banks.

10. **Djibouti's adaptation to the changing climate is of paramount importance.** Djibouti is one of the driest countries in the world and highly vulnerable to climate change. In 2021, the average temperature recorded in Djibouti reached its highest value since 1981, with an increase of about +3.7°C compared to the values recorded during the 1981-2021 period. Monthly average temperature is expected to increase 1.9°C by the 2050s and by as much as 5.4°C by the end of the century. Djibouti has experienced exceptionally low rainfall over the past years. In addition, climate change is expected to result in future temperature rises, increased aridity, decreased rainfall, and sea level rise.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The project development objective is to improve the competitiveness and resilience of selected agri-food value chains in the territorial areas targeted by the project.

Key Results

11. Project progress towards achieving the PDO would be measured by the following indicators: (i) increase in sales of agri-food entrepreneurs in the targeted value chains as a result of project support; and (ii) client/farmers adopting climate smart agriculture technologies/practices as a result of Project support; (iii) client farmers reached with agricultural assets or services. In addition, progress in attaining the PDO would be gauged by measuring the number of direct beneficiaries expressing satisfaction with the Project (as part of the project's citizen's engagement); it would be further assessed through intermediate results directly linked to the above outcomes, such as the area equipped with public infrastructures developed/rehabilitated for agri-food investment, investments generated by the private sector in climate informed agri-food businesses, and number of sub-projects financed by the project, and their state of implementation.

D. Project Description

12. The project would have the twin objectives of (i) providing public goods and services to support agri-food development, through a rural infrastructure program (boreholes, land clearing and access roads) focusing on growth poles that have potential for agri-food development, the establishment of an adequate policy and regulatory framework, and the generation and diffusion of innovation; and (ii) supporting private agri-food initiatives through assistance in formulating business plans, access to commercial financing, and provision of residual funding. Under (ii) the project would cater to the needs of financially viable agri-food investment initiatives, include initiatives undertaken by both individual producers and Producer Organizations (POs). In selecting investors' proposals, the emphasis will be placed on their

¹⁰ Exchanges with commercial banks during project preparation showed a strong interest of providing finance for the agri-food sector, following their expansion over the national territory.



capacity to address the constraints of agriculture activities in Djibouti, especially their contribution to climate change adaptation or mitigation.

13. The project would be structured in two technical components, a project management component, and a Contingent Emergency Response component (CERC), formulated as follows: (i) Component 1: Public infrastructure and services for agri-food value chain development; (ii) Component 2: Support to agri-food investment and access to financing; (iii) Component 3: Project Management; and (iv) Component 4: CERC. The two components would be related to the extent that the public goods and services under Component 1 would be focused on and serve the needs specifically of the agri-food sub-projects supported under Component 2. The project would also serve the government strategy to promote agricultural development poles as part of the public investment program under Component 1.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

14. **The project is assessed to have a moderate overall environmental and social risk.** The environmental risk is moderate due to the scale and nature of the planned activities. The project will finance civil works to improve basic rural infrastructure, which could have negative impacts on the environment and local communities, such as dust, noise, and solid waste generation. There is also a risk of soil erosion, groundwater pollution, and overuse of water resources. The social risk is also moderate. The potential risk and impact include generic risk associated with the civil work labor recruitment selection, failure to comply with labor standards working condition in particular the risks associated with the exploitation of agricultural labor, in particular migrant and child labor through the component 2, capture elite of the project’s benefit, non-respect of criteria selection for component 2. Other potential risks are the exclusion of vulnerable groups such as the women, refugees, particularly those poorly educated in remote location with geographical constraint. The Sexual Exploitation and Abuse and Sexual Harassment (SEA/SH) risks have been screened and assessed as moderate.

15. In order to manage these risks, the MAEPH-RH will prepare an Environmental and Social Management Framework (ESMF). The ESMF will apply to all project activities, and will outline: (i) the procedures to select and assess the environmental and social (E&S) risks of the civil works to be financed or the subprojects to be financed under Components 1 and 2; (ii) the E&S mitigation measures, such as the preparation of checklist or Environmental and Social Management Plan (ESMPs); (iii) a list of generic E&S clauses to be included in the bidding documents; (iv) an E&S supervision checklist; (v) an exclusion list that will include activities that lead to substantial impacts to critical habitats, biodiversity or ecosystems, subprojects that require land acquisition, or lead to restriction of land access and use and trades for which environmental and social risks are difficult to manage, such as tanneries; a due diligence to assess the risks of child and forced labor; (vi) the Code of Conduct for all direct project workers; (vii) the grievance mechanism; (vi) feedback from consultations; and an (vii) an Integrated Pest Management Plan (IPMP). The IPMP will include preventative actions and mitigation measures for impacts associated with the use of agricultural chemical inputs and pest management and control.

16. The project will ensure that consultancies, studies, capacity building, training and any other TA activities are carried out in accordance with the relevant requirements of the ESF as per Operations Environmental and Social Review



Committee (OESRC) Advisory Note on TA. Any outputs from the TA activities, including, any E&S assessments, shall also be consistent with the ESF. These requirements will be captured in the Environmental and Social Commitment Plan (ESCP) as well as requirements to be build the capacity of the regional institutions on the ESF. The Environmental and Social Commitment Plan (ESCP) will outline the measures and actions that the borrower will be required to undertake to ensure compliance throughout the project life cycle.

E. Implementation

Institutional and Implementation Arrangements

17. **The project is to be implemented by the MAEPE-RH.** This Ministry has already implemented various Bank-supported operations, such as PROLUC (P173702) and PRODERMO (P117355). Project implementation will be vested with a PIU located at the MAEPE-RH. The PIU will also act as a center of excellence to assist other government services in delivering their public mandate in the agri-food sector, notably as regards planning, applied research and extension. Collaboration will be established with other relevant ministries, in particular the MEFI, MFF, MdD. In addition, the project will implement certain activities with the support and/ or in close liaison with the national entities in charge of entrepreneurship and support to private investment, notably CLE, ANPI and the CCD.

18. The project institutional and implementation arrangements will be organized along a three-tiered structure: (i) a Project implementation Unit (PIU), Project Steering Committee (PSC) and a Sub-Project Selection Committee (SPSC).

19. **Project Implementation Unit (PIU).** It would report to the Secretary General of the Ministry. The PIU will be responsible for the day-to-day project management. The PIU will be headed by a Project Coordinator who will be responsible for providing guidance and overseeing the overall project management.

20. **Project Steering Committee (PSC).** The PSC will provide strategic guidance for project implementation, and particularly approve the AWPB. It will be chaired by the MAEPE-RH Minister. The PSC membership will comprise all the ministries and public and private institutions involved in project activities, which includes the MEFI, MAEPE-RH, PIU, MFF, MdD, ANPI, CLE, MdE, CCD, Banking Association, etc. It will be organized twice a year and whenever a special meeting will be convened at the request of MAEPE-RH or the other members. The PIU will provide secretarial assistance to the PSC.

21. **Sub-Project Selection Committee (SPSC).** The SPSC will vet and approve sub-projects under Component 2. It will be chaired by the MEFI Minister. The selection committee will be constituted of all project stakeholders including CLE, ANPI and CCD that are the institutions involved in private sector development in Djibouti. The PIU will take responsibility for the secretariat of the committee under an adequate agreement for that purpose. These institutions will assist the PIU for the management of Component 2, including the recruitment of the consulting firm responsible for providing support to investors. They will contribute their knowledge and experience for the identification of eligible investors, pre-selection of investment sub-projects (SPs), preparation of related bankable business plans, submission of the SPs to the Selection Committee of the Capital Endowment Contribution; while the MAEPE-RH will contribute its expertise in the agri-food sector

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APPROVAL

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