



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 19-Apr-2018 | Report No: PIDISDSA24387



BASIC INFORMATION

A. Basic Project Data

Country Djibouti	Project ID P165558	Project Name Djibouti Support for Women and Youth Entrepreneurship	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 25-Apr-2018	Estimated Board Date 08-Jun-2018	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Djibouti - Ministry of Economy and Finance, in Charge of Industry	Implementing Agency Centre d'Entrepreneuriat et Leadership	

Proposed Development Objective(s)

The project’s development objective is to improve economic opportunities for targeted entrepreneurs.

Components

Awakening and Activation phase – Building capacity of women and young entrepreneurs
Dynamization and Stimulation phase – Improving access to services, finance, and competitive value chains for women and young entrepreneurs
Support for Project Implementation and Monitoring

Financing (in USD Million)

SUMMARY

Total Project Cost	15.00
Total Financing	15.00
Financing Gap	0.00

DETAILS



Total World Bank Group Financing	15.00
World Bank Lending	15.00

Environmental Assessment Category

C - Not Required

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

- Djibouti is a small low-income country in a strategically important geopolitical location in the Horn of Africa.** Historically, Djibouti has been a gateway to East Africa, a maritime cross-road for trade, and a refueling and transshipment center. In addition, Djibouti’s strategic location close to major maritime transportation routes, conflict areas in the Middle East, and piracy activity zones, coupled with its relative political stability, has made it an important location for foreign military bases. As a result, its economy has long relied on port services, logistics, and rents from military bases.
- Djibouti maintained a rapid a steady per capita GDP growth in the last sixteen years by exploiting its main asset and source of competitive advantage: its geography.** According to the World Development Indicators (WDI), per capita GDP increased by 3.1 percent on average per annum between 2001 and 2017, with an acceleration to 4.6 percent per year in 2014-2017 as a result of the scaling up of the transport and logistic infrastructures. Extreme poverty was cut by half from 42 percent in 2002 to an estimated 21 percent in 2017¹, placing Djibouti among the developing countries that may have reached the first Millennium Development Goal (MDG-1). This also put the country on a good track to eradicate extreme poverty by 2030. In Djibouti City², extreme poverty declined even faster, falling from 35 percent in 2002 to an estimated 14 percent in 2017. This impressive and sustained growth and poverty reduction was a clear break with the poor economic and social performance in the decade that preceded it (1991-2000³) where per capita GDP contracted by 4.1 percent on average per year.
- However, the growth elasticity of poverty⁴ seems to have declined in the last four years.** Despite the accelerated growth in 2014-2017, a large part of Djibouti’s population does not benefit from or

1 Preliminary results from the fourth Djiboutian household survey (2017) and results from the second Djiboutian household survey (2002), though not exactly comparable.

2 Preliminary data shows also significant poverty reduction in the South (Arta, Ali Sabieh and Dikhil, all situated on railways line and main road to Ethiopia).

3 Part of the period was marked with civil war which lasted from 1991 to 1994, resulting in thousands of fatalities.

4 Growth elasticity of poverty (GEP) is the percentage reduction in poverty rates associated with a percentage change in mean (per capita) income



contribute to it. While some areas of Djibouti Ville with business activities have benefited from infrastructure upgrading, large surroundings and rural regions are still hampered by a lack of access to basic services. The overall unemployment/underemployment rate⁵ was estimated by the authorities' survey of employment, the informal sector, and household consumption at 39 percent in 2015. The young population—75 percent are younger than 35— seems to suffer as their unemployment is much higher than the overall unemployment rate (76 percent). In addition, gender inequality in the labor market remains substantial, with only 29 percent of women aged 15 to 64 active in the labor market and only 54 percent of women with at least three years of university studies in the labor market (compared to 76 percent of men).⁶ Disparities are very large between male and female participation rates, with women characterized by substantially lower participation rates.⁷ It is higher among women (49 percent) than men (34 percent), and in rural areas (59 percent) than in urban areas (37 percent).

4. **The fiscal and current account deficits increased significantly but temporarily before declining in 2017.** With the implementation of externally financed large infrastructure projects (ports, railways, water pipes, etc.) fiscal and current account deficits increased to 16.8 and 17.1 percent of GDP in 2014-2017, up from 2.1 and 9.5 percent of GDP in 2000-2013. As a result, the external public debt soared to 90 percent of GDP in 2016. With the phasing out of the large infrastructure project, deficits declined significantly with the budget showing even a small surplus of 0.2 percent of GDP in 2017. However, the decline in the current account deficit was smaller (14.4 percent of GDP in 2017) as the effects of the projects on exports of services takes more time. The currency board's coverage remains comfortable, with the ratio of reserves-to base money estimated at 107 percent in 2017 while official international reserves reached 5.6 months of imports. The inflation rate stood at 0.6 percent in 2017, as prices of nontradable goods and services remained flat. The currency board arrangement has helped instill confidence and improve predictability in international transactions.

Sectoral and Institutional Context

5. **Djibouti faces sectoral challenges that constrain inclusive growth, notably an under developed private sector.** The oversized public sector cannot generate enough jobs for new entrants. The public sector provides 60 percent of jobs, with the private sector at 30 percent (10 in the formal and 20 percent in the informal sector) and the remaining 10 percent are self-employed.⁸ Economic growth in the past few years has been driven by capital-intensive investment in the ports and related activities, with limited trickle-down effects. Many of the jobs created have been taken by expatriates, because of a low domestic skills base.
6. **To stimulate private sector development, the authorities have taken concrete steps to improve the business climate.** Based on the World Bank's annual Doing Business (DB) indicators, Djibouti was ranked 154 out of 190 countries in 2018 (from 171 in 2017). With the creation of the One-Stop Shop, entrepreneurs can create a new business in as little as 3 working days. The authorities adopted a

⁵ In the national definition, an unemployed is a person of 15 to 64 years of age, who has not worked for 7 days, is available to work, and has been looking for a job during for at least 30 days

⁶ IMF Working Paper No. 17/270

⁷ Ibid.

⁸ Djibouti Department of Statistics and Demographic Studies (DISED), 2016, (EDESIC 2015–16) ; Situation de l'emploi à Djibouti en 2015.



commercial code, which also broadens the range of movable assets that can be used as collateral. In April 2018, Parliament adopted 6 more laws, including reductions in the cost to register a business, a new civil code (the first since the country became independent), and amendments to the fiscal code to reduce costs to start a business and register property.

7. **Despite these improvements, however, the financial sector still does not effectively support economic growth and job creation.** Djibouti has low levels of banked population, microcredit, and market diversification. Between 2005 - 2015, despite an increase in credit to the private sector as a percentage of GDP from 20 to almost 30 percent, the number of jobs created was very modest.⁹ Informal enterprises (mostly individuals) represent about 60 percent of the Djiboutian economy and are mainly in commerce, import-export, construction and small miscellaneous services.
8. **Banks have a high perception of risk to lend to MSMEs, which limits their ability to access finance.** The gap is substantial between average lending and deposit rates, which are respectively 13 percent and 3 percent. Considering the low levels of inflation and cost of funds, this cost of credit substantially reflects banks' risk premium. Banks apply high lending rates and/or require substantial collateral owing to the significant risk of default associated with SMEs because of information asymmetry, lack of credit histories, and the absence of reliable financial statements. Collateral (immovable assets) is required for 84 percent of loans in Djibouti, and banks require, on average, 228 percent of the loan application amount in collateral (compared to 190 percent for MENA and 179 percent for Sub-Saharan Africa). Banks also require a 2 percent fee for the registration of mortgage loans as collateral, and another 2 percent fee for its release.¹⁰
9. **Young people – many of whom could be potential entrepreneurs and employees of MSMEs - are particularly vulnerable to being excluded from the formal financial system and participating in the private sector as they lack the appropriate education and skills to respond to the needs of the labor market.** While access to primary and secondary education has improved considerably over the past decade, dropouts after primary school remain high with low literacy rates, especially in rural areas. Most youth do not partake in the formal economy and unemployment is likely above 70 percent for young people under the age of 30. Despite the labor market's increasing need for people able to speak various languages, especially English, the supply of and quality of current vocational training opportunities is not keeping up with increasing demands.
10. **Women are also at a disadvantage in terms of education and skills to access economic opportunities and face difficulties launching formal enterprises.** Female literacy stands at about 39.5 percent (compared to 60.1 percent for men), and drops to 22 percent outside the capital city.¹¹ While women represent 39% of the active population in Djibouti, women typically run small and informal firms in lower value-added sectors, which offer smaller returns to creditors, thus impeding their access to finance.¹² Some small-scale support programs, life skills training and entrepreneurship skills seem to

⁹ World Bank Rapid Financial Sector Assessment – Mission Aide-Memoire, December 2017

¹⁰ IMF Country Report, Djibouti Selected Issues Paper, No.16/249, July 2016

¹¹ World Bank Report No: 94503-DJ

¹² IFC Report "Ready for Growth: Solutions to Increase Access to Finance for Women-Owned Businesses in the Middle East and North Africa", May 2013



be paying off, but these women entrepreneurs then face difficulties accessing finance and launching formal enterprises.

11. **There are, however, windows of opportunity for women's economic empowerment.** According to community consultations and qualitative research compiled for the World Bank's IDA-financed Social Safety Nets program, over 57% of inactive women in Djibouti say that they do not work because of family and household responsibilities. However, they also indicated they are generally not discouraged or prevented from accessing training or work opportunities by male family members, and there are no legal barriers against female entrepreneurship. Moreover, women largely manage the household income and have shared decision-making power over the allocation of expenditures, which suggests that additional income generated by women could directly enhance their economic empowerment within the household.¹³

Entrepreneurship Ecosystem

12. **Entrepreneurship¹⁴ has strong potential to generate employment for all working age people – and especially the young and women.** The majority of Djibouti's private enterprises are composed of single individuals in the informal sector. There are opportunities for local enterprises to provide goods and services that are not currently able to be served by local MSMEs due to existing gaps in the core skills of potential entrepreneurs. Start-up capital (loans and grants), which are essential for launching entrepreneurship, is also crucially lacking. The option and decision to start a business is therefore out of reach for many potential market players.
13. **The presence of several foreign military bases presents an under-exploited opportunity for Djiboutian enterprises.** Many embassies and bases have established programs to provide contracting opportunities for local enterprises – but the number and quality of Djiboutian enterprises applying is negligible. Interviews indicate this situation is largely due to a lack of understanding of the online procurement processes, a lack of skills/capacity necessary for the contracts advertised, and a general lack of proactivity on the part of local SMEs to apply and follow up on open contracts. Djiboutian entrepreneurs need assistance with (i) identifying contracts, (ii) finding the information on open contracts all in one place, (iii) understanding and filling out the application forms, and (iv) trainings to improve their offering to meet international standards and needs.
14. **With a majority of the population under 35 years old, and the service sector driving the economy, policies focused on upgrading skills, especially for young adults, and improving conditions for SMEs to enter the formal economy are likely to make an important contribution to job creation.** Investment in skills-based education is likely to be very important for inequality as it could improve youth and female employment opportunities. The emphasis should be on ensuring that the labor force

¹³ World Bank Report No: 94503-DJ

¹⁴ Entrepreneurship is a globally recognized phenomenon lacking a single precise definition. Klapper, Amit, and Guillen (2010) describe how, from a practitioner standpoint, entrepreneurship is generally understood as a process of creating new wealth, but for the purpose of measuring entrepreneurship, the definition narrows to the initiation of economic activities in the form of a legal (formal) enterprise.



is trained for the needs of the job market, and that nationals—rather than expatriates—are prepared to take the jobs created by large-scale investments.¹⁵

15. **Several private associations, including the Chambre de Commerce de Djibouti (CCD), have historically spearheaded the development of entrepreneurship activities in the country, but they lack resources and capacity to have large-scale impact and outreach.** The CCD, for example, provides training support to startup businesses, offering tools for formalization, accounting, and grants. The CCD is also involved in gender-based programming (with the Ministry of Women and Family Affairs) through entrepreneurship Technical and Vocational Education and Training (TVET) programming delivered by the Centre d'aides sociales et d'autonomisation des femmes (CASAF). This focus on women was initiated as part of the the Politique Nationale de Promotion du Genre (PNPG) 2011-2021 which promotes gender equality. Several programs and universities now provide structured entrepreneurship training programs, albeit at a relatively low scale.
16. **In 2015, the World Bank partnered with the Japan Social Development Fund, to launch the *Djibouti Enhancing Economic Opportunities (PROPEJA)* project.** The US\$2.73 million grant is implemented by the Djibouti Agency for Social Development (ADDS), with an objective to improve access to life-skill, livelihood skills training, and access to finance for at least 3000 low- and semi-skilled youth and women in poor communities in Djibouti-ville, Arta, Tadjoura, and Ali Sabieh. This project pilots basic training and mini-business plan competitions for youth as well as handicraft value chain integration for women. The project aims to support at least 3,000 direct beneficiaries to access training, finance and thus sustainable income-generating activities. Beneficiaries are youth (approximately 16 to 29) and women from poor communities. Youth are intended to represent at least 2200 of the direct beneficiaries, while at least 1500 beneficiaries (50% of the total) will be girls/women.
17. **At a higher level, the Government has recently undertaken the construction and establishment of a new Center for Entrepreneurship and Leadership (CEL) as well as the development of a policy framework for the promotion of MSMEs in the country.** With financing from the Government of India, the Government of Djibouti, through the Ministry of Finance, has almost completed the physical construction of the CEL, as well as the drafting of a conceptual framework for introduction of a “*MSME Policy for Djibouti*” designed with an integrated and futuristic approach for inclusive development of micro, small and medium-sized enterprises (MSMEs). The CEL is intended to be a physical and virtual platform to support to MSMEs in Djibouti through the provision of a resource center, services for MSMEs, an in-house incubator, a business park, and competitive sector development services. The CEL will streamline the entrepreneurship ecosystem offering in Djibouti to facilitate access for entrepreneurs to vital services, networking opportunities, and market linkages.
18. **The Ministry of Women and Family (MWF) has several small-scale initiatives to support entrepreneurship for women.** They have launched a “Centre d’Action Sociale” which offers a work space and resources to female entrepreneurs – primarily focused on services such as hair dressings, cuisine, fashion) for two years (following a model of an incubator); they are required to open a savings account with the local microfinance provider (CPEC). In 2017, 820 women passed through this Center.

¹⁵ IMF WP/17/270



In addition, in January 2018, the MWF launched the “lundi de l’entrepreneuriat” program to provide training (entrepreneurship, skills development) to groups of 20 women every Monday of the week for six weeks. The MWF has agreements with the Ministries of Youth and of Education, as well as the CCD, to create a platform for female entrepreneurship and to conduct “train the trainers” programs. In partnership with USAID, the MWF also works with women’s associations in the artisanal sector, to help them with product refinement and marketing.

19. **In terms of finance, micro and start-up finance – traditionally a source of financing for potential entrepreneurs and MSMEs (especially women and youth) – are notably underdeveloped and difficult to obtain.** A recent assessment completed by the World Bank found that the universe of active microfinance borrowers is exceptionally small (1,011 exactly) compared to the potential (about 150,000 users - borrowers and simple depositors). In terms of outstanding loans, microfinance represents FDJ 130 million, or just 0.04% of the total outstanding financial sector.¹⁶
20. **In its current state, the country’s main microfinance provider – the Caisse Populaire d’Epargne et de Credit (CPEC) - is not able to meaningfully advance financial inclusion in Djibouti.** The CPEC¹⁷ is a network of three sub-national financial cooperatives created in 2011, and has approximately 15,000 members (only 3 percent of the adult population). The CPECs offer two types of solidarity and individual loans.¹⁸ Solidarity credits represent 70% of the CPEC portfolio. The CPEC needs to increase their capacity and skills (i.e. risk management¹⁹, credit provision, controls, new product development, etc.), and (ii) develop purely commercial activities.²⁰
21. **In 2016, the Government passed a presidential decree establishing an MSME Partial Credit Guarantee Fund (PCG) a mechanism which would reduce risk for commercial banks to grant loans to MSMEs, but it has yet to become operational.**²¹ The World Bank provided technical assistance (through a grant from the FIRST trust fund) to support the design of the PCG Fund. A PCG Fund provides third-party credit risk mitigation to lenders while increasing access to credit for MSMEs. PCGs commonly combine a subsidy element with market-based arrangements for credit allocation, thereby leaving less room for distortions in credit markets than through more direct forms of intervention, such as state-owned banks.²²

¹⁶ World Bank Report No: 94503-DJ

¹⁷ The resources of the CPEC come mainly from i) repayments from existing customers, ii) government lines of credit¹⁷ and other international donors or ministries for targeted programs and, to a lesser extent, iii) savings (unpaid and 15% converted) of the savers and iv) the interest margin.

¹⁸ The CPECs offer two types of loans: i) solidarity (3 to 6 members, monthly interest rate of 1.5% per year); loans between FDJ 50,000 and FDJ 300,000 (approximately US\$280 to \$5,590) and ii) individual (monthly interest rate of 2% per month) and loans between FDJ 300,000 and FDJ 1,000,000 (approximately US\$1,670 to US\$5,590). Solidarity credits represent 70% of the CPEC portfolio

¹⁹ The portfolio-at-risk (30 days) is 4.6% (the best practice is generally not to surpass 2%).

²⁰ World Bank Report No: 94503-DJ

²¹ The Fund was originally supposed to launch with a \$1.1 million capitalization from the Government of Djibouti in 2015. Additional allocations were to be made in the amount of \$560k in 2016, and \$560k in 2017. The percentage of coverage was to be determined in coordination with the Fund Manager of the PCG Fund.

²² The World Bank and FIRST Initiative. 2015. Principles for Public Credit Guarantee Schemes for SMEs.

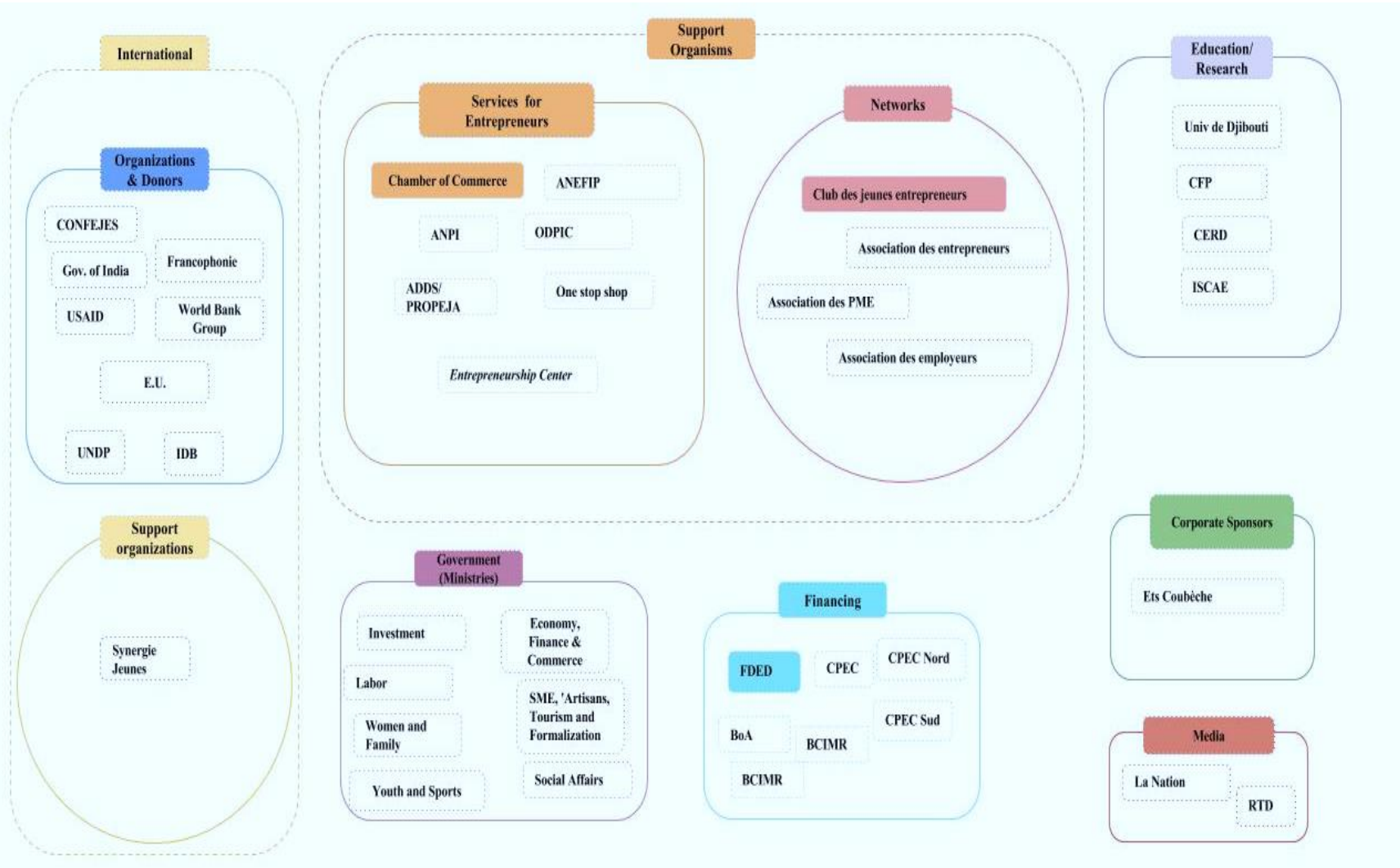


22. **Furthermore, the state-sponsored Djibouti Economic Development Fund (FDED) whose mission is to grant financing to underserved MSMEs, is unable to meet the needs of many potential borrowers (even with targeted interventions) due to poor governance arrangements, a lack of appropriate products, and an over-dependence on donor/state funding.** Several funding programs have been implemented by the FDED since its inception. The fund, which manages an outstanding loan of FDJ 7 billion, has financed only 525 projects (including 50 "young graduates") of which about 50% are unable to repay. The FDED's current product offering does not seem to correspond to the needs of MSME borrowers, especially women and youth, and they suffer from governance problems. The youth loan they offer has high loan amounts of FDJ 3.58 million – 7.16 million (approximately US\$20,000-40,000) with a minimum personal contribution of 20 percent.
23. **Overall, while entrepreneurship has become a focus area for the Government of Djibouti, they still lack efficient and targeted interventions which render the ecosystem not yet conducive to effectively support entrepreneurs and MSMEs, especially women and youth.** There have been fragmented activities and interventions by the government and global development community (See Annex 3 – October 2017 Draft Entrepreneurship Ecosystem Review²³). The promotion of entrepreneurship is currently divided between different actors in the public sector (numerous) and private (few). Preliminary mapping of the different actors of this entrepreneurial ecosystem in Djibouti is presented below (Figure 1).
24. **Harnessing the transformational power of the private sector through the promotion of entrepreneurship will be critical for Djibouti.** Djibouti needs to urgently address the low level of private investment in small manufacturing and higher-level services, the limited promotion of entrepreneurship particularly among youth and women, the low level of job creation in rural areas in non-farm activities and limited SME development in supply-chain manufacturing for sectors with deep added-value, which could be enhanced by an export-oriented strategy.

²³ This Review is currently based on a mission conducted in October 2017 by the World Bank, and is currently in draft form. It will be finalized in Q4 2018.



Figure 1. Djibouti Entrepreneurial Ecosystem Map





Competitive Sectors

25. **Djibouti has strong potential to position itself as an industrial and commercial hub for the region, which will support private sector development.** Djibouti benefits from a number of preferential policies, such as the Africa Growth Opportunity Agreement (AGOA), Everything But Arms (EBA) and Common Market of East and South Africa (COMESA) which can facilitate the creation of a processing and manufacturing export hub around the port. The establishment of the new Djibouti-Ethiopia Railway will greatly enhance the logistics efficiency and transport capacity between the two countries, with possibilities for Djibouti to become a player in the processing and packaging of light manufacturing goods, especially if it manages to attract regional investments from Ethiopia.
26. **Through the port and new special economic zone, as well as China’s “One Belt One Road” infrastructure imitative, Djibouti’s MSMEs could be well positioned to play a role in the country’s economic growth.** The Djibouti Ports & Free Zones Authority has secured massive Chinese investments, which could potentially boost many sectors, namely: (i) Logistics Transportation, Storage and Distribution; (ii) Trading (Bonded Bulk Commodity Exchange, Exhibition, Duty-free Retailing); (iii) Manufacturing; and (iv) Business Support (Financial Services, Information Services, Hotel, Training Center and other Agency Services). In addition, various sectoral studies conducted by the World Bank and others²⁴ point to the employment and income generation potential of specific sectors such as fisheries and ICT services, which will soon be supported by new infrastructure such as the free zone.
27. **The realization of such potential, however, will require, in addition to lowering the costs of factors of production, strong linkages with local MSMEs and a sustained investment promotion program.** Diversification is essential for Djibouti to develop sectors with high growth and employment potential such as tourism and fishing, and reduce the risks associated with relying on a single sector (services) catering mainly to one client (Ethiopia).²⁵ This should include the elaboration and implementation of a strategy to attract export-oriented foreign investors. This should be coupled with an export-marketing effort to persuade foreign firms, which are currently outsourcing to international buyers in other countries, to relocate their production to Djibouti. Success will depend on the development of local entrepreneurship and a vibrant private sector, in turn enabled by the lowering of entry and operations barriers for businesses.

C. Higher Level Objectives to which the Project Contributes

28. **The proposed project supports the Government of Djibouti’s approach to development as articulated in Vision 2035 – a long-term strategic vision for the development of the country.** One of the country’s goals under this vision is to transform Djibouti into a middle-income economy by 2035. According to the IMF, Djibouti’s target of tripling its GDP per capita would require a sustained annual

²⁴ See: Fisheries Djibouti Assessment, Leslie Widmann, World Bank, 2018; Pioneering the Free Zones to Achieve Economic Transformation and Job Creation for Djibouti: From the Perspective of New Structural Economics Center for New Structural Economics at Peking University & The Made in Africa Initiative, December 2016; Transport and logistics in Djibouti: contribution to job creation and economic diversification, Policy note, World Bank Transport Unit, February 2013; Action Plan of the National Strategy for Trade Development, EU-TradeComm Facility Project, 2010;

²⁵ Djibouti Selected Issues Paper, IMF Country Report No. 16/249



GDP growth rate of about 7 percent.²⁶ In addition to supporting the cross-cutting themes of reducing gender inequality and supporting youth, the Vision focuses on five pillars representing the country's key development challenges, including “a diversified and competitive economy with the private sector as its engine of growth: diversified growth, with the private sector driving a new growth model; financial market development; supply chain improvements.”

29. **Furthermore, the proposed project will directly support Government efforts to consolidate and strengthen the entrepreneurship ecosystem and develop a new MSME policy framework.** With financial support from the Government of India, the Government of Djibouti is constructing the CEL. Several other entrepreneurship actors – including the Ministry of Women and Family, and the Chamber of Commerce – support the CEL and efforts to create an inclusive platform.
30. **The proposed project fits within the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity, and Maximizing Finance for Development.** The proposed project supports Pillar 2 of the CPF FY14-18, which identifies strengthening the business environment and increasing access to finance as key outcomes. A systematic country diagnostic (SCD) and a new CPF for FY19-23 are currently under preparation. The project is also aligned with the lessons from the 2016 World Bank Group Engagement in Small States IEG reports, which notes the importance of efforts to catalyze the provision of training and business development services to entrepreneurs through robust intermediaries. The project also enables access to commercial finance by providing capacity building to the PCG fund (which will help reduce risks for banks and encourage commercial financing to flow to women and young entrepreneurs), as well as to strengthening the microfinance sector. Together these components align with the Maximizing Finance for Development (MFD) approach by leveraging the private sector and optimizing the use of scarce public resources to demonstrate that women and youth can be bankable in Djibouti, and to increase their access to commercial finance.
31. **The proposed project supports the “Renewing the Social Contract” Pillar of the MNA Regional Strategy by strengthening resilience through broad based private sector development and skills upgrading that match market demands.** These skills and sets of behavior also play a critical role in building greater resilience to all sorts of economic and social shocks that may come. The proposed project also aims to strengthen public institutions for more efficient and effective service delivery through the reinforcement of various government entities responsible for the promotion and financing of entrepreneurship and competitive industries.
32. **The proposed project supports the objective of the World Bank Group’s FCI Global Practice gender action note for FY18-20, which is to deepen the GPs commitment to gender equality in financial markets and financial sector development, and reduce the gender disparity in access to finance.** The project will support the gender strategy’s main pillars of (i) removing constraints for more and better jobs; and (iv) enhancing women’s voice and agency. Specifically, the proposed project also embodies the FCI-supported interventions of “investing in sex-aggregated data”, “Clearly evaluate and address

²⁶ Djibouti’s Quest for Inclusive Growth (IMF Working Paper No. 17/270) (December 2017)



gaps in access faced by women in projects”, “Be focused and strategic including through the development and implementation of projects and advisory that target women’s financial access”.²⁷

Relationship to other World Bank projects

33. **The proposed project will build upon the *Enhancing Income Opportunities in Djibouti (PROPEJA)* project:** PROPEJA consists of: identification and training of peer facilitators; youth mobilization and basic training; mini business plan competition; coaching. To develop the handicraft value chain, PROPEJA also supports artisanal cluster development, skills upgrading in product design and development, business development and marketing, and access to finance (cash-transfers to the cluster-level organizations which in turn will allocate funds to producer group members. To date, 1600 direct beneficiaries have been trained and the project is expected to exceed its own targets and reach up to 3000 youth. 50% of youth enrolled in the training so far have been female and 45% of those who receive the cash transfers are female. Based on estimates for the first batch of cash recipients, 9-12 months after funding the operational groups have an average of 90,000 DJF (US\$500) of sales and 40,000 DJF (US\$225) profits for a group of 2 members on average.
34. **The project will use the opportunities created by the *Governance for Private Sector Development and Finance (GoPro)* project that aims to improve the business climate in Djibouti.** The GoPRO project supports improvement of the business environment, including business creation and getting credit, and will also support the drafting of a national strategy to promote investment. The proposed project will directly complement these efforts by working to create and strengthen entrepreneurs who own businesses, improve the credit quality of these borrowers (demand side), and develop the quality of MSMEs working in priority sectors and value chains.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The project’s development objective is to improve economic opportunities for targeted entrepreneurs.

Key Results

35. The PDO will be measured through the following Results Indicators:
 - (a) Number of new firms registered by entrepreneurs accessing project-supported services (% female) (% youth)
 - (b) Number of beneficiaries accessing finance under the project (% female) (% youth)
36. Furthermore, the following intermediate indicators will also be measured:
 - (a) Number of project beneficiaries receiving grants (% female) (% youth)
 - (i) Number of beneficiaries receiving training certificates under the project (% female) (%youth)

²⁷ Previously the Finance & Markets GP Gender Practice Note (FY18-20)

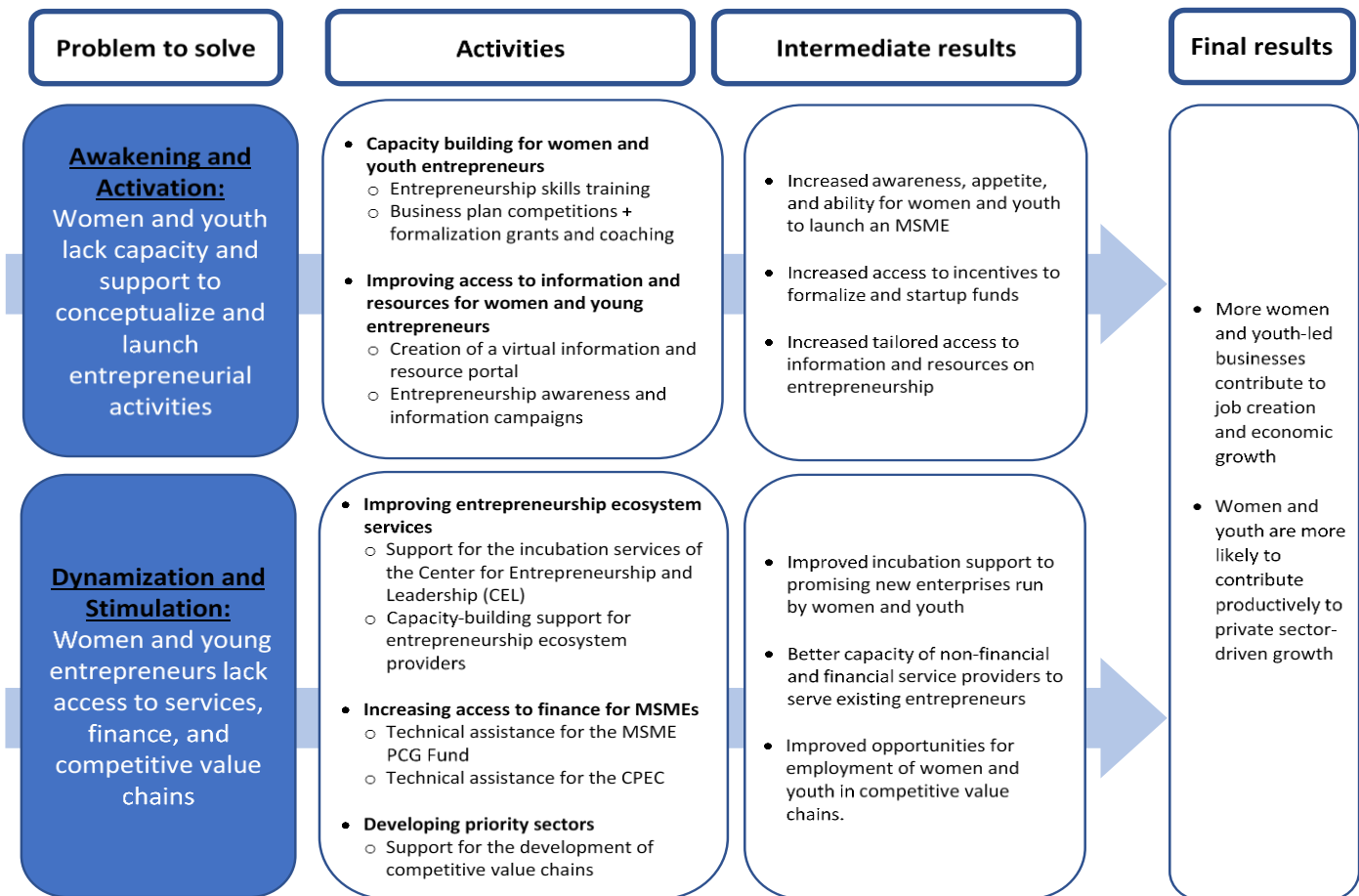


- (ii) Winners of the business plan competition (% female) (%youth)
- (b) Beneficiaries of business-development services provided through the project (%female) (%youth)
- (c) Number of partial-credit guarantees provided through the PCG Fund supported by the Project
- (d) Amount of commercial financing mobilized through the PCG Fund supported by the Project
- (e) Number of recommendations implemented by CPEC under the restructuring action plan developed through the Project
- (f) Number of recommendations implemented under value chain development action plans developed through the project

D. Project Description

37. The project will support activities that will favor the creation of new and high-performing companies, and the employability of young people and women who can create MSMEs, including in competitive value chains. The project is based on the following rationale:

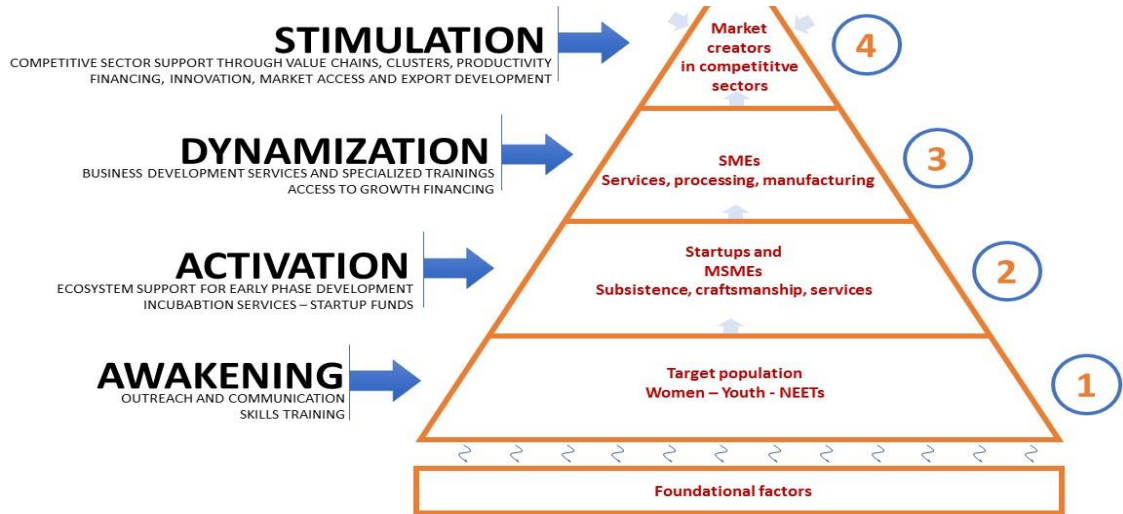
Figure 2. Theory of change for proposed project





- 38. In terms of support for beneficiaries and the ecosystem in which they operate, the project activities are aligned with the four phases of entrepreneurship development: awakening, activation, dynamization and stimulation (Figure 3).

Figure 3. Entrepreneurship Development Framework



- 39. In terms of improving access to finance for women and young entrepreneurs, the project plans to intervene on two levels: (i) by providing grants to newly formed enterprises, as well as business plan competition winners to conceptualize/commercialize their ideas, and (ii) improving the operations of current financial instruments to help them better provide financing to these borrowers. The project will provide technical assistance to support the administrative and technical capacity of the planned PCG fund. The PCG Fund already has an existing legal and regulatory framework. The project will build on the work already done to establish this mechanism, and make it active. The project will also provide technical assistance to improve the capacity and offering of the CPEC network to stimulate the provision of appropriate microfinance services for women and young entrepreneurs.
- 40. **Component 1: Awakening and Activation phase – Building capacity of women and young entrepreneurs (\$6 million).** This component aims to improve access to (i) skills and business development trainings (by scaling and expanding the scope of the existing PROPEJA project), (ii) small-scale financing, and (iii) information and resources for entrepreneurs. (Any grants funded under the Project would be solely for *formal* enterprises).

Subcomponent 1.1 ~ Capacity building for women and youth entrepreneurs (\$5 million) (implemented by ADDS)

- (a) **Entrepreneurship skills training:** This sub-component will scale the PROPEJA model to provide comprehensive entrepreneurship training programs for women and youth leading to completion of a business plan and preparation of the formalization process. Entrepreneurs who complete the training satisfactorily will receive a completion certificate.



- (b) Formalization grants for training graduates: Grants will be given to newly registered *formal* enterprises created by women and young entrepreneurs who were trained and certified under the training program detailed in subcomponent 1.1.
- (c) Business plan competitions with commercialization/concept development grants²⁸ and follow-up coaching: Grants will be given to formal enterprises who win business plan competitions (beneficiaries may/may not include those who have received formalization grants through the training above, but any enterprise receiving a grant must be formally registered).

Subcomponent 1.2 ~ Improving access to information and resources for women and young entrepreneurs (\$1 million) (implemented by CEL)

- (a) Creation of a virtual information and resource portal for entrepreneurs
- (b) Entrepreneurship awareness and information campaign

41. **Component 2: Dynamization and Stimulation phase – Improving access to services, finance, and competitive value chains for women and young entrepreneurs (\$7 million).** This component aims to improve access to services and finance for women and young entrepreneurs through the improvement and expansion of ecosystem provider capacity, and through the activation of the PCG Fund and reinforcement of the CPEC microfinance network. The component will also provide technical assistance to help identify and develop competitive sectors and value chains and enable enterprises to better meet the needs of these new dynamic sectors.

Subcomponent 2.1 ~ Improving entrepreneurship ecosystem services (\$4 million) (implemented by CEL)

- (a) Support for the incubation services of the Center for Entrepreneurship and Leadership (CEL): Technical assistance will be provided for the incubator within the CEL in the areas of, among others, (i) operation; (ii) development of its strategic orientation; (iii) development and implementation of its service offering (which could include procurement of light office/IT equipment); and (iv) capacity building for personnel of the CEL.
- (b) Capacity-building support for entrepreneurship ecosystem providers: Technical assistance will be provided for eligible SME ecosystem operators to improve their abilities to assist entrepreneurs with support services and outreach, including the provision of specialized entrepreneurship training programs focused on business development, accounting, and growth functions (e.g. human resources, marketing, long-term financial management, inventory management, supply chain linkages, etc.).

²⁸ Eligible activities under these grants may include: i) market testing/piloting (ii) registering intellectual property/obtaining patents, and iii) refining the product. Consistent with the PROPEJA model, funding decisions will be made by a regional community development committee composed according to specific selection criteria, such as elected officials, local leaders, representatives of financial institutions, the CEL, private sector and community representatives, and representatives of women, youth, and the poor. Details of committee selection, beneficiary eligibility criteria, and eligible activities will be specified in the Project Operations Manual.



Subcomponent 2.2 ~ Increasing access to finance for MSMEs (\$1 million) (implemented by CEL)

- (a) Technical assistance for the MSME PCG Fund: Technical support will be provided for the activation and daily operation of the PCG Fund, including support for governance of the PCG Fund based on international best practice, creation of a Board, engagement with commercial banks, plan for private co-financing, etc. (The Project will not provide capital for the Fund).
- (b) Technical assistance for the CPEC: Technical support will be provided for activities including (i) an action plan with concrete recommendations to restructure and/or improve operations and management (i.e. risk management, credit provision, controls, new product development, etc.) as well as the development of commercial activities for sustainable financing, and (ii) operational skills development training for CPEC personnel. (The Project will not provide capital to the CPEC).

Subcomponent 2.3 ~ Developing priority value chains (\$2 million) (implemented by CEL)

- (a) Support for the development of competitive value chains: Technical assistance will be provided for the development of value chain strategies and action plans, the implementation of sectoral coalitions, the creation of supply chain linkages, and the development of export marketing services, to promote the employment of young people and women.
42. **Component 3: Support for Project Implementation and Monitoring (\$2 million).** This component will finance technical assistance, equipment, training and operating costs for the CEL's team so that it can operate the following PIU functions: (a) institution building, (ii) project implementation, (iii) project monitoring, and (iv) and evaluation. This component will also support the CEL in the areas of accounting, budget management, procurement, and overall administrative functions.

E. Implementation

Institutional and Implementation Arrangements

- 43. The Project will be implemented by the Center for Entrepreneurship and Leadership (CEL), under the Ministry of Economy and Finance, charged with Industry (MEFI). The CEL will be in charge of coordinating the implementation of the project activities, and of the procurement and the financial management of the project.
- 44. A Project Coordinator and a Procurement Specialist have already been appointed by the Ministry of Finance. All salaries will be paid by domestic resources mainly from grants provided by the Government.
- 45. The law establishing the CEL was presented to the Cabinet in April 2018. It's passage by the Parliament will be a condition of effectiveness.
- 46. The CEL, through the MEFI, has the mandate, convening power and vision necessary to oversee the preparation and implementation of the project. The CEL is a semi-public non-profit institution with a Board of Directors composed of representatives of the public sector and the private sector. The



core mandate of the CEL is (i) coordination and reforms of entrepreneurship and business development programs, (ii) promoting youth entrepreneurship and development activities and support for incubation, (iii) business revitalization, and (iv) stimulation of the competitiveness of the private sector in growth sectors.

47. The CEL is headed by a Director appointed by decree on the proposal of the MEFI, following a competitive recruitment and appointment process.
48. The Board of Directors of the CEL will serve as the Project Steering Committee. The Steering Committee will be comprised of, among others, representatives from the MEFI, the Ministry of Women and Family, the University of Djibouti, the Port Authority, the CCD, the Bankers Association, and the Club des Jeunes Entrepreneurs. The Steering Committee is responsible for: (i) the strategic orientations and the annual work plan of the CEL; (ii) the administrative organization of the CEL and the definition of its procedures; (iii) draft annual budgets and provisional accounts; (iv) providing the annual report, financial statements, the audit reports, and the performance report of the Director; (v) defining and enforcing the rules of procedure of the CEL; and (vi) drafting the CEL Operations Manual.
49. CEL will sign a Memorandum of Understanding (MOU) with the ADDS for implementation of Component 1. ADDS is currently the implementing agency for the PROPEJA project. The signing of this MOU will set forth all the conditions under which funds will be made available by the CEL to ADDS for the implementation of Component 1.
50. Any enterprise receiving a grant through the Project (either as a result of satisfactorily completing the training and/or being a winner of a business plan competition under subcomponent 1.1) will be required to open an account in their name at formal financial institution (or show proof of an active existing account) to be able to receive the funds. Any grants funded under the Project would be solely for formal enterprises. By linking beneficiaries to deposit accounts, this component promotes financial inclusion with a perspective of allowing beneficiaries to graduate to formal microfinance once their economic activities are sufficiently established. The ADDS will be responsible for requesting the CEL to initiate disbursement of grants funds to eligible beneficiaries.
51. The Government of Djibouti will prepare the Project Operations Manual (POM), detailing the implementation arrangements and the procedures to follow to implement the project activities, and will submit it to the World Bank before effectiveness.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The majority of the activities will take place in Djibouti-ville, with some activities taking place in rural areas.



G. Environmental and Social Safeguards Specialists on the Team

Antoine V. Lema, Social Safeguards Specialist

Mohamed Adnene Bezzaouia, Environmental Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The project is considered Category C with regard to potential negative environmental impacts and does not trigger any safeguard policies. The project focuses on capacity building and technical assistance. Eligible activities for grants given under sub component 1.1 to newly registered formal enterprises created by women and young entrepreneurs include: i) market testing/piloting (ii) registering intellectual property/obtaining patents, and iii) refining the product. There will be no construction/rehabilitation activities under these grants.
Natural Habitats OP/BP 4.04	No	This policy is not triggered as the project will not involve work in natural habitats or protected areas. All sub activities will take place in the urban area of Djibouti Ville
Forests OP/BP 4.36	No	This policy is not triggered as the project will not involve work in forests or their rehabilitation nor will support other investments which rely on services of forests. All sub activities will take place in the urban area of Djibouti Ville
Pest Management OP 4.09	No	The project will not imply the use of pesticides or other related products
Physical Cultural Resources OP/BP 4.11	No	The proposed operation will not involve works posing risks of damaging the existing community cultural property.
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	There will not be funding provided for projects that will induce land acquisition. A negative list of sub-projects not to be funded will be established; projects inducing land acquisition will be part of that list



Safety of Dams OP/BP 4.37	No	The project will not construct or rely on dams
Projects on International Waterways OP/BP 7.50	No	The project will not affect international waterways
Projects in Disputed Areas OP/BP 7.60	No	The project is not located in a disputed area

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project is considered Category C with regard to potential negative environmental impacts and does not trigger any safeguard policies.

The project focuses on capacity building and technical assistance. Eligible activities for grants given under sub component 1.1 to newly registered formal enterprises created by women and young entrepreneurs include: i) market testing/piloting (ii) registering intellectual property/obtaining patents, and iii) refining the product. There will be no construction/rehabilitation activities under these grants

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: There are no indirect/future environmental impacts anticipated as a result of this Project.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts. N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described. The project is considered Category C with regard to potential negative environmental impacts and does not trigger any safeguard policies.

The project focuses on capacity building and technical assistance. Eligible activities for grants given under sub component 1.1 to newly registered formal enterprises created by women and young entrepreneurs include: i) market testing/piloting (ii) registering intellectual property/obtaining patents, and iii) refining the product. There will be no construction/rehabilitation activities under these grants

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people. N/A

B. Disclosure Requirements



C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

NA

Have costs related to safeguard policy measures been included in the project cost?

NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

NA

CONTACT POINT

World Bank

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Borrower/Client/Recipient

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APPROVAL

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Approved By

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