Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 23-May-2021 | Report No: PIDC245749

BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P176690		Moderate	Djibouti Business Park Project
Region	**Country**	**Date PID Prepared**	**Estimated Date of Approval**
MIDDLE EAST AND NORTH AFRICA	Djibouti	23-May-2021	
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Djibouti - Ministry of Economy and Finance, in Charge of Industry	Center for Leadership and Entrepreneurship (under the Ministry of Economy and Finance)	

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	4.73
Total Financing	4.73
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	4.73
Trust Funds	4.73

B. Introduction and Context

Country Context

Djibouti is a small low-income country with a strategically important geopolitical location in the Horn of Africa. Historically, Djibouti has been a gateway to East Africa, a maritime crossroad for trade, and a refueling and transshipment center. Its deep-water port has served as the transit point for neighboring landlocked Ethiopia and as a transshipment hub for other East African counties with fewer port facilities. In addition, Djibouti's strategic location, close to major maritime transportation routes, conflict areas in the Middle East, and piracy activity zones (the Somali coast), 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's economy is characterized by strong and steady growth, with a real Gross Domestic Product (GDP) growing by around 7 percent every year for the last two decades. Djibouti's growth is driven by expansion in the sectors of transportation, logistics, telecommunications, and banking, in response to an economic boom in neighboring Ethiopia. The country's steady inflation rate did not exceed 1.4 percent on average during the past five years prior to the COVID-19 pandemic. During the 2014-2018 period, Djibouti also experienced an increase in job creation at a yearly 12 percent on average in the private sector.

Djibouti's macroeconomic stability was only mildly impacted by the COVID-19 pandemic in 2020 even though the economy was frozen. The GDP growth rate was at its lowest, 0.5 percent, following the 7-week lockdown measures implemented by the government from March 27 to May 2020. Social distancing measures resulted in weak demand-side pressures which contributed to maintaining the inflation rate at 1.8 percent. Even though the government delayed tax collection to support SMEs during the pandemic, fiscal deficit remained low at 2 percent thanks to efforts made to limit expenditures to essential COVID-19 outlays. The current account surplus of the country also improved to 23.1, a result of continued re-export activities towards Ethiopia during the pandemic. Gross official reserves reached 4.6 months of imports, while the currency board coverage stood at 105 percent, well above the minimum required. The banking sector also remained stable and liquid with a solvency ratio of 14.2 percent in the last quarter of the year. The ratio of non-performing loans to gross loans (NPL) decreased by more than 2 points compared to the previous year to reach 78 percent.

Sectoral and Institutional Context

Djibouti's robust growth is unfortunately not inclusive with a large part of Djibouti's population not benefitting or contributing to it. The official rate of unemployment plus underemployment is high at 47 percent in 2017, and the labor participation rate remains low at 42 percent of the working-age population. The youth under 35, which constitute 75 percent of the population, face a much worse situation with their unemployment rate estimated at 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. Moreover, only 54 percent of women with at least three years of university studies are in the labor market (compared to 76 percent of men). Geographical locations disparities are also severe with lower participation rates in the rural populations. These figures worsened during the COVID-19 pandemic which resulted in an estimate of around 30,000 jobs lost.

Djibouti faces sectoral challenges that constrain inclusive growth, notably an underdeveloped private sector. The public sector—which is already oversized—cannot generate enough jobs for new entrants and the unemployed. The public sector provides 60 percent of jobs, of which 46 percent in the central government and 14 percent in public enterprises. The private sector covers 30 percent of jobs (10 in the formal and 20 percent in the informal sector), the remaining 10 percent being self-employed. Moreover, 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.

The private sector's competitiveness is dampened further by high costs of utility and services which were not easily accessible or of good quality in the first place. SMEs in certain urban areas do not have coverage, face high internet costs, and unaffordable electricity prices. Doing business is also constrained by limited access to credit - despite a relatively liquid banking sector - by the high cost (interest rate at 10 percent) and the many steps associated with obtaining construction permits, registering property, and trading across borders. Loans to the private sector represent only 37 percent of the GDP, with only 5 percent granted to formal enterprises, which are large corporate clients. Even though a lot of efforts have been made to improve the overall business climate, the number of steps required for starting a business is still large relative to other countries in the region, and Djibouti ranks 123rd of 190 economies on the ease of starting a business.

Relationship to CPF

The Business Park project is directly linked to the Djibouti CPF 21-25 Focus Area 1 to "promote inclusive private sector-led growth, job creation and economic transformation by fostering private investment, entrepreneurship and human capital". This private sector target of the CPF has two main objectives :
(i) stimulate entrepreneurship and support SME development sector during and after COVID, (ii) help reduce the cost of doing business and enhance productive skills to adapt to the evolving needs during post recovery COVID-19. The Business Park will contribute to reaching these objectives by providing SMEs in Djibouti City with spatial and service solutions which will help reduce their operating costs and boost their productivity and competitiveness. The construction of the Park will also enhance the benefits of current efforts undertaken under the Djibouti Women and Youth Entrepreneurship project to improve SMEs' capacity and economic opportunities.

C. Project Development Objective(s)

Proposed Development Objective(s)

The project's development objective is to support SMEs' productive capacity through the creation of a Business Park and associated services.

Key Results

The key results of the project are:

- Assessment report on key services needed by Djiboutian SMEs to inform the design of the Business Park.
- Construction of a building to host businesses and equipment with relevant services
- Opening of the Business Park.
- Increased access to key services for SMEs.

This project will complement the results of the Djibouti Support For Women And Youth Entrepreneurship (P165558) aiming to improve economic opportunities for entrepreneurs.

D. Preliminary Description

Activities/Components

The project has three components.

Component 1: Assessment of SMEs needs of services for the Business Park

This first component will consist in conducting a feasibility study to inform the construction of the Business Park. This feasibility study will cover the demand and supply side of business support services to SMEs in Djibouti City. On the demand side, the study will assess the demand for the Business Park and its services, provide a clear mapping of the beneficiaries, and identify how to equip the Park to respond to the beneficiaries' need. On supply side, the study will assess the challenges related to construction (land location and ownership, fit with urban planning and Zero slum upgrading project), complete a financial viability of the Business Park, and determine management structures (public or private). The main deliverable is the assessment report with concrete propositions for building, equipping, and sustainably managing the Business Park.

Component 2 : Construction of the Business Park

The second component will consist in constructing the building which will host the Business Park. Construction plans will follow the results from the assessment.

Component 3: Provision of SMEs services, activities, and equipment.

The third component will focus on preparing the Business Park for the launch of SMEs support activities as per the government specifications and the feasibility study within available funding and scope.

Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The overall impacts of the project are expected to be positive, as the Business Park will provide spatial and service solutions to help reduce SMEs operating costs and boost their productivity and competitiveness. The key environmental risks associated with the project are rated Moderate. The risks during construction phase may include Occupational Health and Safety hazards, Community Health and Safety risks and some Environmental risks due to construction 1) solid waste generation, 2) hazardous material management, 3) noise and vibration, 4) wastewater discharges and 5) air quality as well as 6) exposure to COVID-19. The project will also involve the use of water for the construction purposes. During operations the project will produce some amount of waste by-product. Social risks are deemed moderate, as constructions works will take place on an already allocated plot of land, where three buildings are already constructed and functional. This plot of land is fenced and is surrounded by slums, which are part of slum upgrading. The business park may include co-working spaces for companies, an exhibition center and/or a renting space. Therefore, it is possible that neighboring communities don?t benefit directly from the project. The risks associated with construction in component 2 may include sexual exploitation and abuse and sexual harassement (SEA/SH). The project will been screened for SEA/SH prior to appraisal. Given the small scale of civil works, no labor influx is expected at this stage. Given that the nature of all the referenced activities is range from small to medium scale, impacts are expected to be localized, manageable and most of them reversible, the mitigation measures are easy to be designed.

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Borrower/Client/Recipient

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Implementing Agencies

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