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Report No: PAD791

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF US\$5.6 MILLION

TO THE

REPUBLIC OF DJIBOUTI

FOR THE

SECOND URBAN POVERTY REDUCTION PROJECT (P145848)

March 27, 2014

*Sustainable Development Department  
Middle East and North Africa Region*

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective march 31, 2014)

Currency Unit  
Djiboutian Francs (DJF)

1 USD = 0.64717798 SDR  
1 USD = 174.69995283 DJF  
1 XDR = 269.94112612

## FISCAL YEAR

January 1 – December 31

## ABREVIATIONS AND ACRONYMS

ADDS	<i>Agence Djiboutienne de Développement Social</i> – Djiboutian Agency for Social Development
AFD	<i>Agence Française de Développement</i> – French Development Agency
AfDB	African Development Bank
APS	Preliminary Project Design
ARAP	Abbreviated Resettlement Action Plan
CAS	Country Assistance Strategy
CARAD	Comprehensive Approach to Risk Assessment in Djibouti
CDF	Community Development Fund
CPS	Country Partnership Strategy
CDQ	Comité de Quartier – Neighborhood Committee
CERD	Djibouti Center for Research Studies
DA	Designated Account
DHU	Housing and Urban Planning Department
DUPREP	Djibouti Urban Poverty Reduction Project
DUPREPII	Djibouti Second Urban Poverty Reduction Project
EDAM	<i>Enquête Djiboutienne Auprès des Ménages</i> - Djibouti Household Survey
EDD	<i>Electricité de Djibouti</i> - Public Electricity Company
FDI	Foreign Direct Investment
FM	Financial Management
GDP	Gross Domestic Product

HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IsDB	Islamic Development Bank
JICA	Japanese International Development Agency
JSDF	Japan Social Development Fund
MDTF	Multi-Donor Trust Fund
MHUE	Ministry of Housing, Urban Development and Environment
MOH	Ministry of Housing
NGO	Non-Governmental Organization
OVD	<i>Office de la Voirie de Djibouti</i> – Office of Highways
ONEAD	<i>Office National pour l'Eau et l'Assainissement de Djibouti</i> – Djibouti National Water and Sanitation Office
PDUI II	Second Projet de Développement Urbain Intégré
PIU	Project Implementation Unit
RPF	Resettlement Policy Framework
SSH	Secretary of State for Housing
UDP1	First Urban Development Project
WDR	World Development Report

Regional Vice President:	Inger Andersen
Country Director:	Hartwig Schafer
Sector Director:	Junaid Kamal Ahmad
Sector Manager:	Franck Bousquet
Task Team Leader:	Salim Rouhana

DJIBOUTI  
SECOND URBAN POVERTY REDUCTION PROJECT (P145848)

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**PAD DATA SHEET***Djibouti**Second Urban Poverty Reduction Project (PREPUD II) (P145848)***PROJECT APPRAISAL DOCUMENT***MIDDLE EAST AND NORTH AFRICA**MNSSU*

Report No.: PAD791

<b>Basic Information</b>			
Project ID P145848	EA Category B - Partial Assessment	Team Leader Salim Rouhana	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 14-May-2014	Project Implementation End Date 31-Dec-2018		
Expected Effectiveness Date 18-Aug-2014	Expected Closing Date 30-Jun-2019		
Joint IFC No			
Sector Manager Franck Bousquet	Sector Director Junaid Kamal Ahmad	Country Director Hartwig Schafer	Regional Vice President Inger Andersen
Borrower: Republic of Djibouti			
Responsible Agency: Djibouti Social Development Agency (ADDS)			
Contact: Telephone No.:	Mahdi Mohamed Djama 25321358655	Title: Email:	Directeur General direction@adds.dj
<b>Project Financing Data(in USD Million)</b>			
[ ] Loan	[ ] Grant	[ ] Guarantee	
[ X ] Credit	[ ] IDA Grant	[ ] Other	
Total Project Cost:	5.60	Total Bank Financing:	5.60
Financing Gap:	0.00		
<b>Financing Source</b>		<b>Amount</b>	
BORROWER/RECIPIENT		0.00	

International Development Association (IDA)	5.60
<b>Total</b>	<b>5.60</b>

**Expected Disbursements (in USD Million)**

Fiscal Year	2015	2016	2017	2018	2019	0000	0000	0000	0000
Annual	0.56	1.12	1.68	1.68	0.56	0.00	0.00	0.00	0.00
Cumulative	0.56	1.68	3.36	5.04	5.60	0.00	0.00	0.00	0.00

**Proposed Development Objective(s)**

The proposed Project Development Objective (PDO) is to increase access to basic urban services in Quartier 7 (Q7) in Djibouti City.

**Components**

Component Name	Cost (USD Millions)
Investments	3.57
Building Institutional Capacity and Citizen Engagement	0.80
Support to implementation, monitoring and evaluation	0.70
Physical and Financial Contingencies	0.53

**Institutional Data**

**Sector Board**

Urban Development

**Sectors / Climate Change**

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Water, sanitation and flood protection	General water, sanitation and flood protection sector	40		
Transportation	Urban Transport	40		
Public Administration, Law, and Justice	Central government administration	10		
Health and other social services	Other social services	10		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

**Themes**



Theme (Maximum 5 and total % must equal 100)			
Major theme	Theme	%	
Social dev/gender/inclusion	Participation and civic engagement	20	
Urban development	Urban services and housing for the poor	60	
Urban development	Municipal governance and institution building	10	
Urban development	Urban planning and housing policy	10	
Total		100	
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]	
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]	
Have these been approved by Bank management?	Yes [ ]	No [ X ]	
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]	
Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Description of Covenant			
Conditions			
Source Of Fund	Name	Type	

<b>Description of Condition</b>					
<b>Team Composition</b>					
<b>Bank Staff</b>					
<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>		
HassineHedda	Senior Finance Officer	Disbursement	CTRLA		
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Anne Sinet	Consultant	Institutional	WBIUR		
Sophie Hans-Moevi	Program Assistant	Administrative and Operations	MNSSU		
Samantha M. Constant	Consultant	Gender	MNSSU		
RuxandraCostache	Counsel	Legal	LEGAM		
Andrianirina Michel Eric Ranjeva	Finance Officer	Finance Officer	CTRLA		
Fatou Fall	Social Development Specialist	Social	MNSSU		
Helena MunirFreih Al-Naber	Environmental Specialist	Environment	MNSEE		
Marieta Fall	Operations Officer	Citizen Engagement	WBIOG		
Rock Jabbour	Financial Management Analyst	Finance	MNAFM		
Alexandra Le Courtois	Urban Specialist	Urban Planner	UDRUR		
WalidDhouibi	Procurement Specialist	Procurement	MNAPC		
Salim Rouhana	Urban Specialist	Urban	AFTU2		
Josephine Elizabeth McVitty	Consultant	Institutional	EASIS		
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Noura Abdi Farah	Consultant	Disaster Risk Management	MNSSU		
Daou Georges	Consultant	Visual Artist	MNSSU		
Amanda Abi Khalil	Consultant	Public Art	MNSSU		
<b>Non Bank Staff</b>					
<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>City</b>		
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>

## I. STRATEGIC CONTEXT

### A. Country Context

1. **Djibouti is a small** low-income country located in the Horn of Africa with a high level of urbanization. Faced with scarcity of arable land and water resources, the country's traditionally nomadic people have migrated to urban areas. Approximately 71 percent of Djibouti's estimated 865,000 inhabitants live in cities which are expanding annually by more than four percent (Djibouti Census 2009). The capital of Djibouti City (Djibouti Ville) has 475,322 inhabitants—including 25 percent of the “particular population,” the official term for foreigners, formal, and informal residents. Fifty-eight percent of the total population and 82 percent of the total urban population is concentrated in Djibouti City.

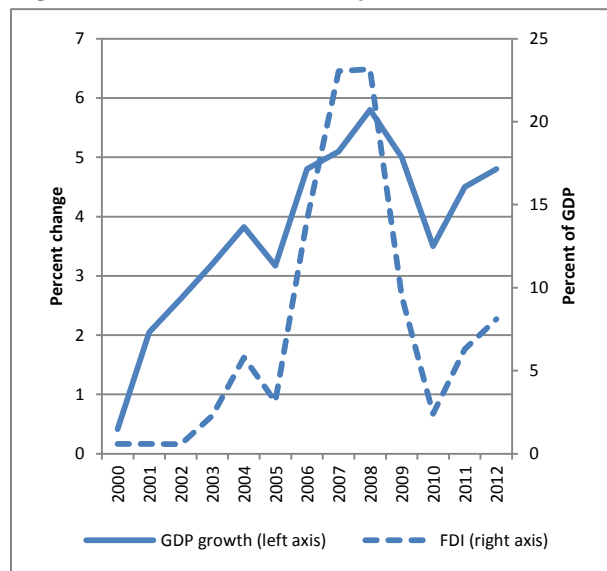
2. **Sustained economic growth has been driven by large inflows of foreign investment, particularly in port activities and the transport and logistics sector.** Over the last decade, landlocked Ethiopia's high demand for transit trade and transshipment activities has allowed Djibouti to capitalize on its strategic location along the Red Sea, turning its ports into the engines of its economy. In 2000, the Government of Djibouti (GoD) signed a 20-year management concession with Dubai Port World (DPW), which contributed to attracting large amounts of foreign direct investment (FDI). In 2006, FDI inflows accelerated sharply with the construction of the Doraleh Container Terminal and the Port of Djibouti free zone. Between 2006 and 2010, FDI inflows averaged over 14 percent of gross domestic product (GDP), and gross capital formation reached 31 percent of GDP (figure 1). Consequently, the growth rate accelerated in 2002-2012 to reach an average of about four percent per year. Inflation has remained fairly well contained during this period. It stabilized to about 3.8 percent during the last four years, after peaking during the height of the 2007-2008 food and fuel price shock, due to the country's almost complete dependence on imported foodstuffs.

3. **Despite moderate growth and high income levels, poverty remains high.** Djibouti is a lower middle-income country with a GDP per capita in 2011 of US\$1,430 and US\$2,500 in purchasing power parity (PPP). However, poverty is high and has declined slightly over the last decade. According to Government statistics, absolute poverty was 42.2 percent in 2002, declining only marginally to 41.9 percent in 2012. Absolute poverty in Djibouti City is estimated to be 30 percent, whereas 70 percent of the population living in all other areas is poor. The absolute poverty levels of female-headed and male-headed households are virtually identical at respectively 41.8 percent and 41.9 percent. Indicators of human development and access to services are also low. Djibouti ranks 164 out of 187 countries in the United Nations Development Program (UNDP) 2012 Human Development Index.

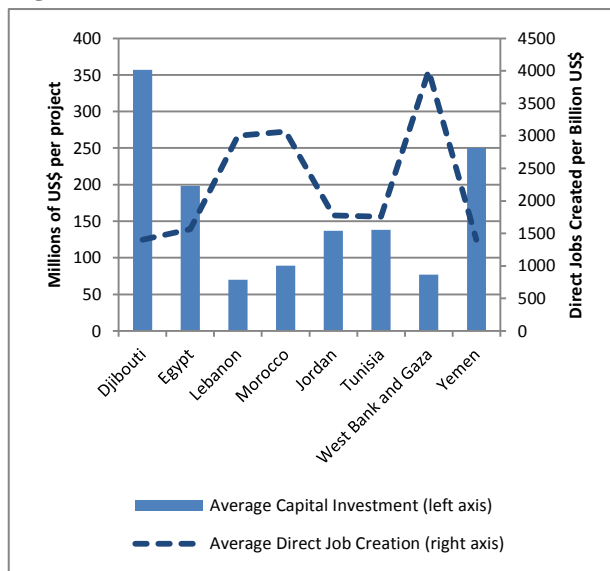
4. **Job creation is critical for Djibouti's long-term growth and poverty reduction performance.** The large amounts of foreign investment that Djibouti attracts have not created many jobs compared to other countries in the region (figure 2). Djibouti's small and young population—60 percent are aged 15 and below—faces low levels of activity and high unemployment. In 2012, Government statistics indicate that about 26 percent of the population aged 15 and above actively seeking work could not find a job. Of the working-age population, about 48 percent is unemployed, including discouraged workers. Public enterprises play a leading role in sectors such as electricity, transport, telecommunications, and real estate. The public sector provides 44 percent of formal employment representing about 17,000 jobs. Women are

affected disproportionately by unemployment: only 35 percent of women participate in the labor force, and often, many are employed in vulnerable and insecure informal sector jobs such as khat redistribution.<sup>1</sup> The cost and quality of important production factors, such as labor and electricity, and the quality of the investment climate, remain severely binding constraints to growth in Djibouti.

**Figure 1. FDI and Growth in Djibouti, 2000-2012**



**Figure 2. Greenfield Investments and Jobs, 2002-2012**



Source: Djibouti officials and Economic Development and Prospects, MENA, October 2013.

**5. Djibouti is vulnerable to a range of natural hazards, which affects women and urban populations disproportionately.** Natural hazards can severely impede economic growth and sustainable development. Approximately 33 percent of the population<sup>2</sup> lives in high-risk mostly urban areas. About 35.3 percent of the economy is also vulnerable to natural disasters, including: (i) extended multi-annual droughts, which exacerbate the water scarcity, e.g., 300 m<sup>3</sup>/year per capita compared to the regional average of 1,200 m<sup>3</sup>/year per capita for agriculture and domestic uses; (ii) frequent intense flash floods with a variable but approximate recurrence of seven years; (iii) volcanism originating along the Afar Rift area; (iv) fires fueled by droughts and exacerbated by precarious construction materials; and (v) frequent earthquakes, in magnitude from four to five on the Richter scale. Women are also disproportionately affected by natural disasters: globally, women and young people are 14 times more likely than men to perish during natural disasters.<sup>3</sup>

**6. Since 2007, an extended severe drought has caused an economic contraction of about 3.9 percent of GDP per year.**<sup>4</sup> The floods of November 19, 1994 and April 13, 2004 respectively killed 145 and 230 persons and affected over 120,000 and 100,000 persons.<sup>5</sup> The

<sup>1</sup>2012 poverty profile developed and published by the Statistics Office..

<sup>2</sup> Often seen as frontline responders, women can be valuable resources in climate and disaster risk management (DRM). A gender-sensitive approach to DRM can support women, who are most likely to be affected by disasters, while at the same time incorporating their potential contributions into all stages of disaster response and recovery.

<sup>3</sup>Based on the UN International Strategy for Disaster Reduction (IUCN) Fact Sheet, 2009.

<sup>4</sup>UN International Strategy for Disaster Reduction (IUCN) Fact Sheet, 2009.

<sup>5</sup> EM-DAT: The OFDA/CRED International Disaster Database. Université Catholique de Louvain.

Government estimated the 2004 flood damages and losses at around US\$11.3 million.<sup>6</sup>Djibouti's natural hazard vulnerability is aggravated by limited water resource management, insufficient land-use planning, constraining and non-systematic building codes enforcement, and limited capacity to prevent and respond effectively to natural disasters.

## B. Sectoral and Institutional Context

7. Since 1983, Djibouti City's annual population growth rate has averaged about +4.4 percent (1983 and 2009 censuses), adding to existing pressures for basic infrastructure and services. This steady growth is mainly due to a combination of natural growth, rural migration, and the influx of refugees fleeing political and environmental crises from neighboring countries. This demographic pressure has caused the following considerable changes in the city's land use patterns. (i) From 1910 to 1960, the neighborhoods in the flood plain, south of the old city center developed, i.e., Quartiers 1 to 7, Quartier 7bis, Ambouli, and Djebel. (ii) In the 1960s and the 1970s, the "Cités" were constructed, i.e., Einguela, Arhiba, Stade, Progrès, etc., mainly inhabited by people of average income. (iii) More recently, Balbala on the left bank of the Oued Ambouli was developed and is inhabited by more than 40 percent of the capital's total population. In 2013, only about 44 percent of the capital's population had a direct water connection and less than 60 percent had legal electric connections. The GoD has prepared three successive master plans in 1983, 1998, and 2013, mainly to address housing development, reserving space for the port and military bases, and flood protection.

8. **Urban development in Djibouti City is characterized by a multiplicity of actors and insufficient resources.** The central Government remains responsible for urban development through various technical departments, ministries or specific agencies directly under their control. The capital's increasing population concentration and economic activity has delayed effective decentralization, even though compromises have been made since a special status for Djibouti City was approved in 2005. The capital now has two levels of administration: the city and the commune, which are both governed by elected councils and mayors or by the president of the council at the commune level. However, the situation is transitional. The new 2005 regulation did not transfer new responsibilities to the city. Instead it reduced the authority of the newly elected city officials to coordinate technical departments (compared with the authority of the previous president of the District of Djibouti). Djibouti City's technical departments are now under the direct control of the respective ministries. Nevertheless, the 2005 regulation increased new aspirations and additional demands at the City level that could drive certain changes.

9. Urban planning and management are impeded by institutional **inefficiencies**. The Djibouti Urban Poverty Reduction Project (DUPREP) highlighted two main pressing deficiencies: (i) weak local governance with multiple actors but without essential coordination for effective and timely city management, and (ii) lack of capacity of public actors to mobilize and engage communities. The main technical departments involved in urban management and providing basic services to

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Brussels, Belgium.

<sup>6</sup>Post Disaster Needs Assessment (*Evaluation de Dommages, Pertes et Besoins Suite à la Sécheresse en République de Djibouti*), October 2011, conducted by the Government of Djibouti, with the support of the European Union, United Nations, and the World Bank. Damages were concentrated in Djebel and Ambouli on the banks of the river and some surrounding areas, including Quartier 7, Quartier 7 bis and Gabode, where the water level reached 1-1.5 meters above ground.

the population are the following: (i) *Office de la Voirie*(OVD) for solid waste management, hygiene and sanitation; (ii) *Office National de l'Eau et de l'Assainissement de Djibouti*(ONEAD) for water supply and wastewater management; (iii) the Equipment Directorate of the Ministry for the construction and the maintenance of the urban road network; and (iv) different Government departments for education and health, including primary and basic infrastructure and services. Currently, no regulatory framework exists for citizen consultation and participation. This inhibits the accountability and effectiveness of these institutions. Poor urban planning has led inevitably to the development of new slums or unplanned areas. The challenge of managing the urban development of the entire city has been overwhelmed by attempts to upgrade sprawling old slums or already existing unplanned population areas. To improve the efficiency of urban management, the Government's top priority is to clarify the institutional framework, defining roles and responsibilities as well as improving horizontal and vertical coordination. The Djibouti City Urban Master Plan financed under the DUPREP led by the Housing and Urban Planning Department (DHU) is a first step in the right direction, but still requires implementation tools and needed in-house capacities.

10. Quartier 7 (Q7), in Boulaos municipality, is Djibouti City's largest and densest old neighborhood, with 25,000 inhabitants living on 0.56 km<sup>2</sup>. Q7 is one of the last neighborhoods developed in the fifties in an area prone to flooding. It presents a microcosm of the country's social disparity and significant challenges in providing services. Seventy percent of Q7 households have no sewage system; they use either rudimentary pits or holes in the ground, or have no system at all.<sup>7</sup> The neighborhood is also regularly flooded, including the houses, which are essentially built below street levels. Due to the lack of drainage and the low permeability of the ground, Q7 suffers from high rates of diseases such as diarrhea, and malaria. According to a 2002 survey, the second district, which includes Q7, registered the highest probability of death before the age of 40 in Djibouti City (49.1 per 1,000) even though its poverty rates are lower than other parts of the city.

11. **DjagaBouldouq is a slum-type pocket on the northeastern section of Q7.** It covers almost a quarter of the neighborhood surface and contains a third of its population — about 8,000 inhabitants. Its urban layout features very narrow streets or alleys and extremely small plots. The neighborhood's accessibility is highly constrained for public services like solid waste collection, ambulances, and firefighters. The provision of basic services in DjagaBouldouq is also much lower than in the rest of Q7. Because 71.8 percent of households are not connected to the city water network, residents are forced to buy drinking water from their neighbors at a much higher cost. In DjagaBouldouq almost half of the households (46.2 percent) are renters compared to 25.6 percent in the rest of Q7 and nearly 18 percent share their housing with at least another family. Their living conditions and standards are much lower than the rest of Q7.<sup>8</sup>

12. Although Q7 is close to the city center, it has remained attractive to poor communities, which is typical of neighborhoods with low-level service provision. While extreme poverty in 2012 was much lower in Q7, with only nine percent compared to 31 percent in the rest of the city, its relative poverty of 63 percent was fairly high, making Q7 a priority area for targeted and sustained poverty reduction efforts. Moreover, employment issues are acute in the entire

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<sup>7</sup>The results at the level of arrondissement 2 are obtained from EDAM3, 2012.

<sup>8</sup>One out of 20 in the rest of Q7 (4.6%).

neighborhood. The youth and the women are the most affected: only 24.4 percent of men under 35 and 21.2 percent of all women reported being employed compared to 46.5 percent for all men. Residents of Q7 acknowledged the benefits of infrastructure investments and the need for employment opportunities during meetings with local associations.

13. The Bank-supported Djibouti Urban Poverty Reduction Project (DUPREP), which was **launched in 2008 and will close in December 2014**, has increased Q7 residents' access to basic services and social infrastructure. The Bank's ongoing engagement in Djibouti's urban sector dates back to 1984 with the first Government urban upgrading programs. The First Urban Development Project (UDP1) focused on upgrading old neighborhoods in the capital and its southern suburb, followed by UDP2 from 1991 to 1999. The Bank also supported the country's recovery from the disastrous 2004 flooding by supporting the development of flood management infrastructure and population resettlement. With the DUPREP, the Bank is backing the Government's dual approach to development as investment in infrastructure is combined with social activities and institutional support. Over the years, DUPREP has achieved the following in Djibouti City:

- Improved access to basic infrastructure and community services by constructing, among others, four major roads and associated drains inside and outside Q7; a community development center, two sport courts with associated services and commercial spaces, a children's garden and a health center. Recent rains demonstrated the neighborhood's considerably improved resilience to floods due to better evacuation of water and reduced stagnation. The project also created more than 15,000 person-days of short-term job opportunities, and allowed 50 percent more households to have access to an all-seasoned road;
- Enhanced social cohesion and access to social opportunities, mostly targeting women and youth, through numerous literacy programs, vocational trainings, capacity building for community associations, hygiene campaigns, and other community development activities; and,
- Increased capacity building of selected institutions by (i) creating a financial and stock management system in OVD; and (ii) preparing the Djibouti City urban development plan, among other efforts.

14. **The GoD requested the Bank's continued assistance in relieving the development pressures in the capital by building on past efforts and lessons learned.** This support will include: (i) improving the infrastructure of the Q7 neighborhood on a par with the surrounding neighborhoods, where investments were made over the past two decades; and (ii) preparing an operational approach to upgrade the Djaga Bouldouq slum in Q7. The operational plan will allow the Government to mobilize additional resources and replicate the methodology in other slum areas of the city.

#### *Other donors efforts in the urban sector*

15. **The Bank-funded DUPREP and DUPREP II are part of Djibouti's larger national program for providing urban services.** The GoD requested support from the French Development Agency (AFD) for a similar urban poverty reduction operation in Balbala, a fast-growing unplanned settlement in the western side of Djibouti City suburbs. During the preparation of both projects, the Government coordinated geographical location, design, and

selection of achievable objectives to maximize project impacts on the ground and on institutions. The AFD-financed *Second Projet de Développement Urbain Intégré* (PDUI II), a €6.0 million project, which is expected to be approved toward the end of 2014, will have parallel financing with the DUPREP II. Close coordination between the two operations is already planned. PDUI II will also be implemented through the *Agence Djiboutienne de Développement Social* (ADDS), which will ensure similar operational modalities. During implementation, as was the case under DUPREP, the donors will share information, reporting, knowledge, and lessons learned. ADDS will enhance collaboration by adopting operating modalities and including them in the Manual of Procedures.

16. A Japan Social Development Fund (JSDF) operation<sup>9</sup> (US\$3.0 million) will finance the development of sustainable individual sanitation systems<sup>10</sup> at the household level throughout Djibouti City. This will further strengthen the sustainability of the DUPREP II operations carried out in Q7 through reducing health hazards – especially during flood periods – and the public disposal of household waste on public roads. The early involvement of communities in Q7 will help to develop targeted action in this neighborhood and will increase the project's positive impact.

17. Because the housing sector is a key challenge for the Government, the Bank is also supporting the preparation of a National Housing Strategy (P145913) funded by the Multi-Donor Trust Fund (MDTF) for Sustainable Urban Development and the Global Facility for Disaster Reduction and Recovery (GFDRR). This Technical Assistance is designed to respond to the three major issues affecting the development of a safe housing environment, which were highlighted in the *World Development Report (WDR) 2014 Risk and Opportunity: Managing Risk for Development*: (i) proper urban planning; (ii) safe and affordable housing construction; and (iii) financing for the poor to facilitate access to housing. The housing strategy will be complemented by the preparation of an action plan to improve housing for the poor and a technical guide for incremental self-construction. These outputs could provide support and guidance to further improve the living conditions in Q7, thereby reinforcing sustainability.

18. The Bank is also sustaining its efforts to scale up the GoD's disaster risk management (DRM) activities. The proposed project is closely related to the ongoing DRM program financed by the Global Facility for Disaster Reduction and Recovery — the Comprehensive Approach to Risk Assessment in Djibouti (CARAD). It consists of (i) establishing a risk assessment and communication system; (ii) establishing a climate station network; (iii) completing an early warning system; and (iv) establishing a risk management distance-learning center. The project will complement those activities by reducing the Q7 residents' vulnerability to urban floods and improving the necessary infrastructure to access and evacuate the neighborhood. The urban team is using the completed risk and vulnerability assessments, risk maps, and the emergency and preparedness plans—as they relate to the urban space—to ensure that the urban/housing investments factor in the recent risk mitigation information.

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<sup>9</sup> The concept stage is still pending approval.

<sup>10</sup> This activity builds on numerous activities undertaken under DUPREP, including (i) a study on the willingness of Q7 residents to pay; (ii) a study on reducing latrine costs by using local materials; and (iii) skills development by targeted trainings for a number of builders in Q7.



## C. Higher Level Objectives to which the Project Contributes

19. The project is aligned with the Bank's upcoming Country Partnership Strategy (CPS) FY14-17. The CPS aims to reduce the vulnerability of Djibouti's population by *inter alia* enhancing the country's basic infrastructure and services as one of its four pillars. In addressing vulnerable groups, the proposed project focuses more directly on the first pillar by improving resilience to hazards and developing new opportunities for revenue generating activities. The activities planned to achieve these goals include: (i) supporting human development by improving the sanitary environment with better drainage and solid waste collection and creating the conditions for long-term jobs; and (ii) increasing access to quality services, e.g., delivering services to poor communities and strengthening local governance and urban management.

20. The project also is aligned with the Bank's new framework for engagement in MENA. The project focuses on combining policy dialogue with financial support to strengthen inclusive and accountable grassroots institutions of the poor, improve the resilience of cities and communities to shocks, and deliver quality infrastructure and services. The activities proposed under the project extend assistance to the most vulnerable neighborhoods of Djibouti City while deepening engagement with citizens to promote voice, transparency, and social accountability.

21. Finally, this project responds directly to the Bank's twin goals of poverty reduction and shared prosperity by providing targeted vulnerable households in underserved communities with increased access to basic services, such as new and rehabilitated roads and functioning infrastructure facilities. These interventions are expected to contribute to improved health outcomes, safe transport, jobs, and income-generating activities. In addition, the proposed project supports citizen engagement with interventions that directly affect their lives, for example, by empowering local level associations and organizations, including neighborhood committees, to select and prioritize community development activities.

## II. PROJECT DEVELOPMENT OBJECTIVE(S)/GLOBAL ENVIRONMENT OBJECTIVE(S)

### A. PDO

22. The proposed Project Development Objective (PDO) is to increase access to basic urban services in Quartier 7 (Q7) in Djibouti City.

### B. Project Beneficiaries

23. The main project beneficiaries are the 25,000 residents of Q7, especially those living in the most vulnerable areas. They will benefit from increased access to basic services, urban mobility, flood management, community development activities, and on-site job opportunities.

24. Additionally, staff from line ministries, i.e., physical planning and urban development, finance, planning, health, works, ONEAD, OVD, environment, Center for Research Studies (CERD), among others, ADDS, and other Government officials will be directly engaged in the project design and implementation.

### C.PDO Level Results Indicators

25. The PDO indicators used to assess whether the development objective are met include: (i) Direct Project Beneficiaries (at least 25,000 persons have directly benefited from at least one subproject, e.g., urban road, drainage, street lighting, community development fund, of which at least 50 percent are female), (ii) 7500 additional Q7 residents within 50m of rehabilitated and new roads, drains, and street lighting, and (iii) at least 75% of the surveyed users agree on the statement that the Omar Gouled central square is well maintained and operated.

### III. PROJECT DESCRIPTION

#### A. Project Components

26. The project will finance the three following components: (i) Infrastructure upgrading in Q7; (ii) Building Institutional Capacity and Citizen Engagement; and (iii) Implementation support. The proposed project builds on 30 years of Bank engagement in the urban sector in Djibouti, and is a follow-up to the DUPREP which focused on Q7 and initiated the transformation process of the neighborhood. Building on DUPREP's lessons learned, **the project DUPREP II will adopt an integrated approach that allows the project's infrastructure, institutional and social pillars complement each others, while focusing on mainstreaming disaster risk management, gender dimensions, and citizen engagement.**

27. Component 1: Infrastructure Upgrading in Q7 (US\$3.57 million IDA)

28. This component will finance key urban infrastructure in Q7 while at the same time respond to the urgent need to address the chronic challenge of employment in the neighborhood, particularly among women and young people.

a. *Urban roads and drains upgrading in Q7.* The program includes urban roads, drains, street lighting, and two transformers. The aim of the upgrading is to improve access to basic infrastructure, reduce the road's exposure to flood risks, and improve the Q7 residents' mobility and safety. The sub-component will finance the technical, environmental, and social studies, the works program, and the cost of works supervision. The urban roads will serve local and Q7 communities (see the detailed project description in Annex 2 and a map in Annex 8). The roads were also selected based on their socioeconomic impact on the neighborhood. The works will complement the program already financed under the DUPREP (see map in Annex 8).

This component will also generate employment. The roads will be upgraded using labor-intensive methods, some of which were tested in the DUPREP. These techniques are 15 times more labor intensive than asphalt roads. The residents of Q7, especially women, will be consulted throughout the planning process to ensure that the interventions serve the neighborhood's actual needs. These consultations will build on the outcomes of gender-sensitive engagement, which were carried out during project preparation. A GFDRR funded pilot flood risk emergency contingency plan for Q7 will be prepared, taking into account the existing urban road network and the work program selected under the DUPREP II.

b. *Omar Gouled Square development*. This sub-component will finance the revamping, upgrading, and landscaping of the main and central square (*Place Omar Gouled*) and other small public spaces in Q7. The goal of the upgrade is to reinforce social cohesion and create an area of social exchange for the neighborhood. The new layout for this public space will be gender sensitive and will be designed in consultation with the local population to ensure better ownership and maintenance of the installations. It could include sport, cultural, and commercial activities, including a cultural center located in the northwestern part of the square. The Government and other donors have confirmed their willingness to support the development of new facilities on or around the Omar Gouled Square. The upgrades will encourage the utilization of public open spaces as natural retention ponds. The sub-component will finance the technical and architectural studies, gender-sensitive consultations, the works program, and the cost of supervision. *The International Organization of La Francophonie* has agreed to equip the future cultural center.

29. Component 2: Building Institutional Capacity and Citizen Engagement (US\$800,000). This component is of paramount interest for all of Djibouti City, but it will also directly benefit Q7 and other neighborhoods under the DUPREP II.

- *Support to urban development* (US\$400,000). The activities are aimed at strengthening two key levels of urban governance and supporting the implementation of the Djibouti City Urban Master Plan prepared by SSH in 2012 under the DUPREP. Through these pilot activities and other capacity building efforts, the SSH and DHU are expected to develop adequate tools to better manage Djibouti City's urban development. To this end, *a comprehensive urban restructuring plan of Djaga Bouldouq* will be prepared. This densely populated area embedded in Q7 lacks basic infrastructure and services, leading to numerous social, environmental, and health-related issues. *Local development plans will also be developed* in two specific areas on the south and west of the city selected for their demonstration impacts.
- *Support to community development* (US\$400,000). This support is aimed at reinforcing the impact of ongoing or planned programs to develop better urban services and infrastructure in Q7 and other under-equipped areas of Djibouti City. It will support activities targeting direct improvement at the community level, including *establishment of the Quartier 7 Community Development Fund*. Building on similar ongoing activities financed by AfDB in secondary cities and by AFD in Balbala, a small fund targeting Quartier 7 will be created to support community-led and benefiting activities (small grants under US\$3,000 equivalent). The goal of the funded activities is to improve the impact and sustainability of the investment program financed under the project (Component 1). The fund will be administered by ADDS and a selection committee will choose the activities to be supported by the fund. Thirty percent of the subcommittee will be composed of women. *Citizen engagement (CE) mechanisms, and monitoring*

*and evaluation support*<sup>11</sup> will also be provided to increase government accountability, including on its service delivery aspects. The ADDS' Social Directorate will develop a CE action plan to ensure beneficiary feedback vis a vis project activities. In addition to leveraging existing participatory processes in the neighborhoods, such as the CDQ and community associations as interfaces for citizen engagement, mobile technology<sup>12</sup> will be utilized to develop a platform that allows residents to provide direct feedback on project activities, as well as to report potential grievances in real time to help facilitate efficient responses.

30. Component 3: Implementation, Monitoring and Evaluation Support (US\$700,000).

31. This component will finance: (i) operating costs, short term technical assistance to ADDS, and additional equipment, as well as targeted capacity building for the ADDS staff and other stakeholders in charge of project implementation (US\$645,000); and (ii) technical and financial audits (US\$55,000).

32. In addition, US\$220,000 will be set aside for physical contingencies, and US\$310,000 will be used for financial contingencies. A Project Preparation Advance (PPA) of US\$500,000 was granted on October 21, 2013. It will be refinanced under the credit.

**B. Project Financing**

***Lending Instrument***

33. The proposed project will be supported by an Investment Project Financing instrument. The project financing is in the form of an IDA Credit under “Blend Terms,” with a maturity of 25 years, grace period of five years, a 1.25 percent interest charge (plus 0.75 percent service charge), and principal repayable at 3.3 percent per annum for years 6-15 and 6.7 percent per annum for years 16-25.

***Project Costs and Financing***

Project Components	Project Costs US\$ million	IDA Financing	% Financing
1. Infrastructure upgrading in Q7	3.570	3.570	100
2. Capacity building and citizen engagement	0.800	0.800	100
3. Support to implementation	0.700	0.700	100
<b><i>Project Advance</i></b> <sup>13</sup>	<i>0.500</i>		
Total Costs	5.070		
Physical contingencies	0.220		
Financial contingencies	0.310		

<sup>11</sup>The World Bank Guidance Note for Mainstreaming Citizen Engagement in Projects for the Middle East and North Africa Region (2014) will provide a menu of tools which the project can draw on.

<sup>12</sup>82.5% of Q7 households possess a mobile phone.

<sup>13</sup>The US\$ 500,000 of the Project Preparation Advance will be repaid under the project.

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Total Project Costs	5.600
Front-End Fees	NA
Total Financing Required	5.600

### C.Lessons Learned and Reflected in the Project Design

34. Lessons learned from DUPREP have been fully taken into account in the design of the proposed DUPREP II. For example:

- DUPREP created space for community activities that reached out to a diverse set of groups in the neighborhood, especially women and youth, and ensured an inclusive development process in Q7. While that helped promote project awareness and social cohesion, many activities took place as separate initiatives and outcomes were in some cases, fragmented. Future activities should be further focused and coordinated, targeting quality rather than quantity and enhancing efficiency.
- Apart from the social components which dealt directly with the local residents, other forms of citizen engagement were limited mostly to public consultations at the beginning of the project. Further, weak urban governance resulted in limited maintenance efforts, putting the sustainability of investments at risk. Strengthening institutions involved in urban management and sustainably engaging citizens around the project will improve the sustainability of investments and the capacity for scaleup. This lesson has been fully taken into account under the project DUPREP II.
- Vocational trainings targeted a large number of neighborhood residents, specifically women and youth, and provided new opportunities for them to access jobs. For example, the labor-intensive works piloted in Q7 had a multiplier effect for sustainable job creation, resulting in major economic benefits. But, many of these temporary job opportunities failed to translate into long-term employment. The use of labor-intensive techniques will be replicated and used to develop the sector in a sustainable way, aiming to create jobs not only in Q7 during DUPREP II, but beyond its geographical and time limits. Further, Q7 provides an ideal environment for testing new, gender-sensitive infrastructure markets that promote equality and inclusion, paving the way for DUPREP II to train and track women's progress in non-traditional areas of employment.

35. As a result, a specific study was carried out during project preparation by an independent consultant to identify the areas to improve in community participation and development. The main areas of concern were vocational training, mobilization, community participation, and participatory approaches. The main recommendations were to: (i) refine the vocational training approach to enhance links between training and employment; (ii) strengthen capacity and the role of community-based associations; and (iii) improve the role of neighborhood associations in overseeing and managing public spaces and maintaining infrastructures. These recommendations have been taken fully into consideration in DUPREP II design, and where justified, are included in ADDS procedures and practices.

36. Urban governance in Djibouti has been affected by some institutional inefficiencies, including lack of coordination for effective and timely city management, and low capacity among public actors to mobilize and engage communities and better plan urban development.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

37. The Djiboutian Agency for Social Development, *Agence Djiboutienne de Développement Social* (ADDS), will be the project implementation agency. Project implementation will be carried out leveraging existing administrations and entities. The main rationale for the proposed institutional and implementation arrangements is to rely as much as possible on existing institutional structures and staff to contribute to strengthening national capacity.

#### *The role of the Government*

38. The Government is responsible for the project's overall strategic oversight and for carrying out measures that will guarantee and facilitate project implementation. The Secretariat of State for National Solidarity will represent the Government in the project.

39. A Steering Committee (SC) will be established to provide overall strategic guidance, reinforce inter-sector coordination and oversee project implementation. The SC will be led by the Ministry for Housing, Urbanism and Environment (MHUE), and include representatives from the Ministry of Economy and Finance, the Secretariat of State for Housing, the Secretariat of State for National Solidarity (SSNS), the Prefecture of Djibouti, the City of Djibouti, the Commune of Boulaos, DHU, ONEAD, EDD and OVD. The ADDS will act as the SC secretariat.

#### *The role of the ADDS*

40. The ADDS was created in December 2007. ADDS is legally established and fully able to commit to national and international obligations, such as implementing the ongoing IDA-financed DUPREP. Both the Law and the Decree establishing ADDS empower it to carry out delegated contract management and clarify its role in implementing development projects financed by international donors by loans and grants to the Government of Djibouti. The Decree stipulates that in each such case, the Government and ADDS will sign a Memorandum of Understanding (Convention), reflecting the contents and the terms of the project to be carried out, and based on the legal agreements made with the external donor.

41. The ADDS has ample experience with projects in different sectors, especially regarding procurement, financial management, and environmental safeguards related aspects. ADDS already benefits from several financing sources, disbursed US\$4.9 million and US\$11.7 million equivalent in 2012 and 2013, respectively. It plans to disburse about US\$20 million equivalent in 2014. ADDS receives an average of US\$6.0 million per year from the national budget through the Social Fund (FSN). ADDS is also currently implementing activities under various financing agreements signed with several multilateral and bilateral donors, e.g., IsDB, AfDB, FADES, AFD, and the World Bank<sup>14</sup>. The ADDS is currently actively involved in preparing DUPREP II and will ensure proper and timely project implementation on behalf of the GoD, as well as work towards achieving the project's development objectives.

42. The ADDS's key staff, including its General Director is already in place, and its current organization chart, updated during the DUPREP, is acceptable to the Bank. To manage DUPREP

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<sup>14</sup>Crisis Response Employment and Human Capital Social Safety Net Project, signed December 2010, US\$3.64 million from JSDF; Social Safety Net, signed August 2012, US\$5.0 million; DUPREP, signed June 2008, US\$3.0 million; DUPREP additional, signed July 2010, US\$2.9 million.

II, the ADDS recruited or confirmed the following staff: a full-time project manager for the overall technical coordination, an experienced procurement specialist, an environmental and social safeguard specialist, and an accountant or financial officer dedicated to the project's financial reporting. The ADDS will be responsible for the project accounts and will operate according to an updated Operational Manual. Under the DUPREP II, the ADDS will benefit from continuous trainings to strengthen its capacities to promote effective and continuous citizen engagement, and sustain compliance with Bank related procedures, especially with continuous staff rotations. Furthermore, specific targeted trainings on construction technologies and social engineering will be provided to ensure ADDS's capacity to implement the related project innovations.

#### *Neighborhood Development Committee*

43. Q7 is organized around and represented by a neighborhood committee (CDQ). Its members are leaders involved in various aspects of the community, e.g., education, health, civil society, cultural, and religious. The CDQ will be the designated interface for community engagement, mobilization, participation and decision making vis-à-vis other project stakeholders and the implementing agency. A subcommittee was created with members of the CDQ, for managing the Community Development Fund (CDF) financing, and monitoring the implementation of the small community-led operations (less than US\$3,000 each). ADDS will ensure the secretariat of the subcommittee. As recommended by the project team, this subcommittee will benefit under the project, from capacity building activities in social and participatory mobilization, technical and financial management of micro-projects, monitoring and evaluation, and reporting to enable the committee to carry out its duties satisfactorily.

### **B. Results Monitoring and Evaluation**

44. ADDS's integrated management systems are already in place and are satisfactory for the Bank. ADDS is expected to set up the detailed systems to enable close monitoring of each component's activities and will link the activities to the expected project outputs and results. The ADDS will be responsible for coordinating data collection according to the format prescribed by the results framework and monitoring in Annex 1. Progress will be discussed annually in the steering committee, which will issue its recommendations. The ADDS will be responsible for organizing yearly stakeholder meetings, which will be open to the media and the public. The meetings will be aimed at disseminating information on the progress made toward achieving the project's goals.

45. Monitoring and evaluation (M&E) is a specific focus of the project. M&E will be supported through various activities financed by the Credit with strong participation of the Q7 residents. The activities will include, among others: (i) institutional stakeholders financed under the project will receive specific training in using M&E systems, which are necessary to incorporate project activities into ADDS programs; and/or (ii) periodic surveys and beneficiary assessments will be conducted to monitor specific outcomes to ensure that the project's activities generate the statistics and data required for adequate monitoring and responsive actions. Short-term assistance has been planned to help ADDS produce acceptable MTR and closing reports in due time.

46. A baseline analysis is being conducted for baseline information. The data are disaggregated by sex, age cohort, and income levels to better determine the impact of the

distribution of benefits on community members throughout the project lifecycle. A mid-term review (MTR) report of the project will be prepared and provided to the Bank before June 30, 2017, and an Implementation Completion Report (ICR) upon project completion.

### C.Sustainability

47. The sustainability of investments mostly depends on the provision of adequate personnel to operate the basic services provided, e.g., drain, road, street lighting, and the availability of funding for routine and periodic maintenance of roads and buildings. DUPREP experience showed that the involvement of potential beneficiaries and respective public administrations responsible for future asset management in project design and implementation will improve longevity and use of future assets.

48. As part of project preparation, several actions have been agreed to strengthen sustainability. For basic services, the public administration responsible for each asset will provide a clear up-front agreement before Appraisal; confirm the take-over of the assets once the works are completed; and commit to properly maintaining and operating them effectively for their intended purpose. For each asset, ADDS will provide an estimated cost of yearly maintenance operations for budgeting, and if needed, maintenance manuals. The project will also focus on mobilizing communities at early stages of project design to increase ownership. Further, community led activities targeting behavioral changes to improve the urban environment and increased assets sustainability will be prioritized for CDF financing.

### V. KEY RISKS AND MITIGATION MEASURES

49. The project’s key potential risks are described in details in the Operational Risk Assessment Framework (ORAF) in Annex 4. **The overall implementation risk is rated Substantial.** Risks identified are manageable and mitigation measures are in place.

#### A.Risk Ratings Summary Table

Risk Category	Rating
Stakeholder Risk	Substantial
Implementing Agency Risk	
- Capacity	Moderate
- Governance	Substantial
Project Risk	
- Design	Moderate
- Social and Environmental	Moderate
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Substantial
<b>Overall Implementation Risk</b>	<b>Substantial</b>



## B.Overall Risk Rating Explanation

50. The suggested overall risk rating for the project is Substantial. DUPREP II is a follow-up to the ongoing DUPREP, and to be implemented by the same implementing agency (ADDS) with experience of Bank processes and procedures. This rating is mainly due to (i) the project's multisectorial nature, which will require close collaboration with several public entities, and (ii) other country specific risks that might affect proper project implementation. ADDS has shown strong capacity to ensure (i) harmonization and buy-in from different line ministries, including tackling institutional aspects; and (ii) that the appropriate resources, e.g., staffing, budget, are in place to ensure proper compliance with fiduciary and safeguards policies.

51. Finally, the above risks are being contained through: (i) targeted fiduciary and safeguards trainings that will build on ADDS's previous experiences implementing Bank-financed projects; (ii) simplifying the scope of the project; (iii) focusing on building institutional capacity to sustain and scaleup investments; and (iv) putting in place a steering committee to take high-level decisions, and coordinate and manage potential conflicts. The implementation of these risk mitigation measures, coupled with the active participation of all stakeholders,<sup>15</sup> will further lower project risk during implementation.

## VI. APPRAISAL SUMMARY

### A.Economic and Financial Analysis

52. This section presents an evaluation of the project's development impact and expected returns. The project amounts to a total of US\$5.6 million. Important returns are expected, especially for the benefit of the 25,000 residents of Q7. Project interventions are expected to significantly improve livelihoods, build resilience to flooding, strengthen professional capacities, and enhance property values. Beyond Q7, the project will benefit the entire population of Djibouti because the spending in investment, capacity building, and institutional strengthening will require inputs in goods and services and workers from outside the neighborhood. Table 1 below presents a summary of the expected development impacts.

53. **Based on a discount rate of eight percent, the overall impact of the project is evaluated to amount to US\$6.3 million equivalent to an economic rate of return of 12.4 percent.** Annex 7 shows the underlying assumptions associated with: (i) the additional demand for labor, goods and services directly generated by the project; (ii) the health gains from flood control; (iii) the greater economic dynamism of the neighborhood; and (iv) higher property values. The present value of these impacts is sensitive to the choice of the discount rate. The use of a higher discount rate of 10.2 percent would produce economic returns just equivalent to the total amount of the project (US\$5.6 million). With such rates, the economic rate of return of the project is unambiguously solid.

54. **The assessment is based on the characteristics of the households and property of Q7.** The determinants of consumption levels and real estate values in Q7 are based on the 2012

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<sup>15</sup>This includes DRM partners: Djibouti Center for Research Studies (CERD), Civil Defense, and Executive Secretariat for Disaster Management, Meteorology Agency.

household survey for the city of Djibouti (EDAM 3) and the Population and Housing Census of 2009 (RGPH) and take into account the impact of neighborhood characteristics such as the overall unemployment rate. The improvement of the residents' health is measured through the number of Disability-Adjusted Life Years (DALYs) saved due to lower rates of diarrhea, respiratory infections and paratyphoid fever. The estimate of the opportunity cost of flood is based on an international benchmark.

55. Activities surrounding street rehabilitation will use labor-intensive techniques and locally produced materials. Overall, the implementation of the project should therefore generate demand in Djibouti for labor, goods, and services amounting to US\$3.11 million. In addition to strengthening households' resilience to flooding, the project's success will depend on its capacity to trigger economic growth in the neighborhood, expected to generate an additional impact of about US\$2.43 million in Quartier 7. Easier and quicker access to enter or exit the neighborhood will increase the population's overall economic opportunities, efficiency, and security. If the number of jobs in the retail and catering sectors expands—like in other neighborhoods where roads in the past were rehabilitated—the project is expected to foster local jobs and decrease the unemployment and underemployment rates of active and non-active job seekers by two percentage points, and consequently increase wealth by roughly US\$190,000 per year equivalent in present value to US\$2.4 million. The residents also will benefit about US\$0.48 million in total and over the long-term (roughly US\$38,000 per year) in savings associated with lower property damages and opportunity costs after eliminating the flooding of the houses along the renovated streets and neighboring lanes, and the resulting health improvements due to lower exposure to diarrheal, paratyphoid, and respiratory diseases. Improving the local environment and the materialization of sustainable growth should produce significant returns of about US\$0.28 million on property values.

56. *Rationale for public financing.* The project will finance basic infrastructure and capacity building activities that will produce public goods such as greater security, lower flooding risks, improved economic environment, greater mobility, stronger social cohesion and overall economic development. To the extent to which these public goods do not result in appropriate gains, no private investor would be interested in financing this kind of undertaking.

57. *Rationale for World Bank financing.* The Djiboutian Government faces major resource mobilization constraints to respond to high unemployment and sustained poverty trends. Concerns about the sustainability of the balance of payments (the current account deficit amounted to 13.4 percent of GDP in 2012) and the management of the debt reinforce the importance of financing public investment on concessional terms. Finally, the Bank has been a key partner in the urban sector in Djibouti since early urban neighborhood upgrading projects. In addition to its in-depth knowledge of the institutional and technical settings, the Bank is capable of mobilizing needed experts and share similar cross-country experiences to better design and implement the project.

## **B. Technical**

58. The ADDS has existed for several years. Its capacity to implement this project has been successfully tested through the DUPREP. The technical procedures for preparing and supervising the implementation of the contracts are well internalized and no specific issue is expected. ADDS (formerly ADETIP and FSD) was created in 1999 with Bank support. It has a

Bank-approved Manual of Procedures and is familiar with IDA-financed operations. Its record for the past years is good. The Operations Manual is updated to reflect the project's activities.

59. The works to be financed under the project are expected to be of standard complexity and are similar to those implemented under the DUPREP. Consulting firms and contractors present in Djibouti, or usually operating there, have the technical skills to implement the program of works. Specific procurement bundles will be prepared, if needed, to attract qualified firms and avoid bottlenecks in the construction industry in Djibouti. The reasons for delays in implementation of the works contract under the DUPREP have been analyzed and special attention was paid to avoid them in this project through increased readiness, and standardized methods of works, especially for cobblestones.

60. Capacity building activities are in line with the previous or ongoing activities implemented by ADDS, mainly focused on social engineering (especially with regards to properly implementing the CDF activities), and labor-intensive roads construction technologies. However, to cope with the surge of activity at the onset of the DUPREP II, the ADDS was reinforced by short-term local consultants and up-front training was provided for financial management and environment and social questions, including safeguards.

### C. Financial Management

61. The overall assessment of financial management risk is “**moderate.**” The proposed Credit will be implemented in line with World Bank policies that are standard for project implementation, including the January 2011 “Procurement Guidelines” and “Consultant Guidelines.” It will use the current DUPREP implementation framework, procurement, and disbursement arrangements. The ADDS is an autonomous administrative public institution, overseen by the SESN, will be responsible for project management, including financial management and accounting. The financial assessment undertaken found the financial management arrangements to be satisfactory.

62. A single segregated Designated Account (DA) in US Dollars will be opened at a commercial bank in Djibouti acceptable to the World Bank. Payments and withdrawals of eligible expenditures, accompanied by supporting documents or statements of expenditure (SOE), will be made for sums less than predefined thresholds for each expenditure category, following the applicable procedures and the World Bank's Disbursement Handbook. The ADDS will be responsible for submitting replenishment requests on a monthly basis. All requests for withdrawals should be fully documented, maintained, and available for review by the Bank and project auditors. All disbursements will be subject to the terms of the Financing Agreement and to the procedures defined in the Disbursement Letter.

63. The general accounting principles for the project will be as follows: (a) project accounting will cover all sources and uses of project funds, including payments made and expenses incurred. Project accounting will be based on accrual accounting; and (b) project transactions and activities will be separated from other activities undertaken by the ADDS.

64. The project financial reporting will include unaudited Interim Financial Reports (IFRs) and yearly Project Financial Statements (PFS). The ADDS will be responsible for preparing periodic reports, maintaining the project bookkeeping, and producing the annual PFS and the quarterly IFRs. The IFRs should include the following: (i) a statement of funding sources and

uses for the period covered and a cumulative figure, including a bank statement of the project account balances; (ii) a statement of the use of funds by component and by expenditure category; (iii) a reconciliation statement for the DA; (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget; and (v) a comprehensive list of all fixed assets. The ADDS will produce the IFRs every quarter and submit it to the Bank within 45 days of the end of each quarter. The annual PFS should include: (i) a cash flow statement; (ii) a closing statement of financial position; (iii) a statement of ongoing commitments; and (iv) an analysis of payments and withdrawals from the grant account. The IFRs and PFSs will be produced based on the accounting system and submitted for the external financial audit.

65. The project accounts will be audited annually and will cover all aspects of the project, uses of funds, and committed expenditures. The audit will cover the financial operations, internal control and financial management systems, and a comprehensive review of statement of expenditures. The annual audit report will include: (i) the auditor's opinion on the project's annual financial statements; (ii) a management letter on the project's internal controls; and (iii) a limited review opinion on the IFRs. The annual reports will be submitted to the World Bank within six months from the closure of each fiscal year. The limited review opinion will be submitted to the World Bank with the IFRs.

#### **D. Procurement**

66. The overall assessment of Procurement Risk is “**moderate.**” The ADDS, the project management agency of the ongoing DUPREP will be in charge of the Implementation of DUPREP II and will administrate all procurement-related transactions financed under this project. The ADDS is subject to the applicable procurement rules and regulations. Because ADDS has its own procurement commission, it is not required to submit procurement documents, e.g., Bidding Documents, Bid Evaluation Reports, etc., for prior review by the Commission Nationale des Marchés Publics (CNMP). Overall, the new Djiboutian procurement Manual of Procedures for goods, works, and consultant employment is in line with the Bank's procedures. Since May 2010, the country has had adequate standard bidding documents and request for proposals similar to the Bank's are.

67. Although the ADDS is familiar with Bank procurement guidelines and procedures by managing the DUPREP and Social Safety Net projects, the 2013 Country Portfolio Performance Review indicated that these projects continue to suffer from some weaknesses among them: (i) technical specifications and TORs oftentimes not clearly defined; (ii) procurement-related documents (including comments on deliverables, payment information, etc.), not recorded in one single department, and (iii) and procurement plan not updated proactively and made public undermining broader private sector competition in tenders. To address these risks, under DUPREP II, the ADDS coordinator and staff members involved in procurement will be continuously trained prior and during implementation to become more familiar with using Bank procedures and to provide the necessary management oversight in compliance with the Bank's new guidelines (January 2011).

#### **E. Social (including Safeguards)**

68. The project is expected to result in major benefits for the communities through the availability of improved infrastructure, increased employment opportunities including via funds

that will be made available through the *Community Development Fund*. For the latter, women are expected to especially benefit from funding made available for community association activities which will be organized around activities that are considered beneficial for the communities as whole.

69. *Social Safeguards.* The World Bank Operational Policy on *Involuntary Land Acquisition and Resettlement* (OP 4.12) applies because some adverse construction related impacts are expected under component 1 which includes roads rehabilitation and upgrading, improvements in drainage systems and street lighting, among others. These impacts are expected to be very limited and minor in scope. No physical relocation of families/communities will occur under this project.

70. To cover potential adverse impacts throughout the project's lifecycle, the client has prepared a Resettlement Policy Framework (RPF) defining resettlement principles and processes, eligibility criteria, institutional and funding arrangements, grievance redress mechanisms, and a legal framework that reviews the fit between the borrower's laws and Bank policy requirements. The Community Development Fund (Component 2) will not finance any subproject which may cause OP 4.12 related impacts.

71. For coverage of specific adverse impacts already identified, the client has prepared an abbreviated resettlement action plan (ARAP) which covers the known impacts which are mainly related to a small group of encroachers (15 total) affected as part of right-of-way clearance<sup>16</sup> for proposed roads and under the rehabilitation of Omar Gouled Square. The ARAP contains the provisions of the Bank's policy including consultation details, a grievance redressal mechanism, budget for ARAP implementation as well as monitoring measures. The provisions of the ARAP will be implemented well prior to start of civil works. The ADDS has committed to ensuring that sufficient capacity will be in place to manage the safeguards aspects of the project including ensuring implementation of the ARAP provisions.<sup>17</sup>

72. *Consultations and disclosure.* The social safeguards instruments were prepared based on consultations with the directly affected parties and a broader stakeholder group which included central and local authorities, civil society groups among others. The client has disclosed all safeguards instruments in-country in a manner that is known to, and accessible for all concerned parties. In addition to safeguards consultations, the project has ensured that broader Q7 stakeholders are fully informed of the projects and its benefits. Results from these consultations show that communities are highly in favor of the project and believe it will result in community development.

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<sup>16</sup>Since August 2013, the Djiboutian government has begun the process of systematically clearing all ROWs of illegal occupation. Even though this national directive precedes the ARAP prepared under the project, the client has confirmed to the Bank that the affected persons outlined in the ARAP will be given full provisions in accordance with OP 4.12. There has been no Right Of Way (ROW) clearance in Quartier 7 (project area) since the Bank's identification mission in April 2013, prior to the decree issuance in August 2013.

## **F.Environment (including Safeguards)**

73. The project triggers the World Bank Environmental Assessment Policy (OP 4.01) and is classified as Category B due to the expected site-specific and limited adverse impacts associated with the construction and restoration of physical infrastructure assets and conversion and landscaping of the central “public” space (Component 1).

74. The following environmental assessment instruments were prepared and publically disclosed:

75. Environmental and social management plan (ESMP) for the roads that will undergo rehabilitation and upgrading, and an ESMP for the installation of two transformers on Boulevard G. Battal. The ESMPs detail the expected impacts, mitigation, monitoring, and institutional measures to be taken during implementation and operation to eliminate, offset, or reduce the adverse environmental and social impacts, and to enhance the positive impacts. The plans also include actions required to implement these measures including the needed capacity development and training and implementation schedule and cost estimates.

76. An environmental and social management framework (ESMF) was prepared for the investments planned for other project activities the details and locations of which are not defined as yet (including the OumerGouled Square Development and the Community Development Fund). The ESMF details the procedures and methodologies to be followed to manage the environmental and social risks associated with the project implementation. The ESMF contains an environmental and social screening checklist, and standard terms of reference for the environmental and social management plan to be prepared prior to the start of civil works to guide the management of environmental and social risks for those activities not yet defined.

77. Public Consultation and Disclosure: The ESMPs and the ESMF were prepared, consulted on, and have been disclosed locally and at the World Bank Info Shop in Washington D.C. on March 18, 2014. ESMPs (for investments whose locations have not been yet determined) will be prepared in accordance with the ESMF, reviewed, approved and disclosed prior to the start of civil works.

78. The counterpart has committed to ensuring that that safeguards specialists are in place to manage all environment and social related risks including supervising the implementation of all safeguards instruments. Further training and support will be provided by the Bank safeguards specialists to the counterpart on a regular basis

Annex 1: Results Framework and Monitoring

DJIBOUTI: SECOND URBAN POVERTY REDUCTION PROJECT (P145848)

Results Framework

**Project Development Objective (PDO):** The proposed Project Development Objective is to increase access to basic urban services in Quartier 7 in Djibouti City.

PDO Level Results Indicators	Unit of Measure	Baseline 2013	Cumulative Target Values					Fre-quency	Data Source/ Method ology	Responsibility for Data Collection	Description (indicator definition, etc.)
			YR1	YR2	YR3	YR4	YR5				
<b>PDO Indicator:</b> <i>Direct Project Beneficiaries</i>  <i>*percentage of which are female</i>	Number	0	0	1,650	4,125	25,000	25,000	Bi-annually	Independent surveys	ADDS	This project benefits directly the entire Q7 residents.
	Percentage	0%	50%	50%	50%	50%	50%				
<i>Population within 50m of rehabilitated and new roads, drains, and street lighting.</i>	Number	0	0	0	3,000	5,000	7,500	Bi-Annually	Site visits	ADDS	This indicator will be Spatially based.
<i>Users in Q7 agreeing on the following statement: Omar Gouled central square is well maintained and operated</i>	Percentage	0%	- <sup>18</sup>	-	75%	75%	75%	Annually	GRM mechanism + MTR survey	ADDS	GRM platform feedback, client satisfaction surveys, and focus groups

<sup>18</sup>No target defined for Year 1 and 2, waiting for completion of works.

**Intermediate results**

**Intermediate results of component 1: Infrastructure Upgrading in Q7**

<b>Intermediate Result Indicator 1.1:</b> Length of roads and drains constructed (1,600m)	Percentage	None (No project)	0	20%	50%	90%	100%	Annually	Biannual Supervision reports	ADDS	On-site supervision and technical audits
<b>Intermediate Result Indicator 1.2:</b> Development of Omar Gouled Square	Percentage	None (No project)	0	20%	60%	100%	100%	Annually	Biannual Supervision reports	ADDS	On-site supervision and technical audits
<b>Intermediate Result Indicator 1.3:</b> number of direct person-days of short-term employment generated under the project investments	Number	n/a	0	3 000	8 000	12 000	15 000	Bi-annually	Biannual supervision reports	ADDS	Provided by the contractors and confirmed by the engineer in charge of supervision of works.
<b>Intermediate Result indicator 1.4:</b> O&M arrangements in place for the Omar Gouled central square	Yes/No	n/a	No	No	No	Yes	Yes	MTR	Municipality/ADDS	Municipality /ADDS	An O&M manual developed and adopted, and a budget line made available by the Djibouti City Municipality

**Intermediate results of component 2: Building Institutional Capacity and Citizen Engagement**

<b>Intermediate Result Indicator 2.1:</b> Production of local development plans	Number	0 (no project)	0	1	1	2	2	Annually	DHU and SSH reporting	ADDS	DHU and SSH reporting
<b>Intermediate Result Indicator 2.2:</b> Submission of DjagaBouldouq restructuring plan	Yes/no	No	No	No	Yes	Yes	Yes	MTR	DHU and SSH reporting	ADDS	Approval of the restructuring plan by Government
<b>Intermediate Result Indicator 2.3:</b> Number of FDC-funded sub-projects funded	Number	0	7	17	30	40	50	Annually	CDC and ADDS reporting	ADDS	



<i>*percentage of which are from women-led associations</i>	Percentage	0%	50%	50%	50%	50%	50%	Annually	CDC and ADDS reporting	ADDS	
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**Intermediate results of component 3: Project Management**

<b>Intermediate Result Indicator 3.1:</b> <i>Quarterly progress reports produced within 45 days after the period</i>	Number	n/a	3	4	4	4	4	Quarterly	ADDS reporting	ADDS	Yearly cumulative figures
<b>Intermediate Result Indicator 3.2:</b> <i>Grievances registered related to delivery of project benefits that are actually addressed</i>	Percentage	n/a	90%	90%	90%	90%	90%	Quarterly	ADDS progress reports	ADDS, SSNS	This indicator will be linked to the GRM platform

## Annex 2: Detailed Project Description

### Component 1: Infrastructure Upgrading in Q7 (US\$3.57 million IDA)

1. The selected investment program in Component 1 financed under this project was partly identified under the DUPREP I. To ensure an impact on the ground, the project activities and financing will be concentrated in Q7, creating a critical mass. Since the project will receive a limited amount of IDA resources (US\$5.6 million), the Bank strategy will be centered on upgrading roads and drains using the same right-of-way and on rehabilitating the Omar Gouled Square to increase quality of life and enhance social cohesion. The development of sustainable individual sanitation systems at household level throughout Djibouti City will be supported by an upcoming JSDF-financed, Bank-implemented operation. This operation will implement a pilot project in Q7 to improve the current sanitation practices. The project will be based on a phased approach, allowing for continuous engagement in this neighborhood. All financing for infrastructure under the DUPREP II is allocated to Q7, excluding DjagaBouldouq (see the map in Annex 8). This area is quite complex including non-aligned rights-of-way, major encroachments on public space, below road-level houses, etc., and requires significant investments in infrastructure and services. However, in accordance with a request from the Government, and considering restructuring of DjagaBouldouq is necessary prior to most investments in this area, the project will finance the preparation of a restructuring plan of the DjagaBouldouq area, which is included in Component 2. Further discussion with the Bank and other donors is needed to prepare a potentially more comprehensive intervention in DjagaBouldouq. Planning the restructuring will help the Government to cope with its slum upgrading agenda, while reinforcing the consistency of the Bank lending policy overtime.

Sub-component 1.1. Urban road and drains upgrading in Q7 (US\$2.57 million). The urban roads selected for upgrading are priorities for local and Q7 communities (see map in Annex 8). They were selected under the DUPREP based on their socioeconomic importance to the neighborhood. Upgrading the targeted roads and drains will improve access to basic infrastructure, reducing their exposure to flood risks and improving the safety of Q7 residents. The program was discussed with and approved before Appraisal by the SSH, the SSNS, and the local authorities, i.e., Mairie de Djibouti and Commune de Boulaos. The investments will include upgrading the road itself with locally produced cobblestones, the sidewalks with locally produced cobble blocks where possible, and related drainage and public lighting. The works will complement the program already financed under the DUPREP (see the map in Annex 8). This sub-component will finance the technical, environmental, and social studies, the work program, and the cost of works supervision. The selected program includes urban roads, drains, street lighting, and two transformers already identified at the onset of project preparation, for which the detailed technical studies and the environmental and social studies are ongoing under PPA financing:

- Street 36 (525 m): 6 m width plus sidewalk; drainage
- Street 39 (850 m, starting from Boulevard 50): 6.5 m width plus sidewalk; drainage, including Jog Square
- Boulevard 43 (150 m from Avenue 39 to Street E): 6 m width plus sidewalk; drainage

- Boulevard 53 (70 m from Avenue 35 to Avenue 36): 6 m width plus sidewalk; drainage
- Boulevard 54 (70 m from Avenue 35 to Avenue 36): 6 m width plus sidewalk; drainage
- Rehabilitation or installation of street lighting along the upgraded urban roads
- Two 400 KVA transformers on the Eastern Q7 limit (Boulevard G. Battal)

These investments are deemed necessary to complete the Q7 upgrading, improve drainage network outfalls, and trigger the willingness of occupants to upgrade their houses and move towards land titling.

The design of the roads will facilitate the use of labor-intensive methods, some of which were tested in the DUPREP, i.e., locally produced cobblestones. Those techniques are 15 times more labor intensive than asphalted roads. In addition, residents and especially women will be consulted through interviews and consultations to better adjust the design of interventions to the actual needs of the neighborhood. These consultations will build on outcomes of gender-sensitive engagement carried out during project preparation to ensure continuity of community participation throughout project design, particularly of women beneficiaries. An emergency contingency plan will be prepared as part of the GSDRR, taking into account the existing urban road network and the work program selected under the DUPREP II.

As was the case under the DUPREP, ADDS will enter into an agreement with EDD for the implementation of the street lighting and the two transformers. A draft agreement was prepared during Pre-Appraisal. EDD will be responsible for technical studies, works, and supervision if they are included in the final cost of the agreement. A review of the procurement methods used by EDD was carried out during project preparation. The EDD procurement methods were confirmed acceptable to the Bank. The bidding documents and the work contracts will include the specific ESMP prepared by ADDS.

The costs of this subcomponent are as follows:

- Environmental impact studies	US\$50,000
- Social impact studies	US\$50,000
- Technical studies and bidding docs	US\$60,000
- Works	US\$1,960,000
- Supervision of works	US\$100,000
- EDD Agreement	US\$350,000
- TOTAL	US\$2,570,000

Sub-component 1.2: Omar Gouled Square **development** (US\$1 million). This sub-component will finance the revamping, upgrading, and landscaping of the main and central square in Q7, *Place Omar Gouled*, and other unoccupied small public spaces in Q7. *Placemaking*<sup>19</sup> methodology will be implemented for the square's landscaping. It

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<sup>19</sup>**Placemaking** is a term that began to be used in the 1970s by architects and planners to describe the process of creating squares, plazas, parks, streets, and waterfronts that will attract people because they are pleasurable or interesting. Landscape often plays an important role in the design process. It is a multi-faceted approach to the planning, design, and management of public spaces. It capitalizes on a local community's assets, inspiration, and potential, ultimately creating good public spaces that promote people's health, happiness, and well-being.

aimsto create a public space in which the community feels ownership and engaged, and where the design serves their needs. The process will identify and catalyze local leadership and associate them with experts of social architecture and landscaping as well as artists. Planners will partner with local institutions and involve people identified with talents and creative input through workshops or competition. Artists will be commissioned during the public consultation process and the actual urban design and planning. Public art in the form of intervention and interactive consultation will be considered as a successful model for transforming places and triggering transformation by creating a feeling of shared experience in sensitive contexts. The project could include sport, cultural, and commercial activities, e.g., public popular markets, including a cultural center located in the northwestern part of the square. Social architecture methodology will be implemented for the creation of new facilities with a particular focus on social design and innovative and sustainable material. The layout and design of the project will be based on the comprehension of the local culture and cultural forms of expression. Other small deserted or abandoned zones inside Q7 could be converted into useful and attractive public spaces and could be financed under the project.



Figure 1. The Place Diagram is one of the tools Projects for Public Space agency has developed to help communities evaluate places. The inner ring represents key attributes, the middle ring intangible qualities, and the outer ring measurable data.

The project will encourage the utilization of selected spaces as natural retention ponds, as well as permeable paving, by piloting innovative and cost-effective approaches to improve natural drainage and reduce urban rainwater runoff, which is usually a major cause of recurrent flooding. The component will also finance the technical and architectural studies, gender-sensitive consultations, the work program and the cost of supervision. *The International Organization of La Francophonie* has agreed to equip of the future cultural center. The quality and precision of the preliminary studies for the

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*Placemaking* is both a process and a philosophy. Community input is essential, but so is an understanding of a particular place and of the ways that great places foster successful social networks and initiatives.

work program for the Omar Gouled Square is of paramount importance. The Government intends to transform the square into a key element triggering social cohesion in Q7. The recruitment of an international architect has been approved. The detailed technical studies of the works will be produced by a locally recruited consultant firm.

The sub-component costs are as follows:

- International architect	US\$55,000
- National architect	US\$5,000
- Detailed technical studies, bidding docs and SPN	US\$60,000
- Artist (conception)	US\$10,000
- Works (Place Omar Gouled and other public spaces)	US\$590,000
- Works (cultural center building)	US\$220,000
- Art works installation	US\$60,000
- TOTAL	US\$1,000,000

**Box 1. Gender Mainstreaming in Municipal Planning: The Case of Costa Rica**

Belenis a metropolitan area in Costa Rica’s Heredia Province and home to 20,000 residents. Since 2004, the city council has been proactive in strengthening gender equity in its municipal planning through a series of strategic and operative improvements. It carried out a combination of institutional awareness-raising workshops, equipped staff with gender-responsive tools, and built capacity in monitoring and evaluation in coordination with the municipality’s gender office and local women’s organization. The results were tremendous and included: (i) incorporating gender considerations into the work of all municipal units, (ii) shifting the mind-set and work environment, (iii) targeting improvements in how urban development projects are designed, implemented, and received by beneficiaries. To date, the process has been piloted in eight other municipalities in Costa Rica.

*Source:* Gender and Urban Planning: Issues and Trends, United Nations Human Settlement Programme, Nairobi 2012.

**Component 2: Building Institutional Capacity and Citizen Engagement (US\$800,000 million IDA)**

The project will finance capacity-building activities, including cross-sectional and feasibility studies, technical assistance, training, and implementation of an innovative financing mechanism involving municipal and community stakeholders. The purpose of the component is to contribute to implementing strengthened and sustainable urban development and management policies in Djibouti City. The component activities encompass the greater metropolitan area in addition to the direct issues of Quartier 7. The activities are designed to address successively the following: (i) slum upgrading in the Djaga Boulgouq area, (ii) implementation of the Government’s Master Plan for area development planning, and (iii) improving basic services to the population via better engaging citizens via piloting a community driven public services initiative.

Djibouti’s institutional context is characterized by shortcomings and challenges that the project alone cannot remedy. In particular, the coordination needs to be improved of the different stakeholders involved in urban development and the provision of basic services. The adopted approach is to gradually improve system coordination by supporting the activities selected by the stakeholders involved in basic service provision to the city’s population. The stakeholders include the ministry in charge of urban development and housing (DHU), the ministry in charge of national solidarity, ADDS, Djibouti City, the municipality of Boulaos, agencies directly involved

in the provision of basic services, e.g., OVD, ONEAD, and the ministry of Public Works. The selected activities pragmatically attempt to resolve the identified issues to connect the two operational project components. Specific objectives were carefully adjusted to available resources to mitigate risks linked to an overly complex and ambitious definition of the objectives.

Sub-component 2.1: Support to Urban Development (US\$400,000). Activities consist of financing urban planning feasibility studies in different neighborhoods requiring specific development approaches: i.e., the slum area of DjagaBoulogou; the recently extended western part of Balbala that is partially occupied and underserved; and the newly developed south and southeast area of the city identified by the Master Plan. These studies, especially the first one, are expected to contribute to attracting additional financing to DUPREP II, which is dedicated to restructuring DjagaBoulogou in Quartier 7. These activities comprise the four pillars of proper urban planning and reducing the pace of slum development. They are (i) **preventing** urban expansion into flood prone areas—Djibouti Urban Master Plan; (ii) **restructuring** and upgrading existing slums—DjagaBoulogou restructuring study; (iii) **improving** infrastructure and regularizing organized neighborhoods—ongoing Q7 interventions; and (iv) **planning** urban growth by preparing priority expansion areas plans. The direct beneficiary of this sub-component is the MHUE.

- (a) Preparation of a comprehensive urban restructuring plan of DjagaBoulogou (US\$200,000). This densely populated area is embedded in Q7 (see map in Annex 8). The area suffers from a severe lack of basic infrastructure and services, leading to numerous social, environmental, and health-related issues. As identified during the implementation of the DUPREP, the main areas of concern include especially flooding, inadequate access for vehicles due to a very limited road network, lack of public areas suitable for services, and lack of land ownership titles for current residents. This restructuring plan will include all socioeconomic studies, feasibility studies, preliminary technical studies, cost assessments, economic analysis, environmental and social assessments, and safeguard studies and action plans, as well as preparation of a specific citizen engagement mechanism aimed at easing the implementation of the future restructuring operation. A specific citizen engagement mechanism will also be prepared to ease the implementation of the future restructuring operation. Beyond the restructuring plan itself, the study is expected to provide plans of alignment for further upgrading in DjagaBoulogou.

This study will propose different restructuring scenarios (level of definition: Preliminary Project Design, APS) based on several possible layouts justified by the level of service to provide, costs to finance, land regularization procedures, etc. The feasibility study will also address institutional issues linked with the implementation process and the replicability of such operations in other old southern neighborhoods or in Balbala. Specific attention will be paid to managing the adverse social impact of the project in compliance with World Bank safeguards. Among the challenges to overcome is building public dialogue with the concerned population.

No financing has been allocated under DUPREP II for works in this DjagaBoulogou neighborhood due to the lack of an intervention action plan. This feasibility study is expected to address this issue and will help the GoD to attract additional financing to restructure the DjagaBoulogou neighborhood. The Government intends to present the

DjagaBouldouq urban restructuring plan for consideration to the donor community before the Mid-Term Review.

- (b) Technical assistance to DHU for local development planning in application of the Urban Master Plan (US\$200,000). This study will provide the DHU additional tools and procedures appropriate to their need for new development areas, *Plans d'Aménagement Locaux*, (PDL). It will be based on two case studies identified within the boundaries of the city. The objective is to complete the Djibouti Urban Master Plan 2013-2035 financed by the Bank within the DUPREP by more detailed planning documents that prevail against third parties and allow minimum cost recovery to enable public administration to serve the land, even in low-income neighborhoods. These documents will be produced in accordance with the existing regulations to the extent reasonably possible. This TA is also expected to enhance better coordination between the three administrations in charge of implementing these new development areas: the DHU, the Ministry of Finance (through the Land and Property Rights Directorate), and the Ministry of Interior (Prefect and LG). Main technical aspects to address will be land equipment level, costs financing, phasing, and the share of responsibility between the different stakeholders. The study will complete the Urban Development Strategy produced by the MHUE in 2012 and the INDS launched in 2008. It is also in line with the Social Development National Initiative stated in 2008. It will help develop and test tools that could be utilized by SSH and DHU in other areas and help them to develop more detailed operational programs.

Sub-component 2.2: Support to Community Development (US\$400,000). This support is aimed at reinforcing the impact of ongoing or planned programs to develop better urban services and infrastructure in Q7 and other under-equipped areas of Djibouti City. It will support activities targeting direct improvement at the community level, including the following:

- (a) Community Development Fund (CDF) of Quartier 7 (US\$200,000). This activity will consist to fund a specific CDF for Quartier 7 to enhance citizens' engagement. It will supplement lessons learnt from the urban management review, particularly involving the communities in the provision of basic services. A positive list of activities and a specific manual of procedures were approved during project preparation. The fund will be administered by ADDS and a selection committee will choose the activities to be supported by the fund. The CDF's set up will be based on the experiences conducted with the support of AFD in Balbala or the experiences of AFDB within the different regions of Djibouti. However, the stakeholders agree that this new CDF for Quartier 7 will coordinate with the activities implemented in Component 1 of the project. The CDF activities will support priority initiatives likely to improve living conditions within the neighborhood, such as cleanliness and sanitation, maintenance and operation of the assets built within the area, e.g., roads and public buildings, as well as education and training, and culture and sports activities. Emergency support to households in case of flood or fire will be contemplated. Specific actions also will be identified in conjunction with the restructuring of the DjagaBoulgouq area that will be prepared during the Project (see above discussion). The main objective of the CDF will be to support sustainable initiatives. Therefore, the quality of the project and the capacity of the project initiator to complete its project are important. Special attention will be paid to coordination with the

municipality (Boulaos and Djibouti City). Specific TA will be mobilized to finalize documents and including: (i) helping screen the request made to the fund, e.g., preparation of a simple logical framework, identification of monitorable targets, and screening for environmental impacts; and (ii) assessing biannually the impacts of the financed activities on the Q7 population. The subcommittee will include at least 30 percent women, and it will be entrusted with informing Quartier 7 communities about the fund, reviewing and selecting the proposals, and monitoring and reporting back on the implementation of the sub-activities. Women associations will have the opportunity to compete along with other neighborhood associations. Priority will be given to projects led by and targeting women and youth by establishing gender-sensitive criteria early in the process. A specific manual of procedures has been prepared and incorporated to ADDS's operations manual to reduce fiduciary and safeguards risks and enhance the impact of activities.

- (b) Citizen Engagement Mechanism (US\$200,000). This activity will help to build a sustainable mechanism to engage project beneficiaries. The ADDS Social Department will prepare and implement a community mobilization plan based on project activities. The activities are also aimed at informing the population throughout the project, carrying out consultation processes, and mobilizing the residents on selected project-related topics. The plan will be anchored in a communication strategy which will be designed to ensure that potential beneficiaries are aware of activities and how they can benefit from participating (in particular, criteria for accessing the small grants), and are kept regularly informed of project progress, including how the project is addressing grievances. In addition, an integrated ICT-enabled platform (mobile and web) will allow Q7 residents to provide directly feedback on project activities. Once the platform is developed, the ADDS's Monitoring and Evaluation Directorate will be responsible for managing it. The platform will allow for and include: (a) a grievance reporting mechanism for residents to make suggestions and report issues related to project infrastructure; (b) mass communication messages; and (c) periodic community satisfaction surveys to track program progress and allow for continuous adjustments. All the feedback would be received in real time, categorized, and available for visualization. The estimated cost is US\$40,000 for the platform set-up, management and operation at ADDS level (see Annex 6 for detailed description). For the development of community participation programs, using the platform and other instruments over the implementation period, the estimate cost is US\$80,000. This subcomponent will also finance: (i) short-term local consultants to support local associations, CDQ, and ADDS, (US\$10,000) to assess, monitor, and evaluate the impacts of the FDC-financed activities; and (ii) for consultants support to ADDS for M&E including safeguards, and for MTR and ICR preparation (US\$70,000).

### Component 3: Implementation, Monitoring and Evaluation Support (US\$700,000).

1. This component will finance: (i) operating costs, additional equipment, and targeted capacity building to support the ADDS and other stakeholders in project implementation (US\$645,000); and (ii) technical and financial audits (US\$55,000).
2. Physical contingencies and price contingency amount to US\$220,000 and US\$310,000, respectively.



## Detailed Cost Estimate

PROJECT COMPONENTS	COSTS (in US\$)
COMPONENT 1: INFRASTRUCTURE UPGRADING IN Q7	
1.1 Investments	3,570,000
• Urban road rehabilitation and upgrading in Q7	2,570,000
• Omar Gouled Square Development	1,000,000
COMPONENT 2: INSTITUTIONAL STRENGTHENING	800,000
2.1. Support to Urban Development	400,000
• Preparation of a comprehensive urban restructuring plan of DjagaBouldouq	200,000
• Technical assistance to DHU for area development planning in application of the Urban Master Plan	200,000
2.2. Support to community development	
• Community Development Fund of Quartier 7	400,000
• Citizen engagement mechanism	200,000
• Citizen engagement mechanism	200,000
COMPONENT 3: PROJECT MANAGEMENT	700,000
• Operating costs and additional equipment	645,000
• Technical and financial audits	55,000
<i>Project Advance*</i>	<i>500,000</i>
Total baseline costs	5,070,000
Physical contingencies	220,000
Price contingency	310,000
<b>TOTAL FINANCING REQUIRED</b>	<b>5,600,000</b>

*\*Project Advance is already factored in Components 1 and 2, and is mentioned here for indicative purposes.*

### **Annex 3: Implementation Arrangements**

#### Project Institutional and Implementation Arrangements

1. The Djiboutian Agency for Social Development, *Agence Djiboutienne de Développement Social* (ADDS), will be the project implementation agency. Project implementation will be carried out leveraging existing administrations and entities. The main rationale for the proposed institutional and implementation arrangements is to rely as much as possible on existing institutional structures and staff to contribute to strengthening national capacity.

#### *Role of Government*

2. The Government is responsible for the project's overall strategic oversight and for carrying out measures that will guarantee and facilitate project implementation. The Secretariat of State for National Solidarity will represent the Government in the project.

3. A Steering Committee (SC) will be established to oversee project implementation. The SC will be led by the Ministry for Housing, Urbanism and Environment (MHUE), and include representatives from the Ministry of Economy and Finance, the Secretariat of State for Housing, the Secretariat of State for National Solidarity (SSNS), the Prefecture of Djibouti, the City of Djibouti, the Commune of Boulaos, DHU, ONEAD, EDD and OVD. The role of the SC will consist of providing overall strategic guidance, overseeing the implementation of the project, reinforcing inter-sector coordination, approving work programs, and reviewing implementation and audit reports. ADDS will inform the SC quarterly about project implementation. The SC will meet every year, or on an ad-hoc basis. ADDS will ensure the SC secretariat.

#### *Role of the ADDS*

4. The ADDS was created in November 2007. ADDS is legally established and fully able to commit to national and international obligations, such as the implementation of the ongoing IDA-financed DUPREP. Both the Law and the Decree establishing the ADDS empower it to carry out delegated contract management and clarify its role in implementing development projects financed by international donors through loans and grants to the Government of Djibouti. The Decree stipulates that in each such case, the Government and ADDS would sign a Memorandum of Understanding (Convention), reflecting the contents and the terms of the project to be carried out, based on the legal agreements to be made with the external donor. In the case of the DUPREP II, the ADDS and the World Bank will enter into a Project Agreement that will stipulate *inter alia* the terms and conditions for the remuneration of the agency for implementing the project.

5. The ADDS has ample experience with implementing projects in different sectors, especially regarding procurement, financial management, and environmental safeguards-related aspects. ADDS already benefits from several financing sources; it disbursed US\$4.9 million and US\$11.7 million equivalent in 2012 and 2013, respectively. It plans to disburse about US\$20 million equivalent in 2014. ADDS receives an average of US\$6.0 million per year from the national budget through the Social Fund (FSN). ADDS is currently implementing activities under various financing agreements signed with multilateral and bilateral donors. These include IsDB (Projet de la Réduction de la Pauvreté Urbaine de Balbala PREPUB, signed June 2008, US\$8.0 million), AfDB (Appui au Programme de Réduction de la Pauvreté Urbaine,

DUPREP, signed November 2008, US\$9.4 million; DUPREP Additional Financing, signed March 2011, US\$1.3 million); FADES (Participation à la Lutte contre les Effets de la Sécheresse sur la Population Rurale, signed April 2009, DK0.3 million), the AFD (Projet de Développement Urbain Intégré de Balbala, PDUI, signed November 2008, €5.5 million; Projet de Gestion des Déchets Solides de Djibouti, signed July 2012; €6,0 million); the Kuwait Fund for Arab Economic Development KFAED (Fonds pour la Vie Décence, signed January 2012, US\$2.0 million) and the World Bank (Crisis Response Employment and Human Capital Social Safety Net Project, signed December 2010, US\$3.64 million from JSDF; Social Safety Net, signed August 2012, US\$5.0 million from IDA; DUPREP, signed June 2008, US\$3.0 million; DUPREP Additional, signed July 2010, US\$2.9 million). The AFD plans to select ADDS for the implementation of the PDUI II (*Second Projet de Développement Urbain Intégré*), parallel financing to be approved end-2014 (est. US\$8.2 million equivalent).

6. The ADDS is currently involved in DUPREP II preparation and will ensure proper and timely project implementation on behalf of SSNS and MHUE, as well as work towards achieving the development objectives. Specifically, the role of ADDS will be to:

- i. Prepare the annual program in consultation with the stakeholders and the quarterly implementation reports,
- ii. Manage technical inputs from different line ministries and relevant technical agencies,
- iii. Ensure overall implementation of and coordination within the components, including monitoring, reporting, and evaluation. Report to the SC and to IDA at least every quarter or more if needed,
- iv. Ensure dissemination of lessons learned from the project to all participating agencies, beneficiary communities, and other stakeholder institutions, as well as manage the overall project communications strategy,
- v. Liaise with IDA and other development partners on issues linked to component activities, and
- vi. Be directly responsible for the fiduciary aspects of the components and managing the project's dedicated account.

7. The ADDS's key staff, including its General Director, is already in place and is acceptable to IDA. The current organization chart, updated during the DUPREP, is acceptable to the Bank. To manage DUPREP II, the ADDS recruited or confirmed the following staff: a full-time project manager (engineer specialized on urban infrastructure) for the overall technical coordination, an experienced procurement specialist, an environmental and social safeguard specialist, and an accountant or financial officer dedicated to the project's financial reporting. The ADDS will be responsible for the project accounts and will operate according to an Operational Manual, which will be updated by Appraisal.

8. A financial management (FM) capacity assessment of ADDS, the fiduciary implementing entity, was conducted in September 2013. The financial management arrangements for the project are detailed in Annex 7. ADDS should satisfy the following recommendations to maintain an acceptable financial management system: (i) the accounting software has not been fully customized and will need to be fully operational to produce the required financial reports; (ii) ADDS is managing several projects and has recruited an internal auditor. The internal auditor's detailed job description needs to be included in the operation manual; and (iii) ADDS has experienced delays in recruiting an external auditor, which resulted in an overdue audit for the ongoing projects. The process of recruiting an external auditor will need to be initiated early

during the year to avoid having an overdue audit report. With the proposed mitigating measures, ADDS will have the financial management requirements per OP/BP 10.00, and will maintain an acceptable financial management system and the current risk rating.

9. A subcommittee was created with members of the CDQ (not linked to associations eligible to CDF financing) to generate community interest, and to validate and monitor the implementation of community-led micro projects. The CDF will finance selected proposals submitted by Q7-based associations. The subcommittee will be composed of eight permanent members—30 percent of them women—which will report on the projects to the neighborhood committee. ADDS will ensure the secretariat of the subcommittee. As recommended by the project team, this subcommittee will benefit from project-financed capacity building in social and participatory mobilization, technical and financial management of micro-projects, monitoring and evaluation, and reporting to enable the committee to perform its duties successfully

10. Under the DUPREP II, the ADDS will benefit from continuous trainings to strengthen the above mentioned capacities, develop new capacities in social safeguards, promote effective and continuous citizen engagement, and sustain compliance with Bank-related procedures, especially with continuous staff rotations. Furthermore, ADDs will receive specific targeted capacity building activities in construction technologies and social engineering to ensure its capacity to implement the related project innovations.

#### *Neighborhood Development Committee.*

11. Quartier 7 is organized around and represented by a neighborhood committee (CDQ); 30 percent of the CDQ members are women, and efforts will be made to involve youth. Its members are leaders involved in various aspects of the community, e.g., education, health, civil society, cultural, and religion. The leaders were selected by the commune. Two members of ADDS are represented in the CDQs. The CDQ will be instrumental in the success of the project. It will serve as the designated interface for community engagement, mobilization, participation, and decision making vis-à-vis other project stakeholders and the implementing agency.

12. The Commune of Boulaos will also establish a subcommittee to generate community interest, and validate and monitor the implementation of community-led micro projects financed by a CDQ to which Q7-based associations will submit proposals. This subcommittee will be composed of eight permanent members, 30 percent of them women. The subcommittee will report to the neighborhood committee on the projects. The project team has recommended that this subcommittee benefit from training in social and participatory mobilization, technical and financial management of micro-projects, monitoring and evaluation, and reporting to enable the committee to perform its duties successfully.

#### *Project Administration Mechanisms*

## Financial Management, Disbursements, and Procurement

### *Financial Management*

#### **Financial Management Assessment**

13. The FM team reviewed the financial management arrangement at the Agence Djiboutienne de Développement Social (ADDS), and met with the director of ADDS, the project coordinator of the current DUPREP, and the financial team handling World Bank projects. Meetings were held on September 16 and 17, 2013.

14. Based on the results of the assessment, the FM risk as a component of the fiduciary risk is rated as Moderate. With the proposed mitigating measures, ADDS will have the financial management requirements as per OP/BP 10.00 and will maintain an acceptable financial management system and the current risk rating.

15. The proposed project will be implemented according to World Bank guidelines, using the implementation framework of the ongoing Urban Poverty Reduction Project, procurement, and disbursement arrangements, and using the human resources of ADDS.

16. The project will be mainstreamed in ADDS's activities. ADDS is an autonomous public institution with administrative and financial autonomy, with oversight by the Social Solidarity Secretary of State ("Secrétariat d'Etat auprès du Premier Ministre, chargé de la Solidarité Nationale") (SESN), which has performed well under the previous and current projects. ADDS has acquired solid capacity in fiduciary procedures applicable to Bank-financed projects.

17. ADDS is in charge of planning, executing, monitoring and evaluation of project activities. It is responsible for project financial management and accounting and for preparing periodic reports on project implementation progress, including both physical and financial achievements.

18. In view of the risks identified and the weaknesses observed, the overall financial management risk is deemed Moderate. ADDS should satisfy the following recommendations To maintain an acceptable financial management system, ADDS should implement the following risk mitigation measures: (i) ADDS's accounting software has not been fully customized and will need to be fully operational to produce the required financial reports; (ii) ADDS is managing several projects and has recruited an internal auditor. The internal auditor's detailed job description needs to be included in the operation manual; and (iii) ADDS has experienced delays in recruiting an external auditor, which resulted in an overdue audit for the ongoing projects. The process of recruiting an external auditor will need to be initiated early during the year to avoid having an overdue audit report.

19. The Financial Management rating for the ongoing Urban Poverty Reduction Project is Moderate Satisfactory. The project had delays in submitting the last audit report due to the delay in recruiting an external auditor. The project is still unable to fully utilize the accounting software or generate the required financial report. The project software is still being customized.

## **Financial Management and Disbursement Arrangements**

20. *Staffing:* ADDS has a dedicated financial team to handle the FM aspects of all Bank financed projects. The team is comprised of a financial officer (FO) in charge of overall FM aspects. The FO is assisted by an accountant, a budget officer that prepares the annual budget for all activities, and a financial officer assigned by the Ministry of Finance to monitor all project FM activities. The FM team has substantial experience in implementing Bank-financed projects. ADDS has recently appointed an internal auditor (IA) who will be in charge of monitoring the internal control at ADDS. The IA has undergone the necessary training. The FO will report to the project coordinator who is responsible for the overall implementation of the project. The project coordinator will report in turn to the director of ADDS.

21. *Internal control:* The ADDS is satisfactorily staffed with regard to the level of transaction volume. It is managed using administrative, financial, and accounting procedures. The Project Operation Manual (POM) defines the roles, functions, and responsibilities of the ADDS management and staff. ADDS has recently updated the POM of the ongoing project to reflect all the changes and the increase of activities. In addition, ADDS has included a detailed FM chapter in the POM describing the various functions within the FM and the accounting spectrum. The ADDS is comprised of staff responsible for managing the project activities, including procurement, financial, accounting, and assets management software.

22. Project commitments are subject to the local procurement procedures through the National Procurement Committee for amounts exceeding the threshold fixed by governmental regulations. This committee will be involved in all the procurement steps.

23. An internal auditor (IA) has been recruited to reinforce the effectiveness of internal controls and supervision at ADDS. The IA will be responsible for the ongoing monitoring and supervision of the internal controls and to ensure that a sound control environment is constantly kept. The IA will report to the director of ADDS. ADDS will need to clearly define the roles and responsibilities of the IA in the POM. The IA will produce quarterly reports on the effectiveness of internal controls and will provide an independent and objective assurance over the project implementation and fiduciary management.

24. *Budgeting:* The ADDS budget is prepared by the department of financial services and budget monitoring. The consolidated budget of the entity is prepared after inputs from the various departments. Reconciliation with the previous year is established to better monitor differences. For World Bank projects, the department of finance and budget monitoring receives data from the project manager and adds to the general budget.

25. The annual budget is linked to the medium-term programming framework. Thus, if a project executed by the agency has a term of three years, the programming of activities should initially provide overall spending over three years and distribute the anticipated expenses each fiscal year. Budgeting then will specify each year's expenditure details under the relevant fiscal year. This exercise allows the agency to update the budgetary planning and activities of the following exercises.

26. The process of preparing the annual budget is completed before the start of the fiscal year so as not to block the agency operations and to allow the commitments of budgeted expenditures to disburse. ADDS sends the annual budget plan for approval by the donors no later than November 15 of each year. ADDS will prepare a budget plan and disbursements plan for each fiscal year related to the project and will submit these plans for the World Bank's approval by November 15 of each fiscal year.

27. *Project accounting system:* The transactions will be registered in the accounting system by the accountant under the control of the financial officer. The project financial officer is responsible for preparing the Interim Un-audited Financial Reports (IFRs) before their transmission to the ADDS director for approval. The FO will also complete periodic reconciliations between accounting statements and IFRs.

28. The general accounting principles for the project are as follows: (i) project accounting will cover all sources and uses of project funds, including payments made and expenses incurred. All transactions related to the project will be entered into the accrual accounting system. Disbursements made from the project Designated Accounts (DA) will also be entered into the project accounting system; (ii) project transactions and activities will be separated from other activities undertaken by the ADDS. IFRs summarizing the commitments, receipts, and expenditures made under the project will be produced quarterly, using the templates established for this purpose; and (iii) the project chart of accounts will be in compliance with the classification of expenditures and sources of funds indicated in the project cost tables and the general budget breakdown in addition to the POM. The chart of accounts should allow for data entry to facilitate the financial monitoring of project expenditures by component, sub-component and category.

29. The accounting software (Tompro) is currently unable to produce all the required financial reports. ADDS will need to finalize the customization of the accounting software to enable the automatic generation of the required financial reports.

30. *Project reporting:* The project financial reporting includes quarterly IFRs and yearly Project Financial Statements (PFS). IFRs should include data on the financial situation of the project, including:

- 1) Statement of Cash Receipts and Payments by category and component.
- 2) Accounting policies and explanatory notes, including a footnote disclosure on schedules:
  - (i) "The list of all signed Contracts per category," showing Contract amounts committed, paid, and unpaid under each Contract;
  - (ii) Reconciliation Statement for the balance of the Project's Designated Account;
  - (iii) Statement of Cash payments made, using the Statements of Expenditures (SOE) basis;
  - (iv) Budget analysis statement indicating forecasts and discrepancies relative to the actual budget; and
  - (v) Comprehensive list of all fixed assets.

31. The IFRs should be certified by the external auditor and should be produced by ADDS every quarter and sent to the World Bank within 45 days from the end of each quarter. PFS should be produced annually. The PFS should include: (a) a cash flow statement; (b) a closing statement of financial position; (c) a statement of ongoing commitments; (d) an analysis of payments and withdrawals from the project's account; (e) a statement of cash receipts and payments by category and component; (f) reconciliation statement for the balance of the

Project's Designated Account; and (g) statement of cash payments made using Statements of Expenditures (SOE) basis.

32. *Audit of the project financial statements:* An annual external audit of the project accounts will cover all aspects of the project, all uses of funds, and all the committed expenditures of the project. It will also cover the financial transactions, internal control and financial management systems, and will include a comprehensive review of statements of expenditures (SOEs).

33. An external auditor will be appointed according to Terms of Reference acceptable to the Bank. The auditor should conduct the audit in accordance with international auditing standards. The auditor should produce: (i) an annual audit report including his opinion on the project's annual financial statements; (ii) a management letter on the project's internal controls; and (iii) a limited review opinion on the IFRs. The annual reports will be submitted to the World Bank within six months from the closure of each fiscal year. The limited review opinion will be submitted to the World Bank with the IFRs.

34. ADDS will ensure that the recruitment and hiring of the external auditor will be done early during the year so the external auditor can start his field work early to deliver the audit report and management letter within the deadlines and avoid any delays.

35. *Flow of information:* The ADDS will be responsible for preparing periodic reports on project implementation progress and on both physical and financial achievements. These reports will be based on project activity progress by component and expenditure category, including technical and physical information reported on a quarterly basis.

36. ADDS will maintain the project bookkeeping, and will produce annual PFSs, and quarterly IFRs.

***Disbursement***

37. The IDA funds will be disbursed according to World Bank guidelines and funds should be used to finance project activities.

38. The proceeds of the project will be disbursed in accordance with the Bank's traditional disbursement procedures to finance activities: i.e., Advances, Direct Payment, Reimbursement, Special Commitments accompanied by appropriate supporting documentation (Summary Sheets with records and/or Statement of Expenditures (SOEs) and/or records) in accordance with the procedures described in the Disbursement Letter and the Bank's "Disbursement Guidelines." The IFRs and the PFS will be used as a financial reporting mechanism and not for disbursement purposes. The minimum application size for direct payment, reimbursement and Special Commitment Issuance will be US\$100,000.

39. Allocation of the Credit's Proceeds:

<b>Category</b>	<b>Amount Allocated (US\$)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Implementation of contracts through ADDS for Component A, B (except B.2) and C (goods, works and services) and fees for ADDS	4,920,000*	100%



(2) Grants to Community activities under Component B.2 of the project (goods, works, and consultants services)	200,000	100% of amounts disbursed to community activities under the <i>Community Development Fund</i>
(3) Unallocated	530,000	
Total	5,600,000	

*\*Inclusive of Project Preparation Advance Allocation*

### **Designated Account**

40. On behalf of the ADDS, the Department of External Financing will open a segregated DA in US Dollars in a commercial bank in Djibouti, acceptable to the World Bank, to cover the project's share of eligible project expenditures. The DA ceiling will be US\$500,000 of the Credit's amount. ADDS will be responsible for submitting monthly replenishment applications with appropriate supporting documentation.

41. *Disbursement:* The World Bank has introduced e-disbursement for all Djiboutian supported projects. Under e-disbursement, all transactions will be conducted, and associated supporting documents scanned and transmitted online through the Bank's Client Connection system. E-disbursement will considerably speed up disbursements and facilitate project implementation, and is in effect for all World Bank financed projects starting January 2013.

### **Statement of Expenditures (SOEs)**

42. For requests for Reimbursement and for reporting eligible expenditures paid from the Designated Account, the following are required:

- Statement of Expenditures for each category of expenditures
- Records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices for those against contracts exceeding the following amounts: works for US\$300,000 and above, goods for US\$150,000 and above, consulting firms for US\$100,000 and above, individual consultants for US\$50,000 and above.

### **Governance and Anti-corruption**

43. The project's resources may be affected by fraud and corruption, thereby negatively affecting the project's intended outcomes. The World Bank FMS worked closely with the project's task team leader (TTL), as well as the project's consultants. Together with the team, they developed an integrated understanding of possible vulnerabilities and agreed on actions to mitigate the risks. The above-proposed fiduciary arrangements, including POM with a detailed FM chapter, internal auditor assignment, reporting and auditing, and review arrangements are expected to minimize the risk of fraud and corruption that are likely to have a material impact on the project's outcomes.

**Supervision Plan:** The Bank will supervise the project's financial management in conjunction with its overall project supervision conducted at least three times a year.

**Supporting Documentation and Record Keeping:** All supporting documentation was obtained to support the conclusions recorded in the FM Assessment.

### ***Procurement***

44. **General:** Procurement for the proposed project will be carried out in accordance with the World Bank’s “Guidelines: Procurement of goods, works, and non-consulting services under IBRD loans and IDA credits and grants by World Bank borrowers,” dated January 2011 (“Procurement Guidelines”); “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 (“Consultant Guidelines”); “Guidelines on Preventing and Combating Fraud and Corruption in Project Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011; as well as the provisions stipulated in the Credit Agreement. National Competitive Bidding (NCB) will be carried out with procedures acceptable to the Bank. Overall, the new Djiboutian Procurement Manual of Procedures for goods, works, and employment of consultants is aligned with the Bank’s procedures. Since May 2010, the country has had adequate standard bidding documents and requests for proposals similar to the Bank’s.

45. **Project Management:** The Djiboutian Agency for Social Development, *Agence Djiboutienne de Développement Social (ADDS)*, will be the project implementation agency. The ADDS will be responsible for the overall supervision and coordination of the project. The ADDS will be the interlocutor with the World Bank during supervision and appraisal missions.

46. **Procurement Capacity Assessment:** The assessment of the ADDS’s capacity to execute procurement activities within the framework of this project has been updated. The report will be filed in the Procurement Risk Assessment Management System (P-RAMS). Despite the few weaknesses and problems in some kinds of procurement, revealed by the latest procurement post review of **Djibouti Urban Poverty Reduction Project (DUPREP)**, the ADDS’s capacity to oversee the procurement management has been judged **Moderate**. However, this capacity could be improved, provided the recommended actions are taken before the project’s effectiveness. This does not apply to the Procurement Plan, which should be provided before the financing approval. The **frequency** of procurement supervision, including PPR/Audit, will be **every six months**.

47. The detailed capacity assessment report will be uploaded to P-RAMS. The summary assessment and recommendations are shown in the table below.

Analysis of Procurement Capacity	Issues/Risks	Mitigation Measures
1. <b>Record Keeping and Document Management System.</b> Procurement records will be kept with the responsible unit.	ADDS will not have all the necessary and mandatory documentation to present for each contract during post reviews.	Ensure that instructions to ADDS are included in the Operations Manual (OM), and that trainings are held to ensure that project-specific files are kept for all procurement, and related transactions and are recorded contract by contract.
2. <b>Staffing.</b> Previous Human capacities reflected insufficient competencies to manage the entire project.	The project implementation can be delayed.	An experienced procurement specialist and a procurement assistant were affected to IDA activities; all staff assigned to the project should be trained.

<p><b>3. Procurement Planning.</b> Procurement plans are not systematically prepared, updated, and published.</p>	<p>The absence of appropriate procurement plans will delay project implementation and result in bottlenecks.</p>	<p>As part of project preparation, the ADDS shall prepare a preliminary Procurement Plan, including all contracts for which procurement action is to take place in the first 18 months of implementation. The ADDS shall update procurement plans throughout the duration of the project, at least annually, by including contracts previously awarded and to be procured in the next 12 months.</p>
<p><b>4. Bidding Document, Short-listing and Evaluation Criteria</b></p>		<p>Train all staff on the latest version of the Bank's consultant and procurement guidelines.</p>
<p><b>5. Advertisement, Pre-bid/Proposal Conference and Bid/Proposal Submission.</b> Technical specifications, TORS, and criteria of evaluation are not very clear or frequent.</p>	<p>Poor/non-responsive bids would be received.</p>	<p>Technical specifications should be prepared with the assistance of knowledgeable experts, if needed.</p>
<p><b>6. Evaluation and Award Contract.</b> Proposal and bidevaluation is not yet well mastered by the staff.</p>		<p>Train the ADDS's members involved in the evaluation process in good practices, and describe this process well in the project O.</p>

48. The applicable thresholds by methods and for prior review are detailed in the table below. These thresholds are meant to be used for procurement planning at the beginning of project implementation. They could be revised after each Procurement Post Review, depending on the findings and recommendations of the reviewer, and in view of the improvement (or otherwise) of the procurement implementation and the subsequent risk assessment.

<b>Prior Review Thresholds (in USD)</b>	
<b>Procurement Type</b>	<b>High Risk Implementing Agency Prior Review Thresholds</b>
Works	0.3 million
Goods	0.1 million
Non-consulting Services	0.1 million
Consulting Firms	0.1 million

Individual Consultants			0.05 million			
<b>Procurement Method Thresholds (in USD)</b>						
<b>Djibouti</b>	<b>Goods/Non-consulting Services</b>			<b>Works</b>		
	<i>ICB</i>	<i>NCB</i>	<i>Shopping</i>	<i>ICB</i>	<i>NCB</i>	<i>Shopping</i>
	> 150,000	≤ 150,000	≤ 25,000	> 1 million	≤ 1 million	≤ 200,000

*Environmental and Social (including safeguards)*

### **Social Safeguards**

49. The World Bank Policy on *Involuntary Land Acquisition and Resettlement* (OP 4.12) applies because of limited impacts that may occur under Component 1 which finances the construction and/or rehabilitation of road networks, drainage systems, and street lighting, among others. For adverse impacts known at this stage, the client has prepared an Abbreviated Resettlement Action Plan (ARAP) to mitigate adverse impacts for a small group of encroachers (15 total). Of these, seven individuals who have minor assets located in the right-of-way clearance of five roads proposed for rehabilitation, are considered project affected persons and are eligible for compensation. The impacts are limited and modest in scope and will entail dismantling of a metal container, goat shed, a metal/wood canopy structure in addition to minor structures created for parking a total number of three cars. None of the individuals who created these assets own the lands and all have acknowledged they are encroaching on state lands. In addition, eight persons using the premises of Omar Gouled Square for sleeping at night will be affected since this square will undergo rehabilitation. A simple instrument (ARAP) has been prepared by the client which acknowledges these impacts and seeks to provide compensation measures which is mainly in-kind compensation as preferred by the persons affected. The client in addition has prepared a Resettlement Policy Framework (RPF) covering resettlement principles and processes, eligibility criteria, institutional and funding arrangements, grievance redress mechanisms, and a legal framework reviewing the fit between borrower laws and Bank policy requirements for coverage of future impacts should they arise during the course of the project's lifetime.

50. Both social safeguards instruments were prepared in consultation with affected communities and other stakeholders, including institutional actors and administrative and local authorities. These instruments were disclosed in-country and at the InfoShop prior to appraisal in a form and manner accessible to project stakeholders.

51. *Assessment of client capacity to manage safeguards risks.*<sup>20</sup> Given that the implementation of OP 4.12 provisions is new for the client, there is clearly a need to build their knowledge base as well as expertise in the areas of social and environment risk management. Because of the limited familiarity with Bank social safeguards and also building on lessons learned from the on-going project, the counterpart has agreed that qualified individual(s) will be available to manage project level environment and social risk and to ensure adequate

<sup>20</sup>Since August 2013, the Djiboutian government has been taking steps to systematically clear their ROWs of illegal occupation. Even though this national directive precedes the ARAP prepared under the project, the client has committed to the Bank that the provisions of the ARAP will apply in accordance with OP 4.12.

implementation, monitoring and reporting of social safeguards related issues. The Bank's safeguards team has carried out training on both the environmental and social policies and will continue to support the client during implementation.

### **Environmental Safeguards**

52. The project triggers the World Bank Environmental Assessment Policy (OP 4.01), which requires an environmental assessment of projects proposed for Bank financing is undertaken to help ensure that they are environmentally sound and sustainable, and to improve decision making. This project is classified as Category B due to the expected site specific and less adverse impacts associated with the construction and restoration of physical infrastructure assets and conversion and landscaping of the central "public" space (Component 1). It is expected that all investments at the sub-project level to be Category B.

53. Component 1 (investments) of the project includes the rehabilitation and upgrading of the following urban roads in Q7:

- Street 36 (525 m): 6 m width plus sidewalk; drainage
- Street 39 (850 m, starting from Boulevard 50): 6.5 m width plus sidewalk; drainage, incl. Jog Square
- Boulevard 43 (150 m from Avenue 39 to Street E): 6 m width plus sidewalk; drainage
- Boulevard 53 (70 m, from Avenue 35 to Avenue 36): 6 m width plus sidewalk; drainage
- Boulevard 54 (70 m, from Avenue 35 to Avenue 36): 6 m width plus sidewalk; drainage
- Two 400 KVA transformers on the Eastern Q7 limit (Boulevard G. Battal)

54. Component 1 also includes the development of OumarGouledSquare, however, the specific investments are not defined yet for the square. Component 2 includes set up of the Quartier 7 community development fund that will support community –led activities through small grants under US\$3,000.

55. As such, the environmental assessment instrument includes:

- An **environmental and social management plan (ESMP)** prepared for the roads identified under component 1, and an ESMP for the installation of two transformers on the Eastern Q7 limits. The ESMPs detail the expected impacts during the construction and operation phases; mitigation measures for key identified impacts; monitoring plan; and institutional measures to be taken during implementation and operation to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, and to enhance the positive impacts. The ESMPs include the actions needed to implement these measures including the needed capacity development and training and implementation schedule and cost estimates. The main impacts associated with the rehabilitation and upgrading of roads pertain to construction activities common to all roads (soil pollution, noise, dust, construction debris, risk of accidents, potential for social conflicts, disruption in utility services), as well as during operation ). In addition, the ESMP identifies road specific impacts and mitigation measures. The main impacts associated with the installation of the two transformers pertain to construction stage (construction activities); health and safety during operational phase; and decommissioning phase.

- An **environmental and social management framework (ESMF)** was prepared by the counterpart (ADDS) for all other investments that are not yet defined. The ESMF details the procedures and methodologies to manage the environmental and social risks associated with the implementation of project activities that are to be identified; provisions for estimating and budgeting costs for such measures; and information on agency responsibilities and needed capacity development. The ESMF provides an environmental and social checklist, and standard terms of reference for the preparation of an environmental and social management plan (ESMP) for ESMPs to be prepared prior to the start of civil works to guide the management of environmental and social risks.

56. The ESMPs for the road investments and the two transformers; and the ESMF for other investment activities the details and locations of which are not known were prepared and consulted upon. They will be disclosed in Djibouti and at the World Bank Info Shop in Washington D.C. prior to Appraisal. When additional project details are known to allow the assessment and addressing of specific impacts, environmental and social management plan(s) will be prepared and will be disclosed prior to start of civil works.

57. A capacity assessment was carried out during preparation to identify the counterpart's safeguards capacity. The counterpart has limited experience in implementing World Bank environment safeguards. In addition, the counterpart has limited staffing to monitor and report on the implementation of the ESMF and the ESMPs. For this reason, the World Bank team has requested that an ADDS staff member(s) be designated before appraisal and trained before effectiveness to ensure adequate implementation, monitoring and reporting of the Bank's safeguards requirements. As part of project preparation, training on environment and social safeguards was delivered to the counterpart.

58. The environmental safeguards responsibilities for this staff include:

- Advise on anticipated environmental impacts and possible mitigation measures, and prepare environmental and social management plans in line with the ESMF
- Ensure that project specific ESMP(s) are prepared, consulted upon, and disclosed prior to start of any civil works
- Work closely with the technical staff and engineers of the PMU, ensure that environmental measures are integrated in all stages of preparation and implementation, including site selection, design, preparation and evaluation of tendering and bidding, preparation and supervision of contracts documents
- Work with PMU Procurement staff, ensure that environmental compliance is incorporated as appropriate in contracts for goods and services (mainly civil works contracts) and ensure that contractors are fully aware of their responsibilities in this regard
- Conduct regular site visits to supervise and monitor the implementation of safeguards instruments
- Undertake regular environmental monitoring and supervision to verify whether and how provisions of the project ESMF and project specific ESMP are followed by all relevant stakeholders
- Report regularly on the results of monitoring visits, promptly identify any environmental issues or cases of incompliance, and make recommendations for dealing with those issues. In conjunction with the project manager, discuss compliance status and measures

to re-establish compliance as appropriate, including agreeing on specific steps and timing for any remediation/corrective actions

- Keep track of complaints and maintain grievance mechanisms
- Undertake awareness raising activities and advocacy on environmental safeguards for the PMU staff, other interested staff and potential beneficiaries. This can be done by a series of workshops where potential environmental issues and good environmental management practices can be presented
- Provide contribution and write the safeguards section of the PMU's regular progress reports on the project implementation.

### *Monitoring and Evaluation*

59. Systematic M&E will be carried out to monitor progress, outputs, and outcomes of project activities. The results framework (Annex 1) identifies the project outcome indicators. ADDS in collaboration with the line ministries and agencies, and the CDC involved in the project implementation, will collect data through regular monitoring and site surveys. ADDS will prepare regular consolidated M&E reports on the basis of collected data. Financial progress will be tracked through the financial information system set up under DUPREP, and through the periodical financial reports and annual audited project financial statements. Physical and financial progress reports of implemented activities will be prepared semiannually and will constitute a key document for regular Bank to review during supervision missions. In addition, a mid-term review will be conducted half way through project implementation for a comprehensive assessment of project progress and results. ADDS will prepare a MTR report, which will be shared with the Bank before the MTR mission.

60. In addition, independent consultants will be commissioned to design and undertake an impact evaluation assessment of project interventions on beneficiaries, based on representative surveys utilized for baseline. The evaluation assessments will be conducted at mid-term and at project completion. The assessments will focus on access to services, use of and satisfaction with services provided by the project, and changes in income and living standards from project-supported income-generating opportunities.

61. Information collected from the M&E reports will be used to assess the progress of project activities implementation and the likelihood of the project achieving its development objective. M&E report information also will be used to identify any implementation bottlenecks that would necessitate additional efforts and resources, or adjustments through changes or restructuring. The information gathered also will highlight successful examples, which may be disseminated and replicated in other donor projects.

**Annex 4**  
**Operational Risk Assessment Framework (ORAF)**  
**Djibouti: Second Urban Poverty Reduction Project (P145848)**  
**Stage: Implementation**

**Risks**

**1. Project Stakeholder Risks**

<b>1.1 Stakeholder Risk</b>	Rating	Substantial			
<p><b>Risk Description:</b>  The multisector nature of the project requires good inter-governmental relationships to succeed in implementing project activities.</p>	<b>Risk Management:</b> The institution of a Steering Committee is imperative to keep all stakeholders focused around the project objective and to resolve by consensus potential conflicts or diversions in perspectives.				
	Resp: Both	Status: In Progress	Stage: Preparation	Recurrent:	Due Date:

**2. Operating Environment Risks**

<b>2.2 Sector and Multisector</b>	Rating	Moderate			
<p><b>Risk Description:</b>  Institutions and organizations involved are committed to their sector objectives but are not fully working together in harmony. This will require an extra coordination effort on behalf of the SC and the ADDS.   There are several ministries relevant to this project. However, the request for this project and decision making power lies with the SESN.</p>	<b>Risk Management:</b> Strengthened coordination between different institutions and organizations is needed to harmonize objectives and coordinate interventions and planning. ADDS will be strengthened to manage this complexity. Project roles and responsibilities were validated in an interministerial meeting and included in project documents. The project will provide the relevant institutions with needed tools to be more effective in their roles and to attain their objectives, in addition to being useful to the project. Further, the steering committee that will be put in place prior to appraisal to make sure all perspectives will be shared and responsibilities will be distributed to relevant institutions.				
	Resp: Both	Status: In	Stage: Both	Recurrent:	Due Date:



		Progress			
<b>3. Implementing Agency (IA) Risks (including Fiduciary Risks)</b>					
<b>3.1 Capacity</b>	Rating	Moderate			
<p><b>Risk Description:</b></p> <p>ADDS has significant experience in Bank executed projects and has adequate procurement, FM and Safeguards capacities. This said and based on DUPRED experience, some procurement and FM aspects require strengthening to mitigate potential project implementation delays, namely: (i) reducing procurement staff rotations;(ii) clearly defining the roles and responsibilities of the internal auditor within the operational manual; and (iii) customization the accounting software to generate the required reports.</p> <p>Finally, ADDS will have to continue developing its capacity and knowledge base to manage social and environmental safeguards by ensuring adequate staffing and budget resources are in place.</p>	<p><b>Risk Management:</b></p> <p>Targeted procurement, financial management, and safeguards trainings will be periodically provided to ADDS staff, in addition to ensuring that adequate resources exist, e.g., staffing and budget to ensure timely compliance with Bank procedures.</p> <p>An experienced procurement staff was allocated to Bank financed projects. This will ensure closer follow-up and responsiveness to reduce past delays.</p> <p>The accounting software will need to be customized and fully operational and able to generate the required reports. The operational manual, specifically the FM chapter, will be updated prior to Appraisal, adding the roles and responsibilities of the internal auditor. ADDS will also need to hire an external auditor early during the year to ensure that there will be no delays in the submission of the audit report.</p>				
	Resp: Client	Status: In Progress	Stage: Both	Recurrent:	Due Date:
<b>3.2 Governance</b>	Rating	Substantial			
<p><b>Risk Description:</b></p> <p>As shown in the ongoing urban project, any disruption of the Team in implementing the project would have a negative impact, e.g., suspension of staff salaries, change in key staff, etc. The severity of the impact would depend on the nature and length of the disruption.</p>	<p><b>Risk Management:</b></p> <p>The project manager in the implementing agency will be financed by the project. The team will therefore have the resources to function properly.</p>				
	Resp: Both	Status: In Progress	Stage: Both	Recurrent:	Due Date:
<b>4. Project Risks</b>					
<b>4.1 Design</b>	Rating	Moderate			
<b>Risk Description:</b>	<b>Risk Management:</b>				

<p>The project proposes scaling up labor-intensive road construction, exploring new techniques, as well as setting-up a project management framework for participation by the Q7 population in the project design and implementation, particularly through a neighborhood committee. ADDS has limited capacity to structure a proper design and provide needed support with regards to those two activities.</p> <p>From the CSO sector, there is a risk that the community associations, particularly those belonging to women, which are expected to apply for the Q7 Community Development Fund have limited capacity to develop adequate proposals that meet selection criteria, resulting in insufficient sub-project options.</p>	<p>ADDS capacities will be strengthened via targeted trainings and study tours on both technical and social engineering aspects to properly support the implementation of relevant activities.</p> <p>Citizen engagement mechanisms and media campaigns that are sensitive to local needs and concerns will be explored to raise awareness of the benefits of women's engagement.</p> <p>The task team will carry out an assessment of organizational needs at the community level followed by appropriate training to address those needs, and during proposal development in advance of the call of proposals. This should ensure that the supply side will be sufficient for the project to meet expected targets.</p>					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent:	Due Date:	
<p><b>4.2 Social and Environmental</b></p>	<p>Rating: Moderate</p>					
<p>Risk Description:</p>	<p><b>Risk Management:</b></p>					

<p>Environmental</p> <p>OP4.01 is triggered because of the site specific and less adverse impacts associated with the construction and restoration of physical infrastructure assets and conversion and landscaping of the central “public” space (Component 1). Some of the environmental issues for consideration may include: local impacts during construction; ensuring that flooding is not exacerbated due to project activities; and enhancing the environmental benefits of the project. An ESMF will be prepared, and project specific ESMP(s) will need to be prepared when additional project details are known to be able to assess and address potential impacts. The counterpart has limited experience in implementation of environmental safeguards, as well as limited staffing to monitor and report on their implementation.</p>	<p>Environmental safeguards</p> <p>OP4.01 requires preparation of an environmental social management framework (ESMF). This includes consultation with affected communities, and public disclosure of the ESMF, as well as preparation of specific ESMPs, and their consultation and disclosure prior to start of any civil works. The client has agreed to have a dedicated staff monitor implementation, and report on environmental safeguard instruments as per the environmental and social management framework. The counterpart will be supported as needed in the implementation and monitoring of mitigation measures. Capacity building will be provided to ensure capacity to follow Bank guidelines.</p>				
<p>Social</p> <p>OP 4.12 is triggered to address potential adverse impacts occurring as a result of the infrastructure related activities. An abbreviated Resettlement Action Plan (ARAP) has been prepared to address the impacts identified to date which consisting mainly of provisions to a small group squatters along the ROW of roads to be rehabilitated and located in Goulad Square. In addition, the client has prepared a Resettlement Policy Framework (RPF) to address future impacts under OP 4.12 should they arise during the course of the project’s lifetime. The client will follow the Bank’s in-country and InfoShop disclosure policy. The main area of risk is inadequate client capacity in the area of safeguards, There is limited staffing to monitor and report on the</p>	<p>Social safeguards</p> <p>The Bank Team will engage in the close supervision of the client on its management of OP 4.12 related issues, including through the initial analysis, preparation of frameworks, plans, and its proper implementation. The client has agreed to have a dedicated staff manage social and environmental project risks including on safeguards complaints handling.</p>				
	Resp: Both	Status: In Progress	Stage: Both	Recurrent:	Due Date:

implementation of the instrument.								
<b>4.3 Program and Donor</b>	Rating	Moderate						
<p>Risk Description:</p> <p>Coordination with other donors/institutions working in the project's geographic area will be required. The multisector nature of the project also requires that there is coordination across sectors to ensure consistency of approaches and no duplication of efforts</p>	<b>Risk Management:</b>							
	<p>The Project will be consistent with the CPS. Preparation will include continued dialogue with other donors especially AfDB, AFD, and IsDB to ensure complementary of interventions.</p> <p>More specifically, the Bank is closely coordinating with AFD especially on institutional and capacity building components. .</p>							
	Resp:	Both	Status:	In Progress	Stage:	Both	Recurrent:	Due Date:
<b>4.4 Delivery Monitoring and Sustainability</b>	Rating	Substantial						
<p>Risk Description:</p> <p>Implementing agency has an M&amp;E unit that functions well and is supported by the Bank and other donors.</p> <p>Major investments in DUPREP resulted in bad or no maintenance, leading in many cases to early degradation of assets. This is mainly due to weak (i) citizen ownership, (ii) financial and technical capacities to ensure maintenance, and (iii) local governance structure.</p>	<b>Risk Management:</b>							
	<p>Involvement of the community in the project from the beginning increases ownership of future project assets.</p> <p>In addition, the project's institutional component aims at improving durability of investments.</p>							
	Resp:	Both	Status:	In Progress	Stage:	Both	Recurrent:	Due Date:
<b>5. Project Team Proposed Rating Before Review</b>								
<b>Overall Implementation Risk:</b>								
Substantial								
<p>Risk Description:</p> <p>The suggested overall implementation risk rating for the project is Substantial. DUPREP II is a follow-up to the ongoing DUPREP, and to be implemented by the same implementing agency (ADDS) with experience of Bank processes and procedures. This rating is mainly due to the project's multisectorial nature, which will require close collaboration with several public entities, in addition to the direct counterpart. The weak operation and maintenance of project investments also could be an issue if institutions in charge of urban management are not strengthened, as per the DUPREP lessons learned. The ADDS has shown strong capacity to ensure harmonization and buy-in from different line ministries, including tackling institutional aspects. Further, appropriate resources, e.g., staffing, budget, are in place or committed prior to effectiveness to ensure proper</p>								

compliance with fiduciary and safeguards policies.

**6. Overall Risk**

**Overall Preparation Risk:**

Risk Description:

**Overall Implementation Risk:**

Risk Description:

**Nondisclosable Information for Management Attention (Optional)**

**Risk Description:**

## Annex 5: Implementation Support Plan

### DJIBOUTI: SECOND URBAN POVERTY REDUCTION PROJECT (P145848)

#### Strategy and Approach for Implementation Support

1. The strategy for implementation support is based on the ORAF, which identifies the key potential risks to achieving the project development objectives and the agreed risk management measures. The implementation program and the mitigation measures will be adjusted when needed, based on periodic assessments by the Bank implementation team. A detailed review will be carried out during the Mid-Term Review to confirm or adjust the risk mitigation measures.
2. *Capacity Constraints.* Bank implementation support will focus on measures to strengthen the capacity of the ADDS and other stakeholders to implement the project, and especially cope with the multisectorial and the social nature of the project. The Bank team will confirm that dedicated agreed specialist staffing, especially urban management, social/gender, procurement, financial management, and safeguards staff are in place.
3. *Delivery Quality.* The Bank team will carefully monitor the ADDS capacities on both technical and social engineering aspects to ensure proper support to implement relevant activities. When needed, the Bank team will trigger the support to ADDS built in project activities, to ensure proper delivery quality. In addition, the Bank team will carry out an assessment of the actual impact of the project activities on the Q7 community to ensure adequate focus on beneficiary and project objectives.
4. *Financial Management.* The financial management specialist will join Bank implementation support to review the implementation of budgeting, funds flow, accounting and reporting, and internal controls, and will provide the required guidance to ADDS and the Community Development Fund Committee. IFRs and audit reports will be used to identify and correct potential weaknesses.
5. *Procurement.* The Djibouti-based procurement specialist will monitor the implementation of the Procurement Plan in compliance with the Procurement Guidelines and the loan agreement. The procurement specialist will also carry out prior and post reviews at the office and through site visits as part of regular implementation support.
6. *Safeguards.* The Bank will provide implementation support to, and carefully monitor, the implementation of mitigation measures for the safeguard policies triggered by the project. Environmental and social experts will visit the project site on a regular basis and help to resolve any issues relating to compliance with the agreed objectives and documents.

#### Implementation Support Plan (ISP)

7. The Bank team supporting the project will be composed of locally based experts when possible, supplemented by Paris and Washington based experts. When necessary, national and international consultants will be recruited. The Bank will conduct, on average, two implementation support missions each fiscal year. In addition, specialists will make short visits to project sites as, and when necessary. Table below indicates expected focus of implementation support during the different phases of the project and the skills needed.

### ISP Matrix

Time	Focus	Skills Needed	Resource Estimate	Partner Role
1 <sup>st</sup> year (Three missions)	Initiating key project activities and quality control processes, ADDS operating effectively, M&E, Procurement and Financial Management systems operating effectively	TTL Urban Specialist Social Safeguards Financial Procurement Country team	2 missions per year for 3 years US\$35,000 per mission Total  <b>US\$105,000</b>	PIU will implement initial investments and institutional components under the project and World Bank will supervise these operations
2 <sup>nd</sup> year – 4 <sup>th</sup> year (including Mid-Term Review)	Review of progress of civil works and institutional components, Review of performances, safeguards and overall project	TTL Urban Specialist Social Safeguards Financial Procurement Country team M&E	2 missions per year for 3 years US\$35,000 per mission Total  <b>US\$70,000/year</b>	ADDS will prepare comprehensive progress report in advance of each mission and field plan
5 <sup>th</sup> year (Two missions, including Closing mission)	Final IS mission and then ICR	TTL Urban Specialist Social Safeguards Financial Procurement Country team M&E	2 missions per year US\$35,000 per mission Total  <b>US\$70,000</b>	ADDS will prepare comprehensive progress report in advance of each mission and field plan, Provide inputs for completion review and reporting.

### Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Team Leader	7-10 s.w / year	2 / year (3 on year 1)	To be adjusted annually depending on needs and available supervision budget
Urban specialist	4-6 s.w /year	2 / year	
Environmental and social Monitoring	2-3 s.w /year	1 per year	
Procurement	2-3 s.w /year	1 / year	
Financial Mgmt.	2-3 s.w /year	Local Staff	
	2-3 s.w /year	1 / year	

## Annex 6: Integrated ICT-based platform for Citizen Engagement

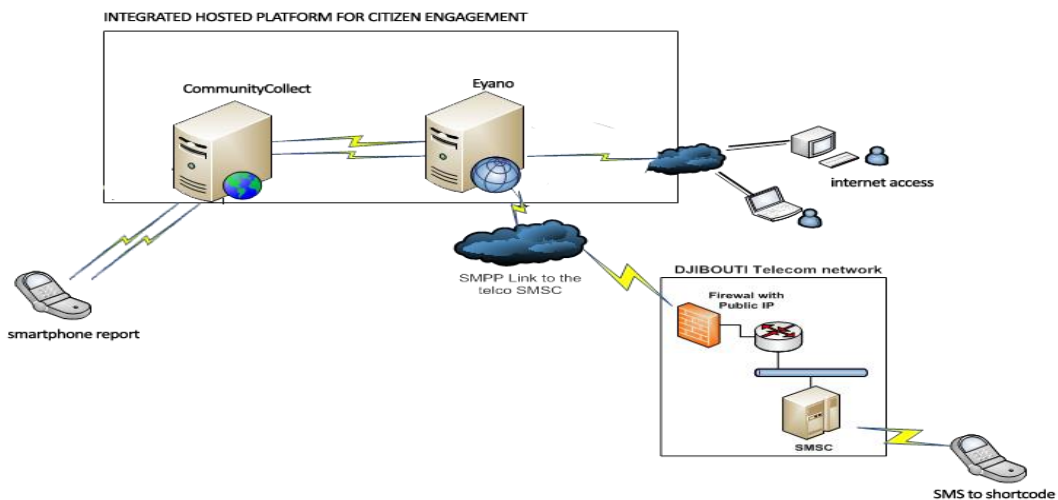
1. The Integrated ICT-based platform for citizen engagement will be developed and piloted in DUPRED II, with the following objectives:

- Enable the monitoring of progress and facilitate the resolution of problems through citizen monitoring of the construction and maintenance of Q7 urban infrastructure.
- Contribute to assessing project impact on beneficiaries through the regular collection of residents satisfaction data.
- Create an engage and informed community around the project by creating two-way feedback channels.

2. The platform will be based on the integration of two open source ICT tools that have been adapted and implemented in a variety of settings and environments. The first is a SMS-based survey tool (*Eyano*) that has been deployed in projects at national and local levels to collect systematic feedback on public policies and services from citizens at-large or from targeted groups. From allowing users to provide feedback on the quality of water services in a few poor urban neighborhoods of Kinshasa, DRC, to enabling a citizen evaluation of justice services at the national level in Niger, *Eyano* works with the most simple mobile phones. The tool can be configured through a short code to broadcast and receive SMS messages and conduct surveys.

3. The second one, *CommunityCollect* (CC), formerly *Taarifa*, is a smartphone-based ICT platform that allows users to monitor, capture, and report on service delivery in real-time with GPS coordinates captured for verification and then displayed on maps. The tool functions seamlessly, even in the absence of mobile internet, as all reports are stored onto the phone's memory and is submitted whenever mobile internet or Wi-Fi signal becomes available. This platform has been deployed in places like Ghana to monitor urban issues at the district level, in Uganda to track education outcomes at the school level, and in Liberia to monitor construction of a WB-financed highway. The integrated platform will allow for the categorization and visualization of the citizen feedback data collected through *Eyano* and *CC* on one website.

**Figure 1: Integrated CE Platform ICT Infrastructure**





## **Platform Proposed Functions**

4. The integrated platform will be based on a short code and managed by ADDS with one designated person (Platform Manager) reviewing, categorizing and transferring the feedback received from the residents. It is proposed the platform serves the following functions that will be piloted in phases:

### Phase 1 (1<sup>st</sup> year):

#### *a. Grievance reporting and general feedback*

5. Any resident with access to a simple mobile phone can submit via SMS (through a short code) a report either to signal a problem or make a suggestion related to the project. Issues related to infrastructure construction and maintenance, such as potholes in roads, drainage problems, street lights damages, etc. are likely to arise. This feedback would be verified by Q7 the current Q7 community facilitator, categorized by ADDS platform manager and available on an integrated website. Residents should also be able to report problems directly and in person to the community facilitator and to CDQ members, as the designated interface for community engagement to which the platform is complementary, who would be responsible for relaying the problemsto ADDS for remedial action.

#### *Verification, processing and response:*

6. The community facilitator will verify reported issues by smartphone, allowing her to go to the site to capture images and a descriptionof the specific problem. After verification, reported issueswill be available and visible immediatelyon a website map that pinpoints their location. These reports would have the advantage of being geographically referenced, allowing for more prompt localization and action.

7. After categorization, safeguards-related grievances will be transferred by the platform manager to the ADDS staff member responsible for social and environmental safeguards to ensure action is taken according to the relevant safeguards mitigation measures,—In the case of social safeguards, measuresare outlined in the RFP, and in the case of environmental safeguards, the appropriate agency is defined in the ESMF. These direct citizen reports, especially when geo-referenced, will be of particular use to the project’s safeguards’ staff. This will act as a complementary channel of information, in addition to the platform manager’s site visits and main ongoing tasks of keeping track of complaints in order to address them. The expected remaining majority of grievanceswill be transferred promptly to the relevant responsible agency or person. These arrangements would be validated with ADDS in a written platform management protocol that defines the platform functions and clarifies responsibilities for action as well as timeframes for processing and responses.

#### *b. Mass communication messages*

8. The implementing agency ADDS will build a database of phone numbers of Q7 residents, which will be utilized to broadcast important messages related to the project through the short code. The messages could include invitations to key meetings and announcements of milestones.

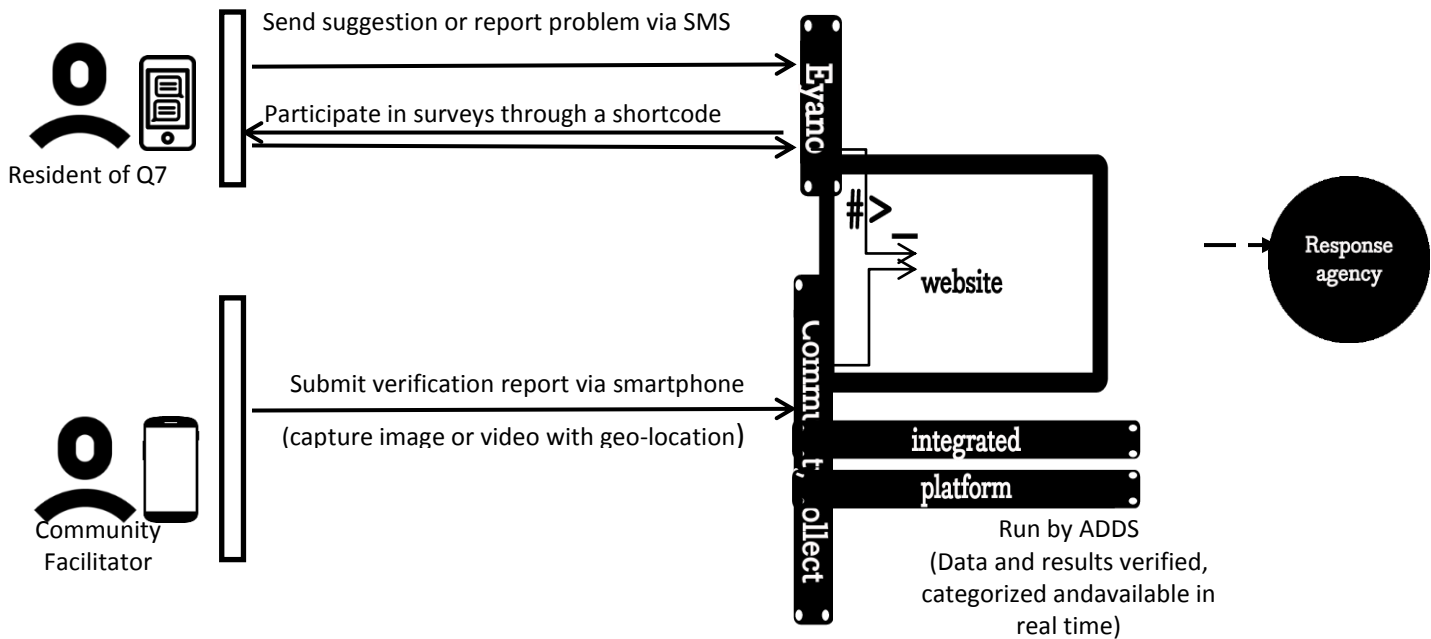
These twofunctions of the platform will be launched and piloted during the first year of implementation and for the duration of the project.

### Phase 2 (2<sup>nd</sup> year):

*c. Citizen satisfaction surveys*

9. The project will be able to initiate short SMS satisfaction surveys with the residents through the same short code periodically and on an as-needed basis. Surveys would typically be launched through mass SMSs to residents, inviting them to participate and open calls to the neighborhood to participate. Survey responses would be automatically available as they are sent in real time. Follow-up surveys could also target specific groups such as women and youth on specific issues. The objectives of the resident surveys are to give the community an active voice in the project by continuously engaging them. At the same time, the community feedback will contribute to assessing the project’s impact on beneficiaries to allow for mid-course adjustments. This function will be tested during the first year of project implementation for official launch in order to assess beneficiaries’ satisfaction by the second year.

**Figure 2: Platform Functions – The Feedback Loop**



10. All the reports, as well as survey results will be received in real time, categorized and available for visualization on the one integrated platform/website. It will be important that the key information available on the website, such as survey results, is also disseminated among the residents through other means such as radio spots/shows and brochures, given the population’s more limited access to the internet.

*Capacity building and outreach*

11. The community facilitator and other relevant actors will be trained to send reports to the integrated platform via the smartphone-based CC. Public outreach and communication will be crucial to accompany the various deployments of the platform and ensure residents participate and send feedback. Specifically, communication campaigns with open calls for participation and well-explained objectives will accompany the launch of any community satisfaction surveys as well as the initial launch of the grievance reporting mechanism.

## Implementation Plan

Activity	Timing (Year 1)	Note
Definition and validation of platform functions and management responsibilities with ADDS	Month 1	
Acquisition of dedicated server and website registration	Month 2	
Allocation of short code	Month 2	
Configuration with Djibouti Telecom	Month 3	
Customization and integration of <i>Eyano</i> and <i>CC</i>	Month 3	Including purchase of smartphones and creating relevant categories and forms
Testing	Month 3/4	
Training of the ADDS staff and relevant community actors	Month 4	Including training of local consultant for medium-term platform management
Communication campaigns targeting Q7 residents at-large with platform demonstrations	TBD	Including campaigns before launch and first platform use
Technical handover to ADDS and local consultant/platform manager	Month 6	Providing remote support

## Cost Estimates

Item	Timing	Cost in USD
Eyano consultant (integration with CC, configuration with Telecom, testing)	Year 1	5,000
CC consultant (customization, testing)	Year 1	3,000
Training	Year 1	3,000
Local consultant (platform management) <sup>21</sup>	Years 1 – 2	10,000
Hosting and website registration (dedicated server)	Years 1 – 5	5,000
Smartphones (with data cards)	Year 1	1,000
Bulk SMS	Years 3 – 4	7,000 <sup>22</sup>
Communication	Year 1	4,000
Other/Misc.		2,000
<b>Total:</b>		<b>40,000</b>

<sup>21</sup>Part-time work by an existing ADDS IT staff.

<sup>22</sup>The national mobile phone operator, Djibouti Telecom, has expressed willingness to accompany DUPREP II and ADDS in its implementation for up to three years as a sponsor, by setting up a short code, as well as bearing the costs for the SMS sent and received, given the social dimensions of the project.



## Annex 7: Detailed Economic and Financial Analysis

1. This section presents an evaluation of the project's development impact and expected returns.
2. **The project is expected to significantly improve the livelihood of residents of Q7<sup>23</sup>.** Easier and quicker access to the neighborhood will enhance economic opportunities for the local population. Larger areas will be accessible to delivery trucks. Lighting will increase security and enable small businesses to stay open later at night. The rehabilitation of the central square will foster community life and support the development of new businesses around the new public facilities. The development of new activities related to the maintenance of the newly built infrastructure will, moreover, support private sector development and employment diversification.
3. **The rehabilitation of the streets will improve the resilience of the residents to flooding, fire, and pollution.** Because the neighborhood is located on nearly flat land, years of dumping of used water and littering in the streets have elevated the street levels. In fact, in 2012, slightly less than half of the households (43.7%) continued to throw waste water on public spaces. Consequently, many houses are today below street level and subject to flooding. Djibouti faces yearly torrential rains, reaching extreme intensity every 10 years or so. The most recent one, in 2004, affected the lives of about 100 000 people, including the inhabitants of Q7. During this event, the overflowing of private latrines increased the prevalence of diarrheal diseases. Subsequently, water stagnation favored the breeding of anopheles mosquitos and consequently the spread of malaria and dengue. Health centers reported higher number of patients with undefined fever, respiratory infections and scabies. These are some of the reasons that explain why Q7 residents repeatedly expressed in community meetings great interest in pursuing the rehabilitation of the road network that DUPREP initiated. The completion of a basic network of rehabilitated streets will also enable safer and more efficient interventions of fire-fighters. The rehabilitation and new landscaping works of the main square will finally give the opportunities for young children to play in safer and less health-threatening environments.
4. **These improvements will be sustainable over time.** The use of cobbled pavements with central gutter and brick sidewalks will increase the drainage while requiring lower operation and maintenance costs than traditional black-top streets. Community-led projects related to solid waste collection and infrastructure maintenance will, furthermore, help break the vicious circle of solid waste accumulation, lack of drainage and environmental degradation.
5. **The project is expected to raise the human capital and to strengthen the social cohesion in Q7.** The use of labor-intensive techniques will provide working opportunities for poor un-skilled and unemployed young workers. The project will aim at reaching highest economic impact by particularly targeting unoccupied household heads whose consumption is substantially lower than the rest of the population. Improved local governance, particularly in the provision of local public services, and higher citizen engagement will increase people's ownership and social responsibilities.
6. **The project will induce increases in property prices in Q7.** All the above developments will improve the social and economic environment of Q7, translating into higher housing values. The latter, in turn, will increase the owners' income and consumption (through

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<sup>23</sup>Quartier 7 refers in this section to the sector where the project is implemented i.e. excluding DjagaBoulgouq.

higher imputed rent for those who continue living in the premises), and access to credit (thanks to higher collateral). In the long-term, these developments will reduce the vulnerability of the residents' of Q7 to shocks with the associated negative consequences on human capital (dropping out of school, not being able to access medical treatment etc.).

7. **Based on a discount rate of 8 percent, the overall impact of the project is evaluated to amount to US\$6.3 million equivalent to an economic rate of return of 12.4 percent.** Table 1 outlines the summary of the present values of the economic returns. Table 2 presents the underlying assumptions associated with: (i) the additional demand for labor, goods and services directly generated by the project; (ii) the health gains from flood control; (iii) the greater economic dynamism of the neighborhood; and (iv) higher property values. The present value of these impacts is sensitive to the choice of the discount rate. The use of a higher discount rate of 10.2 percent would produce economic returns just equivalent to the total amount of the project (US\$5.6 million). However, discount rates in the range of 5 to 10 percent are more commonly used in project evaluation. With such rates, the economic rate of return of the project is unambiguously solid.

8. **The assessment is based on the characteristics of the households and of property in Q7.** The determinants of consumption levels and real estate values can be estimated based on the 2012 household survey for the city of Djibouti (EDAM 3). In the case of household consumption, the estimation takes into account the impact of neighborhood characteristics such as the overall unemployment rate. In the case of property values, the estimation focuses on both the characteristics of the dwellings and benchmarking with those of surrounding neighborhoods. These two relationships, estimated for the entire city of Djibouti, can then be applied to Q7, taking into account the household, dwelling, and neighborhood characteristics reported in the Population and Housing Census of 2009 (RGPH).

*Table 1. Summary of economic impacts*

Effect	Mechanism	Returns	Of which Quartier 7	Comments
<i>In US\$ million</i>				
Direct demand for labor, goods, and services	Investment net of maintenance costs	1.89		Pro-poor hiring and purchase of inputs, unskilled workers, and cobblestones
	Institutional capacity building	0.63		Maintenance costs
	Implementation, supervision	0.59	-0.27	
Resilience	Flood control	0.48	0.48	Impact on health, property damages, missed education, and work opportunities
Livelihoods	Employment	2.16	2.16	Potential of pro-poor growth in retail, catering and local services of maintenance and repair
	Economic activity	0.27	0.27	
Capital gains	Property values	0.28	0.28	Improved environment
Total		6.30		

Total Project Investment	5.6
Rate of return (in percent)	12.4

Source: Author's calculations based on RGPH 2009, EDAM 2012.

9. **Project implementation will spur demand for local labor, goods and services and foster pro-poor economic growth.** The project will use labor intensive-techniques. The production of cobblestones, which involves no mechanical equipment and the employment of unskilled workers on construction sites, will create new employment opportunities for low-income individuals both on and off the project site (in 2012, 40 percent of the poorest households of Djibouti City worked in construction and mining). Similarly, the tasks of institutional strengthening and community development and those related to implementation and evaluation will consist principally of domestic spending on goods and services. It is estimated that about 25 percent of each component's budget will be spent on inputs. The remaining 75 percent, or US\$2.16 million, US\$0.63 million and US\$0.59 million respectively, will be spent on labor resulting ultimately in the growth of households' consumption. Given that pavements made of cobblestones require less maintenance than asphalt roads, the evaluation includes recovery costs of only 1% of total investment. It is expected that residents and local Government and agencies of Q7 will bear those costs of about \$US21 600 per year (US\$0.27 million in net present value).

Table 2 – Underlying hypotheses and intermediate outcomes

<b>Direct beneficiaries in Quartier 7</b>					
Total		Exposed to flood			
		Rehabilitated streets		Adjacent streets	
Number of Houses	Number of residents	Number of houses <sup>1</sup>	Number of residents <sup>2</sup>	Number of houses	Number of residents
1739	11324	538	3412	538	3412
<b>Economic variables – Direct beneficiaries in Quartier 7</b>					
<b>Consumption</b>					
Total per year (\$US mln)	Per capita per year (\$US)	Per capita per year (\$US) of the poorest 40%	Per capita per day (\$US)	Per capita per day (\$US) of the poorest 40%	
17.3	1529	905	4.2	2.5	
<b>Economically active population</b>					
Employment rate	Unemployment rate	People not actively seeking work			Total
52.1	29.9	18.0			100.0
<b>Economic Impacts of the project</b>					
<b>Impact of flood control on health in number of Disability-Adjusted Life Years (DALYs)</b>					
Disease in 2010	Total DALYs	OR/RR <sup>2</sup>	Beneficiaries	DALYs saved	Economic impact(NPV <sup>3</sup> , \$US)
Diarrhea	18624	5.8	6824	7	262 167
Lower respiratory infections	30953	1.25	6824	3	98 125
Paratyphoid fever	3160	4.52	6824	1	35 090
<b>Other impacts of flood control</b>					
Opportunity costs	Number of beneficiary households		Economic impact(NPV <sup>3</sup> , \$US)		
6.28 \$US per household	1076		84 534		
<b>Project's Spending</b>					

Investment net of present value for maintenance costs ( \$US million)	1.89	
Support for improved governance, citizen engagement ( \$US million)	0.63	
Implementation, supervision ( \$US million)	0.59	
<b>Induced job creation in the neighborhood</b>		
Number of expected new jobs in retails, catering	57	
Number of expected new jobs in services related to new infrastructure and services	15	
Resulting growth of employment in neighborhood	+3.8%	
Average income per month (based on estimated income of 40% poorest households, \$US)	200	
Economic impact associated to additional incomes (NPV <sup>3</sup> , \$US)	2 160 000	
<b>Improvement of economic environment</b>		
Impact on neighborhood's consumption per every 1 percent decline in the unemployment rate	6.2%	
Economic Impact of new jobs on total consumption's in quartier 7 (NPV <sup>3</sup> , \$US)	268 467	
<b>Impact on residents' real estate values in Quartier 7</b>		
Average price of a dwelling (\$US)	35 825	
Sum of economic impact of flood control, higher economic activities, improved environment (\$US in a year)	211 071	
Increase of real estate value per p.p. increase in neighborhood's consumption	40%	
Resulting increase in property values	0.5%	
Average expected price of a dwelling (\$US)	36 000	
Current value of the stock of real estate (million \$US)	58.2	
Expected value of the stock of real estate	58.5	
Economic impact (NPV, \$US million) <sup>3</sup>	0.28	
<b>Summary of the economic impacts of the project</b>		
Economic impact	Net present value <sup>3</sup>	Share in total impact
Net impact from project implementation	3.11	49
Induced higher economic activity	2.42	38
From flood control	0.48	8
Capital gains	0.28	4
Total impact	6.29	100

*Source:* Author's calculations Note: 1/ houses are on average 5 meters wide along 1665 meters of renovated streets; 81% of them are built of wood and sheet metal or with waste materials 2/given an average of 6.3 people per household (RGPH, 2009) 3/Net present value based on a discount rate of 8%.

10. **The evaluation of the impact of flood control involves two different effects.** The improvement of the residents' health is measured through the number of Disability-Adjusted Life Years (DALYs) saved due to lower rates of diarrhea, respiratory infections and paratyphoid fever. Although outbreaks rarely occur, a large number of studies report that flooding increases the risks of these diseases in the months after the floods<sup>24</sup>. The odd ratios of developing such diseases in the case of flooding were taken from the literature on the subject<sup>25</sup>. Given that flood control will benefit about 1076 dwellings, the savings associated with lower risk of diarrheas, typhoid fever and respiratory problems are estimated at 14, 2, and 6 DALYs respectively. Taking into account the consumption per capita of the neighborhood, this gain amounts to about US\$31,631 per year.<sup>26</sup>The other positive impact of flood control is the lower disruption in

<sup>24</sup> WHO Flooding and communicable diseases fact sheet [http://www.who.int/hac/techguidance/ems/flood\\_cds/en/](http://www.who.int/hac/techguidance/ems/flood_cds/en/)

<sup>25</sup> Milojevic et al.: Health effect in Bangladesh, *Epidemiology*. 2012 Jan;23(1); Katarzyna et al.: Floods and human health: A systematic review. *Environment International* 47 (2012).

<sup>26</sup>The value of a DALY is assumed to be equal to one year of average consumption for a resident of Quartier 7. The number of persons who are less exposed to floods is 6,824 persons over a total of 50,8005 in the country.



economic activity. The opportunity costs of floods are estimated at about US\$6 per household per year. This is the equivalent of one-and-half days of a Q7 resident's average consumption. This estimate is based on an international benchmark, namely the number of days of work households in Vietnam would be ready to contribute to building infrastructure avoiding them being exposed to massive flooding.<sup>27</sup> In total the net present value of the economic impacts of flood control amounts to US\$0.48 million

11. **The gains associated with improved mobility, and the new induced economic opportunities are estimated in number of new jobs created in the neighborhood.** The employment impact of easier and quicker access can be estimated based on the experience of Djibouti neighborhoods in which roads have been recently rehabilitated. These neighborhoods include Quartier 6 and Quartier 4. In those two neighborhoods, retail and catering sectors employ 31.3 and 39.5 workers per 1, 000 inhabitants, respectively. In Q7, this ratio reaches only 25.9. The project is expected to narrow this gap by two thirds, which is equivalent to 57 jobs. The development of private activities in relation to the maintenance of the new infrastructure and the formation of the local youth in these new sectors will foster local job creation. In total, the project could induce the creation of about 72 new jobs (an increase in total employment in the neighborhood by 3.8%). Based on the estimate of the average income of workers in the 40% of poorest households in Djibouti (about US\$ 200 per month), total income from these new jobs will amount to \$US172 800 per year. The corresponding net present value is \$US2.16 million.

12. **The indirect impact of the creation of new jobs on the neighborhood's economic environment is measured through the impact of lower unemployment rates on the consumption of those whose employment status does not change.** The estimate is based on the analysis of the determinants of consumption in Djibouti, which shows that a decrease in the unemployment rate by one percentage point is associated with an increase of the neighborhoods' average level of consumption by 0.062 percent. The creation of 72 jobs (approximately 2 percent of the economically active population) will translate into higher neighborhood's consumption for an amount of \$US21 477 per year (or \$US0.27 million in net present value).

13. **The impact of the project on real estate prices in Q7 is based on the relationship that exists in Djibouti between property values and the characteristics of dwellings and neighborhoods.** This relationship indicates that property values increase by 0.40% each time average consumption increases by one percentage point in the neighborhood. Based on the data collected on dwellings during the 2009 census and the analysis of the determinants of rents and property values reported in the EDAM3, the current average property value in Q7 (excluding DjagaBouldouq) is around US\$35 825. The overall stock of dwellings is worth about US\$58.2 million. Given that the total economic impact described above is equivalent to 1.7% of the neighborhood's consumption (\$US million 0.2) real property values are expected to increase on average by 0.5% on the long term, reaching an average of US\$36 000 (at 2012 prices). This is the equivalent of a capital gain of \$US 0.28 million in present value for the entire neighborhood (excluding DjagaBouldouq).

14. **Rationale for public financing.** The project will finance basic infrastructure and capacity building activities that will produce public goods such as improved security, reduced flooding risks, improved economic environment, greater mobility, stronger social cohesion and

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<sup>27</sup>Stale et al. (2012) <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3387653/>

overall economic development. To the extent to which these public goods do not result in appropriable gains, no private investor would be interested in financing this kind of undertaking.

15. The project will not crowd out private suppliers. The population has repeatedly shown in public meetings its support for the rehabilitation of the streets and a better prevention of flooding. However, residents do not have the financial capacity to pay for the project. Even if they had it, translating a willingness to pay into an effective funding mechanism would represent a formidable challenge.

#### 16. **Rationale for World Bank financing**

- Djibouti faces important constraints in mobilizing resources. Because of the high incidence of poverty and the widespread situation of unemployment and underemployment, the tax base is narrow. The budget deficit amounts to 2.7% of GDP in 2012.<sup>28</sup>
- Concerns about the sustainability of the balance of payments (the current account deficit amounted to 13.4 percent of GDP in 2012<sup>29</sup>) and the management of the debt reinforce the importance of financing public investment on concessional terms.
- The project has been designed in coordination with the other donors in Djibouti in order to achieve the best impact on the ground and on institutions.
- Given that concessional loans are the preferred source of financing for the types of infrastructure considered in this project (i.e. public infrastructure with positive externalities), it is more efficient for the Government of Djibouti to acquire the financing from the World Bank than to seek an alternative source of concessional financing.
- Because the key stakeholders in Djibouti are already familiar with the Bank's requirements, and because the DUPREP provided the Bank with an in-depth knowledge of the project context, it can be prepared at a lower cost and in a shorter period of time than would be the case for a new concessional credit.

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<sup>28</sup>IMF note on Djibouti (April 2013)

<sup>29</sup>IMF note on Djibouti (April 2013)

