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IDA/R2016-0282/1

November 23, 2016

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**Closing Date: Wednesday, December 14, 2016  
at 6 p.m.**

FROM: Vice President and Corporate Secretary

**Djibouti - Governance for Private Sector Development and Finance Project**

**Additional Financing and Restructuring**

**Project Paper**

Attached is the Project Paper regarding a proposed additional credit and restructuring to Djibouti for a Governance for Private Sector Development and Finance Project (IDA/R2016-0282), which is being processed on an absence-of objection basis.

Distribution:

Executive Directors and Alternates  
President  
Bank Group Senior Management  
Vice Presidents, Bank, IFC and MIGA  
Directors and Department Heads, Bank, IFC and MIGA

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Report No: PAD2020

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT AND RESTRUCTURING  
OF THE ORIGINAL FINANCING

IN THE AMOUNT OF SDR 3.8 MILLION  
(US\$5.10 MILLION EQUIVALENT)

TO THE

REPUBLIC OF DJIBOUTI

FOR THE

GOVERNANCE FOR PRIVATE SECTOR DEVELOPMENT AND FINANCE PROJECT

November 21, 2016

Trade and Competitiveness and Finance and Markets Global Practices  
Middle East and North Africa Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective October 31, 2016)

Currency Unit = Djibouti Franc (DJF)  
1 DJF = US\$0.01  
US \$1 = SDR 0.72788150

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
AF	Additional Financing
ANPI	National Agency for Investment Promotion ( <i>Agence Nationale de Promotion des Investissements</i> )
ATS	Automated Transfer System
CBD	Central Bank of Djibouti
CDED	Economic Development Council of Djibouti ( <i>Conseil de Développement Economique de Djibouti</i> )
DA	Designated Account
DD	Land and Property Rights Directorate ( <i>Direction des Domaines</i> )
FM	Financial Management
FO	Financial Officer
FSAP	Financial Sector Assessment Program
G2P	Government Payments
GRS	Grievance Redress Service
HR	Human Resources
IFR	Interim Financial Report
IPF	Investment Project Financing
IT	Information Technology
M&E	Monitoring and Evaluation
MoF	Ministry of Economy and Finance, in charge of Industry
NPS	National Payment System
ODPIC	Office of Intellectual and Commercial Property ( <i>Office Djiboutienne de la Propriété Intellectuelle et Commerciale</i> )
OSS	Operational Self-Sufficiency
PDO	Project Development Objective
PFS	Project Financial Statement
PIE	Project Implementing Entity
PIU	Project Implementation Unit
POM	Project Operation Manual
RF	Results Framework
RTGS	Real Time Gross Settlement

SC Steering Committee  
SMEs Small and Medium Enterprises  
SOE Statement of Expenditure  
T&C Trade and Competitiveness

Vice President:	Hafez Ghanem
Country Director:	Asad Alam
Senior Global Practice Directors:	Anabel Gonzalez, Gloria M. Grandolini
Practice Managers:	Najy Benhassine, Jean Pesme
Task Team Leaders:	Mehdi Benyagoub, Amadou Dem, Roya Vakil



**DJIBOUTI**  
**GOVERNANCE FOR PRIVATE SECTOR DEVELOPMENT AND FINANCE**  
**ADDITIONAL FIN. PROJECT**

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## ADDITIONAL FINANCING DATA SHEET

*Djibouti*

*Governance for Private Sector Development and Finance Additional Fin. (P158952)*

*MIDDLE EAST AND NORTH AFRICA*

*Trade and Competiveness and Finance and Markets Global Practices*

Basic Information - Parent									
Parent Project ID:	P146250	Original EA Category: C - Not Required							
Current Closing Date:	31-Dec-2019								
Basic Information - Additional Financing (AF)									
Project ID:	P158952	Additional Financing Type (from AUS):		Restructuring, Scale Up					
Regional Vice President:	Hafez Ghanem	Proposed EA Category:		C					
Country Director:	Asad Alam	Expected Effectiveness Date:		20-Feb-2017					
Senior Global Practice Directors:	Anabel Gonzalez/Gloria M. Grandolini	Expected Closing Date:		31-Dec-2020					
Practice Managers:	Najy Benhassine/ Jean Pesme	Report No:		PAD2020					
Team Leaders:	Mehdi Benyagoub/ Roya Vakil/ Amadou Dem								
Borrower									
Organization Name	Contact	Title	Telephone	Email					
Ministry of Economy and Finance, in charge of Industry	SEM Ilyas Moussa Dawaleh	Minister of Economy and Finance, in charge of Industry	253 21 35 65 01	<a href="mailto:cabinet@mefip.gouv.dj">cabinet@mefip.gouv.dj</a>					
Project Financing Data - Parent (Djibouti: Governance for Private Sector Development Project-P146250) (in US\$, millions)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P146250	IDA-55180	Effective	23-Jun-2014	06-Nov-2014	12-Mar-2015	31-Dec-2019			
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed

P146250	IDA-55180	Effective	XDR	1.30	1.30	0.00	0.51	0.78	39.81
<b>Project Financing Data - Governance for Private Sector Development and Finance Additional Financing (P158952) (in US\$, millions)</b>									
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input type="checkbox"/>	IDA Grant				
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other				
Total Project Cost:		5.10		Total Bank Financing:		5.10			
Financing Gap:		0.00							
<b>Financing Source - Additional Financing (AF)</b>								<b>Amount</b>	
International Development Association (IDA)								5.10	
Total								5.10	
<b>Policy Waivers</b>									
Does the project depart from the CAS in content or in other significant respects?								No	
Explanation									
Does the project require any policy waiver(s)?								No	
Explanation									
<b>Team Composition</b>									
<b>Bank Staff</b>									
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>					
Amadou Dem	Team Leader (ADM Responsible)	Senior Economist		GTC07					
Roya Vakil	Co-TTL	Financial Sector Specialist		GFM05					
Mehdi Benyagoub	Co-TTL	Private Sector Specialist		GTC07					
Anathelie Muteteli	Procurement Specialist (ADM Responsible)		Procurement	GGO05					
Rock Jabbour	Financial Management Specialist	Financial Management Analyst	Financial management	GGO23					
Mohammed Adnene	Safeguards Specialist	Environmental Specialist		GEN05					
Andrea Stumpf	Lead Counsel			LEGAM					
Eric Ranjeva	Finance Officer			WFALN					

Dorothee Delort	Team Member	Senior Financial Sector Specialist		GFM2B	
Fadwa Bennani	Team Member	Senior Financial Sector Specialist		GFM05	
Kadar Mouhoumed Omar	Team Member	Operations Analyst		MNCDJ	
Steve W. Wan Yan Lun	Team Member	Operations Analyst	Operations	GFM05	
Suzanne Parris	Team Member	Program Assistant		GTC05	
<b>Extended Team</b>					
<b>Name</b>		<b>Title</b>		<b>Location</b>	
Alan Moody		Lead Private Sector Specialist		HQ	
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
Djibouti		Republic of Djibouti			
<b>Institutional Data</b>					
<b>Parent (Djibouti: Governance for Private Sector Development Project-P146250)</b>					
<b>Practice Area (Lead)</b>					
Trade & Competitiveness					
<b>Contributing Practice Areas</b>					
Finance & Markets					
<b>Additional Financing Governance for Private Sector and Finance Development Additional Fin. (P158952)</b>					
<b>Practice Area (Lead)</b>					
Trade & Competitiveness					
<b>Contributing Practice Areas</b>					
Finance & Markets					
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required? Yes					



## I. Introduction

1. **This Project Paper (PP) seeks the approval of the Executive Directors to provide an additional IDA Credit in the amount of SDR 3.8 million (EU\$5.1 million equivalent) to the Republic of Djibouti, along with a Level I Restructuring for the Governance for Private Sector Development Project (P146250/Cr. No. 5518-DJ).** The IDA Credit of SDR 1.3 million (US\$2 million equivalent) for the Djibouti Governance for Private Sector Development Project was approved on June 23, 2014, with a closing date of December 31, 2019. The credit became effective on March 12, 2015. The project benefited from an earmarked US\$0.3 million International Finance Corporation Trust Funded-technical assistance and US\$0.5 million in parallel financing from the Financial Sector Reform and Strengthening Initiative (FIRST), a multi-donor trust fund. In addition, the Government of Djibouti contributed to the project with an in-kind contribution equivalent to US\$1.2 million.

2. **The proposed Additional Financing would: (i) scale up the existing components of the Parent project; and (ii) add a new component on modernization of the national payment system at the Central Bank of Djibouti.** A Level I Restructuring is also being proposed concurrently with the proposed AF to: (i) revise the original PDO to “improve the efficiency of business regulation and establish an automated National Payment System,” and (ii) revise the Results Framework to introduce new indicators related to the new component, and revise existing indicators related to existing components.

## II. Background And Rationale

### A. Background

3. **Djibouti’s gross domestic product grew by an estimated 6.5 percent in 2015, up from 6 percent in 2014 and 5 percent in 2013.** Growth is mainly driven by transport and port-related capital-intensive activities such as transit trade with Ethiopia and transshipments, which attract large public and foreign investments. However, these activities,<sup>1</sup> characterized by a high ratio of investment rate over output, have not alleviated the country’s high levels of poverty and unemployment.

4. **Recent government data<sup>2</sup> indicate that more than one-fifth of the population lives in extreme poverty and cannot cover basic food needs.** This rate is higher in rural regions, where the extreme poverty rate is estimated to be 44 percent. When poverty calculations take into account both food and nonfood necessities, the associated poverty rates are estimated to be 40.7 percent for the country and 62.5 percent for rural areas. It is therefore critical to implement reforms which can facilitate private sector growth and lead to greater employment.

5. **The 2012 World Bank publication “Djibouti New Growth Model Report” highlights the constraints facing the private sector and economic growth.** The private sector in Djibouti

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<sup>1</sup> Djibouti has one of the highest ratio of investment rate over output (ICOR) in the world, which stands at close to 8 for the period 2005–2010.

<sup>2</sup> These data are based on *Enquête Djiboutienne Auprès des Ménages pour les Indicateurs Sociaux-Budget et Consommation* (EDAM-BC) 2013, developed with the African Development Bank. Previous data, published in 2012, reported an extreme poverty rate of 41.9 percent. The difference lies in a change of methodology.

remains embryonic and consists of mostly small and medium enterprises (SMEs) concentrated in the tertiary sector. Most of these smaller companies operate in the services (29 percent), trade (27 percent), and transit sectors (19 percent). Business climate remains very difficult and burdensome for most enterprises, and the costs for starting a new business are very high (184.7 percent of per capita income). The judicial system suffers from insufficient resources, weak judicial training, lack of independence and impartiality, and slowness with which judgments are executed. These market constraints are exacerbated by a lack of access to market information, a regulatory framework that does not facilitate enterprise creation, and a lack of incentives for the creation of SMEs. In the context of recent strong growth with limited impact on poverty, it is important to improve the business environment to enable private sector growth and its ability to contribute to the creation of jobs, especially in sectors that are more labor intensive.

6. **In June 2014, the Government of Djibouti released “Djibouti Vision 2035,” the vision for the country’s development.** The strategy highlights several priorities, among them: (i) diversification of the economy, including port activities such as transit trade and transshipment; (ii) reduction of poverty and unemployment so that economic growth is more equitable; and (iii) taking advantage of Djibouti’s strategic geographical position, making it a bridge between the Middle East and Africa.

7. **The “Djibouti New Growth Model Report” lays the foundation for technical assistance to improve the investment climate.** More specifically, to support business creation and facilitate private investment, the report recommends simplification of business registration procedures, which includes the removal of the minimum capital requirement, transfer of the enterprise registry to the Djibouti Office of Intellectual and Commercial Property (*Office Djiboutienne de la Propriété Intellectuelle et Commerciale*, ODPIC) and further streamlining of the registration process.

8. **Following the Financial Sector Assessment Program (FSAP) in 2008 and an FSAP module on financial access in 2010, which identified important deficiencies in the country’s financial infrastructure, the Central Bank of Djibouti (CBD) requested assistance to devise a holistic and comprehensive Financial Infrastructure Development Strategy.** The goal was to develop a road map to address these deficiencies. Through a FIRST-funded project, technical assistance was provided for the development of a National Payment System (NPS) Strategy, which laid out the key building blocks for modernization of payment systems in Djibouti based on international best practices, as well as the technical specifications for the new system. In addition, technical assistance was provided for the drafting of a new NPS law.

9. **In line with the World Bank Middle East and North Africa regional strategy to renew the social contract between the government and its citizens, the Djibouti Country Partnership Strategy (CPS) for FY14-17 (Report No. 83874-DJ) includes strengthening support for service delivery.** An efficient, secure, and reliable payment system, such as the one that would be supported by the proposed AF, reduces the cost of exchanging goods and services. Moreover, it is an essential tool for the effective implementation of monetary policy and for the smooth functioning of the money and capital markets. It is also a channel for settlement of all other types of transactions, including cross-border financial flows. In addition, an efficient payment system promotes orderly economic development and growth. In particular, a wide and cost-effective range of payment instruments is essential for supporting customers’ needs in a market

economy. Some transactions simply do not take place in the absence of certain payment instruments.

10. **Taken together, this technical assistance for both the private and financial sectors, initiated at the request of the Djiboutian authorities, supports key reforms that are expected to contribute to reducing unemployment and poverty.** In a letter dated November 25, 2015, the Government of Djibouti requested continued World Bank support to sustain and deepen these reforms and efforts in key areas. The parent project built on this work.

11. **The PDO of the parent project is to help improve Djibouti's business environment.** The parent project's main components are: (a) investment climate reforms (US\$1.4 million) and (b) project management and implementation (US\$0.6 million). The project was designed with the aim of facilitating business creation and strengthening commercial and civil justice to tackle governance and investment climate issues that constrain firm creation and operation. The project activities included the establishment of a One Stop Shop for business entry; technical assistance supporting reforms of the regulatory framework associated with business entry; strengthening of the civil and commercial judiciary system; and overall capacity building to the implementing agencies and entities in charge of business entry. The country's investment promotion agency, the National Agency for Investment Promotion (*Agence Nationale de Promotion des Investissements*, ANPI), is in charge of the implementation of the project.

## **B. Project Performance**

12. **Parent project performance is rated "Moderately Satisfactory" with regard to Implementation Progress and Progress toward achievement of the PDO.** These ratings are likely to stay Moderately Satisfactory pending further progress on fiduciary management/requirements. Since effectiveness in March 2015, implementation was initially slow mainly due to the lack of experience and unfamiliarity of the Project Implementation Unit (PIU) in implementing a World Bank project, weak coordination of the institutions involved in implementation, and delays in procurement and financial management (FM). This was exacerbated by staff turnover when the original FM specialist left the PIU in December 2015. However, through sustained implementation support, significant progress has been observed. Fourteen months after effectiveness, disbursement reached 39.8 percent as of October 31, 2016. The World Bank will continue to provide close implementation support to accelerate project progress.

13. **Under Component 1** (Investment Climate Reforms, with the rating of Moderately Satisfactory in the latest ISR), the following was achieved: (a) the completion of the work associated with the rehabilitation of the One Stop Shop; (b) implementation of regulatory measures aimed at facilitating business creation through ongoing technical assistance with the World Bank team and streamlining the issuance of construction permits, which resulted in an improved ranking for Djibouti in the 2016 Doing Business report for this indicator; (c) rehabilitation and installation of an online legal library and the rehabilitation of a 'welcome center' (*centre d'accueil*) for users of the judiciary at the country's main courthouse; and (d) delivery and acquisition of important material to secure titling and archives ahead of their conversion to a digital format.

14. **Under Component 2** (Project Management, with the rating of Moderately Satisfactory in the latest ISR), the PIU's capacity to implement the project was strengthened since project

effectiveness and implementation has accelerated, as reflected by the disbursement rate. A project manager was designated to support the project coordinator and help manage the day-to-day activities of the project. The audit report covering fiscal year 2015, and the Interim Financial Reports (IFRs) were submitted and found acceptable. The project's Project Planning Matrix (PPM) modification/revision require close supervision. The parent project is implemented using a Project Operation Manual (POM) that was approved by the World Bank.

### C. Rationale

15. **The proposed AF and restructuring are initiated at the request of the Minister of Finance (November 25, 2015) and involve the scaling-up of the parent project to support further institutional and regulatory reforms of the business environment and the modernization of the country's NPS.** It also aims to strengthen project implementation capacity. The proposed AF is expected to strengthen the drive for further investment climate reforms, initiate the development of a modern national payment system, and improve the functioning of the One Stop Shop for enterprise creation and development. This will be undertaken mainly through: (a) the introduction of measures to facilitate the implementation of regulatory and legal reforms; and (b) the deepening of the work already initiated for the modernization of the financial sector through the establishment of a national payment system. Reinforcing implementation capacity will be a key element of the proposed AF, which, as described in Section III, will strengthen the existing PIU to ensure smoother coordination and more effective implementation capacity across the various project agencies/beneficiaries.

16. **There is a need for a more comprehensive and structured program to alleviate a burdensome and complex regulatory framework for private firms.** The regulatory framework in Djibouti is characterized by cumbersome, complex, and costly procedures. Despite improvements in their ranking, Djibouti still ranks 171 out of 190 Djibouti in the 2017 World Bank overall Ease of Doing Business ranking. Djibouti lags significantly behind the regional and Sub-Saharan African average in terms of progress to date on overall ranking and selected indicators. This poor performance is mainly due to a weak institutional/organizational framework, lack of coordination between the relevant institutions, and a lack of capacity within them for implementation.

17. **The ongoing business environment reform program—which to date has relied mainly on ad hoc advisory technical assistance funded by a trust fund -- has thus far yielded inconsistent results.** This is mainly due to insufficient organizational capacity to implement reforms, low political commitment, and the lack of a high profile reform champion, which are critical for stakeholder ownership and accountability. The proposed scale-up would emphasize the imperative for a high-level political commitment to ensure that the institutional and organizational aspect of regulatory reforms is supported, along with providing financial and technical assistance activities to support implementation.

18. **Developing a modern and sound financial infrastructure is now a priority in the private sector-led growth and financial development agenda of the Government of Djibouti, and a sound national payment system is a critical building block for modern financial markets and improving access to financial services by SMEs and households.** The proposed AF will support investments and technical assistance to: (a) develop the core payments system

infrastructure at the CBD; (b) set the data centers and systems integration services and build capacity at the CBD, required for the implementation of the automated system; and (c) support the operationalization of the payment systems infrastructure, according to the technical specifications developed under the FIRST parallel financing project.

19. **An AF with a Level I Restructuring of the ongoing project is considered the most adequate instrument to respond to the current context, as opposed to using other instruments such as a new operation.** Given the relatively small size of the original credit and the proposed AF, a new operation, which would entail increased transaction costs, is not appropriate.

20. **The scaling up of the original project activities would not have any adverse effects on the existing fiduciary, safeguard, and environmental category and safeguard policies.** The project environmental category of C remains unchanged. The proposed activities are consistent with the revised PDO, and strategically aligned with the FY16 Performance and Learning Review of the FY 2014-2017 Country Partnership Strategy, which calls for strengthening service delivery and the role of the private sector as a catalyst for growth and employment and is also in line with the Country's 'Vision 2035'.

### III. Proposed Changes

#### Summary of Proposed Changes

The Additional Financing proposes to: (i) scale up the existing components of the Parent project; and (ii) add a new component on modernization of the national payment system at the Central Bank of Djibouti. A Level I Restructuring is also being proposed concurrently with the proposed AF to: (i) revise the PDO to improve the efficiency of business regulation and establish an automated National Payment System; and (ii) revise the Results Framework to introduce new indicators related to the new component, and revise existing indicators related to existing components.

Further details on the proposed scale-up of the investment climate reforms component and the new component on payment system are presented below.

#### **Component 1. Investment Climate Reform (US\$2 million).**

The existing investment climate reforms component will be scaled up in scope and magnitude with increased financial and technical support for more efficient implementation and strengthening of the organizational framework for reforms. The proposed AF will emphasize a more structured approach that will focus first on the organizational aspect of regulatory reforms while providing ongoing technical assistance for implementation.

A decision-making body, the Economic Development Council of Djibouti (Conseil de Développement Economique de Djibouti, CDED) in charge of steering the overall economic planning and institutional progress of the country was established in Djibouti in September 2016. The CDED's main functions are to maintain a transparent and efficient business environment that is conducive for investments and business activities. It will be in charge of: (a) coordinating between the various ministries in the planning, execution, and implementation of economic development policies; and (b) formulating sound investment promotion policies and plans to attract foreign and local investments. The CDED has a full-time secretariat in charge of the coordination and is led by the Economic Advisor to the President, who is also a member of the board. Ensuring strong political support and ownership constitutes a major requirement for effective

implementation and sustainability of the reform process. The project will therefore work with the CDED through its secretariat to initiate reforms in the business climate of the country.

This component will also conduct a detailed review of the regulatory framework and identify additional interventions in the areas measured by the Doing Business report. The scale-up of the Investment Climate Reforms component, which will support the CDED, will be carried out by a technical working group with relevant expertise in the supported areas. For each designated indicator, the technical working group, composed of local experts and backed by international experts, when necessary, will formulate key reforms to improve the business environment to the secretariat before they are submitted to the CDED. Technical assistance to improve the investment climate will be complemented by communication campaigns to support the reform agenda and further mobilize stakeholders for policy change.

The project will finance the provision of goods, consultants services, and non-consultants services and training to the Ministry of Investment, other relevant ministries and administrations, including, among others, the ODPIC, the Urban Planning and Housing Directorate (Direction de l'Aménagement du Territoire, de l'Habitat et de l'Urbanisme, DAHU), and Land and Property Rights Directorate (Direction des Domaines, DD), to deepen technical and financial assistance to support reforms (a) to reduce the cost of starting a business; (b) streamline procedures for obtaining construction permits; (c) reduce the cost of getting electricity; (d) register property more efficiently; (e) protect minority investors; and (f) improve the ability to enforce contract terms. Based on needs to be identified, funds will be solicited through FIRST to further support ongoing technical assistance for the operationalization of the partial credit guarantee fund for SMEs.

The capacity of ANPI and its line ministry, the new Ministry of Investment, which is a member of the CDED, will be strengthened to enable them to more effectively provide the services related to One Stop Shop (OSS) and, more broadly, to investment climate reforms. The scale-up will also provide support to the relevant information technology (IT) systems and associated equipment.

The allocation in support of this component is US\$2 million, including US\$1.4 million for advisory/consultancy services, organizing for reforms, and communication and US\$0.6 million for beneficiary agencies, including associated equipment and systems.

## **Component 2. Establishment of an Automated National Payment System (US\$2.6 million)**

This new component will support the establishment of a modern automated payment system in Djibouti, to replace the manual processing of checks and create the foundation for the development of an interbank market. Specifically, the component will entail: (a) the acquisition of a technical payments system solution, called "Automated Transfer System plus" (ATS +) at the level of the CBD (software, hardware, and system integration services); (b) technical assistance and capacity building for system implementation; and (c) rehabilitation and equipment of the physical infrastructure to host the system (primary and secondary centers). The procurement of the solution will be on a full turnkey basis, with the supplier providing a turnkey solution, including the software, the hardware, and system integration services. All critical elements of the hardware will be duplicated in the main processing site and in the disaster recovery site to guard against failure of individual components.

The introduction of an ATS + will have a significant impact on the CBD in terms of human resources (HR) and new procedures to be established. Additional HR will be deployed by the CBD in three main areas, namely: (a) payments operations; (b) IT; and (c) payments system oversight. In addition, there will be impacts on other areas of the CBD in terms of changed operating procedures and timetables. This will particularly affect the Accounting and Internal Audit departments. The project will finance the services of a

dedicated independent international consultant to: (a) support the launch and initial operation phase of the new system (first year of its implementation); (b) train staff of the CBD from the newly created units (operation, IT, monitoring); and (c) draft the necessary new manuals of procedures. Furthermore, the presence of an advisor at the CBD will further reinforce implementation capacity.

The system must be installed in two physically separate data centers, with provisions and procedures for a rapid switch-over to the secondary or the so-called “disaster recovery” center in the event of unavailability of the primary center. Both centers will need to have an adequate level of security in terms of access control and reliability of power supply. Preliminary discussions with the authorities suggest that the primary center will be established in the CBD’s head office; the secondary center will be in a different building, preferably some distance away, and most likely in the premises of another Government building, such as the Treasury. The project will finance, under this subcomponent: (a) the rehabilitation of both premises for the primary and secondary centers; and (b) equipment of the two centers as per standard requirements, including power, air-conditioning supply and fire detection.

Specifically, this component will consist of the following sub-components:

***Sub-component 2.1 Development of the Core Payments System Infrastructure (US\$1.2 million).*** This subcomponent will implement a core payments system infrastructure as one integrated system and will include the application software and hardware for the following:

- (a) Real Time Gross Settlement (RTGS) system, which would serve as the system for settlement of all large-value and systemically important payment transactions and settlement of positions from all other payment systems in the country, such as the Automated Clearing House (ACH).
- (b) ACH system, which would enable banks and other eligible institutions to offer credit transfers and direct debits that can be used for a variety of retail payment needs, such as salary, bill, and tax payments. It would also support automation of check processing and provide interoperability for mobile money transfers and remittances.
- (c) Central Securities Depository (CSD), which would enable electronic recording of securities ownership and, as the securities markets lead to smooth operation of securities transfers resulting from secondary market transactions, would also support efficient usage of these securities as collateral for liquidity support in the RTGS system and also for repo and other Open Market Operations (OMO).

***Sub-component 2.2 Setting Data Centers, Systems Integration Services, and Capacity Building of the CBD (US\$1 million).*** This subcomponent will include the following activities:

- (a) Establishment of Data Centers (US\$600,000): Infrastructure to host and manage servers and other hardware (no civil works included)
- (b) Consultancy Services for Systems Integration and IT Project Management (US\$300,000): Assistance to the CBD in managing the implementation aspects of the information and communication technology components and also assistance in the preparation of the bidding documents, bid evaluations, and liaison with the chosen information and communication technology vendors.
- (c) Capacity Building for the CBD (US\$100,000): Capacity building of the CBD staff in specific technical areas required for ongoing management of the systems that are not covered in Subcomponent II, training and professional certification in IT security, database administration and systems management, and purchase and maintenance of miscellaneous IT hardware and software.

***Sub-component 2.3 Technical assistance for the operationalization of the payment systems infrastructure (US\$400,000).*** This subcomponent will support the following activities:

- (a) The development of the governance arrangements, operating rules and procedures, and oversight arrangements for the ATS.
- (b) Card and mobile payments: Support the development of a retail payment strategy with a focus on

innovative payments (that is, electronic payments, mobile banking).

(c) The technical assistance will complete the review of the legal framework for the use of innovative payments (i.e., reviewing the provisions for electronic payment instruments; rights and liabilities of parties; transparent, user-friendly, and effective recourse and dispute-resolution mechanism; transparency of fees; data protection).

(d) Government payments (G2P): Technical assistance will support a G2P strategy, a feasibility study for using electronic payments for cash transfer programs, and a pilot cash transfer program using electronic payments.

**Component 3. Project Coordination and Management (US\$0.5 million).**

The original component “Project Coordination and Management” will be scaled up to support the existing PIU to deliver new activities under the proposed AF. Existing PIU capacity will be strengthened to be more effective in implementing the necessary fiduciary and procurement procedures applicable to the scaled-up project. The component will reinforce the capacity building at the CBD by hiring an additional procurement specialist with significant experience in IT services, who will operate under the supervision of the implementing agency (ANPI), but will be dedicated mainly to supporting the CBD procurement activities.

Additional financing will support the provision of goods, works, consultant services, training, and incremental operating costs associated with project management, monitoring and evaluation (M&E), and audits. Incremental costs to be financed include incremental contractual staff costs, office rehabilitation works, equipment, and operations. It will also cover the costs of establishing and operating an M&E system for the project, which was not sufficiently supported through the initial project, as well as a finance and procurement analyst in support of the project fiduciary responsibilities. The allocation in support of the component is US\$0.5 million.

Change in Implementing Agency	Yes [ ] No [ X ]
Change in Project's Development Objectives	Yes [ X ] No [ ]
Change in Results Framework	Yes [ X ] No [ ]
Change in Safeguard Policies Triggered	Yes [ ] No [ X ]
Change of EA category	Yes [ ] No [ X ]
Other Changes to Safeguards	Yes [ ] No [ X ]
Change in Legal Covenants	Yes [ ] No [ X ]
Change in Loan Closing Date(s)	Yes [ ] No [ X ]
Cancellations Proposed	Yes [ ] No [ X ]
Change in Disbursement Arrangements	Yes [ ] No [ X ]
Reallocation between Disbursement Categories	Yes [ ] No [ X ]
Change in Disbursement Estimates	Yes [ X ] No [ ]
Change to Components and Cost	Yes [ X ] No [ ]
Change in Institutional Arrangements	Yes [ ] No [ X ]
Change in Financial Management	Yes [ ] No [ X ]

Change in Procurement	Yes [ X ] No [ ]
Change in Implementation Schedule	Yes [ X ] No [ ]
Other Change(s)	Yes [ ] No [ X ]
<b>Development Objective/Results</b>	
<b>Project's Development Objectives</b>	
Original PDO The Project Development Objective is to help improve Djibouti's business environment.	
<b>Change in Project's Development Objectives</b>	
Explanation: The PDO needs to be revised to focus on outcomes that are more directly linked to the project activities.	
Proposed New PDO - Additional Financing (AF)	
To improve the efficiency of business regulation and establish an automated National Payment System.	
<b>Change in Results Framework</b>	
Explanation: The revised PDO better reflects project activities. The revised RF is designed to better align the key and intermediate indicators with the revised PDO.  Six new indicators were added to the RF: (a) Transactions processed through the Automated Transfer System (ATS) (Percentage) (PDO level) (b) Financial institutions connected to the Automated Transfer System (ATS) (Number) (PDO level) (c) Average settlement time for credit transfers (Days) (Intermediate level) (d) Average settlement time for checks (Days) (e) Establishment of primary data center for the national payment system (Yes/No) (Intermediate level) (f) Users satisfied with the functioning of the One Stop Shop (Percentage) (Intermediate level) (citizen engagement)  Five existing indicators will be revised: (a) Average number of days to create a business (Days) (Change in wording) (PDO level) (b) Average number of days to register a property (Days) (Change in wording) (PDO level) (c) Magistrates trained (Percentage) (change in wording); of which demonstrate improved knowledge (Percentage) (new sub-indicator) (Intermediate level) (d) Commercial Chamber Decisions Published on the Website (Percentage) (change in wording) (Intermediate level) (e) Property titles computerized (Percentage) (Change in wording) (Intermediate level)  One indicator will be removed: (a) Direct project beneficiaries	
<b>Compliance</b>	
<b>Covenants - Additional Financing ( Governance for Private Sector Development and Finance Additional Fin. - P158952 )</b>	

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
IDA	Schedule 2, Section I.A. 2	The Recipient shall cause the Project Implementing Entity to hire not later than one (1) month after Effective Date: (i) a procurement specialist, (ii) a financial management assistant, and (iii) a technical advisor to assist the Central Bank on the National Payment System, in accordance with the provisions of Section III of this Schedule and on terms of reference acceptable to the Association	20-Mar-2017	<input type="checkbox"/>		New
IDA	Schedule 2, Section I.A. 4	The Recipient shall (i) adopt not later than one (1) month after Effective Date the POM in form and substance acceptable to the Association; (ii) implement and cause to the Project Implementing Entity to implement the Project in accordance with the provisions of the POM; and (iii) not amend, suspend, abrogate,	20-Mar-2017	<input type="checkbox"/>		New

		repeal or waive any of its provisions without the prior consent of the Association.				
IDA	Schedule 2, Section II.B. 4	The Recipient shall ensure, or cause the Project Implementing Entity to ensure, that no later than three (3) months after the Effective Date, the Project Implementing Entity has: (i) purchased an additional module for the accounting software acceptable to the Association; and (ii) recruited an external auditor under terms of reference, and with qualifications and experience satisfactory to Association.	20-May-2017	<input type="checkbox"/>		New

**Conditions**

Source Of Fund	Name	Type

Description of Condition

**Risk**

Risk Category	Rating (H, S, M, L)
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial

7. Environment and Social		Low								
8. Stakeholders		Moderate								
9. Other		<i>Not applicable</i>								
OVERALL		Substantial								
<b>Finance</b>										
<b>Credit Closing Date - Additional Financing ( Governance for Private Sector Development and Finance Additional Fin. - P158952 )</b>										
<b>Source of Funds</b>		<b>Proposed Additional Financing Closing Date</b>								
IDA Credit		31-Dec-2020								
<b>Change in Disbursement Estimates (including all sources of Financing)</b>										
Explanation: Disbursement estimates were revised to account for changes in the implementation timeline and the addition of a new component.										
<b>Expected Disbursements (in USD Million)(including all Sources of Financing)</b>										
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Annual	0.20	1.20	1.60	2.00	2.10	0.00	0.00	0.00	0.00	0.00
Cumulative	0.20	1.40	3.00	5.00	7.10	0.00	0.00	0.00	0.00	0.00
<b>Allocations - Additional Financing ( Governance for Private Sector Development and Finance Additional Fin. - P158952 )</b>										
Source of Fund	Currency	Category of Expenditure	Allocation		Disbursement %(Type Total)					
			Proposed		Proposed					
IDA	USD	Goods, works, non-consulting services, consultants services, Training, Workshops, Operating Costs, audit for Project	5,100,000.00		100.00					
		<b>Total:</b>	5,100,000.00							
<b>Components</b>										
<b>Change to Components and Cost</b>										
Explanation:										
A new component to establish a modern automated national payment system at the Central Bank of Djibouti will be introduced.										
Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action						

Investment Climate Reforms	Investment Climate Reforms	1.4	3.40	Revised
--	Establishment of an automated National Payment System	0.00	2.60	New
Project Management	Project Coordination and Management	0.6	1.10	Revised
	<b>Total:</b>	2.0	7.10	

**Other Change(s)**

Implementing Agency Name	Type	Action

**Change in Procurement**

Explanation:

The procurement procedures will be conducted in conformity with the World Bank Procurement Regulations for IPF Borrowers for the Procurement of Goods, Works, Non-consulting and Consulting Services, July 2016. “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants” (the Anti-Corruption Guidelines—October 15, 2006, revised January 2011) will also be applied to the Project.

**Change in Implementation Schedule**

Explanation:

The Implementation Schedule has been revised to take into account the additional one year of implementation of the AF.

**Appraisal Summary**

**Economic and Financial Analysis**

Explanation:

This proposed AF will support the development of the national payment system, including the capacity building within the CBD necessary to ensure its effective implementation and the institutional arrangement and capacity building required at the agencies to ensure proper implementation of reforms necessary to improve the business environment.

As is often the case for private sector development projects, this operation consists largely of technical assistance activities. As a result, it presents a challenge when attempting to demonstrate quantifiable outcome and benefits. In particular, significant aspects of the Project will include reforms and capacity building. Progress in adopting reforms, as well as the effective functioning of systems and institutions planned under the proposed AF will shed more evidence on the economic and social benefit of this operation. A revised RF and improved M&E arrangements at the PIU will improve the capacity to measure and capture some of the project’s social and economic benefits.

Automated payment systems that facilitate the clearing, settlement, and recording of monetary and other financial transactions, contribute to the development of safe and efficient financial markets, which will constitute a source of financing for economic growth. They play an important role in fostering financial stability and are a critical foundation for financial inclusion. In addition to being an important part of financial services, payments and payment services can facilitate access to other financial services and be critical to efficient provision of those services.

### **Institutional and Implementation Arrangements:**

The proposed AF will strengthen the existing implementation arrangements at the PIU, which will be housed within the CBD, as well as support implementation capacity under Component 3. The Ministry of Economy and Finance in charge of Industry (MoF) will remain as the main counterpart in the oversight of the project.

Following the recent presidential elections in Djibouti, a new ministry in charge of public and private investment (Ministry of Investment) was created with the mission of formulating and implementing investment policies, as well as fostering a sound business environment conducive to private sector initiatives and growth. The new ministry is also tasked with the identification of administrative reforms to remove obstacles for private sector development.

The creation of the new Ministry of Investment may present renewed opportunities for the project in terms of coordinating sector-specific issues. In addition, ANPI, as an autonomous agency, is now mapped administratively under this new ministry. Its attributions and role remain unchanged, and the agency is expected to continue with its implementing duties without a major impact on the project.

The project implementation arrangements will therefore maintain the following structures:

*Project Steering Committee (PSC).* A PSC will provide oversight of Project implementation. The PSC shall be chaired by the General Secretary of the Ministry of Economy and Finance, in charge of Industry and consist of representatives from the public and the private sector including: (i) the general secretary of the Chamber of Commerce; (ii) a representative of the Central Bank of Djibouti and two representatives from the public sector. These arrangements do not affect the original institutional arrangement to the extent that fiduciary and legal oversight remains under the MoF's responsibility, with the Ministry of Investment taking a more active role in terms of issues specific to the trade and competitiveness (T&C) sector.

*PIU.* PIU performance, especially at the onset of project execution, was moderately satisfactory, mainly due to the lack of experience in implementing World Bank-supported activities. The continuation of the existing implementation arrangements would prevent any disruption in knowledge, engagement, and commitment of staff, which has often proven costly in other projects. Therefore, the proposed AF will emphasize and require the need for improved implementation performance. The AF would provide additional funding and capacity building to improve the capacity of the PIU to implement and monitor the project.

The project will therefore continue to be implemented by ANPI, which will be responsible for all procurement, disbursement, accounting, financial reporting, and M&E of the project and for ensuring the auditing of project accounts. ANPI's director general will also be the project coordinator. However, the project will have to recruit two additional fiduciary staff to support the PIU: a procurement specialist and an FM assistant, no later than one month after effectiveness of the AF.

**Focal points.** Original focal points will remain the same within: (a) the Ministry of Justice, (b) the

Ministry of Housing, and (c) the CBD, to coordinate the implementation of activities related to commercial justice, the delivery of construction permits, and payment systems, respectively. In addition, the CBD will enjoy a relative degree of autonomy in the execution of the automated payment system component. This will be achieved through the reinforcement of HR and the recruitment of a technical adviser.

The project will require additional personnel at the CBD for project implementation. The project will finance the services of a dedicated independent international consultant to: (a) support the launch and initial operation phase of the new system (first year of its implementation); (b) train staff of the CBD from the newly created units (operations, IT, monitoring); and (c) draft the necessary new manuals of procedures. Furthermore, the presence of an adviser at the CBD will reinforce implementation capacity. So far as payments operations are concerned, a new operational unit will need to be established within the CBD and staffed with at least three staff on the CBD payroll. Their responsibilities will cover operation of the new system from a business perspective, helpdesk for system participants, managing security aspects of the system, and collection and publication of operating statistics. A new payment oversight unit will also need to be established and staffed with at least two persons. The CBD has already requested budget allocation to hire new staff.

The HR impact of the new system on the CBD will probably be the greatest at the level of the IT Department, which will need to be strengthened with at least four staff. These recruitments are expected to take place before AF effectiveness. In addition, given the level of capacity, the World Bank will need to deliver strong implementation support to the PIU and the CBD in relation to payment system activities.

### **Financial Management**

The proposed Credit will be implemented in line with World Bank policies. ANPI is an autonomous administrative public institution related to the MoF and will be responsible for project management, including FM and accounting. Through a subsidiary agreement, ANPI will disburse project funds to the CBD for the automated NPS component.

A single segregated Designated Account (DA) in U.S. dollars will be opened at the Bank of Africa - Mer Rouge. Payments and withdrawal of eligible expenditures will be accompanied by supporting documents or statement of expenditures (SOEs) for sums less than predefined thresholds for each type of expenditure, following the applicable procedures and the World Bank's Disbursement Guidelines. ANPI will be responsible for submitting replenishment requests on a monthly basis. All requests for withdrawals should be fully documented, maintained, and made available for review by the World 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.

The general accounting principles for the project will be the following: (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 ANPI.

The project financial reporting will follow the same process as the parent project and will include unaudited IFRs and yearly project financial statements (PFSs). The IFRs and PFSs will be produced based on the accounting system and submitted for an external financial audit. ANPI will be responsible for preparing periodic reports and maintaining the project bookkeeping and will produce annual PFSs and quarterly unaudited IFRs.

The PFSs will be audited annually and will cover all aspects of the project, uses of funds, and committed

expenditures. The audit will also cover the financial operations, internal control and FM systems, and a comprehensive review of SOEs. The annual audit report will include (a) the auditor's opinion on the project's annual financial statements; (b) a management letter on the project internal controls; and (c) 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 and the limited review opinion will also be submitted to the World Bank with the IFRs.

### **Procurement**

The proposed AF will be implemented in line with the World Bank Procurement Policy Framework for Borrowers July 2016 and the provisions of the procurement plan. The project procurement activities will be administered by the implementing agency "ANPI" as the government Project Implementing Unit. This agency will be subject to the World Bank procurement regulations for borrowers. The PIU may, for contracts of an estimated amount of US\$28,000 and above, submit the contracts for the prior review of the National Commission for Public Procurement, which will ensure that the World Bank procurement regulations for borrowers will take precedence over national procedures on procurement.

With regard to PIU support, the AF will recruit another procurement specialist who will be based at the CBD in order to strengthen the unit; this will be done no later than one month after effectiveness of the AF.

The project Procurement Plan will be prepared by the PIU based on the Procurement World Bank Procurement Policy Framework of July 2016 applicable to borrowers and will be reviewed by the World Bank before its implementation.

The existing Project Operations Manual (POM) will be updated to take into account the procurement framework for the AF project by March 2017. Following the World Bank's procurement framework, the PIU staff involved in project implementation, mainly the procurement staff and the project coordinator, will be trained by April 2017 on the new procurement Regulations for IPF Borrowers, Standard Bidding Documents, Contracts, and different forms acceptable to the World Bank for the national procurement regulations as well as the elaboration of the Project Procurement Strategy for Development.

Other mitigation measures proposed to better implement the project will be to review the organization and functioning of the Internal Tender Committee and to encourage a better participation of the private sector in the public procurement/contracts.

### **Technical Analysis**

Explanation:

Not Applicable

### **Social Analysis**

Explanation:

The project is a safeguards Category C with regard to potential social impacts. No change is required, and no new safeguard policies are triggered. The POM will explicitly mention that bids for civil works related to refurbishing and rehabilitation (repairs, painting, and so on) will include a specific section outlining necessary environmental and social safeguards procedures as measures to respect the safety, hygiene, and health conditions of persons and workers.

### **Environmental Analysis**

<p>Explanation:</p> <p>The project is rated as a Category C with regard to potential environmental impacts. There will be no change in the project’s safeguard category, and no new safeguard policies will be triggered. The POM will explicitly mention that bids for civil works related to refurbishing and rehabilitation (repairs, painting, and so on) will include a specific section outlining necessary environmental and social safeguards procedures as measures to respect the safety, hygiene, and health conditions of persons and workers.</p>
<p><b>Risk</b></p>
<p>Explanation:</p> <p>The overall risk rating is Substantial and the planned activities under the AF do not change the original risk ratings. This is the first Private Sector Development project for Djibouti and requires close coordination among the various ministries and entities involved in the implementation of the project. To mitigate the political and governance risk, the project will ensure strong political support and will work with CDED which is headed by the Economic Advisor of the President. The risk related to sector strategies and policies will be mitigated by providing technical assistance to the CDED for the development of sound sectoral strategies and policies. The key risk associated with the implementation of the NPS component concerns the technical capacity of the CBD to implement and manage the process of acquiring the new software and this will be mitigated by the recruitment of a technical advisor for the CBD to assist in the implementation of the payment system component and correct as required during implementation, and also the close coordination of the CBD with the PIU. Dedicated Government task forces, with support from technical experts, will also be set up to prepare detailed action plans to ensure that investment climate reform proposals are technically sound and reflect good practices. Fiduciary risks are mitigated not only by close supervision by the Bank, but also by strengthening the PIU through the recruitment of an additional procurement specialist and a financial management assistant. The overall risk which is rated as substantial will be mitigated by organizing regular project steering committee meetings which will address emerging issues, and by active involvement of the Secretariat of the CDED which is chaired by the Economic Advisor of the President. The CDED is in charge of steering the overall economic planning and institutional progress of the country and is committed to improving the country’s investment climate.</p>

#### **IV. World Bank Grievance Redress**

21. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex I: Results Framework

Project Name: Governance for Private Sector and Finance Development Additional Fin. (P158952)	Project Stage: Additional Financing	Status:
Parent Project ID: P146250	Parent Project Name: Djibouti: Governance for Private Sector Development Project (P146250)	

### Project Development Objectives

Original Project Development Objective - Parent:

To help improve Djibouti's business environment.

Proposed Revised PDO:

To improve the efficiency of business regulation and establish an automated National Payment System

### Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

### Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Marked for Deletion	Reduction of time to create a business	<input type="checkbox"/>	Days	Value	17.00	14.00	3.00
				Date	15-Jan-2014	05-May-2016	30-Jul-2020
				Comment			
New	Transactions processed through the Automated Transfer System (ATS)	<input type="checkbox"/>	Percentage	Value	0.00	0.00	10.00
				Date	01-Sep-2016	20-Oct-2016	31-Dec-2020
				Comment			Percentage of GDP
Marked for Deletion	Reduction in time to register a property	<input type="checkbox"/>	Days	Value	39.00	39.00	10.00
				Date	15-Jan-2014	05-May-2016	30-Jun-2020

				Comment			
New	Avg. no of days to create a business	<input type="checkbox"/>	Days	Value	17.00	14.00	3.00
				Date	15-Jan-2014	15-Oct-2016	31-Dec-2020
				Comment			
Marked for Deletion	Decrease in the average number of days to settle a commercial dispute	<input type="checkbox"/>	Days	Value	400.00	400.00	180.00
				Date	15-Jan-2014	05-May-2016	30-Jun-2020
				Comment			
New	Avg. no of days to register a property	<input type="checkbox"/>	Days	Value	39.00	25.00	10.00
				Date	15-Jan-2014	29-Sep-2016	31-Dec-2020
				Comment			
Marked for Deletion	Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	Value	0.00	0.00	1200.00
				Date	15-Jan-2014	05-May-2016	30-Jun-2020
				Comment			
New	Financial institutions connected to the Automated Transfer System (ATS)	<input type="checkbox"/>	Number	Value	0.00	0.00	8.00
				Date	28-Sep-2016	28-Sep-2016	31-Dec-2020
				Comment			

#### Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Commercial Chamber Decisions Published on the Website	<input type="checkbox"/>	Percentage	Value	0.00	10.00	95.00
				Date	15-Jan-2014	28-Sep-2016	31-Dec-2020
				Comment			
New	Average settlement time for credit transfers	<input type="checkbox"/>	Days	Value	0.00	0.00	0.50
				Date	28-Sep-2016	28-Sep-2016	31-Dec-2020
				Comment			
New			Days	Value	0.00	0.00	2.00

	Average settlement time for checks	<input type="checkbox"/>	Sub Type Supplemental				
New	Establishment of primary data center for the national payment system	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	28-Sep-2016	28-Sep-2016	31-Dec-2020
				Comment			
New	Users satisfied with the functioning of the One Stop Shop	<input type="checkbox"/>	Percentage	Value	0.00	0.00	60.00
				Date	28-Sep-2016	20-Oct-2016	31-Dec-2020
				Comment			
New	Magistrates trained, which demonstrate improved knowledge	<input type="checkbox"/>	Percentage	Value	10.00	10.00	50.00
				Date	15-Jan-2014	29-Sep-2016	31-Dec-2020
				Comment			
New	Enterprises registered per year	<input type="checkbox"/>	Number	Value	150.00	150.00	700.00
				Date	15-Jan-2014	28-Sep-2016	31-Dec-2020
				Comment			
New	Of which led by women	<input type="checkbox"/>	Number Sub Type Breakdown	Value	30.00	30.00	140.00
				Date	15-Jan-2014	28-Sep-2016	31-Dec-2020
				Comment			
Revised	Property titles computerized	<input type="checkbox"/>	Percentage	Value	0.00	25.00	80.00
				Date	15-Jan-2014	28-Sep-2016	31-Dec-2020
				Comment			
Marked for Deletion	Percentage of magistrates trained	<input type="checkbox"/>	Percentage	Value	0.00	0.00	50.00
				Date	15-Jan-2014	05-May-2016	30-Jun-2020
				Comment			
Marked for Deletion		<input type="checkbox"/>	Percentage	Value	150.00	150.00	1200.00
				Date	15-Jan-2014	05-May-2016	30-Jun-2020

	Number of enterprises registered per year of which 20% are led by women			Comment			
Marked for Deletion	Number of enterprises registered per year led by women	<input type="checkbox"/>	Percentage	Value	0.00	0.00	20.00
			Sub Type	Date	15-Jan-2014	05-May-2016	30-Jun-2020
			Breakdown	Comment			

## **Annex II: Financial Management**

1. The Governance for Private Sector Development and Finance Project AF will be implemented according to the World Bank guidelines and through the ANPI. A PIU has been created within ANPI to handle project execution. Project implementation will follow the same arrangements as the original credit and the PIU will be strengthened with additional staff members to support the additional activities.

2. ANPI has been performing moderately satisfactory in terms of FM under the initial project. Some of the main deficiencies include: (a) delays in the submission of quarterly certified financial reports and the installation of the accounting software; and (b) delays in overall project disbursements. Initial slow disbursement was mainly due to: a) slow coordination between the staff of the PIU causing interruptions in the flow of procurement activities; (b) technical issues related to the electronic signatory of the Director of ANPI; and (c) the tripartite signatory process of withdrawal applications involving the Director of External Financing at the MoF, the Director of Debt at the Ministry of Budget, and the Director of ANPI. This three-signatory process is causing delays in the submission of withdrawal applications as the three authorized signatories are supposed to sign jointly in order for withdrawals to be processed.

3. To mitigate the above issues, the ANPI will: (a) recruit an additional staff member to support the financial officer (FO) and (b) finalize the installation of the accounting software. The ANPI will have the financial data available and updated in the system and will use the system to generate the quarterly financial reports and yearly Project Financial Statement (PFS). The audit report of the initial project covering fiscal year 2015 was received on time and found acceptable.

### **Financial Management and Disbursement Arrangements**

4. **Staffing.** The current PIU will be reinforced with a financial management assistant to support the FO. The FO has gained substantial experience in handling FM aspects of World Bank operations and will guide and train the financial assistant. The World Bank will provide the necessary training to the FO on World Bank FM procedures, as required.

5. **Internal control.** The initial project is being implemented based on a POM, which was prepared for the project and cleared by the World Bank. The POM includes a separate FM chapter detailing the FM and accounting procedures and internal controls procedures. For the proposed AF, the POM will be updated by March 2017 to reflect the additional changes and the envisaged new activities.

6. **Budgeting.** ANPI prepares its budget on an annual basis in November of each fiscal year. The consolidated budget of ANPI is prepared after inputs from various departments in the Government. Since the initial project is treated as off-budget, it will be independent from other activities at ANPI. The AF will follow the same process and ANPI will be preparing a separate annual budget and a disbursement plan for the purpose of the AF. The budget will be prepared on an annual basis and submitted to the World Bank in November of each fiscal year.

7. **Project accounting system.** ANPI will use its new accounting software to record daily transactions and produce the quarterly financial reports. The accounting software called 'Success' will also include the AF and its activities. The project FO is responsible for preparing the IFRs

before their transmission to the project manager for approval. Periodical reconciliation between accounting statements and IFRs will also be done by the FO. The AF will follow the same accounting principles as the initial project. The IFRs will be produced on a quarterly basis, certified by the external auditor, and submitted no later than 45 days after each quarter.

8. **Flow of funds.** Payment will be instructed by three signatures: Head of ANPI, the Director of the External Financing Department at the MoF, and the Director of the Debt Department at the Ministry of Budget. Funds will be transferred from the World Bank based on withdrawal applications submitted by the project. The funds will be channeled from the World Bank through the single segregated DA in U.S. dollars opened at a commercial bank in Djibouti acceptable to the World Bank. Advances will be disbursed to the DA to be used for project expenditures.

9. **Audit of the PFSs.** An annual external audit of the PFSs will cover financial transactions, internal control, and FM systems and will include a comprehensive review of SOEs for the AF. An external auditor will be appointed according to terms of reference acceptable to the World Bank to conduct audits in accordance with international auditing standards. The auditor will produce: (a) an annual audit report, including his opinion on the project's annual financial statements; (b) a management letter on the project internal controls; and (c) a limited review opinion on the IFRs. Annual reports will be submitted to the World Bank within six months from the closure of each fiscal year and the limited review opinion will be submitted to the World Bank with the IFRs.

10. ANPI will ensure that the external auditor is recruited early during each calendar year so as to deliver the audit report and management letter within the deadlines and avoid any delays.

***Disbursement Arrangements***

11. The proceeds of the project will be disbursed in accordance with the traditional disbursement procedures of the World Bank and will be used to finance activities through the disbursement procedures currently used: Advances, Direct Payment, and Reimbursement accompanied by appropriate supporting documentation (Summary Sheets with records and/or SOEs in accordance with the procedures described in the Disbursement Letter and the World 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 and reimbursement will be 20 percent of the advance ceiling.

**Table 1.1. Allocation of the Credit's Proceeds**

Category	Amount Allocated (SDR)	Percentage of Expenditures to be Financed (inclusive of taxes)
Goods, works, non-consulting services, consultants' services, Training, Workshops, Operating Costs and audit for the Project	3,800,000	100%
Total	3,800,000	

## Designated Account

12. On behalf of ANPI, the Department of External Financing will open a segregated DA in a commercial bank in Djibouti that is acceptable to the World Bank, in U.S. dollars, to cover the project's share of eligible project expenditures. The ceiling of the DA will be US\$425,000. ANPI will be responsible for submitting monthly replenishment withdrawal applications with appropriate supporting documentation.

13. **Supporting documentation.** Documentation is to be provided with each application for withdrawal as set out below:

- **For requests for Reimbursement and for reporting eligible expenditures paid from the DA:**
  - SOE in the form as specified in Attachment 4 of the Disbursement Letter.
  - Records evidencing eligible expenditures (for example, copies of receipts, supplier invoices) for payments for: (a) works against contracts valued at US\$500,000 or more; (b) goods and non-consulting services against contracts valued at US\$250,000 or more; (c) firm consulting services against contracts valued at US\$100,000 or more; and (d) individual consulting services against contracts valued at US\$50,000 or more
  - List of payments against contracts that are subject to the Association's prior review, in the form attached (Attachment 5 of the Disbursement Letter)
- **For requests for direct payment.** Records evidencing eligible expenditures, for example, copies of receipts, supplier invoices.

14. **Other supporting documentation instructions.** For reporting eligible expenditures paid from the DA, each application should be accompanied by a bank reconciliation statement in the form attached (Attachment 6 of the Disbursement Letter) and its related bank statements.

## Governance and Anticorruption

15. An integrated understanding of possible vulnerabilities and agreed upon actions to mitigate the risks have been developed. The above proposed fiduciary arrangements, including the POM with a detailed FM chapter, reporting and auditing, and review arrangements are expected to address the risk of fraud and corruption that are likely to have a material impact on the project outcomes.

16. **Supervision plan.** The FM of the project will be supervised by the World Bank in conjunction with its overall supervision of the project and conducted at least three times a year.

17. **Supporting documentation and record keeping.** All supporting documentation was obtained to support the conclusions recorded in the FM Assessment.