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IDA/R2018-0142/1

May 21, 2018

Closing Date: Friday, June 8, 2018 at 6 p.m.
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FROM: Vice President and Corporate Secretary

Djibouti - Support for Women and Youth Entrepreneurship

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to Djibouti for the Support for Women and Youth Entrepreneurship Project (IDA/R2018-0142), which is being processed on an absence-of-objection basis.

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Report No: PAD2831

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 10.5 MILLION
(US\$15 MILLION EQUIVALENT)

TO THE

REPUBLIC OF DJIBOUTI

FOR A

SUPPORT FOR WOMEN AND YOUTH ENTREPRENEURSHIP PROJECT
MAY 16, 2018

Finance, Competitiveness and Innovation Global Practice
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2018)

Currency Unit = Djibouti Franc

DJF 1 = US\$ 0.01

US\$ 1 = SDR 0.69xx

FISCAL YEAR

January 1 - December 31

Regional Vice President: Hafez M. H. Ghanem

Country Director: Asad Alam

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Practice Manager: Jean Pesme

Task Team Leader(s): Roya Vakil, Benjamin Herzberg

ABBREVIATIONS AND ACRONYMS

ADDS	Agence Djiboutienne de Développement Social (Djibouti Agency for Social Development)
AGOA	Africa Growth Opportunity Agreement
CASAF	Centre d'aides sociales et d'autonomisation des femmes (Center for Social Aid and Women's Empowerment)
CBD	Central Bank of Djibouti
CCD	Chambre de Commerce de Djibouti (Djibouti Chamber of Commerce)
CLE	Centre de Leadership et Entrepreneuriat (Center for Leadership and Entrepreneurship)
COMESA	Common Market of East and South Africa
CPEC	Caisse Populaire d'Épargne et de Crédit (Credit and Savings Union)
DB	Doing Business
DISED	Department of Statistics and Demographic Studies
EBA	Everything But Arms
ELA	Employment and Livelihoods for Adolescents
FDED	Fond de Développement Economique de Djibouti (Djibouti Economic Development Fund)
FIRST	Financial Sector Reform and Strengthening
GDP	Gross Domestic Product
GoPro	Governance for Private Sector Development and Finance
GPFI	Global Partnership for Financial Inclusion
GRS	Grievance Redress Service
ICT	Information and Communication Technology
IDA	International Development Association
IFR	Interim Un-Audited Financial Report
IMF	International Monetary Fund
JSDF	Japan Social Development Fund
MEFI	Ministry of Economy and Finance, in charge of Industry
MENA/MNA	Middle East and North Africa
MFD	Maximizing Finance for Development
MSME	Micro, Small and Medium Enterprise
OECD	Organization for Economic Cooperation and Development
PCG	Partial Credit Guarantee Fund
PDO	Project Development Objective
PFSs	Project Financial Statements
PIU	Project Implementation Unit
PIM	Project Implementation Manual
PNPG	Politique Nationale de Promotion du Genre (National Policy for the Promotion of Gender)
PROPEJA	Djibouti Enhancing Economic Opportunities Project
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprise
SOEs	Statement of Expenditures
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Program

USAID
WFD

United States Agency for International Development
Workforce Development

**BASIC INFORMATION**

Country(ies)	Project Name	
Djibouti	Djibouti Support for Women and Youth Entrepreneurship	
Project ID	Financing Instrument	Environmental Assessment Category
P165558	Investment Project Financing	C-Not Required

Financing & Implementation Modalities

☐ Multiphase Programmatic Approach (MPA)	☐ Contingent Emergency Response Component (CERC)
☐ Series of Projects (SOP)	☒ Fragile State(s)
☐ Disbursement-linked Indicators (DLIs)	☒ Small State(s)
☐ Financial Intermediaries (FI)	☐ Fragile within a non-fragile Country
☐ Project-Based Guarantee	☐ Conflict
☐ Deferred Drawdown	☐ Responding to Natural or Man-made Disaster
☐ Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
07-Jun-2018	31-Dec-2023

Bank/IFC Collaboration

No

Proposed Development Objective(s)

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

Components

Component Name	Cost (US\$, millions)
Building capacity of women and young entrepreneurs	6.00
Improving access to services, finance, and competitive value chains for women and	7.00



young entrepreneurs

Support for Project Implementation and Monitoring

2.00

Organizations

Borrower: Republic of Djibouti - Ministry of Economy and Finance, in Charge of Industry

Implementing Agency: Center for Leadership and Entrepreneurship

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	15.00
Total Financing	15.00
of which IBRD/IDA	15.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	15.00
IDA Credit	15.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	Total Amount
National PBA	15.00	0.00	15.00
Total	15.00	0.00	15.00

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2018	2019	2020	2021	2022	2023	2024
Annual	0.00	0.69	1.20	1.90	3.53	4.72	2.97
Cumulative	0.00	0.69	1.89	3.79	7.31	12.03	15.00

**INSTITUTIONAL DATA****Practice Area (Lead)**

Finance, Competitiveness and Innovation

Contributing Practice Areas**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag**Does the project plan to undertake any of the following?**

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Low
9. Other	● Low



10. Overall

● Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

Safeguard Policies Triggered by the Project

	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

The Project Implementation Unit shall recruit a Financial Officer, with qualifications and terms of reference acceptable to the Bank, no later than 3 months after the effectiveness date.

Conditions

Type	Description
Effectiveness	The Recipient has adopted the Project Implementation Manual in accordance with Section



	I.B of Schedule 2 to the Financing Agreement in form and substance satisfactory to the International Development Association.
Type Effectiveness	Description The Recipient has adopted the law establishing the Center for Leadership and Entrepreneurship.



REPUBLIC OF DJIBOUTI
DJIBOUTI SUPPORT FOR WOMEN AND YOUTH ENTREPRENEURSHIP

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I. STRATEGIC CONTEXT

A. Country Context

1. **Djibouti is a small low-income country in a strategically important geopolitical location in the Horn of Africa.** Historically, Djibouti has been a gateway to East Africa, a maritime crossroad for trade, and a refueling and transshipment center. In addition, Djibouti's strategic position close to conflict areas in the Middle East, and piracy activity zones, coupled with its relative political stability, has made it an important location for foreign military bases. As a result, its economy has long relied on port services, logistics, and rents from military bases.
2. **Djibouti maintained a steady per capita GDP growth in the last sixteen years by exploiting its main asset and source of competitive advantage: its geography.** According to the World Development Indicators (WDI), per capita GDP increased by 3.1% on average per annum between 2001 and 2017, with an acceleration to 4.6% per year in 2014-2017 as a result of the scaling up of the transport and logistic infrastructures. Extreme poverty declined by half from 42% in 2002 to an estimated 21% in 2017¹, placing Djibouti among the developing countries that may have reached the first Millennium Development Goal (MDG-1). This also put the country on a good track to eradicate extreme poverty by 2030. In Djibouti City², extreme poverty declined even faster, falling from 35% in 2002 to an estimated 14% in 2017. This impressive growth and poverty reduction was a clear break from the poor economic and social performance in the decade that preceded it (1991-2000³), when per capita GDP contracted by 4.1% on average per year.
3. **However, the growth elasticity of poverty⁴ seems to have declined in the last four years.** Despite the accelerated growth in 2014-2017, a large part of Djibouti's population did not benefit from or contribute to it. While some areas of Djibouti City have benefited from infrastructure upgrading, large surroundings and rural regions are still hampered by a lack of access to basic services. The overall unemployment/underemployment rate⁵ was estimated by the authorities' survey of employment, the informal sector, and household consumption at 39% in 2015.
4. **In particular, the youth and women suffer from a lack of shared prosperity.** The unemployment among young population—75% of the population are younger than 35—is much higher than the overall unemployment rate (76%). In addition, gender inequality in the labor market remains substantial, with only 29% of women aged 15 to 64 active in the labor market and only 54% of women with at least

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

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

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

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

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



three years of university studies in the labor market (compared to 76% of men).⁶ Disparities are very large between male and female participation rates, with women characterized by substantially lower participation rates.⁷ Unemployment is higher among women (49%) than men (34%), and is more prevalent in rural areas (59%) than in urban areas (37%).

5. **The fiscal and current account deficits increased significantly but temporarily before declining in 2017.** With the implementation of externally financed large infrastructure projects (ports, railways, water pipes, etc.) fiscal and current account deficits increased to 16.8 and 17.1% of GDP in 2014-2017, up from 2.1 and 9.5% of GDP in 2000-2013. As a result, the external public debt soared to 90% of GDP in 2016. With the phasing out of the large infrastructure projects, deficits declined significantly with the budget showing even a small surplus of 0.2% of GDP in 2017. However, the decline in the current account deficit was smaller (14.4% of GDP in 2017) as the effects of the projects on exports of services take more time. The currency board's coverage remains comfortable, with the ratio of reserves to base money estimated at 107% in 2017 while official international reserves reached 5.6 months of imports. The inflation rate stood at 0.6% in 2017, as prices of nontradable goods and services remained flat. The currency board arrangement has helped instill confidence and improve predictability in international transactions.
6. **Climate change contributes to a context of vulnerability in Djibouti.** The country is highly vulnerable to natural disasters: coastal flooding, extreme heat, wildfires, and volcanos⁸. According to Djibouti's country climate change brief⁹, the arid North African nation is also prone to drought. These threats to economic development and poverty alleviation, which are already probable, will grow in frequency and severity as temperatures warm, precipitation shifts, and sea levels rise. Djibouti's agricultural sector will experience volatile swings in rainfall, which could endanger food security. Natural capital, including the forests that cover 0.2% of the country (2015), will be at risk too. Low-income populations, like the 23% of Djiboutians who live below the national poverty line (2014)¹⁰, are also vulnerable and lack the capacity to adapt to climate-induced shocks¹¹. Finally, Djibouti, like the rest of MNA, suffers from water insecurity. As highlighted in the *World Bank Beyond Scarcity report*¹², water shortages will reduce MNA's GDP growth by 6% to 14% by 2050. Climate change, in short, will exacerbate these preexisting vulnerabilities, and amplify fragility. Djibouti's Intended Nationally Determined Contributions (INDC) (2015)¹³, which became its NDC (2016), recognizes the challenge of climate change and calls for an ambitious response, including US\$6.5 billion in adaptation and mitigation funding. The World Bank Group's Country Partnership Strategy for Djibouti for FY14-17 (extended by one year) and Performance and Learning Review, notes the nation's extreme vulnerability to climate change, lack of resilience capacity, and suggests projects in disaster risk management. The proposed project, although not directly related to climate change, will help build the capacity of the beneficiaries

⁶ IMF Working Paper No. 17/270. A. Kireyev. Djibouti's Quest for Inclusive Growth. 2017

⁷ Ibid.

⁸ <http://thinkhazard.org/en/report/70-djibouti>

⁹ World Bank Djibouti's country climate change brief, 2018

¹⁰ Climate Watch Data, 2018

¹¹ Shock Waves: Managing the Impacts of Climate Change on Poverty; Climate Change and Development; World Bank, 2016

¹² Beyond Scarcity: Water Security in the Middle East and North Africa. MENA Development Report; World Bank, 2018.

¹³ Intended Nationally Determined Contribution of the Republic of Djibouti, Republic of Djibouti, August 2015



towards economic self-reliance and agility through a more robust support to micro-, small, and medium enterprises (MSME) and MSME finance ecosystem, generate a more developed entrepreneurship mindset among the target population, and promote climate-smart entrepreneurship and innovations in industry sectors opened to a variety of regional and global markets.

B. Sectoral and Institutional Context

7. **Djibouti has an underdeveloped private sector, which constrains inclusive growth.** The oversized public sector cannot generate enough jobs for new entrants. The public sector provides 60% of jobs, with the private sector at 30% (10% in the formal and 20% in the informal sector) and the remaining 10% being self-employed.¹⁴ Economic growth in the past few years has been driven by capital-intensive investment in the ports and related activities, with limited trickle-down effects. Many of the jobs created have been taken by expatriates, because of a low domestic skills base.
8. **To stimulate private sector development, the authorities have taken concrete steps to improve the business climate.** Based on the World Bank's annual Doing Business (DB) indicators, Djibouti was ranked 154 out of 190 countries in 2018 (from 171 in 2017). With the creation of the One-Stop Shop, adoption of a commercial code, reductions in the cost to register a business, a new civil code (the first since the country became independent), and amendments to the fiscal code to reduce costs to start a business and register property, doing business in Djibouti has significantly improved in recent years.
9. **Despite these improvements, however, the financial sector does not effectively support economic growth and job creation.** Djibouti has low levels of population with bank accounts¹⁵, and suffers from a lack of microcredit and market diversification. Between 2005 - 2015, despite an increase in credit to the private sector as of GDP from 20 to almost 30%, the number of jobs created was very modest.¹⁶ Informal enterprises (mostly individuals) represent about 60% of the Djiboutian economy and are mainly in commerce, import-export, construction and small miscellaneous services.
10. **Banks view lending to MSMEs as very risky, which limits their ability to access critical finance.** The gap is substantial between average lending and deposit rates, which are respectively 13% and 3%. Considering the low levels of inflation and cost of funds, this cost of credit substantially reflects banks' risk premium. Banks impose high barriers and make credit expensive owing to the significant risk of default associated with MSMEs because of information asymmetry. As a result, collateral (immovable assets) is required for 84% of loans in Djibouti, and banks require, on average, 228% of the loan application amount in collateral (compared to 190% for MENA and 179% for Sub-Saharan Africa).¹⁷
11. **Young people are particularly vulnerable to being excluded from participating in the private sector as they lack the appropriate skills to respond to the labor market demand.** While access to primary and secondary education has improved considerably over the past decade, dropouts after primary school remain high with low literacy rates, especially in rural areas. Most youth do not partake in the

¹⁴ Djibouti Department of Statistics and Demographic Studies (DISED), 2016, (EDESIC 2015–16); Situation de l'emploi à Djibouti en 2015.

¹⁵ According to 2011 data, only 8.8% of women have account at a financial institution compared with 16.6% for men (World Development Indicator 2018)

¹⁶ World Bank Djibouti Rapid Financial Sector Assessment, December 2017

¹⁷ IMF Country Report, Djibouti Selected Issues Paper, No.16/249, July 2016



formal economy and unemployment is likely above 70% for young people under the age of 30. The supply of and quality of current vocational training opportunities are not keeping up with the labor market's increasing demand for people with business skills, and ability to speak various languages, especially English.

12. **Women are also at a disadvantage in terms of education and skills to access economic opportunities.** Female literacy stands at about 39.5% (compared to 60.1% for men), and drops to 22% outside the capital city.¹⁸ While women represent 39% of the active population in Djibouti, women typically run small and informal firms in lower value-added sectors, which offer smaller returns to creditors, thus impeding their access to finance.¹⁹ Some small-scale support programs, life skills training and entrepreneurship skills seem to be paying off, but female entrepreneurs face difficulties accessing finance and launching formal enterprises.
13. **There are, however, opportunities to increase women's economic empowerment.** According to community consultations and qualitative research undertaken for the IDA-financed Social Safety Nets program, over 57% of inactive women in Djibouti say that they do not work because of family and household responsibilities. However, they also indicated they are generally not discouraged or prevented from accessing training or work opportunities by male family members, and there are no legal barriers against female entrepreneurship. Moreover, women largely manage the household income and share decision-making power over expenditures, which suggests that additional income generated by women could directly enhance their economic empowerment.²⁰

Entrepreneurship Ecosystem

14. **Entrepreneurship²¹ has strong potential to generate employment for all working age people – especially youth and women.** The majority of Djibouti's private enterprises are composed of individuals in the informal sector. Many MSMEs suffer from existing gaps in the core skills of potential entrepreneurs. Combined with a lack of start-up capital, which is essential for launching an enterprise, the option to start a business is out of reach for many potential market players.
15. **The presence of several foreign military bases presents an underutilized opportunity for Djiboutian entrepreneurs.** Many embassies and bases have established programs to provide contracting opportunities for local enterprises, however, the number of current applicants is negligible. This situation is largely due to a lack of understanding of the online procurement processes, a lack of skills/capacity necessary for the contracts advertised, and a general lack of proactivity on the part of local small and medium enterprises (SMEs) to apply. Djiboutian entrepreneurs need assistance with: (i) finding information in a single place about advertised procurement opportunities, (ii) understanding

¹⁸ World Bank Report No: 94503-DJ

¹⁹ IFC Report "Ready for Growth: Solutions to Increase Access to Finance for Women-Owned Businesses in the Middle East and North Africa", May 2013

²⁰ World Bank Report No: 94503-DJ

²¹ Klapper, Amit, and Guillen (2010) describe how, from a practitioner standpoint, entrepreneurship is generally understood as a process of creating new wealth, but for the purpose of measuring entrepreneurship, the definition narrows to the initiation of economic activities in the form of a legal (formal) enterprise.



and completing application forms, and (iii) improving quality of their applications to meet international standards and needs.

16. **With a majority of the population under 35 years old, policies focused on upgrading skills and facilitating entry into the formal economy would enable young entrepreneurs to make an important contribution to job creation.** Investment in skills-based education is likely to be very important to address inequality as it could improve youth and female employment opportunities. The emphasis should be on ensuring that the labor force is trained for the needs of the job market, and that nationals—rather than expatriates—are prepared to take the jobs created by large-scale investments.²²
17. **Several private associations, including the Chamber of Commerce of Djibouti (CCD), have historically spearheaded the development of entrepreneurship activities in the country, but they lack resources and capacity to have large-scale impact and outreach.** The CCD, for example, provides training support to startup businesses, offering tools for formalization, accounting, and grants. The CCD also provides support to female entrepreneurship (with the Ministry of Women and Family Affairs) through Technical and Vocational Education and Training (TVET) programs delivered by the National Center for Women's Social Support and Self-Reliance (Centre d'aides sociales et d'autonomisation des femmes - CASAF). This focus on women entrepreneurship was initiated as part of the National Policy for Gender Promotion (Politique Nationale de Promotion du Genre - PNPG) 2011-2021 which promotes gender equality. Several programs and universities now provide structured entrepreneurship training programs, albeit at a relatively low scale.
18. **In 2015, the World Bank partnered with the Japan Social Development Fund, to launch the *Djibouti Enhancing Economic Opportunities (PROPEJA)* project.** The US\$2.73 million grant is implemented by the Djibouti Agency for Social Development (ADDs), with an objective to improve access to entrepreneurship, finance and livelihood skills training for at least 3,000 low- and semi-skilled youth and women in poor communities in Djibouti City, Arta, Tadjoura, and Ali Sabieh. This project piloted basic entrepreneurship training and mini-business plan competitions for youth as well as handicraft value chain integration for women. Youth are expected to represent at least 2,200 of the direct project beneficiaries, while at least 1,500 beneficiaries (50% of the total) will be women.
19. **At a higher level, the Ministry of Economy and Finance has recently undertaken the establishment²³ of a new Center for Leadership and Entrepreneurship (CLE).** The Government of India has provided financing for the physical construction of the CLE, as well as the drafting of a conceptual framework for a "*MSME Policy for Djibouti*". The CLE is intended to be a physical and virtual platform to support MSMEs in Djibouti through the provision of a resource center, services for MSMEs, an in-house incubator, a business park, and competitive sector development services. The CLE will streamline the entrepreneurship ecosystem in Djibouti to facilitate access for entrepreneurs to vital services, networking opportunities, and market linkages.

²² IMF WP/17/270

²³ The draft law establishing the CLE was approved by the Cabinet of Ministers in April 2018. Adoption of the draft law by the Parliament is a condition of project effectiveness.



20. **The Ministry of Women and Family Affairs (MWF) has launched several small-scale initiatives to support female entrepreneurship.** For example, their social action centers offer a work space and resources to female entrepreneurs (primarily focused on services such as hair dressing, cuisine, fashion) for two years, while beneficiaries are required to open a savings account with the local microfinance provider (CPEC). In 2017, 820 women passed through this Center. In addition, in January 2018, the MWF launched the “lundi de l’entrepreneuriat” program to provide training (entrepreneurship, skills development) to groups of 20 women every Monday of the week for six weeks. In partnership with USAID, the MWF also works with women’s associations in the artisanal sector, to help them with product refinement and marketing.
21. **Microfinance for potential entrepreneurs and MSMEs (especially women and youth) is notably underdeveloped and difficult to obtain.** A recent assessment completed by the World Bank found that the number of active microfinance borrowers is exceptionally small (1,011 exactly) compared to the potential (about 150,000 users - borrowers and depositors). In terms of outstanding loans, microfinance represents DJF 130 million, or just 0.04% of the total financial sector.²⁴
22. **In its current state, the CPEC - the country’s main microfinance provider –is not able to advance financial inclusion in Djibouti.** The CPEC²⁵ is a network of three sub-national financial cooperatives created in 2011, and has approximately 15,000 members (only 3% of the adult population). The CPEC offers two types of solidarity and individual loans.²⁶ Solidarity credits represent 70% of the CPEC portfolio. The CPEC network needs to increase their capacity and skills (i.e. risk management²⁷, credit provision, new product development, etc.), and develop purely commercial activities.²⁸
23. **In 2016, a presidential decree established a Partial Credit Guarantee (PCG) Fund to reduce risk for commercial banks to extend loans to MSMEs, but it is yet to become operational.**²⁹ The World Bank provided technical assistance (through a grant from FIRST) to support the design of the PCG Fund. A PCG Fund provides third-party credit risk mitigation to lenders while increasing access to credit for MSMEs. PCGs commonly combine a subsidy element with market-based arrangements for credit allocation, thereby leaving less room for distortions in credit markets than through more direct forms of intervention, such as state-owned banks.³⁰
24. **Furthermore, the state-sponsored Djibouti Economic Development Fund (FDED) whose mission is to provide financing to underserved MSMEs, is unable to meet the needs of many entrepreneurs due to a lack of effective governance, risk management, and appropriate products.** The FDED, which manages an outstanding loan of DJF 7 billion, has financed only 525 projects (including 50 “young

²⁴ World Bank Report No: 94503-DJ

²⁵ The resources of the CPEC come mainly from: i) repayments from existing customers, ii) government lines of credit and other international donors or ministries for targeted programs, iii) savings, and iv) the interest margin.

²⁶ Solidarity loans (3 to 6 members, monthly interest rate of 1.5% per year) are loans between DJF 50,000 and 300,000 (approximately US\$280 to US\$5,590). Individual loans (monthly interest rate of 2% per month) are loans between DJF 300,000 and 1,000,000 (approximately US\$1,670 to US\$5,590). Solidarity loans represent 70% of the CPEC portfolio

²⁷ The portfolio-at-risk (30 days) is 4.6% (the best practice is generally not to surpass 2%).

²⁸ World Bank Report No: 94503-DJ

²⁹ The Fund was originally supposed to launch with a US\$1.1 million capitalization from the Government of Djibouti in 2015. Additional allocations were to be made in the amount of US\$560k in 2016, and US\$560k in 2017. The percentage of coverage was to be determined in coordination with the Fund Manager of the PCG Fund.

³⁰ The World Bank and FIRST Initiative. 2015. Principles for Public Credit Guarantee Schemes for SMEs.



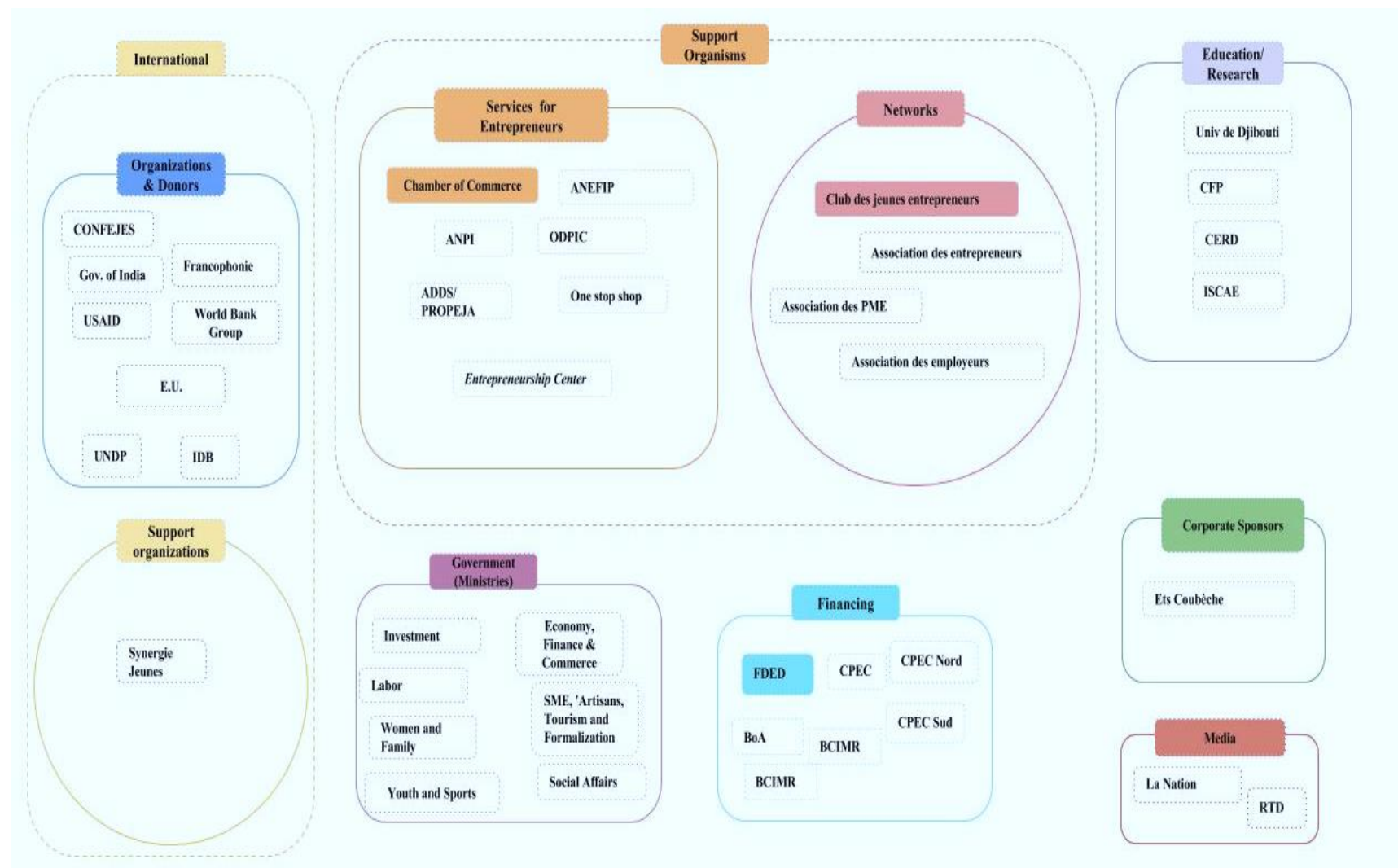
graduates"), of which about 50% are unable to repay. The FDED's current product offering does not seem to correspond to the needs of MSME borrowers, especially women and youth. The loans offered by FDED to youth have high thresholds in terms of loan amounts (DJF 3.58 million – 7.16 million) and minimum personal contribution of the borrower (20%).

25. **Overall, while entrepreneurship has become a focus area for the Government of Djibouti, the ecosystem remains fragmented, uncoordinated, and difficult to navigate for many entrepreneurs, especially women and youth.** The promotion of entrepreneurship is currently provided by many different actors, mostly in the public sector. i Preliminary mapping of the different actors of this entrepreneurial ecosystem in Djibouti is presented below (see Figure 1 and Annex 3³¹).
26. **Harnessing the transformational power of the private sector through the promotion of entrepreneurship will be critical for Djibouti.** Djibouti needs to urgently address the low level of private investment in small manufacturing and high value-added services, the limited number of youth and women entrepreneurs, the low level of job creation in rural areas in non-farm activities, and limited SME development in supply-chain manufacturing for sectors with deep local added-value, which could be enhanced by an export-oriented strategy.

³¹ This Review is currently based on a mission conducted in October 2017 by the World Bank, and is currently in draft form. It will be finalized in Q4 2018.



Figure 1. Djibouti Entrepreneurial Ecosystem Map





Competitive Sectors

27. **Djibouti has strong potential to be an industrial and commercial hub for the region, which will support private sector development.** Djibouti benefits from a number of preferential policies, such as the Africa Growth Opportunity Agreement (AGOA), Everything But Arms (EBA), and Common Market of East and South Africa (COMESA), which can facilitate the creation of a processing and manufacturing export hub around the port. The establishment of the new Djibouti-Ethiopia Railway will greatly enhance the logistics efficiency and transport capacity between the two countries, with possibilities for Djibouti to become a player in the processing and packaging of light manufacturing goods, especially if it manages to attract regional investments from Ethiopia.
28. **Through the port and new special economic zone, as well as China's "One Belt One Road" infrastructure imitative, Djibouti's MSMEs could be well positioned to play a role in the country's economic growth.** The Djibouti Ports and Free Zones Authority has secured massive Chinese investments, which could potentially boost many sectors, namely: (i) Logistics Transportation, Storage and Distribution; (ii) Trading (Bonded Bulk Commodity Exchange, Exhibition, Duty-free Retailing); (iii) Manufacturing; and (iv) Business Support (Financial Services, Information Services, Hotel, Training Center and other Agency Services). In addition, various sectoral studies conducted by the World Bank and others³² point to the employment and income generation potential of specific sectors such as fisheries and ICT services, which will soon be supported by new infrastructure such as the free zone.
29. **The realization of such potential, however, will require strong linkages with local MSMEs and a sustained investment promotion program.** Diversification is essential for Djibouti to develop sectors with high growth and employment potential such as tourism and fishing, and reduce the risks associated with relying on a single sector (services) catering mainly to one client (Ethiopia).³³ This should include the elaboration and implementation of a strategy to attract export-oriented foreign investors. Success will depend on the development of local entrepreneurship and a vibrant private sector, in turn enabled by the lowering of entry and operations barriers for businesses.

C. Higher Level Objectives to which the Project Contributes

30. **The proposed project supports the Djibouti Vision 2035.** One of the country's goals is to transform Djibouti into a middle-income economy by 2035. In addition to the cross-cutting themes of reducing gender inequality and supporting youth, the Vision focuses on five pillars representing the country's key development challenges, including "a diversified and competitive economy with the private sector as its engine of growth: diversified growth, with the private sector driving a new growth model; financial market development; supply chain improvements³⁴."

³² See: Fisheries Djibouti Assessment, Leslie Widmann, World Bank, 2018; Pioneering the Free Zones to Achieve Economic Transformation and Job Creation for Djibouti: From the Perspective of New Structural Economics Center for New Structural Economics at Peking University and The Made in Africa Initiative, December 2016; Transport and logistics in Djibouti: contribution to job creation and economic diversification, Policy note, World Bank Transport Unit, February 2013; Action Plan of the National Strategy for Trade Development, EU-TradeComm Facility Project, 2010;

³³ Djibouti Selected Issues Paper, IMF Country Report No. 16/249

³⁴ Stratégie de Croissance Accélérée et de Promotion de l'Emploi (SCAPE), Vision Djibouti 2035



31. **Furthermore, the proposed project will directly support the Government efforts to consolidate and strengthen the entrepreneurship ecosystem.** The project will directly support the mission and functioning of the CLE, which has wide support in the country. Several other entrepreneurship actors – including the Ministry of Women and Family, and the Chamber of Commerce – support the CLE and efforts to create an inclusive platform.
32. **The proposed project is aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner.** The proposed project seeks to help women and youth enter the workforce as employers (generating jobs) and employees, and encourage enterprises to enter the formal sector, thus enabling them to access finance and opportunities. The proposed project supports pillar 2 of the World Bank Group (WBG) Country Partnership Strategy for Djibouti (FY14-17), which identifies strengthening the business environment and increasing access to finance as key outcomes. A Systematic Country Diagnostic (SCD) and a new Country Partnership Framework for FY19-23 are currently under preparation. The project design is also informed by the lessons from the 2016 IEG report on World Bank Group Engagement in Small States³⁵, which notes the importance of efforts to catalyze the provision of training and business development services to entrepreneurs through robust intermediaries. The project also enables access to commercial finance by providing capacity building to the PCG Fund, as well as to strengthening the microfinance sector. Together these components align with the Maximizing Finance for Development (MFD) approach by leveraging the private sector and optimizing the use of scarce public resources to demonstrate that women and youth can upgrade their capacity to create and develop successful MSMEs in Djibouti, and to increase their access to commercial finance.
33. **The proposed project contributes to implementation of the renewing the social contract pillar of the WBG MNA strategy by strengthening resilience through broad-based private sector development and skills upgrading that match market demands.** These skills and sets of behavior play a critical role in building greater resilience to economic and social shocks that may come. The project also aims to strengthen public institutions for more efficient and effective service delivery through the reinforcement of various government entities responsible for the promotion and financing of entrepreneurship and competitive industries.
34. **The proposed project supports the objective of the WBG Gender Strategy and MNA Gender Action Plan by promoting gender equality in financial markets and financial sector development, and reducing gender disparity in access to finance.** The project will support the gender strategy's main pillars on removing constraints for more and better jobs, and enhancing women's voice and agency. Specifically, the proposed project also embodies the World Bank-supported interventions of investing in sex-aggregated data, and clearly evaluating and addressing gaps in access faced by women in projects.

³⁵ World Bank Group Engagement in Small States: The Cases of the OECS, PICs, Cabo Verde, Djibouti, Mauritius, and the Seychelles; Clustered Country Program Evaluation, World Bank Independent Evaluation Group, 2016



Relationship to other World Bank projects

35. **The proposed project will build upon the *Enhancing Income Opportunities in Djibouti (PROPEJA)* project.** PROPEJA supports identification and training of peer facilitators; youth mobilization and basic training; mini business plan competition; and coaching. PROPEJA also supports business development and marketing, and access to finance (cash transfers to cluster-level organizations which in turn allocate funds to producer group members). To date, 1,600 direct project beneficiaries have been trained and the project is expected to exceed its own targets and reach up to 3,000 youth. 50% of youth enrolled in the training so far have been female and 45% of those who receive the cash transfers are female. Based on estimates for the first batch of cash recipients, 9-12 months after funding the operational groups have an average of DJF 90,000 (US\$500) of sales and DJF 40,000 (US\$225) profits for a group of two members on average.
36. **The proposed project will use the opportunities created by the *Governance for Private Sector Development and Finance (GoPRO)* project that aims to improve the business climate in Djibouti.** The GoPRO project supports improvement of the business environment, including business creation and getting credit, and will also support the drafting of a national strategy to promote investment. The proposed project will directly complement these efforts by working to create and strengthen entrepreneurs who own businesses, improve the credit quality of these borrowers (demand side), and develop the quality of MSMEs working in priority sectors and value chains.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

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

B. Project Beneficiaries

38. Project beneficiaries include: a) aspiring entrepreneurs, with a special focus on women and youth; and b) owners of new or existing small and medium enterprises that have high potential for women and youth employment. Intermediate beneficiaries will be entities of the entrepreneurship ecosystem that provide support and financing to entrepreneurs and MSMEs such as mentoring programs, training programs, project development support, and advisory services.

C. PDO-Level Results Indicators

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



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

III. PROJECT DESCRIPTION

A. Project Components

- 41. The project will support activities that will favor the creation of new and well-performing companies, MSMEs companies, including in competitive value chains, and the employability of young people and women as entrepreneurs as well as employees in these new firms. The project is based on the following rationale:
- 42. In terms of support for beneficiaries and the ecosystem in which they operate, the project activities are aligned with the four phases of entrepreneurship development: awakening, activation, dynamization and stimulation (Figure 3).
- 43. In terms of improving access to finance for women and young entrepreneurs, the project will engage on two levels: (1) by providing grants/cash transfers to newly formed enterprises, as well as business plan competition winners to conceptualize/commercialize their ideas, and (2) improving the operations of current financial instruments to help them better provide financing to these borrowers. The project will provide technical assistance to support the administrative and technical capacity of the planned PCG Fund. The PCG Fund already has an existing legal and regulatory framework. The project will build on the work already done to establish this mechanism, and make it active. The project will also provide technical assistance to improve the microfinance products offered by the CPEC network to stimulate the provision of appropriate microfinance services for women and young entrepreneurs.

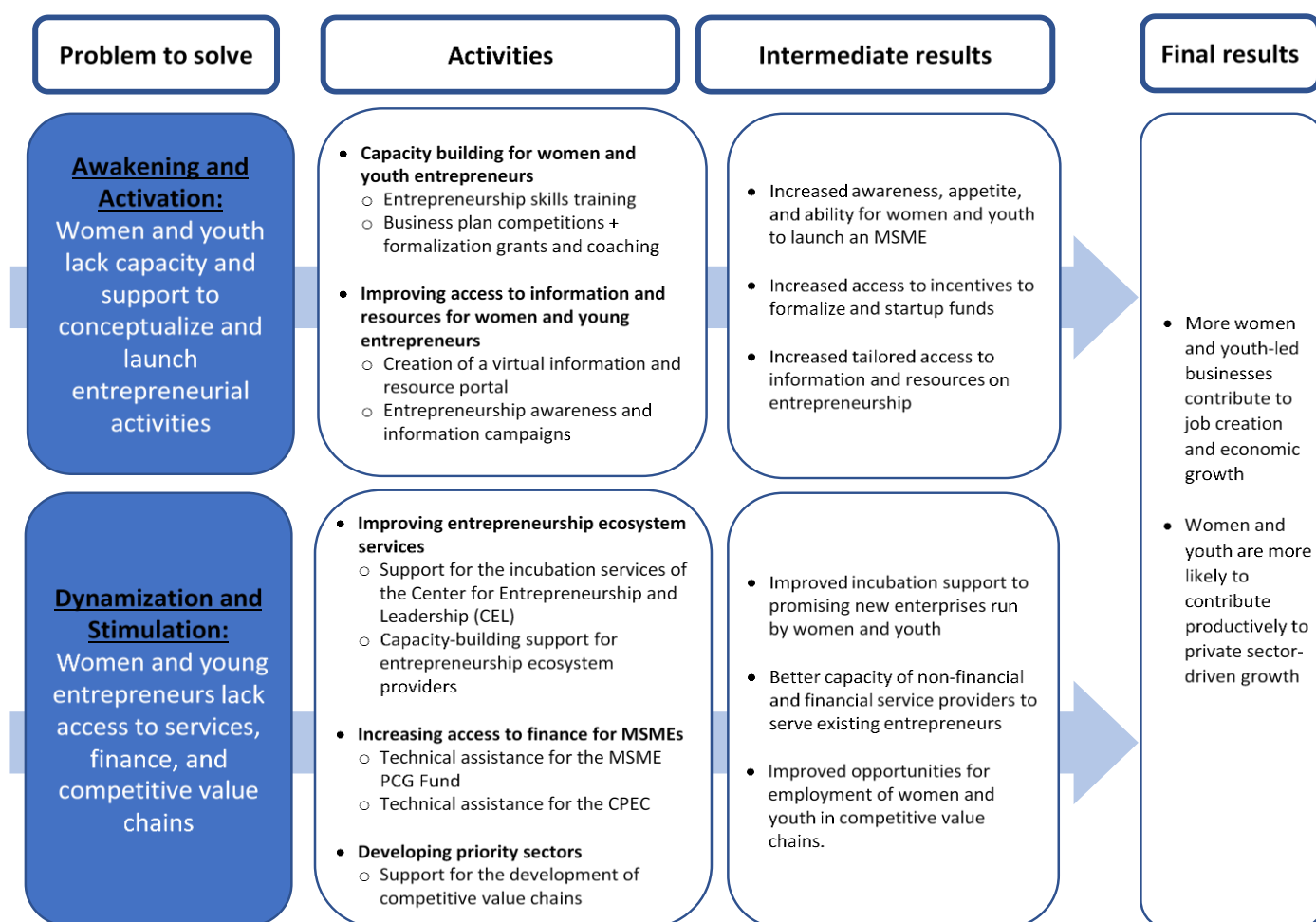
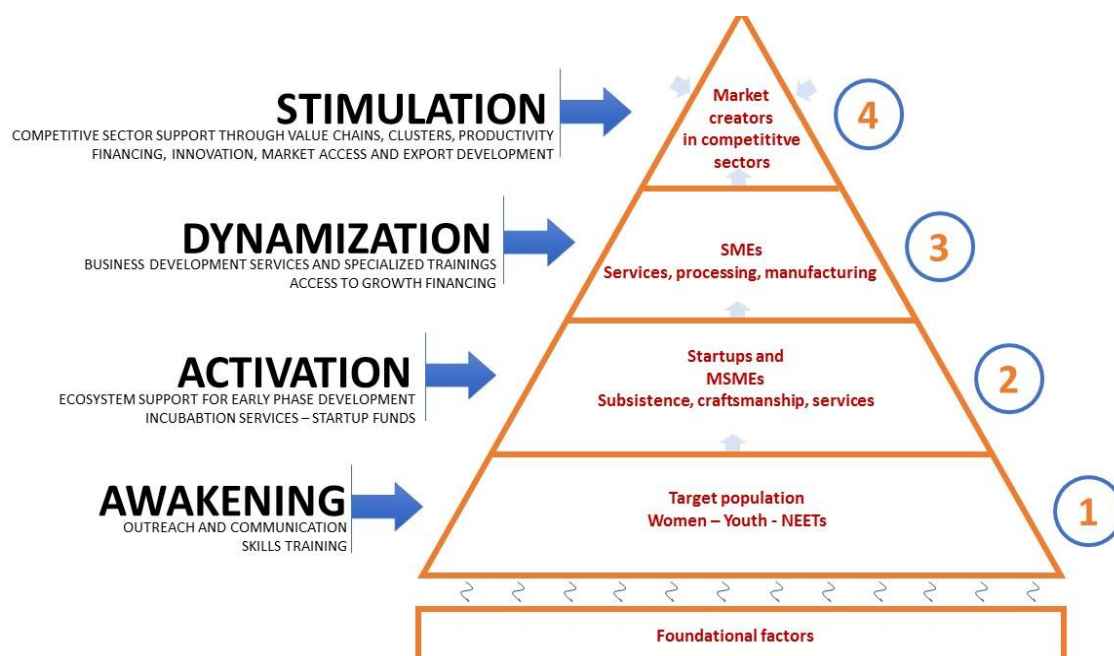


Figure 2. Theory of Change for the Proposed Project



Figure 3. Entrepreneurship Development Framework



44. **Component 1: Building capacity of women and young entrepreneurs (US\$6 million).** This component aims to improve access to: (i) skills and business development trainings (by scaling and expanding the scope of the existing PROPEJA project), (ii) small-scale financing, and (iii) information and resources for entrepreneurs. (Any grants/cash transfers funded under the project would be solely for *formal* enterprises).

Subcomponent 1.1 ~ Building capacity of women and youth entrepreneurs (US\$5 million)

- (a) **Entrepreneurship skills training:** This sub-component will scale up the PROPEJA model to provide comprehensive entrepreneurship training programs for women and youth leading to completion of a business plan and preparation of the formalization process. Entrepreneurs who complete the training satisfactorily will receive a completion certificate.
- (b) **Formalization grants (cash transfers) for training graduates:** Grants will be given to newly registered *formal* enterprises created by women and young entrepreneurs who were trained and certified under the training program.
- (c) **Business plan competitions with commercialization/concept development grants (cash transfers)³⁶ and follow-up coaching:** Grants/cash transfers will be given to formal enterprises

³⁶ Eligible activities under these grants/cash transfers may include: i) market testing/piloting, (ii) registering intellectual property/obtaining patents, and iii) refining the product. Consistent with the PROPEJA model, funding decisions will be made



who win business plan competitions (beneficiaries may/may not include those who have received formalization grants through the training above, but any enterprise receiving a grant/cash transfer must be formally registered).

Subcomponent 1.2 ~ Improving access to information and resources for women and youth entrepreneurs (US\$1 million)

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

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

Subcomponent 2.1 ~ Improving entrepreneurship ecosystem services (US\$4 million)

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

Subcomponent 2.2 ~ Increasing access to finance for MSMEs (US\$1 million)

- (a) Technical assistance for the MSME PCG Fund. Technical support will be provided for the activation and daily operation of the PCG Fund, including support for governance of the PCG Fund based on international best practice, creation of a Board, engagement with commercial banks, plan for private co-financing, etc. (The Project will not provide capital for the Fund).

by a regional community development committee composed according to specific selection criteria, such as elected officials, local leaders, representatives of financial institutions, the CLE, private sector and community representatives, and representatives of women, youth, and the poor. Details of committee selection, beneficiary eligibility criteria, and eligible activities will be specified in the Project Implementation Manual.



- (b) Technical assistance for the CPEC. Technical support will be provided for: (i) an action plan with concrete recommendations to restructure and/or improve operations and management (i.e. risk management, credit provision, controls, new product development, etc.) as well as the development of commercial activities for sustainable financing, and (ii) operational skills development training for CPEC personnel. (The Project will not provide capital to the CPEC).

Subcomponent 2.3 ~ Developing priority value chains (US\$2 million)

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

B. Project Cost and Financing

47. The proposed project is an Investment Project Financing (IPF) operation financed by SDR 10.5 million IDA credit (US\$15 million equivalent) to the Republic of Djibouti.

Project Components	Project cost (in US\$ m)	IDA Financing (in US\$ m)
Component 1 –Building Capacity of Women and Young Entrepreneurs	6.0	6.0
<i>Subcomponent 1.1: Building Capacity of Women and Young Entrepreneurs</i>	5.0	5.0
<i>Subcomponent 1.2: Improving Access to Information and Resources for Women and Young Entrepreneurs</i>	1.0	1.0
Component 2 –Improving Access to Services, Finance, and Competitive Value Chains for Women and Young Entrepreneurs	7.0	7.0
<i>Sub-component 2.1: Improving Entrepreneurship Ecosystem Services</i>	4.0	4.0
<i>Sub-component 2.2: Increasing Access to Finance for MSMEs</i>	1.0	1.0
<i>Sub-component 2.3: Developing Priority Value Chains</i>	2.0	2.0
Component 3 – Support for Project Implementation and Monitoring	2.0	2.0
Total Project Costs	15.0	15.0

C. Lessons Learned and Reflected in the Project Design

48. The financial sector in Djibouti needs to grow and increase its intermediation capacity to serve the needs of the economy. Access to finance is key to the growth of small and medium enterprises and jobs creation. While there is limited data on the correlation between SME growth and job creation in



the MNA region, studies have shown that SMEs often contribute more to employment growth than large firms. One global study found that as small firms (with 1 to 100 employees) grow, their rates of employment grow more than in larger firms. For example, in Egypt, SMEs contribute at least 38% of total employment and 33% of GDP. The impact is even greater when SMEs in the informal sector are included.³⁷

49. SMEs generate most of the new jobs that are created; they help diversify a country's economic base; they promote innovation; they help deliver goods and services to the bottom of the social pyramid; and they can be a powerful force for integrating women and youth into the economic mainstream. The establishment of a competitive SME sector can also create a more diversified, agile, and resilient economy with enhanced productivity and competitiveness. A vibrant SME sector can enhance innovation, it can help to diversify economic activity geographically, it can also help to support other development goals such as food security, better health and education, and a reduction in climate change.³⁸
50. Women entrepreneurs expanding their businesses have financing needs that exceed microcredit ceilings. One of the chief complaints of women entrepreneurs in the MENA region has been the inability to secure the formal financing necessary to grow their businesses. A 2011 IFC study showed that women-owned SMEs grow more slowly than their male-owned counterparts. One of the key factors the study attributed with slower growth rates was access to finance, which includes gender-specific challenges such as lack of collateral and less control over assets. Women SME owners also have limited access to training, technology, markets, role models, and protection under the law. Though microcredit can be useful in expanding financing options for the poor, especially women, it is not enough to meet all of the needs of SMEs.³⁹ The proposed project will assist women entrepreneurs in accessing training and financing, which will serve as critical start-up capital, as well as will help build their credit history in order to apply for formal commercial financing.
51. The proposed project is informed by rigorous evidence stemming from a wide range of youth and women economic empowerment and community-based livelihood interventions, including the Djibouti PROPEJA project. Specific examples of successful interventions that have informed the design of the proposed project include BRAC⁴⁰'s Employment and Livelihoods for Adolescents (ELA) program, the World Bank-supported Northern Uganda Social Action Fund Youth Opportunities Program, and several World Bank and JSDF-financed rural livelihoods projects in South Asia.
52. Key lessons include:
 - a) Capital or training alone is usually not enough to start or grow subsistence-level activities. The proposed project therefore offers a combination of capacity building and access to finance.

³⁷ IFC Report "Ready for Growth: Solutions to Increase Access to Finance for Women-Owned Businesses in the Middle East and North Africa", May 2013

³⁸ World Bank Report "What's Happening in the Missing Middle? Lessons from Financing SMEs", 2017

³⁹ IFC Report "Ready for Growth: Solutions to Increase Access to Finance for Women-Owned Businesses in the Middle East and North Africa", May 2013

⁴⁰ Bangladesh Rehabilitation Assistance Committee



- b) For young women, complementing income and asset-building with social services, such as literacy and reproductive health, is crucial, especially in low-income and socially conservative settings. The project therefore puts a strong emphasis on basic life skills and mentoring in subcomponent 1.1, providing information and counselling on topics that are directly relevant to the lives of poor young women.
 - c) Young adults can be responsible recipients of grants using them for training and business development. The project will test whether intra-group and community accountability can reduce the need for complex project implementation and supervision structures.
 - d) An integrated suite of services, which targets both the production and marketing of products or services, can play a key role in raising the productivity of rural women. The project therefore not only pilots capacity building and grants, but also value chain integration of local products in view of enhancing the income generating potential of households and communities.
53. Additional lessons from the ongoing JSDF-financed Youth Livelihoods in Southern Iraq project provide further guidance on specific design features, including the need for: (i) flexible funding based on the varying investment needs of different economic activities; (ii) actively guiding youth, and especially girls, in the choice of potential economic activities to encourage diversification; as well as (iii) targeting self-employment support.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

54. The Project will be implemented by the Center for Leadership and Entrepreneurship, under the Ministry of Economy and Finance, charged with Industry (MEFI). The CLE will be in charge of coordinating the implementation of the project activities, and of the procurement and the financial management of the project.
55. A Project Coordinator and a Procurement Specialist have already been appointed by the Ministry of Finance. The project will finance the following three key staff of the PIU in CLE (non-public servants) - Project Coordinator, Financial Officer and Procurement officer- during the period from project effectiveness until March 31, 2019 at the latest. The Government will ensure that salaries for the three key staff members are paid from the national budget starting April 1, 2019 and until the closing date of the project. All other CLE staff salaries will be paid by the Government.
56. The draft law establishing the CLE was approved by the Cabinet of Ministers in April 2018. Adoption of the draft law by the Parliament is a condition of project effectiveness.
57. The CLE, through the MEFI, has the mandate, convening power and vision necessary to oversee the preparation and implementation of the project. The CLE is a semi-public non-profit institution with a Board of Directors composed of representatives of the public sector and the private sector. The core mandate of the CLE is: (i) coordination and reforms of entrepreneurship and business development programs, (ii) promoting youth entrepreneurship and development activities and



support for incubation, (iii) business revitalization, and (iv) stimulation of the competitiveness of the private sector in growth sectors.

58. The CLE is headed by a Director appointed by decree on the proposal of the MEFI.
59. The Board of Directors of the CLE will serve as the Project Steering Committee. The Steering Committee will be comprised of, among others, representatives from the MEFI, the Ministry of Women and Family Affairs, the University of Djibouti, the Port Authority, the CCD, the Bankers Association, and the Club of Young Entrepreneurs. The Steering Committee is responsible for: (i) the strategic orientation and the annual work plan of the CLE; (ii) the administrative organization of the CLE and the definition of its procedures; (iii) draft annual budgets and provisional accounts; (iv) providing the annual report, financial statements, the audit reports, and the performance report of the Director; (v) defining and enforcing the rules of procedure of the CLE; and (vi) drafting the CLE Operations Manual.
60. The Board of Directors will meet at least biannually, at the invitation of its chairman. It can meet in extraordinary session upon simple convocation of its Director or at the request of a third of its members.
61. Any enterprise receiving a grant/cash transfer through the Project (either as a result of satisfactorily completing the training and/or being a winner of a business plan competition under subcomponent 1.1) will be required to open an account in their name at formal financial institution (or show proof of an active existing account) to be able to receive the funds. Any grants/cash transfers funded under the Project would be solely for formal enterprises. By linking beneficiaries to deposit accounts, this component promotes financial inclusion with a perspective of allowing beneficiaries to graduate to formal microfinance once their economic activities are sufficiently established.
62. The Government of Djibouti will prepare the Project Implementation Manual (PIM), detailing the implementation arrangements and the procedures to follow to implement the project activities, and will submit it to the World Bank. Adoption of the PIM in form and substance satisfactory to IDA is a condition of project effectiveness.

B. Results Monitoring and Evaluation

63. Monitoring and evaluation of outcomes and results will be a core part of the project design. The CLE will collect and present data and reports for six-monthly reviews in conjunction with World Bank implementation support missions. Discussions during these missions related to institutional capacity building, financial viability, technical reviews and site visits will also provide effective means of monitoring progress. The CLE team will include a dedicated Monitoring and Evaluation Specialist to organize data collection and processing, keep track of project indicators, and prepare regular results reports.

C. Sustainability

64. The Project will support the establishment of a new entity, the CLE, which aims to be financially self-



sufficient and will not be relying on the Project for the financing of salaries and personnel. This institution in and of itself – in addition to the invaluable services it will continue to provide as a result of the Project interventions and assistance – will be a legacy of the Project.

65. The Project is designed to maximize sustainability of the support by aiming to fulfill Djibouti goals for entrepreneurship development, employment creation and economic growth. The interventions are aligned with the Djibouti Vision 2035. Considerable time and effort have been used to ensure the involvement and commitment of various implementing agencies, and none of the components contain any costly interventions that cannot be financed by the Government after the Project ends.
66. The CLE, which will be the entity responsible for overseeing the implementation of the Project, will finance all salaries of its personnel directly (not through Project proceeds). Furthermore, the draft law establishing the CLE explicitly cites that one of its core functions will be to coordinate the resources allocated to entrepreneurship and business development, as well as to capture additional resources.
67. For subcomponent 1.1, the project will leverage community-based structures (i.e. for business plan evaluation committees), many of whom have already been convened under the PROPEJA project, in view of building lasting local capacity. By creating and strengthening affinity-based local community structures, the project promotes local institutions that can continue to exist beyond the project duration. The project taps into and strengthens local decision-making structures. The decision-making process for selecting successful proposals to access business plan competition grants will be decentralized, leveraging regional management committees consisting of local officials and community representatives. The proposed project thereby continues to strengthen these local institutions instead of creating parallel project-based structures. In areas where new committees will need to be set up, these new structures can represent an institutional mechanism for future local decision making outside the scope of the project.
68. Linkages with microfinance institutions and markets are intended to address structural barriers. By encouraging savings of beneficiaries and the opening of bank accounts of grant/cash transfer recipients, the project facilitates future access to formal finance. Moreover, by supporting commercialization and conceptualization (through business plan competitions), as well as the development of competitive sector value chains, project beneficiaries will be able to nurture linkages to new markets.

D. Role of Partners

69. The United States Agency for International Development (USAID) has launched a five-year (2016-2021) US\$24,985,000 Workforce Development Project (WFD) intended to reduce unemployment in Djibouti by improving workforce readiness and competitiveness based on market needs. The purpose of WFD is to increase the number of Djiboutians in the active workforce. In order to strengthen the workforce to meet the needs of a modern labor market, WFD will focus on: (i) expanding quality vocational workforce readiness programs, (ii) developing sustainable productive linkages between public vocational/technical education and training (TVETs) institutions employment providers, and (iii)



strengthening job placement, retention and advancement services.

70. USAID has provided a grant to the United Nations Development Program (UNDP) entitled “Women’s Empowerment and Community Strengthening” which is a 2.5-year activity to empower poor vulnerable women living in suburban and rural areas by strengthening their skills and enabling them to create income-generating activities. This activity has three main objectives: i) institutional capacity building for the Ministry of Women and Family Affairs; ii) strengthening women’s income-generating skills so that they can create new economic opportunities; and iii) promotion of new women’s cooperatives. The activity seeks to build the capacity of the Ministry and will provide 847 women members, from 15 women associations, the training and tools to engage in small-scale economic activities in the 5 regions and outlying suburbs of Djibouti City.
71. The Government of India provided financing for the physical construction of the CLE, as well as the drafting of a conceptual framework for introduction of a “*MSME Policy for Djibouti*” designed with an integrated approach for inclusive development of MSMEs.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

72. The overall risk rating is Moderate. The risks rated as Substantial are related to Institutional Capacity for Implementation and Sustainability, and Fiduciary.

Table 1. Summary Explanation of Key Risks and Mitigation Measures

Key Risks	Explanation and Mitigation Measures
Institutional Capacity (Rating = Substantial)	The CLE currently lacks the staff to devote to project implementation. To mitigate this risk, the CLE has already designated a Project Coordinator who will oversee the overall coordination and management of the project. Beyond its broader implementation role, the CLE will directly handle procurement, financial management/accounting, and contract management, while providing oversight and quality control to the executing agencies directly handling the tasks in the two components. The CLE benefits from being a semi-public non-profit institution under the Ministry of Economy and Finance and will benefit from its resources and personnel.
Fiduciary (Rating = Substantial)	Based on the assessment, the FM risk, as a component of the fiduciary risk, is rated as Substantial. The following risks are identified: (i) CLE has no accounting software used to record the daily transactions; (ii) currently, CLE has limited human resource capacities and it also lacks experience in implementing Bank-financed projects; (iii) CLE has limited internal controls procedures; and (iv) CLE falls under the audit regime of the Supreme Audit Institution (SAI), which has no experience in auditing Bank-financed projects. The proposed mitigating measures are as follows. First, CLE will recruit a Financial Officer (FO). Second, CLE will acquire an accounting software specific to the purpose of the project.



Key Risks	Explanation and Mitigation Measures
	Third, for the purpose of the project, CLE will develop an implementation manual which will contain an FM chapter describing in detail the FM procedures, including internal controls. It will also contain information about the detailed roles and responsibilities between CLE and various stakeholders. Fourth, CLE will get into a contract with an independent external auditor with Terms of Reference (ToRs) acceptable to the Bank to audit the Project Financial Statements (PFS). In addition, and to provide additional assurance on the results achieved and the usage of funds, CLE will enter into a contract with an external auditor to conduct technical/performance audit of all activities implemented under the project. With the proposed mitigating measures, CLE will meet the financial management requirements of the World Bank policy on investment project financing.

VI. APPRAISAL SUMMARY

A. Economic Analysis

73. The project's economic contribution to job creation, will be over the medium and long term, as entrepreneurs develop their skills and business plans, and as financing takes time to generate returns. Additionally, there will be a positive financial sector impact as potential borrowers demonstrate bankability as program beneficiaries (as recipients of loans through the loan fund supported by the project) and will be taken on by the commercial banking system.

B. Technical

74. There is no one-size-fits-all entrepreneurship framework. According to the OECD, recent evidence suggests that the provision of financial support to SMEs is most successful when offered in combination with consulting services, business advice or network opportunities for the beneficiaries of the program, or with financial education more generally, as these services can address the sometimes-underdeveloped financial skills of entrepreneurs. Furthermore, they note that supporting female entrepreneurs has become an integral objective of many policies and programs. Many governments in OECD countries and emerging economies have recognized the need for making their SME support policies more inclusive to help underrepresented members of society pursue entrepreneurial projects, and thus contribute to economic growth and prosperity.⁴¹
75. Research conducted by the Center for Global Development for the report "Revisiting What Works: Women, Economic Empowerment and Smart Design," suggests that high-quality training of reasonable duration can have positive economic outcomes for poor women entrepreneurs. Findings from a six-week fully subsidized, high-quality, basic business education for poor female micro-entrepreneurs in rural Mexico showed increased earnings among program participants, largely through improved accounting practices (Calderon, Cunha and de Giorgi 2013). Similarly, a three-month intensive training

⁴¹ OECD Report "Financing SMEs and Entrepreneurs 2017: Highlights"



(three hours, three times weekly) delivered by specialized professionals helped increase business sales of women micro-entrepreneurs in Lima, Peru.⁴²

76. According to an analysis of the conditions that foster high-potential female entrepreneurship conducted by the Global Entrepreneurship and Development Institute⁴³, it is not easy to determine which entrepreneurs will successfully grow their businesses exponentially. Rather than focusing on 'gazelle' firms that have increased their revenues 20% annually for at least four years, starting from a base of US\$1 million, it may be a more productive strategy to promote a healthy entrepreneurial ecosystem that supports a diverse array of 'high potential' female-owned firms from which gazelles can grow. 'High potential' female entrepreneurs are considered to be those who exhibit characteristics associated with high growth outcomes but which may currently be an aspiration rather than an achievement. Thus, high potential female entrepreneurs are 'market expanding, export-oriented, innovative entrepreneurs. Women entrepreneurs play a substantial role in growing their economies. When a country does not achieve its full potential, the economy suffers. Fewer 'high potential' female entrepreneurs result in fewer ideas being realized, less innovation, less export potential, and fewer jobs created. Through their entrepreneurial activities, high-potential female entrepreneurs increase their own economic welfare, and also improve the economic and social fabric of society through job creation, innovative products, processes, and services, and cross-border trade.
77. The sectoral and investment and export promotion approach will be partly flowing from the investment promotion strategy being designed under the World Bank-financed GoPro project.
78. The sector competitiveness approach, combining sector consolidation through dialogue with clustering and export and investment promotion has proven to bring concrete results in other countries like Haiti, Jordan or Ethiopia, which have similar industrial zone policies, and which face major unemployment issues. The Global Solution team of the Finance Competitiveness and Innovation Global Practice will be leveraged to support the project and its implementation.

C. Financial Management

79. The proposed Project will be implemented in line with World Bank policies for investment project financing. The Center for Leadership and Entrepreneurship (CLE) will be the implementing agency of the project. CLE is an institution under the authority of the Ministry of Finance. A Financial Management (FM) assessment for CLE was conducted during project preparation.
80. Based on the assessment, the FM risk, as a component of the fiduciary risk, is rated as Substantial. The following risks are identified: (i) CLE has no accounting software used to record the daily transactions; (ii) currently, CLE has limited human resource capacities and it also lacks experience in implementing Bank-financed projects; (iii) CLE has limited internal controls procedures; and (iv) CLE falls under the audit regime of the Supreme Audit Institution (SAI). The SAI has a limited role in auditing public institutions and has no experience in auditing Bank-financed projects. The SAI may not specifically audit

⁴² Buvinic, Mayra and Megan O'Donnell, "Revisiting What Works: Women, Economic Empowerment and Smart Design" Center for Global Development (November 2016).

⁴³ Terjesen, Siri and Ainsley Lloyd, "2015 Female Entrepreneurship Index: An analysis of the conditions that foster high-potential female entrepreneurship"; Global Entrepreneurship and Development Institute (2015)



the project as part of CLE's operations, which would provide limited assurance on the use of project funds.

81. The proposed mitigating measures are as follows. First, CLE will recruit a Financial Officer (FO), who will be handling the FM aspects of the project. The Bank will provide the necessary training regarding Bank FM procedures. Second, CLE will acquire an accounting software specific to the purpose of the project. It will utilize the software to record the daily transactions and produce the Interim Un-Audited Financial Reports (IFRs). The format of the IFRs will be agreed upon with the Bank. The IFRs will be submitted to the Bank no later than 45 days after the end of each quarter. Third, for the purpose of the project, CLE will develop an implementation manual which will contain an FM chapter describing in detail the FM procedures, including internal controls. It will also contain information about the detailed roles and responsibilities between CLE and various stakeholders. Fourth, CLE will get into a contract with an independent external auditor with Terms of Reference (ToRs) acceptable to the Bank to audit the Project Financial Statements (PFS). In addition, and to provide additional assurance on the results achieved and the usage of funds, CLE will enter into a contract with an external auditor to conduct technical/performance audit of all activities implemented under the project. With the proposed mitigating measures, CLE will meet the financial management requirements as per World Bank policy on investment project financing.
82. A segregated Designated Account (DA) in US dollars will be opened for CLE under the project name at a commercial bank in Djibouti acceptable to the World Bank. Withdrawals of eligible expenditures will be made on the basis of Statements of Expenditure (SOE) following the applicable procedures as detailed in the Disbursement and Financial Information Letter (DFIL) and the World Bank's Disbursement Handbook. CLE 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 Bank and project auditors. All disbursements will be subject to the terms of the Financing Agreement and to the procedures defined in the DFIL.
83. 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 cash accounting; and (b) project transactions and activities will be separated from other activities undertaken by CLE.
84. The project financial reporting will include unaudited Interim Financial Reports (IFRs) and yearly Project Financial Statements (PFS): (a) the IFRs should include data on the financial situation of the project. These reports should include: (i) a statement of funding sources and uses for the period covered and a cumulative figure, including a statement on the project account balance; (ii) a statement of use of funds by component and expenditure category; (iii) a reconciliation statement of 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; (b) CLE will produce the IFRs every quarter and submit them to the Bank within 45 days at 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; (iv) analysis of payments and withdrawals from each account; and (v) a complete inventory of all fixed assets acquired under the project. (c) IFRs and PFSs will be produced based on the accounting systems.



85. The project financial statements 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, the internal control and financial management systems, as well as a comprehensive review of the statement of expenditures for both agencies. 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 internal controls. The annual reports will be submitted to the World Bank within six months from the closure of each fiscal year.
86. A technical/performance audit will be conducted to cover all activities of the project. The audit will be comprehensive and will ensure that the principles of economy, efficiency and effectiveness are adhered to in project execution. The audit will include: (i) the auditor's validation that the activities have been effectively implemented; (ii) a confirmation on the results/outputs achieved and if these are in line with the project development objectives; (iii) observations and proposed recommendations to enhance project performance; and (iv) the implementing agency's response on all significant issues raised in the audit. The audit will be conducted yearly and the report will be submitted to the World Bank six months from the closure of each fiscal year.

D. Procurement

87. The proposed Project will be implemented in line with the World Bank Procurement Regulations for Borrowers under Investment Project Financing, dated July 1, 2016 and updated in November 2017, and the provisions of the procurement plan. The project procurement activities will be administered by the implementing agency (CLE) as the government PIU. As per the national procurement code, the CLE is required, for contracts of an estimated amount of DJF 5,000,000 and above, to submit the procurement process for the prior review of the National Commission for Public Procurement. The Project is subject to the World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and grants, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
88. When the Borrower uses its own national open competitive procurement arrangements, such arrangements shall be subject to paragraph 5.4 of the Procurement Regulations.
89. When other national procurement arrangements other than national open competitive procurement arrangements are applied by the Borrower, such arrangements shall be subject to paragraph 5.5 of the Procurement Regulations.
90. The project initial Procurement Plan has been prepared by the CLE and will be reviewed by the World Bank before its implementation. Following the World Bank's procurement framework, the CLE staff involved in project implementation, mainly the procurement staff and the project coordinator, will be trained 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.



91. 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.
92. The client has developed an initial Project Procurement Strategy for Development (PPSD) as required by the Procurement Regulations. Overall, the PSD revealed that procurement activities will be quite manageable with no complex or high value contracts envisioned in the project. However, two activities (training on entrepreneurship and communication plan) were identified to be potentially critical to project implementation and would require a close follow up on better packaging. With regard to Borrower capacity, the key staff are getting familiarized with Bank financing procedures and there is no need for Hands-on Implementation Expanded Support (HIES), apart from the regular capacity building and interactions with the World Bank team.
93. As part of PSD, a procurement plan for at least the first 18 months of the project has been proposed by the Borrower and discussed with the Bank.
94. The procurement plan will be published on the World Bank website after its registration in the STEP (Systematic Tracking of Exchanges in Procurement) by the Borrower.

E. Social (including Safeguards)

95. **Social Benefits.** The proposed project is expected to deliver significant social benefits by providing grants to women and young entrepreneurs, both males and females. The expected social and poverty outcomes of the proposed project will include but not be limited to the following: (a) enhanced sources of income; (b) reduced poverty among beneficiaries; (c) a reduced social stress.
96. **Consultations and Citizen Engagement.** Consultations on the design of the project have been held at several levels. Representatives of the national government, the business community, local government officials, and the international donor community, were the key stakeholders consulted. Among international donors who expressed particular support for the project include USAID's Workforce Development project, and the United Nations Development Program.
97. The CLE will be responsible for establishing regular consultations with project beneficiaries and other stakeholders, especially women and youth. The World Bank will provide guidance and training will be made available to help the CLE identify objectives and track the outcomes of consultations during project implementation.
98. Citizen feedback will be collected periodically on various dimensions of services provided, such as effectiveness, inclusiveness, quality, delivery time, transaction costs, and targeting, as well as on resource utilization or engagement processes. As part of subcomponent 1.2, assistance will be given to the CLE to design satisfaction surveys, hold focus group discussions, and establish a hotline for citizen support and complaints.
99. The project has been assigned environmental category C, it does not trigger any safeguards policies.



F. Environment (including Safeguards)

100. The project is considered Category C regarding potential negative environmental impacts and does not trigger any safeguard policies.
101. The project focuses on capacity building and technical assistance. Eligible activities for grants/cash transfers given under subcomponent 1.1 to newly registered formal enterprises created by women and young entrepreneurs include: i) market testing/piloting, (ii) registering intellectual property/obtaining patents, and iii) refining the product. There will be no construction/rehabilitation activities under these grants/cash transfers.

G. Other Safeguard Policies (if applicable)

H. World Bank Grievance Redress

102. 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/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

Project Development Objective(s)

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

PDO Indicators by Objectives / Outcomes	DLI	CRI	Unit of Measure	Baseline	End Target
Improving economic opportunities for targeted entrepreneurs					
Number of new firms registered by entrepreneurs accessing project-supported services (% female) (% youth)			Number	0.00	1,000.00
New firms registered by entrepreneurs accessing project-supported services (% female)			Percentage	0.00	50.00
New firms registered by entrepreneurs accessing project-supported services (% youth)			Percentage	0.00	90.00
Number of beneficiaries accessing finance through the project (% female) (% youth)			Number	0.00	5,000.00
Beneficiaries accessing finance under the project (% female)			Percentage	0.00	50.00
Beneficiaries accessing finance under the project (% youth)			Percentage	0.00	90.00



Intermediate Results Indicators by Components	DLI	CRI	Unit of Measure	Baseline	End Target
Building capacity of women and young entrepreneurs					
Number of project beneficiaries receiving grants (% female) (% youth)			Number	0.00	2,300.00
Number of beneficiaries receiving training completion certificates under the project (% female) (%youth)			Number	0.00	3,000.00
Number of beneficiaries who won grants from the business plan competitions (% female) (%youth)			Number	0.00	600.00
Beneficiaries who won grants from the business plan competitions (% female)			Percentage	0.00	60.00
Beneficiaries receiving training completion certificates under the project (% female)			Percentage	0.00	50.00
Beneficiaries receiving training completion certificates under the project (% female) (%youth)			Percentage	0.00	90.00
Project beneficiaries receiving grants (% female)			Percentage	0.00	50.00
Project beneficiaries receiving grants (% youth)			Percentage	0.00	90.00
Beneficiaries who won grants from the business plan competitions (% youth)			Percentage	0.00	90.00
Beneficiaries of business-development services provided through the project (%female) (%youth)			Number	0.00	6,000.00
Improving access to services, finance, and competitive value chains for women and young entrepreneurs					
Number of partial-credit guarantees provided through the PCG Fund			Number	0.00	250.00



Number of recommendations implemented by CPEC under the restructuring action plan developed through the project		Number	0.00	10.00
Number of recommendations implemented under value chain action plans developed through the project		Number	0.00	20.00
Amount of commercial financing mobilized through the PCG Fund supported by the Project		Amount(US D)	0.00	2,000,000.00
Citizen Engagement				
Project beneficiaries satisfied with training received		Percentage	0.00	90.00
Project beneficiaries satisfied with business development services received		Percentage	0.00	80.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Number of new firms registered by entrepreneurs accessing project-supported services (% female) (% youth)
Definition/Description	
Frequency	Yearly
Data Source	One-Stop Shop for business registration
Methodology for Data Collection	CLE will track beneficiaries registration status/certificates
Responsibility for Data Collection	CLE



Indicator Name	New firms registered by entrepreneurs accessing project-supported services (% female)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	
Indicator Name	New firms registered by entrepreneurs accessing project-supported services (% youth)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	



Indicator Name	Number of beneficiaries accessing finance through the project (% female) (% youth)
Definition/Description	
Frequency	Yearly
Data Source	CLE
Methodology for Data Collection	CLE will engage with beneficiaries and implementing entities of project-supported services to capture data related to accessing finance as a result of the Project.
Responsibility for Data Collection	CLE
Indicator Name	Beneficiaries accessing finance under the project (% female)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	



Indicator Name	Beneficiaries accessing finance under the project (% youth)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Number of project beneficiaries receiving grants (% female) (% youth)
Definition/Description	
Frequency	Yearly
Data Source	CLE
Methodology for Data Collection	CLE will be responsible for registering all beneficiaries who have received grants
Responsibility for Data Collection	CLE



Indicator Name	Number of beneficiaries receiving training completion certificates under the project (% female) (%youth)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	
Indicator Name	Number of beneficiaries who won grants from the business plan competitions (% female) (%youth)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	
Indicator Name	Beneficiaries who won grants from the business plan competitions (% female)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	



Indicator Name	Beneficiaries receiving training completion certificates under the project (% female)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	
Indicator Name	Beneficiaries receiving training completion certificates under the project (% female) (%youth)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	
Indicator Name	Project beneficiaries receiving grants (% female)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	



Indicator Name	Project beneficiaries receiving grants (% youth)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	
Indicator Name	Beneficiaries who won grants from the business plan competitions (% youth)
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	



Indicator Name	Beneficiaries of business-development services provided through the project (%female) (%youth)
Definition/Description	
Frequency	Yearly
Data Source	CLE
Methodology for Data Collection	CLE will be responsible for tracking and registering all beneficiaries of business development services supported by the Project
Responsibility for Data Collection	CLE
Indicator Name	Number of partial-credit guarantees provided through the PCG Fund
Definition/Description	
Frequency	Yearly
Data Source	PCG Fund
Methodology for Data Collection	PCG Fund will report to CLE on number of guarantees issued once the Project TA has begun
Responsibility for Data Collection	CLE



Indicator Name	Number of recommendations implemented by CPEC under the restructuring action plan developed through the project
Definition/Description	
Frequency	Yearly
Data Source	CPEC
Methodology for Data Collection	CPEC will report to the CLE on the number of actions it has implemented
Responsibility for Data Collection	CLE
Indicator Name	Number of recommendations implemented under value chain action plans developed through the project
Definition/Description	
Frequency	Yearly
Data Source	CLE
Methodology for Data Collection	CLE will track the implementation of recommendations
Responsibility for Data Collection	CLE



Indicator Name	Amount of commercial financing mobilized through the PCG Fund supported by the Project
Definition/Description	
Frequency	Yearly
Data Source	PCG Fund
Methodology for Data Collection	CLE will request reporting from the PCG Fund on the amount of loans placed under guarantee coverage by the PCG Fund.
Responsibility for Data Collection	CLE
Indicator Name	Project beneficiaries satisfied with training received
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	



Indicator Name	Project beneficiaries satisfied with business development services received
Definition/Description	
Frequency	
Data Source	
Methodology for Data Collection	
Responsibility for Data Collection	



ANNEX 1: DETAILED PROJECT DESCRIPTION

Project Development Objective

1. The project development objective is to improve economic opportunities for targeted entrepreneurs.
2. In terms of support for beneficiaries and the ecosystem in which they operate, the project activities are aligned with the four phases of entrepreneurship development: awakening, activation, dynamization and stimulation (Figure 1).
 - a) **Awakening:** During this phase, and to reinforce skills, professional training must be put in place to give the target populations the opportunity to consider the creation or participation in a MSME. This type of activity is usually accompanied by information campaigns on entrepreneurship. The awakening phase, aimed at identifying and training project leaders in the youth and women populations, has been piloted in Djibouti by the World Bank program "youth employment promotion and crafts project" (PROPEJA), whose model will be applied and expanded for this project.
 - b) **Activation:** Once trained, entrepreneurs can be incentivized to formalize their enterprises through the provision of grants/cash transfers. Commercialization and conceptualization grants/cash transfers – administered through business plan competitions - are also critical in this stage for formalized nascent enterprises to launch and grow.
 - c) **Dynamization:** Entrepreneurs must be able to access services and financing within a functioning and clear support ecosystem. This includes support for registration, networking to access mentors, incubators, accelerators, information, and access to finance. The dynamization phase allows MSMEs to develop and grow with certified training and services focused on development functions (eg human resources, marketing, financial management, inventory management, etc.).
 - d) **Stimulation:** The stimulation phase helps MSMEs play a role in value chains which are supported where necessary by sectoral coordination, the promotion of foreign direct investment, export, the creation of poles of growth, and financing and fiscal incentives allowing productivity gains in the targeted sectors.

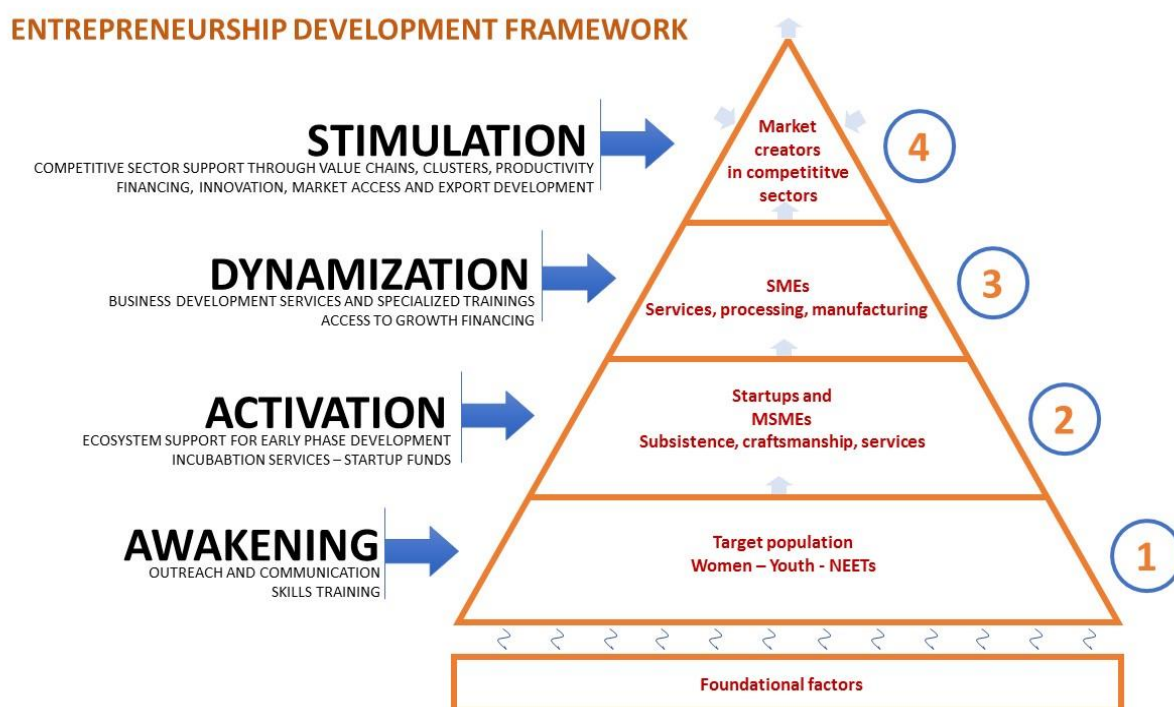


Figure 1. Entrepreneurship Development Framework

3. In terms of improving access to finance for women and young entrepreneurs, the project plans to provide technical assistance to support the administrative and technical capacity of the planned PCG fund. The PCG Fund already has an existing legal and regulatory framework. The project will build on the work already done to establish this mechanism, and make it active. The project will also provide technical assistance to improve the capacity and offering of the CPEC network to stimulate the provision of appropriate microfinance services for women and young entrepreneurs.
4. The proposed project would be structured around two major components, with a third component to support project implementation, as follows:

Component 1: Building capacity of women and young entrepreneurs (US\$6 million)

5. This component aims to improve access to various skills and business development trainings (by scaling and expanding the scope of the existing PROPEJA project) and improve and increase access to information and resources for entrepreneurs.
6. Enterprises receiving grants/cash transfers through the Project will be required to open an account in their name at formal financial institution to be able to receive the funds. By linking beneficiaries to deposit accounts, this component promotes financial inclusion with a perspective of allowing beneficiaries to graduate to formal microfinance once their economic activities are sufficiently established.



7. The component's geographic scope is open to all regions and municipalities in Djibouti. Any grants/cash transfers funded under the Project would be solely for formal enterprises.
8. There will be no construction/rehabilitation activities under these grants/cash transfers. Excluded activities for all grants/cash transfers include those that require the involuntary acquisition of land, such as construction and infrastructure leading to involuntary resettlement of people and loss of access to assets, revenues, and/or means of livelihoods.
9. Regardless of their sector orientation, the activities that the grants will finance can include (but are not limited to)⁴⁴:
 - o Development of prototypes
 - o Proofs of concept
 - o Conduct market surveys
 - o Develop business plans
 - o Market testing/piloting
 - o Registering intellectual property/obtaining patents
 - o Refining the product
 - o Registering/setting up the company
10. Sectors financed by grants/cash transfers could include (but are not limited to) retail, transport and logistics, services, development of green technology, fisheries, tourism, and ICT.
11. Eligibility criteria, evaluation and selection process as well as monitoring and evaluation of activities under this component will be specified in the Project Operations Manual (OM). Intermediaries will be required to adopt the OM and provide the required monitoring and reporting to the PIU.

Subcomponent 1.1 ~ Capacity building for women and youth entrepreneurs (US\$5 million).

12. Entrepreneurship skills training (\$3 million): Entrepreneurship training must be effectively implemented to provide the target populations with the opportunity to consider the creation of MSMEs. This sub-component will scale the PROPEJA model to provide comprehensive best practice entrepreneurship training programs, including life-skill and livelihood training, leading to completion of a business plan and preparation of the formalization process. Entrepreneurs who complete the training satisfactorily will receive a certificate.
13. Formalization grants/cash transfers for women and young entrepreneurs (\$1 million): Grants will be given to each new *formal* enterprise formed by women and young entrepreneurs trained and certified under the training program detailed in subcomponent 1.1.
14. Business plan competitions with commercialization/concept development grants/cash transfers and follow-up coaching (\$1 million): The business plan competition cycle will include three distinct phases: (i) awareness to entrepreneurship issues, calls for candidacy, selection; (ii) competition including capacity building in the development of business plans, preparation of business plans with mentors, selection of best plans and grant/cash transfer awards; and (iii) follow-up coaching (for a period of 6 months). Eligible activities under these grants/cash transfers may include, development of the prototype, proof of

⁴⁴ Entrepreneurs receiving incubation services from the CLE may be ineligible for business plan competition grants for certain types of activities that are already provided for as a result of their incubation relationship with the CLE.



concept, market survey and business plan development. Commercialization converts ideas, research, or prototypes, into viable products that can be sold in the market. Eligible activities under these grants/cash transfers may include: i) market testing/piloting (ii) registering intellectual property/obtaining patents, and iii) refining the product. Funding decisions will be made by a committee composed according to specific selection criteria, such as elected officials, local leaders, representatives of CPEC, the CLE, ADDS, private sector and community representatives, and representatives of women, youth, and the poor. Details of committee selection, beneficiary eligibility criteria, and eligible activities will be specified in the Project Operations Manual.

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

15. Creation of a virtual information and resource portal for entrepreneurs (US\$0.4 million): Development of a digital portal (to be housed within CLE's Resource Center) for information on sectoral opportunities, training opportunities, military base contracts, ecosystem services, how to access to finance, and eLearning courses.
16. Entrepreneurship awareness and information campaign (US\$0.6 million): To address a general lack of awareness among women and youth around the possibilities of entrepreneurship, the Project will support the development of regular information campaigns to highlight the virtues and possibilities of entrepreneurship, and provide information on the types of services available to those interested.

Component 2: Improving access to services, finance, and competitive value chains for women and young entrepreneurs (US\$7 million)

17. This component aims to improve access to services and finance for women and young entrepreneurs through the improvement and expansion of ecosystem provider capacity, and through the activation of the PCG Fund and reinforcement of the CPEC microfinance network.
18. For entrepreneurship in Djibouti to grow and develop in a sustainable way, it is important for there to be strong value chains for them to participate in. Strong value chains (with an export orientation) with high local added value will necessitate local MSMEs and result in the employment of young people and women. To that end, the component also seeks to provide technical assistance to help identify and develop competitive sectors and value chains and enable enterprises to better meet the needs of these new dynamic sectors.

Subcomponent 2.1 ~ Improving entrepreneurship ecosystem services (US\$4 million)

19. Support for the incubation services of the Center for Leadership and Entrepreneurship (US\$2 million): Technical assistance will be provided for the incubator within the CLE in the areas of: (i) operation; (ii) development of its strategic orientation; (iii) development and implementation of its service offering (which could include light office/IT equipment); and (iv) capacity building for personnel of the CLE.
20. Capacity-building support for entrepreneurship ecosystem providers (US\$2 million): Technical assistance will be provided for eligible SME ecosystem operators to improve their abilities to assist entrepreneurs with support services and outreach, including the provision of specialized entrepreneurship training programs focused on business development, accounting, and growth functions (e.g. human resources, marketing, long-term financial management, inventory management, supply chain linkages, etc.).



Subcomponent 2.2 ~ Increasing access to finance for MSMEs (US\$1 million).

21. Technical assistance for the MSME PCG Fund (US\$0.5 million): Technical support will be provided for the activation and daily operation of the PCG Fund. Technical support will also be provided for governance of the PCG Fund based on international best practice (and the World Bank's recently developed "Principles for Public Credit Schemes"⁴⁵), creation of a Board, engagement with commercial banks, plan for private co-financing, etc. (The Project will not provide capital for the Fund).
22. Technical assistance for the CPEC (US\$0.5 million): Technical support will be provided for: (i) an action plan with concrete recommendations to restructure and/or improve operations and management (i.e. risk management, credit provision, controls, new product development, etc.) as well as the development of commercial activities for sustainable financing, and (ii) operational skills development training for CPEC personnel. (The Project will not provide capital to the CPEC).

Subcomponent 2.3 ~ Developing priority value chains (US\$2 million)

23. Support for the development of competitive value chains: Technical assistance will be provided to the CLE's Competitive Sector department for the development of value chain strategies and action plans, the implementation of sectoral coalitions, the creation of supply chain linkages, and the development of export marketing services, to promote the employment of young people and women.

Component 3: Support for Project Implementation and Monitoring (US\$2 million)

24. This component will finance technical assistance, equipment, training and operating costs for:
 - a) Project management and implementation oversight;
 - b) Project monitoring and evaluation;
25. This component will also support institutional strengthening of the Project Implementation Unit (PIU), especially in the areas of accounting, budget management, procurement, and overall administrative functions.

⁴⁵ In 2015, the World Bank Group and the FIRST (Financial Sector Reform and Strengthening) Initiative, in coordination with the SME Finance Forum, convened a global task force to identify and draft principles for the design, implementation, and evaluation of public credit guarantee schemes (PCGs) to improve access to finance for SMEs. The objective of the principles is to provide a generally accepted set of good practices, which can serve as a global reference for the design, execution, and evaluation of public credit guarantee schemes. The principles propose appropriate governance and risk management arrangements, as well as operational conduct rules for CGSs, which can lead to improved outreach and additionality along with financial sustainability. The principles are built on extant literature on good practices for PCGs, including results from global and regional surveys, and draw from sound practices of existing PCGs as they have been implemented in several jurisdictions. The proposed project will use the principles to guide the operation of the PCG Fund in Djibouti to develop its organization, operations, and risk management practices.



ANNEX 2: IMPLEMENTATION ARRANGEMENTS

PROJECT INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

1. The Project will be implemented by the Center for Leadership and Entrepreneurship (CLE), under the Ministry of Economy and Finance, charged with Industry (MEFI). The CLE will be in charge of coordinating the implementation of the project activities, and of the procurement and the financial management of the project.
2. A Project Coordinator and a Procurement Specialist have already been appointed by the MEFI. All salaries will be paid by the Government.
3. The draft law establishing the CLE was adopted by the Cabinet of Minister in April 2018. Its adoption by the Parliament is a condition of project effectiveness.
4. The CLE, through the MEFI, has the mandate, convening power and vision necessary to oversee the preparation and implementation of the project. The CLE is a semi-public non-profit institution with a Board of Directors composed of representatives of the public sector and the private sector. The core mandate of the CLE is: (i) coordination and reforms of entrepreneurship and business development programs, (ii) promoting youth entrepreneurship and development activities and support for incubation, (iii) business revitalization, and (iv) stimulation of the competitiveness of the private sector in growth sectors.
5. The CLE is headed by a Director appointed by decree on the proposal of the MEFI.
6. The CLE is required to maintain a mandate, composition and resources satisfactory to the World Bank at all times during the Project.
7. The Board of Directors of the CLE will serve as the Project Steering Committee. The Steering Committee will be comprised of, among others, representatives from the MEFI, the Ministry of Women and Family, the University of Djibouti, the Port Authority, the CCD, the Bankers Association, and the Club des Jeunes Entrepreneurs. The Steering Committee is responsible for: (i) the strategic orientations and the annual work plan of the CLE; (ii) the administrative organization of the CLE and the definition of its procedures; (iii) draft annual budgets and provisional accounts; (iv) providing the annual report, financial statements, the audit reports, and the performance report of the Director; (v) defining and enforcing the rules of procedure of the CLE; and (vi) drafting the CLE Operations Manual.
8. Any enterprise receiving a grant/cash transfer through the Project (either as a result of satisfactorily completing the training and/or being a winner of a business plan competition under subcomponent 1.1) will be required to open an account in their name at formal financial institution (or show proof of an active existing account) to be able to receive the funds. Any grants/cash transfer funded under the Project would be solely for formal enterprises. By linking beneficiaries to deposit accounts, this component promotes financial inclusion with a perspective of allowing beneficiaries to graduate to formal microfinance once their economic activities are sufficiently established.



9. The Government of Djibouti will prepare the PIM, detailing the implementation arrangements and the procedures to follow to implement the project activities, and will submit it to the World Bank. Adoption of the PIM in a form and substance satisfactory to IDA is a condition of project effectiveness.

FINANCIAL MANAGEMENT

10. The Republic of Djibouti has a complete and sufficient body of texts to guide sound management of its public finances. The legal framework of Djibouti includes notably: (i) the Constitution of September 4, 1992; and (ii) the law n°107/AN/00 relating to the finance laws which fixes the rules relating to the determination of the resources and expenses, the preparation and the vote on the annual budget, and the execution and control of the budget.
11. The institutional framework contains the structures necessary for public financial management. The institutional framework meets the needs with respect to the preparation as well the execution and control of the budget. However, some practices affect the efficiency of the texts. This is particularly the case for the use of the derogatory procedures of public expenditure, as well as a certain lack of budgetary discipline.
12. The Support for Women and Youth Entrepreneurship Project will be implemented according to the World Bank policy on investment project financing and through the Center for Leadership and Entrepreneurship (CLE). CLE is a center within the MEFI and has the legal mandate to oversee the preparation and implementation of the project. CLE will be adequately staffed to ensure that proper project execution is carried out throughout the life of the project. The project funds will be disbursed from a project bank account established for CLE under the name of the project and using advances to a designed account, direct payments, and withdrawals for eligible expenditures. Withdrawals are to be accompanied with statements of expenditure following the applicable procedures and the World Bank's Disbursement Handbook. Interim Un-Audited Financial Reports (IFRs) and Annual Project Financial Statements (PFS) will be used as financial reporting mechanisms, but not for disbursement purposes.

Financial Management Assessment

13. The FM team reviewed the financial management arrangements at the Center for Leadership and Entrepreneurship.
14. Based on the results of the assessment of the CLE, the FM risk, as a component of the fiduciary risk, is rated as Substantial. With the proposed mitigating measures, CLE will be responsible for the financial management requirements as per World Bank policy on investment project financing.
15. In view of the risks identified and the weaknesses observed, the overall financial management risk is deemed to be Substantial. The following risks are identified: (i) CLE has no accounting software to record the daily transactions; (ii) CLE has limited human resource capacities and also lacks experience in implementing Bank-financed projects; (iii) CLE has limited internal controls (iv) CLE is a center within the MOF and falls under the audit purview of the Supreme Audit Institution (SAI). The SAI has a limited role in auditing public institutions and has no experience in auditing Bank-financed projects. The SAI may not specifically audit the project as part of CLE operations, which would give limited assurance about the project's use of funds.



16. Based on the risks, the following mitigating measures have been agreed upon in order to reduce the FM risk level and have an adequate FM system in place: (i) CLE will recruit a Financial Officer (FO) who will be handling the FM aspects of the project. The Bank will provide the necessary training to the FO regarding Bank FM procedures; (ii) CLE will acquire an accounting software specific for the purpose of the project, and will utilize the software to record the daily transactions and produce the Interim Un-Audited Financial Reports (IFRs). The format of the IFRs will be agreed upon with the Bank. The IFRs will be submitted to the Bank no later than 45 days after the end of each quarter; (iii) for the purpose of the project, CLE will develop an operational manual which will contain a FM chapter describing in detail the FM procedures, including internal controls; and (iv) CLE will enter into a contract with an independent external auditor using a Terms of Reference (ToRs) acceptable to the Bank to audit the Project Financial Statements (PFS). The auditor will prepare an audit report and management letter. CLE will also enter into a contract with an external auditor with ToRs acceptable to the Bank to conduct performance/technical audit of the activities of the project. CLE will submit the annual audit report and management letter and a performance/technical audit to the Bank no later than six (6) months after the end of each fiscal year.

Financial Management and Disbursement Arrangements

17. *Staffing:* A Project team will be established at CLE, which will be comprised of a project coordinator, a financial officer and a procurement specialist. The FO will be handling the FM aspects of the project and will be reporting to the project manager. The Bank will provide the necessary training to the FO regarding Bank FM procedures. The recruitment of the FO no later than 3 months after the effectiveness date will be a legal covenant.
18. *Budgeting:* CLE prepares its budget on an annual basis and it forms part of the overall budget of MOF. CLE will be preparing a separate annual budget and disbursement plan for the purpose of the project. The budget will be prepared on an annual basis and submitted to the Bank in November/December of each year covering the subsequent year. The disbursement plan will cover each fiscal year and will be divided by quarter and submitted with the quarterly Interim Un-Audited Financial Reports (IFRs). CLE will monitor the variances in the disbursement plan and provide justification for any major divergence(s).
19. *Project accounting system:* CLE will acquire an accounting software for the purpose of the project. It will utilize the accounting system to record daily transactions and produce the Interim Un-Audited Financial Reports (IFRs). CLE will submit to the Bank no later than 45 days after the end of each quarter the IFRs covering the quarter. The project Financial Officer at CLE is responsible for preparing the IFRs before their transmission to the director of CLE for approval. Periodic reconciliation between accounting statements and the IFRs will also be done by the Financial Officer.
20. 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; (ii) the International Public-Sector Accounting Standards (IPSAS) cash basis will be followed; and (iii) all transactions related to the project will be entered into the accounting system.



21. A project Designated Account (DA) will be opened for the project. The DA will be handled by CLE. Disbursements made from the DA will also be entered into the accounting system. Project transactions and activities will be separated from other activities undertaken by CLE. The IFRs summarizing the commitments, receipts, and expenditures made under the project will be produced by CLE quarterly using the templates established for this purpose. The project chart of accounts will be in compliance with the classification of expenditures and sources of funds indicated in the project cost tables, as well as with the general budget breakdown in addition to the PIM. The chart of accounts should allow for data entry to facilitate the financial monitoring of project expenditures by component, sub-component and category.
22. Project financial reporting includes quarterly IFRs and yearly Project Financial Statements (PFS). IFRs should include data on the financial situation of the project, including:
 - (a) A Statement of Cash Receipts and Payments by category and component.
 - (b) 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) a Reconciliation Statement for the DA, (iii) a Statement of Cash payments made using Statements of Expenditures (SOE), iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget, and (v) a comprehensive list of all fixed assets acquired under the project.
23. The IFRs should be produced by CLE every quarter and sent to the Bank within 45 days from the end of each quarter. The PFS should be produced annually. The PFS should include: (i) a cash flow statement; (ii) a closing statement of financial position; (iii) a statement of ongoing commitments; (iv) an analysis of payments and withdrawals from the DA; (v) a statement of cash receipts and payments by category and component; (vi) a reconciliation statement for the DA; (vii) a statement of cash payments made using the Statements of Expenditures (SOE) basis; and (viii) the yearly inventory of fixed assets acquired under the project.
24. *Internal control:* For the purpose of this project, CLE will prepare a PIM, which will define the roles, functions and responsibilities for the implementing agency. The PIM will contain a separate FM chapter detailing the FM and accounting procedures and will also include internal controls procedures. The finalization and submission of a PIM will be a condition of effectiveness.
25. *Flow of funds:* Payment shall require three signatures: The Director of CLE, the Director of the External Financing Department at the MEFI and the Director of the Debt Department at the Ministry of Budget. Funds will be transferred from the Bank based on Withdrawal Applications submitted by the project. The funds will be channeled from the Bank through the single segregated Designated Account (DA) in US dollars opened at a commercial bank in Djibouti acceptable to the World Bank. Advances from the IDA account will be disbursed to the designed account and used for project expenditures.
26. The project will have two categories of expenditures:
 - (a) Category 1: which will cover sub-components 1.2, 2.1, 2.2, 2.3 and component 3.
 - (b) Category 2: which will include sub-component 1.1.



27. Category 1 will finance the standard sub-categories of work, goods, consulting services, non-consulting services, training and workshops and operational cost of the project.
28. Category 2 of the project will include the activity of provision of small grants/cash transfers to designated beneficiaries under sub-component 1.1. This sub-component envisages the provision of training activities in addition to sub-grants/cash transfers to the enterprises that will be created by women and young entrepreneurs.
29. The amount of the sub-component is set a US\$5.00 million. From the US\$5.00 million, an amount of US\$2.00 million will be allocated as an independent category under the project. this amount will include: US\$1.00 million that will be allocated as grants/cash transfers to the enterprises (beneficiaries) once they formalize and are certified through a training certificate on how to become an entrepreneur, and US\$1.00 million as grants/cash transfers to formal enterprises who win business plan competitions.
30. The funds related to the grants/cash transfers will be channeled from CLE to beneficiary bank accounts which must be held at a formal financial institution.
31. Once the enterprises satisfy specific criteria, CLE will channel the grant funds/cash transfers to their respective bank accounts. The enterprises will then be able to use the funds.
32. The following control arrangements will be applied under this category:
 - (a) CLE will prepare a small grant manual specific for the grants/cash transfers detailing the procedures and processes for this activity. The small grants manual will be part of the PIM.
 - (b) CLE will sign an agreement with each formal enterprise (the beneficiary) awarded a grant/cash transfer. The agreement will detail the mechanism to receive the grants and the criteria to be achieved by each enterprise in order to receive the funds in addition to the roles and responsibilities of each party.
 - (c) Each enterprise will open a segregated bank account at a formal financial institution to receive the funds in the form of grants/cash transfer.
 - (d) Each enterprise will report back to CLE on the activities conducted once the funds are received along with a financial progress report.
 - (e) All the above arrangements will be detailed in the small grant manual. The small grant manual will not be modified without the approval of the Bank.
33. CLE will have the overall responsibility in ensuring that the funds under this category are used for their intended purposes and will follow up closely on the execution and the reporting.

Auditing Arrangements

34. *Audit of the project financial statements:* An annual external audit of the project financial statements will cover the financial transactions, internal controls and financial management systems. It will also include a comprehensive review of statements of expenditures (SOEs).



35. An external auditor will be appointed by CLE according to Terms of References acceptable to the Bank. The audit should be conducted in accordance with international auditing standards. The audit will include all activities implemented by CLE. The auditor should produce: (i) an annual audit report including his/her opinion on the project's annual financial statements; (ii) a management letter on the project internal controls at both agencies. The annual report will be submitted by CLE to the World Bank within six months from the closure of each fiscal year. CLE will ensure that the recruitment of the external auditor will be done no later than 6 months after project effectiveness. This will enable the auditor to start field work early so to deliver the audit report and management letter within the deadlines, thereby avoiding any delays in this regard.
36. *Performance/Technical Audit*: CLE will enter into an agreement with an independent auditor with acceptable ToRs to the Bank to conduct a performance/technical audit of the project. The audit will include a comprehensive review of the activities conducted under the project and will ensure that the principles of economy, efficiency and effectiveness are applied and that the results/outputs of the activities are delivered and are in line with the development objectives of the project. The audit will also confirm the quality of the results achieved and will propose recommendations for enhancing performance. The auditor will be recruited by CLE within 6 months of effectiveness and the audit will be required on a yearly basis to be submitted 6 months after the closure of each fiscal year.
37. *Flow of information*: CLE will be responsible for preparing periodic reports on project implementation progress, as well as 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.
38. CLE will maintain the project bookkeeping and will produce the annual PFS and quarterly IFRs.

Table 1. Summary of Actions to be Taken

Actions	Responsible Agency	Deadline
Recruit a Project Financial Officer	CLE	No later than 3 months after the effectiveness date (<i>Legal Covenant</i>)
Prepare a FM chapter as part of the PIM detailing the FM and accounting procedures	CLE	No later than effectiveness date
Acquire an accounting software	CLE	No later than 3 months after effectiveness
Hire an external auditor to conduct the audit of the project financial statement with ToRs acceptable to the Bank	CLE	No later than 6 months after effectiveness
Hire an external auditor to conduct the performance audit with ToRs acceptable to the Bank	CLE	No later than 6 months after effectiveness



Disbursements

39. The IDA funds will be disbursed according to the World Bank guidelines and should be used to finance project activities. The proceeds of the project will be disbursed in accordance with the traditional disbursement procedures of the Bank and will be used to finance activities through the disbursement procedures currently used, including: Advances, Direct Payments, Reimbursements and special commitments accompanied by appropriate supporting documentation (Summary Sheets with records and/or Statement of Expenditures (SOEs)) in accordance with the procedures described in the Disbursement and Financial Information Letter and the Bank's "Disbursement Guidelines".
40. A project Designated Account (DA) will be opened for CLE under the name do the project. The DA ceiling will be set at US\$750,000. CLE will be responsible in submitting monthly withdrawal applications. The minimum ceiling for withdrawal applications for direct payments, reimbursements and special commitments is set at 20% of the DA ceiling amount.

Table 2. Allocation of the Credit Proceeds

Category	Amount Allocated (US\$)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Works, goods, non-consulting services, consulting services, training and workshops, incremental operating costs and audits under sub-components 1.2, 2.1, 2.2, 2.3 and component 3 of the project	13,000,000	100%
(2) Eligible Expenditures under sub-component 1.1 of the project	2,000,000	100%
Total	15,000,000	

Designated Accounts

41. On behalf of CLE, the Department of External Financing within the MEFI will open a segregated DA under the project name in a Commercial Bank in Djibouti acceptable to the World Bank in US dollars to cover the Project's share of eligible project expenditures. CLE will be responsible for submitting monthly replenishment applications with appropriate supporting documentation.

Statement of Expenditures (SOEs)

42. For requests for reimbursements and for reporting eligible expenditures paid from the Designated Account:



- (a) Statement of Expenditures (in the format provided in Attachment 2 of the Disbursement and Financial Information Letter for Category 1)
- (b) Statement of Expenditures (in the format provided in Attachment 3 of the Disbursement and Financial Information Letter)
- (c) Designated Account Reconciliation Statement (in the format provided in Attachment 4 of the Disbursement and Financial Information Letter)

43. For requests for direct payments and reimbursements: records evidencing eligible expenditures, for example, copies of receipts, and copies of suppliers' invoices above the minimum application size.

Governance and Anti-corruption

44. Fraud and corruption may affect the Project resources, thereby negatively impacting Project outcomes. The World Bank FMS worked closely with Project's Task Team Leader (TTL) as well as project's consultants and developed an integrated understanding of possible vulnerabilities and agreed on actions to mitigate the risks. The proposed fiduciary arrangements, including PIM with a detailed FM chapter, and reporting and auditing and review arrangements are expected to address the risks of fraud and corruption that are likely to have a material impact on Project outcomes.

Supervision Plan

45. The financial management of the Project will be supervised by the Bank in conjunction with its overall supervision of the Project and conducted at least three times a year.

Supporting Documentation and Record Keeping

46. All supporting documentation will be obtained to support the conclusions recorded in the FM Assessment.

PROCUREMENT

47. The proposed Project will be implemented in line with the World Bank Procurement Regulations for Borrowers July 2016 (revised November 2017) and the provisions of the procurement plan. The project procurement activities will be administered by the implementing agency "CLE" as the government Project Implementing Unit.

48. Based on PPSD as prepared by the client, the project has no complex procurement activities and a core Borrower's team is already involved in the project preparation, including a procurement officer appointed by the Government. Hence, the procurement risk is assessed as Substantial at this stage. The Bank will continue its capacity building and regular interactions with the client.

ENVIRONMENTAL AND SOCIAL (INCL. SAFEGUARDS)

49. The project is considered Category C regarding potential negative environmental impacts and does not trigger any safeguard policies.

50. The project focuses on capacity building and technical assistance. Eligible activities for grants/cash transfers given under sub component 1.1 to newly registered formal enterprises created by women and young entrepreneurs include: (i) market testing/piloting (ii) registering intellectual



property/obtaining patents, and iii) refining the product. There will be no construction/rehabilitation activities under these grants.

51. **Social Benefits.** The proposed project is expected to deliver significant social benefits by providing grants to young entrepreneurs, both males and females and adult women. As such, the project will also benefit children (girls, boys and adult men) from all walks of life. The expected social and poverty outcomes of the proposed project will include but not limited to the following: (a) enhanced sources of income; (b) reduced poverty among beneficiaries; (c) a reduced social stress.
52. **Consultations and Citizen Engagement.** The design of the project has been consultative at several levels. Representatives of the national government, the business community, local government officials, and the international donor community, were the key stakeholders consulted. Among international donors who expressed particular support for the project include USAID's Workforce Development (WFD) project, and the United Nations Development Program (UNDP).
53. The project does not trigger any safeguards policies and has been assigned environmental category C.



ANNEX 3: REVIEW OF ENTREPRENEURIAL ECOSYSTEM IN DJIBOUTI ⁴⁶

1. A mission of the World Bank Group launched a review of the entrepreneurial ecosystem in Djibouti in October 2017 as part of the preparation of the "Djibouti Finance and Support for Women and Youth Entrepreneurship" project. The mission examined the entrepreneurial life cycle and analyzed the six different areas of the entrepreneurial ecosystem in Djibouti: i) human capital; (ii) the availability of funds and funding; (iii) access to markets and products; iv) politics and leadership; (v) infrastructure and institutional support and; vi) culture.
2. These initial findings are based on: i) a first series of 22 interviews with different actors in the entrepreneurial ecosystem (see Annex 3A); ii) a first review of the existing national and international literature on the subject (see Annex 3B).
3. This initial analysis is neither a comprehensive study nor an empirical analysis of ecosystem performance, but rather sets out initial findings and potential areas for action. These will be complemented and reinforced by: i) additional focus group interviews and discussions; ii) an online survey targeting entrepreneurs and SMEs to enrich the quantitative analysis; and iii) short case studies (one page) of entrepreneurs and companies to give a pragmatic side to this review.

Entrepreneurial Ecosystem

Human Capital

4. Various actors have pointed out a weakness in the qualification of the workforce, even graduates, in Djibouti: finding qualified human capital is a constraint for existing companies⁴⁷, and the very high unemployment rate (59%), including young graduates (estimated at 60%), reflects this, among other factors. At the level of the global population, school performance in Djibouti remains relatively poor and there are marked differences between the sexes. Enrollments and years of expected and average schooling are low in Djibouti, and the quality of schooling is limited.⁴⁸
5. At the university level, the University of Djibouti, which was created in 2006, trains young people in several technical fields (engineering (energy and civil engineering), medicine, sciences), and humanities (law, economics, management), and also includes two IUTs. Training (applied license) for "entrepreneurship and innovation"⁴⁹ is given through the IUT-Tertiary program. This degree, however, remains theoretical rather than practical - students learn mainly the concepts of entrepreneurship - and the links with the technical faculties (engineering and science) and management, as well as the private sector, remain weak for the moment. The university had more than 7,000 students in September 2013-2014.⁵⁰
6. With regard to R&D, the Center for Studies and Research of Djibouti (CERD) has some themes of

⁴⁶ This preliminary Review is based on a mission conducted in October 2017 by the World Bank. It will be finalized in Q4 2018.

⁴⁷ Direction des PME: "Plan d'actions pour la promotion de l'entrepreneuriat et la formalisation des TPE/PME", Août 2012

⁴⁸ Republic of Djibouti, A systematic Country Diagnostic: Concept Document, May 2017

⁴⁹ Offre de formations, Université de Djibouti : http://www.univ.edu.dj/images/pdf/ud_offres_de_formation.pdf

⁵⁰ Ambassade de France à Djibouti, Fiche Djibouti sur l'organisation de l'enseignement supérieur, 2017



expertise: geothermal exploration, water resources (water stress); geological mapping; mining research. Links with the private sector, and entrepreneurs in particular, remain very weak or non-existent.

7. There is only one accredited private higher education training center, which provides training in accounting and business administration (ISCAE - Higher Institute of Accounting and Business Administration), established in 2011. It has a good reputation for the quality of its training.
8. The mission has identified a relatively large number of different, and mostly small, training programs for entrepreneurs delivered by public actors, associations, the private sector, supported by various donors. Some of them have interesting initiatives (ADDS / PROPEJA) that will be able to inform new activities.
9. Skills in technical and human / personal entrepreneurship ("hard and soft skills") remain low for most of the population, and among young graduates and non-graduates and women in particular.
10. **Potential areas for action:** There are good opportunities to: 1. stimulate entrepreneurial training, targeting by audience (young graduates, non-graduates, women, students⁵¹) and by entrepreneurial stage (awakening, activation, dynamization, and stimulation), focusing on the first two stages - through more sustainable business plans and competitions; 2. Increasing the visibility and readability of existing training for entrepreneurs, which are fragmented across different organizations and ministries, through a single online entrepreneurship portal, which could bring together disparate products and services into one place; 3. strengthen and increase the quality and availability of training and existing services to entrepreneurs, for example through the Chamber of Commerce and other private bodies.

Infrastructure and institutional support

11. **Physical infrastructure:** There are two major constraints in terms of physical infrastructure for the development of entrepreneurship in Djibouti: the cost of electricity and access to the internet. The price of electricity is systematically a major constraint for private sector development: the last World Bank 2012 Enterprise Survey showed that 49% of companies listed this as their primary constraint, and interviews and more recent data confirm this finding. On the other hand, the development and accessibility of Internet connectivity (including mobile) is very important for the development of entrepreneurship. This can not only facilitate access to a wider market and enable potential entrepreneurs to research products / business models / suppliers, but also develop digital entrepreneurship (applications and services), which is essentially based on the provision of these basic infrastructures.⁵² An example is the weakness of e-commerce in Djibouti, for a country where most of the economy is concentrated in services.
12. In "promising sectors", the existence of different energy and water constraints in the country could lead to encouraging 'green' entrepreneurship: energy efficiency entrepreneurs, ESCOs (service companies that audit and reduce energy bills of the private and public sector), off-grid solar energy solutions (solar pico for the poor, with storage batteries to replace generators for SMEs and large

⁵¹ <http://www.injaz.org.jo/Pages/viewpage.aspx?pageID=127&NewID=1> par exemple pour l'enseignement secondaire ;
<http://enactus.org/where-we-work/> par exemple pour l'éducation supérieure

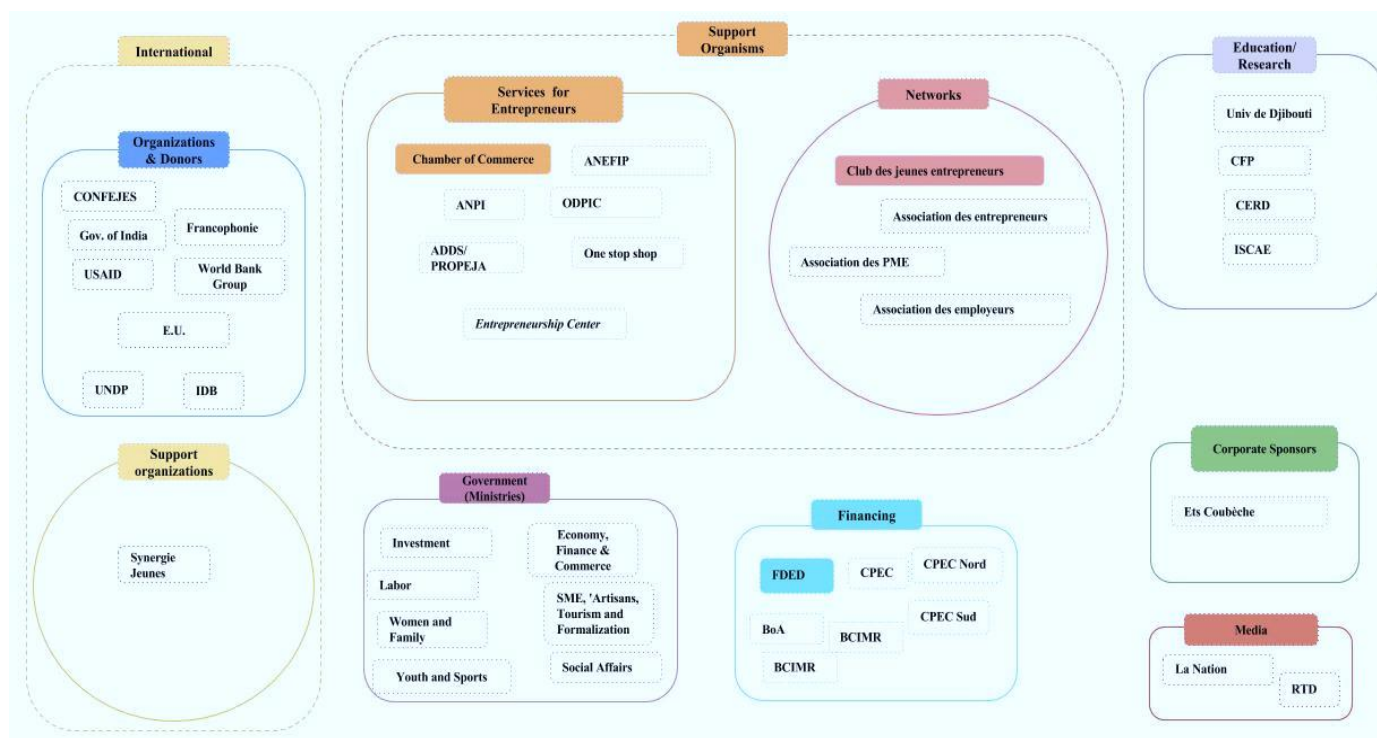
⁵² <http://www.djiboutidatacenter.com/en/home>



companies). Beyond Djibouti, neighboring countries also represent large potential markets for such solutions. However, these solutions need a favorable legislative framework. The development and deployment of ICTs could encourage entrepreneurs in the digital sectors, but also have spin-offs on all other sectors (eg "digital tracking" on transport and logistics).

13. **Entrepreneurial support institutions:** The promotion of entrepreneurship is currently divided between different actors in the public sector (many) and private (few). Preliminary mapping of the different actors of this entrepreneurial ecosystem in Djibouti is presented below. The result is a nascent but fragmented ecosystem, which supports entrepreneurs on an ad hoc basis primarily in ideation, and where actors act largely uncoordinated, if not overlapping.

Figure 1. Djibouti Entrepreneurial Ecosystem Map



14. The creation of an "Entrepreneurship Center", to be funded by the Indian government by mid-2018, will provide a physical space for entrepreneurs, and should be a good way to give greater visibility to entrepreneurs. However, even if the provision of a physical space is a good thing, especially if it allows aspiring entrepreneurs to reduce infrastructure concerns such as energy costs and connectivity costs, what will matter for the success of this center will be: i) its management; (ii) its position within the ecosystem; and (iii) the services that will be offered. Moreover, much more than a concentration of "all entrepreneurship" in one place, thus excluding other actors in the ecosystem and the roles and services they could bring, it would be advisable to clearly target them: the public (i.e young graduates); the stage or stages of entrepreneurship (ideation, priming, growth), and if possible offer, in addition to



generalist training, one or more sectoral specializations (for example: digital entrepreneurship, green, etc.), which would be openly conceived in partnership with the other actors of the ecosystem. The documents made available to the mission for the moment are insufficient to understand the planned management of the center, its strategic positioning, its targeting, its vision and its direction.

15. **Potential areas for action:** 1. Clarify the positioning of different ecosystem actors through the development of a national entrepreneurship strategy, which could facilitate the coordination of different public and private efforts in this area; 2. Provide conceptual support to the strategic positioning, management and services offered by the Entrepreneurship Center.

Policy and Leadership

16. Despite shortcomings in recent statistics on the private sector, it is recognized that the majority of private enterprises are individual and in the informal sector, with a small portion in the formal sector. Ongoing reforms through the establishment of a single window to reduce barriers to doing business should improve the business environment and move in the right direction to facilitate business creation. New companies, however, remain a particular subcategory of SME / MSME, hence the recommendation to create a status of self-entrepreneur as it exists in several countries, to recognize their specificity and help them to grow.

Auto-entrepreneur Law (France, Morocco) Self-entrepreneurship is not a legal form, which remains the status of the sole proprietorship, but allows a simplification of the formality of declaration of activity. The device is aimed at natural persons, with a turnover not exceeding a certain threshold (~ US\$20,000 / 50,000). The self-entrepreneur can carry out a commercial, craft or service activity. In France, he / she can exercise this in parallel with a main activity, that is to say in addition to another status (employee, jobseeker, retiree, student ...). The self-entrepreneur can work at home in Morocco. Simplification and relief: The declaration of turnover is simplified, the tax reduced (in Morocco: taxation of 1% of turnover for industrial, commercial and craft activities 2% for the provision of services).

17. There is no national strategy or policy to promote entrepreneurship. That said, several champions in the government strongly support this theme.
18. **Potential areas for action:** (1) an opportunity to develop a national entrepreneurship strategy that could facilitate the coordination of different public and private efforts in this area; (2) the possibility, through various reforms of the business environment, to explore the creation of a status of self-entrepreneurship, to facilitate the creation and growth of new businesses.

Availability of financing

19. Access to financing for Djiboutian entrepreneurs remains difficult. At the ideation stage, there is little funding in the form of small donations to start a promising activity, and business plan competitions or business plan competitions, - or aspiring entrepreneurs are solicited and trained and winners receive small grants (donations) to start their business - are rare. There is no network of angel investors⁵³ in Djibouti, even if anecdotally, some entrepreneurs have received funding from mature entrepreneurs:



these practices remain however family, or at a very limited level. Access to the Djibouti Economic Development Fund (FDED), the only sustainable structure to financially support entrepreneurs at the ideation and start-up stage, remains difficult. The FDED, which has a 'window of funding' for young entrepreneurs and women, does not find enough quality projects for funding, highlighting the lack of support and quality services given to entrepreneurs. Djibouti. Banks, meanwhile, remain closed access to most entrepreneurs, because of the guarantees requested - especially for young people and women who do not hold, most often, collateral.

- 20. Potential area of action:** 1. Increase the capacity of the FDED to evaluate the projects of young people and women entrepreneurs and the financing available to these entrepreneurs; 2. explore the possibility of opening a 'window of financing' for small donations to entrepreneurs carrying projects through the FDED.

Access to markets and services

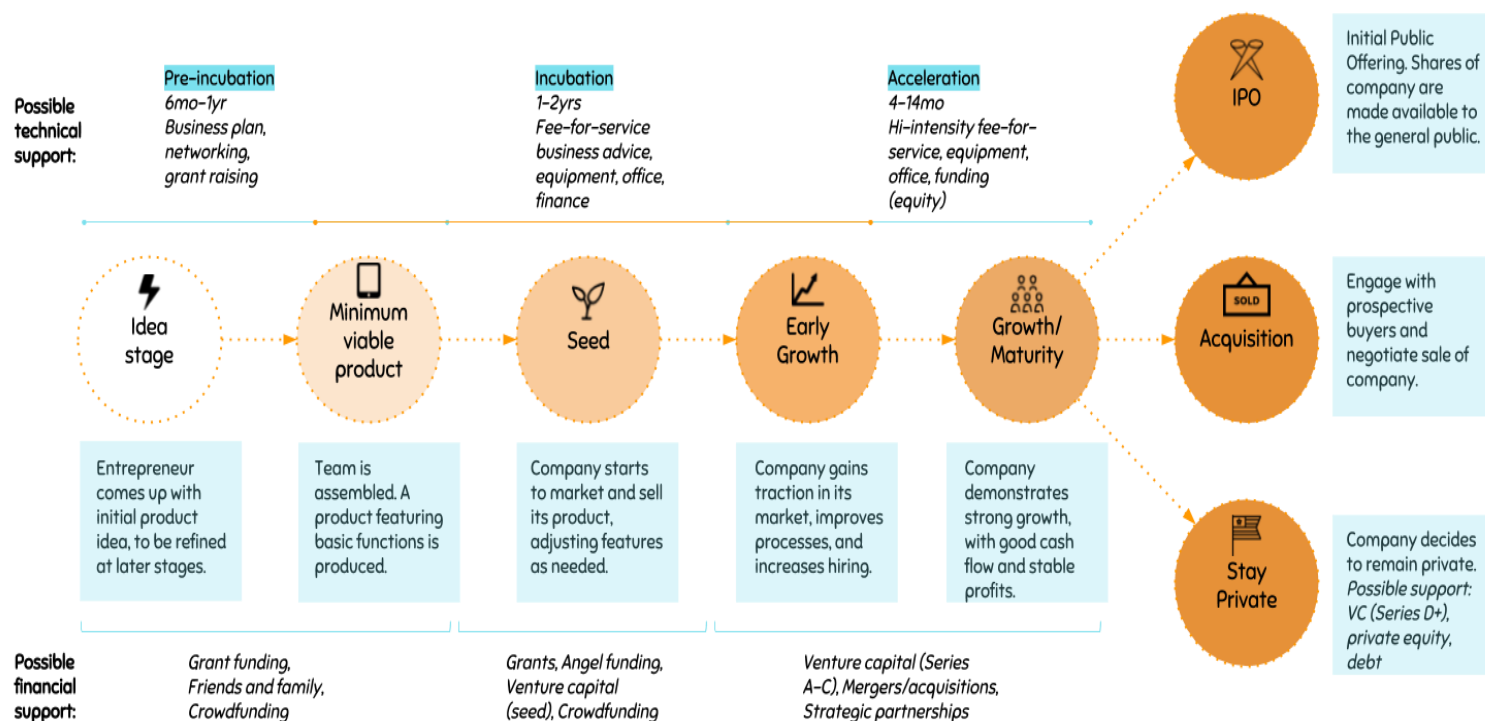
21. The Djiboutian market, with a population approaching one million⁵⁴, is small, relatively isolated and fragmented, between Djibouti city on the one hand and the regions on the other. However, several factors seem likely to counterbalance these constraints: the one-stop shop which should facilitate cross-border trade with neighboring countries, particularly Ethiopia; an obvious geostrategic position; and several potential growth sectors under development, identified in Vision 2015.
22. Opportunities exist to strengthen the links between promising sectors and potential and existing entrepreneurs. Several sectoral opportunities exist that could be important to anchor and guide certain entrepreneurial initiatives, which also represent important sectors of potential growth for the Djibouti economy identified in the country's strategic development plan: 1. logistics and transport; 2. blue economy (fisheries and seafood processing); 3. tourism; 4. green economy (renewable energy, and energy efficiency, etc.). The superficial analysis of the first data of the one-stop shop on the creation of new businesses reinforces the idea of "growth sectors" - we can see a majority of new business creations in the following sectors: TPP, import / export and logistics / transport - in addition to small businesses.
23. Sector studies and value chains to identify specific opportunities for Djiboutian entrepreneurs should be encouraged, to help identify concrete opportunities for entrepreneurship development, as 'market research / market intelligence' is nonexistent and / or inaccessible. A World Bank Group study was launched in Djibouti on the fisheries value chain / blue economy. Others would be to recommend, for example on the links between the special economic zone and the local economic fabric, the transport & logistics sector, tourism, and ICTs. In Côte d'Ivoire, for example, a sector study on the tourism value chain has identified opportunities to increase the links between SMEs and Ivorian entrepreneurs on the one hand, and major international hotels on the other.
24. **Potential areas for action:** 1. Dissemination / development of specific sector studies to identify market opportunities in some promising sectors for entrepreneurs and SMEs (eg: 1. tourism, 2. blue economy, 3. green economy; 4. digital sector 5. transport & logistics, in line with Vision Djibouti 2035).

⁵⁴ World Development Indicators (World Bank): population de 942,333, en 2016



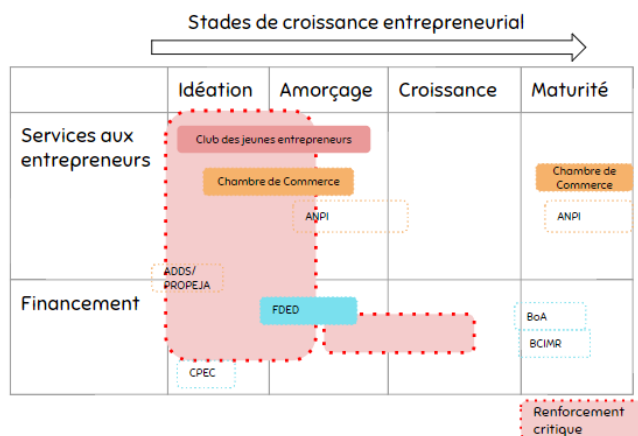
Entrepreneurship culture

25. Entrepreneurship is more popular in Djibouti, with many activities, initiatives, meetings and events at national and regional level, and strong political support at the highest level of government. However, understanding the entrepreneurial process can be a drag on its growth.
26. Promotion of entrepreneurship: In the past, there have been different national days dedicated to innovation and entrepreneurship. The synergy of a national day of entrepreneurship, which will coincide, for example, with similar events at the global level, such as Global Entrepreneurship Week (GEW), should give not only national but also international visibility to the importance of the promotion of entrepreneurship in Djibouti.
27. Types and 'stages' of entrepreneurship: Entrepreneurs are actors who want to create new businesses. There are usually two big 'types' of entrepreneurs: the subsistence entrepreneur and the growth entrepreneur. The livelihood entrepreneurs are motivated by the need and the growth entrepreneurs motivated by the opportunities. The entrepreneur motivated by necessity creates his business because there are no other viable job opportunities. It generally uses old and unproductive technologies and processes, has neither innovative ideas nor prospects for strong growth. The entrepreneur motivated by opportunities aspires to profit and independence. It aims to innovate and aims for strong growth in its business, including expansion beyond local markets, products and services. Growth entrepreneurs are those who drive the country's economy and create jobs beyond self-employment. Most entrepreneurship support programs distinguish these two types of entrepreneurs. The services and financing required to support these entrepreneurs are also distinct, depending on the different stages of maturation of their businesses (diagram below). In addition, it is often recommended to establish a clear targeting for services to "young people and women" entrepreneurs, because of their specific needs, distinguishing between: (1) young entrepreneurs without education (weak see no training, low own resources, changes in the informal sector (mainly small businesses), low access to support and advice systems); (2) young graduates; (3) women.



28. **Potential areas for action:** 1. Targeting and segmenting entrepreneur support services by 'entrepreneurial profile': (i) Targeting young entrepreneurs without education; (ii) targeting young graduates; (iii) targeting women; 2. Support for a national entrepreneurship day, synchronized with events at the international level

Stages of entrepreneurial growth





29. The mission examined the stages of entrepreneurial growth in Djibouti (preliminary diagram 2) and considered the perspectives of different actors and their involvement at different stages of the life cycle of entrepreneurship.
30. It appears that most entrepreneur services are concentrated either on the first or the last stages (ideation / maturity) of business development. Aid at the first stage, that of ideation, is weak in quality and insufficient in quantity: these services need to be increased and reinforced. The financing side, almost absent at these preliminary stages, must be completed. There is also a 'valley of death' between first-stage financial support (FDED) and bank financing, which should also be strengthened.

Female Entrepreneurship

31. Women play an important economic role in Djibouti. They comprise 39% of the active population⁵⁵, which is rather high compared to the MENA regional average (22%), but lower than the world average (~ 50%)⁵⁶. As in many developing countries, they are mainly individual entrepreneurs and work for the most part in the informal sector in areas of little value and value: 'charcharis' (trade), sale of donuts, but also khat. In 2012, 52% of businesses in Djibouti in the informal sector were held by women⁵⁷. The legal status of women in Djibouti is rather favorable on paper, compared to many emerging countries, but inequalities persist. Regardless of their level of education, they find it particularly difficult to access funding and thus to develop their business.
32. In order to stimulate women's entrepreneurship, a targeted approach is needed. For example, given their social status constraints, women will tend to be available only at limited hours or will need logistical support for childcare during their training. Personal initiative training is also recommended for women entrepreneurs, and is particularly important for women because they need more support to get started. Women in the informal sector are largely illiterate, and training needs to be tailored to this situation.
33. **Potential area of action:** 1. explore in more detail an offer of training and access to targeted financing for women entrepreneurs in Djibouti

Next steps and proposed interventions

1. Strengthening the entrepreneurial ecosystem

At the institutional level, the development and support of entrepreneurship in Djibouti needs a catalytic body, with a clear mandate that could be established through a national strategy, to unite actors and tackle capacity constraints. investment, entrepreneurship awareness and networking. A central and non-governmental entity, which will need to be strengthened, should ideally play this role. Increasing the readability of the ecosystem through a virtual one-stop shop for entrepreneurship services and information will be extremely useful for entrepreneurs. Finally, increasing the visibility of entrepreneurship and entrepreneur networks, through the organization of an annual national day of entrepreneurship, in line with the international days, will also ensure increased visibility.

⁵⁵ Women, Business and the Law, World Bank Group data, 2016.

⁵⁶ Women, Business and the Law, World Bank Group data, 2016

⁵⁷ Compte Rendu de l'atelier de réflexion sur la formalisation de l'entrepreneuriat, 27-28 mai 2012



2. Capacity building of entrepreneurs

Refine targeting (women, young graduates, young people without a diploma), and increase and the quantity and quality of training for entrepreneurs in the early stages of business creation seems essential (business plan competitions and more sustainable training). This should be done in practice through the dissemination of information, and the targeting of certain formations, by sectoral complements on 'potential markets'. Developing mentorship programs for these young people and women entrepreneurs (including virtual mentoring) would help them grow faster.

3. Financing for entrepreneurs

Increase the capacities and resources of the financial actors, and first of all the FDED, in order to "start the pump" of the financing of young women and entrepreneurs, in particular through the strengthening of a dedicated credit line, as well as Grant funds for potential entrepreneurs at the ideation stage are essential developmental conditions for increasing the volume and quality of young people and women entrepreneurs.