



REPUBLIC OF DJIBOUTI

POVERTY REDUCTION STRATEGY PAPER

INTERIM REPORT

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I. STATEMENT OF COMMITMENT

❖ Despite the significant efforts made by the government to achieve economic recovery in the context of the Stand-by Arrangement and the ESAF in cooperation with the IMF, the World Bank, and the AfDB, the social situation remains a source of concern and the country's poverty level remains high. Moreover, despite its emphasis on combating poverty, the Economic and Social Orientation Law (1991-2000) has not achieved the results anticipated. In addition, because of its lack of an associated social safety net, the structural adjustment program has been limited to rehabilitating public finances.

❖ Accordingly, the government is firmly resolved to place poverty reduction at the heart of its economic and social development policy and is eager to explore in greater depth the mechanisms whereby the country has reached its current situation, to review the scope of possible future courses of action, and to incorporate these assessments into a realistic macroeconomic framework.

❖ This choice is the embodiment of a threefold conviction:

- **First conviction:** Combating poverty cannot be reduced to a social welfare program or strengthened safety net, but instead requires rapid and sustained growth.
- **Second conviction:** Growth is a means, not an end. It is meaningless unless it contributes to poverty reduction through job creation, improved basic social services, and correcting for social imbalances.
- **Third conviction:** These development imperatives cannot be properly addressed without country ownership of the program and broad participation by civil society.

These three convictions are also sustained by three desires:

- ***The desire to sell and enhance the competitiveness*** of the Djibouti market in a regional market context.

Djibouti has considerable strengths in this regard, such as its location on the most frequently used sea lanes in the world, its role as the gateway to the Ethiopian market of 60 million consumers, and its position as a link between Eastern Africa and the Arabian Peninsula.

- ***The desire to improve*** the lot of the vulnerable groups, particularly youths and women, through improved knowledge and understanding of local realities so as to improve the targeting of actions at the grassroots level.

- ***The desire to restore*** people's capacity to influence the development model that is suited to their natural, cultural, and social environment by involving the people more deeply in the decision making process.

II. DESCRIPTION OF POVERTY

2.1 Analytical process

Heretofore, there was no poverty reduction strategy for the efforts deployed by Djibouti in the context of the Stand-by Arrangement and ESAF in cooperation with the IMF, the World Bank, and the AfDB. This interim paper, the jumpoff point of a dynamic process, relates specifically to the preparation of such a poverty reduction strategy paper by early 2002.

It is the outgrowth of lengthy collective consideration, the major stages of which are as follows:

- ❖ Information meeting of the Interministerial Steering Committee for the Structural Adjustment Program on the nature and scope of the PRSP (April 2000).
- ❖ Working meeting of the Technical Committee for monitoring the reforms of May 2000 and June 2000.
- ❖ Preparation of a general outline and timetable of activities (UNDP Consultation Mission, May-early June 2000)
- ❖ Support for initiation of the process of preparing the interim paper (World Bank identification mission, June 2-14, 2000).
- ❖ Three workshops for examination and brainstorming on the constraints, objectives, and strategies for combating poverty in the Republic of Djibouti:
 - Public administration and parliament;
 - Traditional donors resident in Djibouti;
 - Private sector and associative movement.
- ❖ Drafting of the second revised version of the interim poverty reduction strategy paper (December 2000).
- ❖ Forum to validate the draft interim poverty reduction strategy paper (2/5/2001).
- ❖ Drafting of the final version of the interim poverty reduction strategy paper (2/6/2001).

2.2 Understanding and scope of the phenomenon

2.2.1 Monetary poverty

❖ According to the most recent assessments (EDAM-I survey), the poverty crisis is both structural and cyclical; these evaluations made it possible to define the poor poverty line in Djibouti at DF 216,450 (US\$1,225) per adult per year and the indigent poverty line at DF 100,229 (US\$567) per adult per year.

❖ The same survey indicates that 9.8 percent of sedentary households in Djibouti live in extreme poverty and lack the resources to purchase the basic food basket corresponding to minimum caloric consumption, while 46 percent of these households live in relative poverty and have spending levels which fall below the level necessary to satisfy basic needs.

When we take into account nomads, refugees, and the homeless, which have been covered by a participatory evaluation, the simulations show that roughly 60 percent of the Djibouti population lives in relative poverty.

Alongside this high level of monetary poverty, there is a high degree of human poverty as well.

2.2.2 Human poverty

- Education

Although the educational infrastructure and school enrollment ratios have improved considerably since Djibouti's independence, the Djibouti educational system, an outgrowth of the French model and poorly suited to the real situation in Djibouti, remains unsatisfactory: the gross enrollment ratio remains low (35-40 percent) and the illiteracy rate high (it is estimated by the 1996 EDAM survey at 42.7 percent, and 56.9 percent for women).

The school dropout rate is high, at 7.9 percent of boys and 17.3 percent of girls before the middle school (*sixième*) level is reached. Tracking the students from a single class year from their first introduction to school until their final year reveals two bottlenecks: entry to *sixième* (58.1 percent) and entry to the first year of final preparation for the *baccalauréat (seconde)* (53.1 percent), and only 8 percent of the students in a given age group successfully complete the *baccalauréat*.

- Health

Djibouti's health system is characterized by free care. Over 60 percent of the patients hospitalized in Djibouti are foreign nationals, while life expectancy, an important indicator of general health standards, is on the order of 50 years.

Maternal and child health is one of the major problems of the system, for while mortality remains quite high, infant mortality is a particular source of concern, with a rate of 114 per thousand and the child mortality rate is 165 per thousand while the mortality at delivery rate is 740 for every 100,000 live births, one of the highest in the world.

Moreover, malnutrition constitutes a serious problem in Djibouti where, according to the Ministry of Health's 1997 report, it is the tenth highest cause for medical consultations (2.3 percent of the total). This situation is even more severe in some districts, such as Obock, where 6.14 percent of consultations are because of malnutrition.

A survey conducted in 1995 by the Ministry of Health in cooperation with the WHO indicated that 14 percent of children under the age of five suffer from acute malnutrition, 31.1 percent from chronic malnutrition, and 24.4 percent from mixed malnutrition. For children in the same age group, the report adds that 52 percent of the deaths recorded in hospitals are attributable to metabolic and nutritional problems.

- Employment

Unemployment is one of the most severe problems in Djibouti, affecting 43.5 percent of the labor force representing 46.3 percent of the working age population (age 15 and up). Unemployment particularly affects young people from age 21 to 25 (58 percent) and women, whose employment level is only 33 percent as against 62 percent for men.

Wage earners represent 75.2 percent of the work force, while 18.7 percent are self-employed and 1.2 percent are employers. The overwhelming majority of those employed work in the tertiary sector.

2.3 Major constraints on poverty reduction

Any consideration of the factors behind this massive poverty must take the following determining factors into account:

❖ Low level of human development

A services economy built around the transport sector and requiring some degree of skills in order to adapt to technological change and competitiveness in the subregion and internationally. The participatory evaluation of poverty indicates that the unemployment and precarious employment are primarily if not exclusively confined to the unskilled. In this connection, the mismatch between the requirements of the labor market and the educational system is to blame.

❖ The refugee burden

As a consequence of the persistent conflicts and natural disasters in the Horn of Africa, the number of refugees in Djibouti has been increasing by 2.5 percent a year. The impact of the refugee population is particularly evident as regards the medical/health system (70

percent of patients hospitalized in Djibouti are foreign nationals), public safety (a resurgence of robberies and assaults, etc.), and the environment.

The high number of refugees increases the pressure on the underground water table in Djibouti city, which is already stretched to its operational limit for safe drinking water, and contributes to the acute water crisis that lies in store if no action is taken in the near future.

In the town planning area, the pace at which lots and improved lots become available is outstripped by the population's high demand for low-cost housing, and the housing shortage is estimated at 2,000 housing units per year. There is hence a proliferation of shacks made of cardboard, wood, and scrap metal all around the capital city.

The sewerage conditions are also poor. Only 15 percent of housing units are connected to a public sewer network, itself in extremely poor condition, while three-fourths of housing units have individual waste disposal arrangements which function poorly owing to the contamination of the water table, thereby exposing the population in older neighborhoods to major epidemics such as typhoid fever, malaria, and cholera.

In addition, the marine environment is no longer adequately protected, as only 5.2 percent of waste water is treated before being dumped into the sea.

❖ **Recurrent climatic problems**

Scant and irregular rainfall exacerbates the vulnerability of the rural population, which is constantly beset by thirst, and in the absence of water management measures is left with no alternative other than urban migration and the prospect of unemployment.

❖ **Poor management capacities**

On the institutional side, the situation is not promising: poor programming of activities and unconnected projects, lack of interface with the macroeconomic framework and in particular with the reforms now under way, inadequacy of statistical or financial data, and the lack of assessment and monitoring indicators and parameters.

Consequently, the poorest do not always end up benefiting from the actions taken.

Institutional coordination at the grassroots level must still be established, as it remains weak. The establishment of a national solidarity commission in September 1999 is a step in the right direction.

❖ **Domestic debt burden**

The accumulation of sizable arrears both to wage earners and suppliers is a stumbling block for the economy, impeding growth and aggravating the situation of the vulnerable groups already adversely affected by structural adjustment.

The public enterprises, a growth source in the past (38 percent of investment), are experiencing severe financial problems owing to the government's failure to pay the amounts invoiced to them and its practice of drawing down the enterprises' cash holdings. This situation is so severe that these key participants in the economy are currently finding it difficult to renovate their equipment or even to cover their financial obligations.

Similarly, private businesses with sizable claims on the government are unable to make orders abroad to replenish their stocks of merchandise, and are now refusing to provide goods and services to the government.

The government is conscious of the need to rehabilitate public finances, and has reacted vigorously by shrinking the wage bill (by 20 percent of the nominal wages of civil service personnel and 20 percent of positions) and demobilizing military and security personnel (6,000 persons). Unfortunately, however, these efforts to stabilize the budget, laudable as they are, were not followed up by the associated measures promised by the international community, in particular the World Bank, the African Development Bank, and certain bilateral donors with a view to offsetting the negative effects of adjustment.

This situation has contributed to the deterioration in the social situation in Djibouti and caused a slowdown in economic activity.

2.4 Inadequate data on the poverty phenomenon

It should also be noted that there are a number of areas in which the phenomenon of poverty is poorly understood:

- A population census is essential and unavoidable, given that the last general census dates back more than 20 years.
- The EDAM 96 survey should be updated by carrying out a consumption budget survey which includes nomads, refugees, and street children.
- Given the importance of the impact of immigration both on socioeconomic infrastructures and the environment, a comprehensive study on all facets of this problem is critical.

**N.B. A statement of government arrears as of July 31, 2000 is annexed hereto.
(The staff did not receive such a statement).**

III. STRATEGIC DIRECTIONS

This poverty reduction policy will be based on strategic directions which make it possible to continue the financial stabilization and economic restructuring effort.

3.1 Overview of structural measures now being taken

Of necessity, the poverty reduction strategy must be pursued in a stable macroeconomic environment and should naturally be regarded as a priority in the Economic and Social Orientation Law for the decade ahead (2001-2010).

In order to trigger the necessary economic growth, the government intends to introduce structural measures relating to public administration, the labor market, investment, commercial relations, and the legal system.

Accordingly, it is planned to review and simplify to the greatest possible extent the jurisdictions of some administrative areas such as taxation, investment, the labor market and the commercial code, public enterprises, and justice.

It bears noting that reforms have already begun in the tax system, with the indirect tax that will later be VAT-based with a reduced number of rates. It is planned very shortly to simplify direct taxation with technical assistance from the IMF.

Likewise, the procedures for creating new businesses will be simplified and the labor market made more flexible, while legal provisions will be updated and streamlined.

A reformed justice system is also a significant strength when it comes to attracting investors and reassuring them about the protection of their assets and the functioning of their businesses. Accordingly, the government is resolved to initiate such a reform. A round table chaired by the Head of State was recently held on this subject.

In addition, the privatization of the public enterprises is on track, with the sale of the assets of the milk, livestock feed, spring water, and pharmacy enterprises. In addition, the Djibouti government has signed a 20-year concession contract with the Dubai Ports International for the management of the port, and intends to associate the airport with this. Partners and investors are being sought for telecommunications, where international and domestic services have been merged, as well as separated from the postal service, and for the electricity, water, and sewerage entity.

The government has decided to proceed with privatization in order to strengthen the private sector. It is all the more urgent to do so given the public sector's failure to demonstrate the qualities of efficient economic managers.

- Economic growth and fight against poverty

The economic reform program pursued by the government calls for real GDP growth on the order of 2.1 percent with an inflation rate of about 2 percent by 2003 if all the macroeconomic parameters (budget, balance of payments, money supply) are in order.

This economic growth will be possible thanks to the expansion of the private sector, its driving force. The private sector will be encouraged to invest in activities in which Djibouti has a comparative advantage, such as services: transportation, re-export, telecommunications, hotels, restaurants. The preconditions are simplification of the systems relating to taxation, foreign trade (customs clearance), the labor market, and the commercial and investment codes.

The Djibouti port, in conjunction with the airport thanks to a liberal “all maritime” and “open sky” policy, is an undeniable strength. There is a link to two transcontinental telephone cables interconnecting Europe and Asia and passing through Africa thanks to Djibouti. It will be necessary to make optimal use of these two strengths in order to put Djibouti on the growth path. This will involve convincing those who invest capital and technical know-how to take an interest in these activities.

The privatization of economic activities previously carried out by the public sector will be another strong point for improving economic growth, thanks to the initiative of national and international private capital. This will lead to quality human resources, technology transfers, and more efficient economic management.

The promotion of services in a regional context, such as financial services and up-market tourism (deep sea fishing, diving, geological and archeological sites) may also foster sustained economic growth while protecting the environment.

- Civil service reform

In view of the preponderance of the state in the economy as well as its poor performance, the government intends to carry out a sweeping reform of the public administration beginning in 2001. The government will streamline the civil service and reduce staffing in keeping with a plan addressing mandatory staff retirements, voluntary departures, and accelerated demobilization, and will do so in cooperation with the World Bank, the African Development Bank, and the European Union and other donors if possible.

3.2 Fiscal consolidation

Budgetary equilibrium is a key objective of the macroeconomic policy to be put in place. The government is resolved to continue reducing the wage bill, apply a strict expenditure management policy, enhance tax collections by broadening the tax base, and introduce managerial efficiency and transparency with regard to loans and to grants in kind or in cash. The government intends by 2001 to eliminate all domestic arrears through the issuance of treasury bills backed by the creation of a fiduciary fund.

The implementation of all these measures should be reflected in an increase in revenue (excluding grants) equivalent to 24 percent of GDP and in a stabilization of expenditure at a maximum of 33.2 percent of GDP by 2001. The financial operations deficit (payment order basis) will thus be -2.3 percent of GDP in 2002. The stock of domestic arrears, which is currently equivalent to 19.3 percent of GDP will be eliminated by the year 2002.

- Improving the balance of payments

The balance of payments has a structural deficit, and will improve somewhat through improvements in exports f.o.b., which will increase from DF 13.4 billion in 2000 to DF 13.7 billion in 2002. It is also projected that the deficit of the current balance will be reduced from DF -7 billion in 2000 to DF -5.3 billion in 2002.

To achieve these objectives, activities are expected to be bolstered in the transportation, telecommunications, trade, banking, and other services sectors. The resurgence of services activities relating to hotel and restaurant business as well as tourism, areas where the government intends to promote private investment, should improve the balance of payments.

- Stability of the currency

Since 1949, the Republic of Djibouti has pursued a stable monetary policy based on the currency board approach. Accordingly, the value of the currency, the Djibouti franc (DF), is stable in terms of the U.S. dollar. The local currency is more than 100 percent covered by U.S. dollar reserves. This policy will be continued and consolidated in order also to permit price stability and thereby ensure that enterprises and households will have decent buying power.

Continuing such a policy in a transparent environment may make the Djibouti marketplace attractive for possible investors in the banking sector, where there is a dearth of competition. There are two internationally recognized banks, while the third bank is quite small. Expanded financial intermediation, particularly in favor of SMEs, must be developed.

The insufficient competition and financial intermediation hamper the economy, which is subject to extremely high interest rates of roughly 16 percent for borrowing by households and enterprises. In contrast, the return on deposits is low, scarcely above the rate of inflation (3 percent to 4 percent).

The government intends to remedy these weaknesses and provide the greatest possible encouragement of financial activities through the introduction of greater transparency.

3.3 Social development and the environment

Five [sic] areas of intervention have been identified by the government to ensure the promotion and social protection of these specific groups:

- Strategy for the protection and promotion of the rights of children, and to ensure the well-being and development of children by according high priority to children's rights to survival.
- Strategy for disaster prevention and management, through the organization and coordination of activities and tasks aimed at assessing the effects of natural disasters, in particular in the context of droughts and flash flooding owing to the inability to harness torrential rains because of the lack of a water resources control infrastructure in the country.
- Strategy for the socioeconomic promotion and protection of women through their participation in the production process, by organizing production cooperatives (agriculture, fisheries, crafts, local tourism) and development communities in urban and rural settings.
- Strategy for improving food security and nutrition by making optimal use of natural resources through the development of farmland, pastureland for stock rearing, fisheries, and the promotion of fish as a food source.

❖ Education and training

The basic education system in the Republic of Djibouti is experiencing serious problems despite the bold and substantial steps taken recently, namely the States General meetings and the formalization of the recommendations of the 10-year Economic Orientation Law adopted by the government.

To translate this new policy orientation into action, the government has set the following objectives:

- Increase the student capacity and internal yield of primary education.
- Increase quality and student capacity for second cycle general education.
- Improve opportunities for students from the districts, allowing them to continue their studies in the second cycle of secondary school without relocation.
- Make technical and professional training a key component of Djibouti's educational system and promote private sector participation in educational life.
- Reduce the extremely high cost of higher education and the high rate of "brain drain" abroad by creating a university center in Djibouti.

- Introduce cost considerations into the management of educational institutions in order to ensure that the WELL OFF participate financially in HELPING THOSE LESS WELL OFF.

❖ **Health**

In the health area, the Republic of Djibouti has evidenced the political will to guarantee the health development of the country through the adoption of a health action program.

In this perspective, the Government is resolved to carry out the following priority actions in tandem:

- Strengthen and improve the capacity of basic health structures, particularly those in the districts, to make them more functional.
- Strengthen and improve the capacities of the reference health facilities of Djibouti city.
- Strengthen the management and programming capacities of the Ministry of Health and of the hospital and health facilities, with management based on cost recovery.
- Improve the quality of the services offered to the people by stressing the training of health care providers (doctors, dentists, pharmacists, etc.).
- Involve the private sector in promoting the development of health activities.

❖ **Water and environment**

The government's objectives under the master plan for water are basically as follows:

- Increase the supply of drinking water through increased production and improved resource management.
- Substantially enhance access to drinking water at a reasonable cost, especially for the disadvantaged urban and rural population groups.

In the capital city, the water situation is so critical that the government intends to take urgent actions with assistance from multilateral and bilateral donors.

- Replace the rundown drillholes and expand the ONED's catchment area.
- Study for the management and protection of the Djibouti water table and comparative technical and economic study on water supply from the Hanlé plain (200 km) versus seawater desalinization.

With regard to the urban centers in the interior, which have received scant attention for many years, the following are planned:

- The conduct of supplementary hydro geological studies, and modeling of the behavior of aquifers (replenishment and response to an increase in water use).
- The drilling of exploratory wells in order to test the accuracy of the mathematical modeling results.

For rural water supply, the recurrent droughts and the vital importance of livestock to the survival of rural populations make it essential that the following operations be carried out in cooperation with multilateral donors:

- Improved management of water supply points by adopting a participatory approach and conducting socioeconomic surveys.
- Inventory of water supply points.
- Rehabilitation and maintenance of water supply points.
- Establishment of a hydro-climatological network to improve knowledge about water resource limits.
- Creation of new water supply points in areas still not served.
- Works to improve catchment basins, manmade hillside retention areas, and buried cisterns (Day Plateau, Oued Ambouli, etc.) as part of the National Program of Action to Combat Desertification, with the support of multilateral and bilateral donors.

In this perspective, the operational activities aimed at completing a project to plant 100,000 trees throughout the national territory are about to begin.

❖ **Low-cost housing and town planning**

Owing to the rapid population increase (3 percent a year) and the high population concentration in the capital city and secondary urban centers, the Republic of Djibouti suffers from an extreme shortage of housing. This housing problem affects low-income and middle-income households in particular.

Conscious of the seriousness of this situation, the consequence of runaway 3 percent population growth and other factors, the government has recently adopted an urban development plan which addresses the needs for lots in the capital and in the urban centers in the interior.

For this housing policy to be reflected in reality, it is planned to:

- Construct 1,000 upgradeable low-cost housing units in Balbala, with another 2,000 planned for the poorest neighborhoods, with the support of development funds from the Gulf Arab states and other donors if possible.
- Improvement in approximately 20 hectares of land in the seats of the districts in the interior.
- Eliminating substandard housing in the capital.

❖ **New income-generating and job-creating activities**

The first highly labor-intensive (HIMO) projects entrusted to the ADETIP agency are nearing completion. The actions taken under this program include the promotion of highly labor-intensive public works whose principal aim is to create temporary employment benefiting the poorest groups, microenterprises, and microcredit, as well as the optimal use of local materials or water and agricultural resources.

In the latter area, a US\$4 million project is under way in the Hanlé and Gobaad plains.

As regards fisheries, the new legal provisions governing the supervision of food sanitation, the forthcoming creation of a laboratory, and bringing the facilities at the fishing port up to standards, should make it possible to exploit the country's and region's fisheries resources through exports to the European Union countries. In fact, at present only 3 percent of national resources are being tapped.

In the livestock area, thanks to Djibouti's port facilities it could be the principal channel for livestock exports, in particular small ruminants from Ethiopia and other countries of the Horn of Africa, intended for the countries of the Arabian peninsula.

The areas of mass-market tourism and extreme tourism (ecotourism and geological tourism) should be explored. The creation of facilities for refining and developing perlite, cement, and salt constitute other promising sources of growth.

3.4 Transparency and good governance

❖ Decentralization

In the context of the increased devolvement of the decision making system toward the regional and local levels, the government is putting a gradual decentralization policy in place. To this end, regional councils have been established in the interior districts.

This new approach will make it possible to involve the people more directly in the management of local development. During a first phase, the government intends to disassociate itself from certain responsibilities in the social sphere (primary school, primary health care, village-level water supply, etc.) and turn them over to these new authorities. Later, it is planned to hold local and regional elections targeting a genuine decentralization policy, the only way to guarantee that the people will participate in the management of affairs at the local and regional levels.

❖ Promotion of the associative movement

For a local development process to achieve sustainable results, the active participation of the population groups concerned is required; consequently, to complement its efforts to promote deconcentration and subsequent decentralization, the government has taken steps to promote the formation of associations, and the establishment of development communities and cooperatives, to promote the participation in development of the populations concerned.

After these measures, which have provided a legal and institutional framework for public service organizations (NGOs), the authorities decided to contribute to the tangible achievement of these actions in the field and to ensure that associations are more fully a part of the economic and social fabric.

❖ Promotion of women

A strategy paper on the promotion of women and their integration into the development process is now being finalized. This paper focuses on four priority areas: women's participation in decision making and in economic development, equal access to the services of the education system, and the promotion of reproductive health.

❖ **Promotion of youth**

As young people under the age of 30 account for almost three-fourths of the population, improving their situation and enhancing their responsibility will be achieved through combating juvenile delinquency and unemployment, enhancing awareness of environmental problems, and affording greater access to culture, education, and health care.

❖ **Reform of judicial institutions**

To enhance the efficiency of and improve access to the judicial system by the citizenry, the government has decided to undertake a comprehensive reform of the system overall. To this end, an initial workshop of the States General meeting on Justice was recently held. In addition, it has been announced that the audit court will become operational in early 2001 as part of the good governance and transparency effort.

3.5 Pilot efforts aimed at poverty reduction

(a) PRAC (Veteran Reinsertion Project)

In 1994, at the end of the civil war, the government faced the enormous task of building up a war torn economy. It realized that in the absence of support for the reinsertion of veterans, the country would risk jeopardizing its security (through banditry, petty criminality, and even armed opposition). With IDA assistance, it therefore prepared a Veteran Reinsertion Project (PRAC).

However, the success of the PRAC was undermined by the inadequacy of World Bank or AfDB funding for these efforts.

(b) ADETIP (Djibouti Agency for Public Service Project Execution)

This agency set up for the execution of a US\$15 million Social Development and Public Service Works project is intended to attenuate the effects of the structural adjustment program by improving the living standards of the population, creating jobs, and building capacity and local know-how in the area of construction and public works.

Its objectives are to:

- Execute projects with economical and socially worthwhile outcomes.
- Create a number of new jobs in the urban and peripheral urban areas of Djibouti as rapidly as possible.
- Improve the labor force's know-how, enhance enterprise competitiveness, and improve the efficiency of public institutions.
- Encourage broadening of the scope for carrying out highly labor-intensive (HIMO) projects.
- Promote community participation.

(c) FSD (Social Development Fund)

The Social Development Fund (FSD) project is one of the government's major instruments for bolstering the resources devoted to poverty reduction. The FSD was established with AfDB assistance in early 1999.

Objectives

The US\$10 million project is intended to contribute poverty reduction efforts by emphasizing:

- (i) the socioeconomic development of the districts in the interior; and
- (ii) the promotion of women's access to financing for income-generating job-creating activities.

As in the case of the ADETIP, the Social Development Fund project, planned to last five years, is intended to respond immediately and exclusively to needy population groups.

(d) Rehabilitation project: background and structures

An order issued by decree of February 15, 1996, designated a special officer in the Office of the President of the Republic responsible for the reconstruction of the areas affected by the conflict and the reinsertion of the refugee and displaced populations.

The decree also created a National Rehabilitation Commission (COMNR) to provide a legal and institutional framework for the rehabilitation program.

Since late 1997, a Technical Rehabilitation Office (BTR) has been in operation to serve as the COMNR's technical secretariat. Its principal responsibility is to execute and implement the rehabilitation strategy and to coordinate activities in the districts, provide guidance and technical analyses to the COMNR, and furnish technical expertise to national and local institutions and groups while facilitating their liaison with the authorities and the district-level rehabilitation committees. This project is cofinanced by the UNDP.

N.B. Appraisal studies are in progress to assess these projects and measure the impact of the various activities on poverty reduction.

3.6 Regional integration

Djibouti's geostrategic position and the narrowness of its market have naturally prompted the government to adopt a policy of regional integration. It will be necessary to work with other countries in the region in order to:

- ❖ Contribute to the restoration of peace and stability in the Horn of Africa. One component of this approach is the Conference on National Reconciliation and Restoration of the Somalian State, which began recently under the auspices of the Intergovernmental Authority on Development (IGAD).
- ❖ Introduce the legal instruments required for the startup of the Common Market for Eastern and Southern Africa (COMESA), including the adoption of the community customs tariff and the legal harmonization governing the various aspects of economic activity.
- ❖ Strengthen economic and financial relations with the Arab Gulf countries and Yemen, while promoting the Djibouti marketplace. The transport sector, the unrestricted finance system, the free trading system, and the high performance telecommunications infrastructure make Djibouti a prime choice for penetrating the COMESA market.
- ❖ Export promotion.

There is an undeniable potential for promoting exports from Djibouti toward the region's common market in the COMESA context.

Indeed, given Djibouti's completely unrestricted exchange and trading system, and with infrastructures like the port, the airport, and telecommunications (connected with transcontinental cables), it is an ideal destination for Gulf investors in search of Eastern African markets in the context of the COMESA. This is all the more true in that Djibouti can serve as an intermediary between Eastern and Southern Africa and the Arab Gulf countries because of its geostrategic position.

3.7 Assessment of policies implemented

- Monitoring mechanisms

Overall: Establishment of a commission responsible for monitoring economic reforms, which coordinates economic and social development activities and policies.

Specific: Establishment of a national solidarity commission responsible for planning and monitoring the poverty reduction program (not functional owing to lack of funding).

In drafting the law defining and organizing the Ministry of Employment and National Solidarity, the Unit for Coordinating and Monitoring Poverty Reduction Activities (UCSALP) evolved into a Directorate, which in addition to its new functions will continue to exercise the functions assigned to the UCSALP (Directorate of Solidarity and Social Insertion).

This Directorate has two departments:

- The Research, Monitoring, and Coordination Department; and

- The Social Insertion and Participatory Development Department.

In establishing this Directorate, the Minister sought to create a structure capable of implementing the national solidarity and poverty reduction policy. However, it sorely lacks the human and logistical resources needed to carry out this mission successfully. It should be structurally strengthened as soon as possible to enhance its efficiency and make it truly operational.

- **Transparency and governance**

- Government organization (efficiency), administrative structures and procedures;
- Capacity building (strategy, economic management, etc.);
- Decentralization and promotion of the associative movement, etc.; and
- Legal environment (courts, mediators, business law, etc.).

IV. PARTICIPATORY MECHANISM AND PREPARATION OF FINAL PRSP

4.1 Participatory process

The Republic of Djibouti has limited experience with taking a participatory approach. The first time this was done on a large scale was in making preparations for the General Round Table in Geneva (1997).

Given the positive results achieved, the approach has been used to contribute to the monitoring of economic reform implementation under the Stand-by Arrangement and the ESAF, and the holding of the States General on Education (1999) and Justice (2000).

Given the largely unstructured nature of civil society, the participatory process has been limited to the public sphere, with the exception of a few specially focused events.

In the context of preparing this PRSP, the government intends to rely upon the existing structures and will spare no effort to gradually broaden the approach to all the players involved closely or at some remove in the poverty reduction effort, be these from the modern side (NGOs) or the traditional side (clan leaders, religious leaders, etc.).

In this regard, the institutional mechanism for steering the economic reform program will be used as a frame of reference. It will, however, be updated to enhance its functionality.

❖ The Interministerial Steering Committee for the Structural Adjustment Program will serve a guidance and decision making function. The Committee is chaired by the Minister of Finance, Economy, and Planning, responsible for Privatization, and is made up of all the members of the government. It should be more functional and more active than in the past.

Given his strategic position with respect to the key objective of reducing poverty, the Minister of Employment and National Solidarity will serve as Vice Chairman of the Committee. This will enhance the operational effectiveness of the Committee.

❖ The Technical Committee for Coordinating and Monitoring Reforms (CTCSRE) will have a technical function preparing reference materials, making arrangements for the various forums, and conducting discussions. However, it will have to be more representative to include as many players as possible from those already involved in playing roles in the various aspects of implementing the reforms.

This Technical Committee is made up of high level officials from the ministries, the Coordinators of Special Committees, and the directors of multisectoral projects.

It may, however, pursuant to Decree No. 97-0102/P of July 6, 1997, call on such other parties as it deems appropriate, including hiring national consultants.

❖ The Permanent Secretariat function for the national steering structure will be fulfilled by the Economic Reform Support Project (PATARE). Its primary role will be to see to the production of texts, their reproduction and filing, and the dissemination of documentation.

It will also be responsible for organizing the working sessions of the Committee, and for mobilizing the resources and expertise required to support the Interministerial Steering Committee in its decision making.

❖ This Technical Committee is broken down into several subcommittees corresponding to the different sections of the PRSP and the relevant associated measures. These are:

Subcommittee 1: Macroeconomic equilibrium and structural transformation.

Subcommittee 2: Job opportunities and job-creating activities in the informal and primary sectors.

Subcommittee 3: Improving the welfare of vulnerable population groups.

Subcommittee 4: Governance-oriented institutional reforms.

Subcommittee 5: Strengthening of statistical tools and the information system.

Subcommittee 6: Public information through the media about the PRSP process.

4.2 Stages and timetable for preparing the Final PRSP

The government is firmly resolved to take any steps necessary to complete the preparation of its Final PRSP within a period of 7½ months.

This process will be carried out in three stages:

- (i) Gathering and analysis of the available data in order to update the evaluation of the various facets of poverty, identify the major obstacles to be overcome in order to reduce poverty substantially, and propose the priority approaches toward achieving poverty reduction and improving the economic environment of the country.
- (ii) Proposing a consistent medium-term macroeconomic framework.
- (iii) Preparing a strategy paper that will define the priorities, objectives, strategies, and operational action plans for reducing poverty, as well as the monitoring and evaluation mechanism.

There will be a consultation mechanism for each of the principal stages, which will involve all development partners and civil society. This participatory process will be carried out at two levels:

- (i) At the level of the technical committee on reforms, which is responsible for writing the paper;
- (ii) At the level of the Interministerial Steering Committee;
- (iii) In addition, each stage of preparing the final paper will be the subject of validation forums.

However, preliminary research and documentation will be required to clear the way before beginning the process of effectively implementing the Final PRSP.

The government will do everything in its power to ensure that the process involves the following players:

- (i) The public administration (all senior officials from the various ministries, etc.);
- (ii) The National Assembly (more than five Deputies serving as chairmen of parliamentary commissions);
- (iii) The private sector (Chamber of Commerce, representatives of employers and workers, labor unions, etc.);
- (iv) National and international NGOs (Djibouti Women's Union, Djibouti Red Cross, Caritas, ADEPEF, Dar Islam, Phare de Balbala, Bender Djedid, etc.);
- (v) Traditional and religious leaders;
- (vi) Socioprofessional associations;

(vii) International financial partners.

4.3 Monitoring and evaluation

The government will set up a monitoring and evaluation system involving the following:

- Monetary, economic, and social indicators;
- Poverty indicators (health, education);
- Degree of participation.

4.3 External aid requirements

The government of Djibouti will continue its relationships with its major development partners.

ANNEXES

The Commission's Processes and Activities

Phase	Relations between Activities	Results to be Produced	Responsibility
Definition	Preparation of PRSP background studies	- Reference framework - Decrees and official texts - External support	Commission Chair
Launch	Launch	- Start-up workshop - Report on mandate	Commission Chair
Sectoral analyses	Work in Subcommittees	- Sectoral reports - Public investment and expenditure program - List of studies to be carried out	Subcommittees
Overall diagnosis	Synthesis of subcommittee work	- Summary reports - Selection of studies to be carried out - Version 1 of the PRSP	Subcommittees + Chairman + Technical assistance
National discussion	Thematic studies and States General	- Minutes of States General - Recommendations and conclusions of studies - Version 2 of the PRSP	- Subcommittees - Chairman - Society - Technical assistance
Consultations and detailed planning	Crossed workshops	- Version 3 of the PRSP	- Society - Chairman - Subcommittees
	Validation forum and Decision by government	- Final version of the PRSP	- State - Society - Commission Chairman - Subcommittee



DETAILS OF PHASES 3 AND 4 (SECTORAL ANALYSES AND OVERALL DIAGNOSIS)

1 – Phase 3 activities (Sectoral Analyses)

Phase	Relations between Activities	Results to be Produced	Duration	Responsibility	Observations
S E C T O R A L A N A L Y S E S	Start-up of work by subcommittees	◆ Planning by consensus	1 week	◆ Commission Chairman ◆ Heads of subcommittees	
	Complete staffing of working teams	◆ Complete listing of members by name	1 week	◆ Heads of subcommittees	Parallel activity
	Organization and planning of work	◆ Methodological reports ◆ Work plans with timetable and task distribution	1 week	◆ Subcommittees ◆ Commission Chairman	
	Documentation and data gathering	◆ Bibliography	1 week	◆ Subcommittees	
	Identification of additional studies	◆ List of additional studies proposed ◆ Presentation on each study	1 week	◆ Subcommittees	Parallel activity
	Prioritizing and programming additional studies	◆ Selection of additional studies ◆ Terms of reference	1 week	◆ Commission Chairman ◆ Subcommittees	Parallel activity
	Drafting of sectoral reports	◆ Detailed outline of sectoral report	2 weeks	◆ Subcommittees	
	Writing	◆ Interim version of sectoral report	2 weeks	◆ Subcommittees	
	Finalization	◆ Final version of sectoral report	1 week	◆ Subcommittees	

Note: This phase has an effective duration of 8 weeks.

2 – Phase 4 activities (Overall Diagnosis)

Phase	Relations between Activities	Results to be Produced	Duration	Responsibility	Observations	
O V E R A L L D I A G N O S I S	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Pooling of findings from sectoral studies</div>	◆ Analytical summaries of studies	3 to 4 days	◆ Commission chairman ◆ Subcommittees		
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Review of sectoral strategies</div>	◆ Critique and inconsistency reports	1 week	◆ Commission chairman ◆ Subcommittees	
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Review of sectoral action plans</div>	◆ Critique and inconsistency reports	1 week	◆ Commission Chairman ◆ Subcommittees	Parallel activity
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Prioritization and summary of sectoral strategies</div>	◆ Selection of actions and measures	1 week	◆ Commission Chairman ◆ Subcommittees	
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Prioritization and summary of actions</div>	◆ Selection of actions and measures	1 week	◆ Commission Chairman ◆ Subcommittees	Parallel activity
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Quantification</div>	◆ Cost of actions and measures	2 weeks	◆ Commission Chairman ◆ Subcommittees	
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Macroeconomic framing and action integration</div>	◆ Action plan	2 weeks	◆ Commission Chairman ◆ Subcommittees	Parallel activity
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Drafting of summary document</div>	◆ Detailed outline of summary document	1 week	◆ Commission Chairman ◆ Subcommittees	Parallel activity
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Writing</div>	◆ Basic summary document	1 week	◆ Commission Chairman ◆ Subcommittees	
	↓	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Finalization</div>	◆ Version 1 of the PRSP	3 to 4 days week	◆ Commission Chairman ◆ Subcommittees	

Note: This “Overall Diagnosis” phase has an effective duration of 6 weeks.

Timetable of Activities

Updated on 6/16/2001

Activity	Responsible party	Date	Comments	
		Start	End	
1. Legal and administrative framework (decree creating Commission, administrative provisions, etc.)	• Steering Committee			
• Prime Minister's Chief of Staff			Finalization on schedule in March 2001	
2. Preparation of a reference profile	• Office of the President			Finalized on schedule in March 2001
3. Workshop initiating Commission's work	• Steering Committee			
• Commission			Finalized on schedule in May 2001	
4. Drafting of support documents and preparation of additional studies	• Office of the President			
• Subcommittees	May 15, 2001	July 30, 2001	In progress	
5. Preparation and holding of States General on Combating Poverty	• Commission			
• Steering Committee	Aug. 1, 2001	Sep. 10, 2001		
6. Development of macroeconomic framework (PIP and provisional PDP)	• Individual subcommittees	May 15, 2001	July 20, 2001	In progress
7. Production of sectoral reports	• Subcommittees	May 15, 2001	July 30, 2001	In progress
8. Conduct of additional studies	• Commission	July 20, 2001	Aug. 30, 2001	Initiated
9. Summary of sectoral reports and preparation of draft PRSP	• Office of the President			
• International assistance	July 20, 2001	Sep. 30, 2001		
10. Preparation and initiation of validation process	• Office of the President	Sep. 15, 2001	Oct. 15, 2001	
11. Process of validation by semiprofessional groups and partners	• Steering Committee			
• Commission	Oct. 10, 2001	Dec. 20, 2001		
12. Public awareness campaign and rounds	• Individual subcommittees			
• Steering Committee	Mar. 1, 2001	Mar. 1, 2002	• In progress	
• Round in Oct. 2001				
13. Final forum and validation of PRSP	• Steering Committee			
• Office of the President	Jan. 15, 2001 [sic]	Feb. 15, 2001 [sic]		

DJIBOUTI: MATRIX OF ECONOMIC REFORMS

A. BUDGET

Policy area and objectives	Strategies and measures	Timing/ Status
1 Taxation : increase revenue by + 0.8% of GDP and improve the efficiency and fairness of the System	1.1 Strictly monitor the exemption systems (beneficiaries, compliance with legislative regulations) and revise the relevant procedures as well as those applicable to temporary admissions. 1.2 Withhold tax on services from water, electricity, and telephone bills. 1.3 Identify and send reminders to delinquent taxpayers and introduce and then apply a new system of penalties. 1.4 Draft a law on the merger of the ITS, CP and AN as well as the merger of the BIC, IPM and BNC. 1.5 Draft a law on the reform of litigation procedures and the system of penalties, then secure its passage and enforce it. 1.6 Define schedule of reforms for 2002, particularly the study on the possible creation of a general turnover tax. 1.7 Draft a law creating the tax identification number (<i>numéro d'identité fiscale</i> - NIF) system and require its use in all tax-related transactions.	End 2001 End 2001 End 2001 Sept 2001 End 2001 Sept 2001 End 2001
2 Public expenditure : Reduce current expenditure by 2% and increase investments by 1.7%	2.1 Staff reduction : compulsory retirement, demobilization, and modernization of the civil service. 2.2 Introduce new budget and accounting nomenclature with economic and operational classifications. 2.3 Integrate the special accounts annexed to the budget. 2.4 Lower the costs of higher education. 2.5 Establish budget regulation limiting expenditure commitment to revenue collected. 2.6 Reach understanding with IMF staff on appropriations for priority expenditure to be included in the supplementary 2001 budget. 2.7 Impose tighter controls on common costs and strictly contain wages and benefits.	End 2002 Sept 2001 2002 Sept 2001 Sept 2001 Sept 2001 End 2002
3 Domestic debt: non accumulation of new arrears and clearance of existing arrears	3.1 Allocate sufficient funds to cover utilities (water, telephone, electricity). 3.2 Pay one month's wages every 30 [days] and pay current retirement contributions. 3.3 Pay all (nonwage) expenses in the month following signing and release of the check by the Treasury. 3.4 Complete inventory, audit, validation and classification of arrears 3.5 Finalize a detailed plan and mechanisms for the clearance of arrears (cancellation of cross debts, restructuring, treasury bond issues, cash payment). 3.6 Gradual clearance of domestic arrears	End 2001 July 2001 July 2001 Nov 2001 Dec 2001 End 2001
4 Management: Reorganize the ministry and build capacities	4.1 Separate functions and overhaul the budget preparation function. 4.2 Transfer the Sub-Directorate of Enforcement to the Directorate of Revenue and Land. 4.3 Establish large enterprises unit and a tax audit structure. 4.4 Revise procedures for greater efficiency and simplicity. 4.5 Strengthen cash management.	End 2001 End 2001 End 2002 End 2002 Sept 2001

B. EXTERNAL DEBT: CURRENCY AND BANKS

Policy area and objectives	Strategies and measures	Timing/ Status
1. Monetary system : Maintain the integrity of the currency board system and free-market framework	1.1 Keep international reserves at sufficient levels to ensure FD coverage. 1.2 Avoid government recourse to loans or advances from the BND and domestic banks. 1.3 Keep the BND from financing projects in the nonfinancial private sector. 1.4 Maintain the current free-market framework: free exchange, free determination of rates, unrestricted capital movements, free trade ...etc	July 2001 July 2001 July 2001 July 2001
2 Banking System: Strengthen the system and make it more efficient	2.1 In cooperation with the IMF, amend laws adopted in 2000 (banking law, BND charter), in particular to strengthen anti-money laundering efforts. 2.2 For the BND, monitor compliance with the regulations in force by [conducting] regular inspections and strictly applying the established penalties in the event of [violations]. 2.3 Complete the liquidation of failed banks (BDMO and Banque AL-Baraka.	End 2001 July 2001 End 2001
3 External debt: Prudence and clearance of arrears	3.1 Clear arrears to multilateral creditors and arrears on debt that cannot be rescheduled. 3.2 Avoid any new accumulation of arrears in the servicing of external debt. 3.3 Limit nonconcessional external borrowing contracted or guaranteed by the government and seek concessional loans. 3.4 Request rescheduling, on Naples terms, of debt to official bilateral creditors.	End 2001 July 2001 July 2001 End 2001
4 Management: Strengthen debt management and BND supervisory capacities	4.1 Improve external debt monitoring by computerizing the management thereof and adopting the UNCTAD/DMPAS system. 4.2 Finalize the supplementary BND personnel training program to strengthen staff supervision capacities. 4.3 With IMF and World Bank support, seek assistance from other donors and lenders to support this program.	March 2002 Nov 2001 March 2002

C. STRUCTURAL REFORMS

Policy area and objectives	Strategies and measures	Timing/ Status
1 Privatization: Establishment of strategic, legal and institutional framework	1.1 Devise an overall strategy and sectoral privatization strategies as well as a plan and an implementation schedule for the four public infrastructure companies.	Sept 2001
	1.2 Prepare and secure approval of a project to revise the privatization law and develop implementing regulations.	End 2001
	1.3 Conduct a financial analysis of the accounts of enterprises to be privatized and determine their value.	March 2002
	1.4 Establish the future regulatory agency, which could be multisectoral.	June 2002
2 Civil Service: Integrated Data File, Payroll/Civil Service	2.1 Establish a Joint Commission (Finances/Employment).	Sept 2001
	2.2 Define, adopt and implement a plan for the creation of the integrated data file.	End 2001
3 Pension Fund: Financial viability	3.1 Make parametric adjustments.	End 2001
	3.2 Update contributions, particularly of 730 government contract workers and ensure regular payment of current contributions.	July 2001
	3.3 Update retiree and taxpayer databases.	Sept 2001
	3.4 Adopt a plan for refinancing the balance of cross debt with the government so as to cover the short-term deficit.	End 2001
4 Legal Framework of the Economy: Promotion of the private sector and of transparency	4.1 Prepare, with IMF staff, and secure approval of a reform of the Labor Code to increase market flexibility.	End 2001
	4.2 Draft a law on competition to promote competition in all markets, including the banking market.	March 2002
	4.3 For all new investors, establish a one-stop shop to streamline procedures and provide necessary economic information	End 2001
	4.4 Prepare and secure approval of a reform of the investment code, deregulating the authorization and control procedures in particular.	End 2001
	4.5 Prepare and secure approval of a reform of the commercial code and introduce greater transparency.	March 2002
5 Conduct and Monitoring of Reforms: Strengthen capacities and modernize management systems	5.1 Hire a high-level legal advisor with international experience for the Privatization Unit.	Sept 2001
	5.2 Hire a commercial bank for operations and privatization activities.	End 2001
	5.3 Modernize the information, management and audit systems of Retirement Funds.	June 2002

D. ECONOMIC SECTORS

Policy area and objectives	Strategies and measures	Timing/ Status
1. Transport : Improve efficiency, lower operating costs and increase capacity	1.1 Study and mobilization of port of Doraleh financial resources. 1.2 Institutional study of road network maintenance and finalization of technical and economic studies and agreement on the route of the southern corridor. 1.3 Rehabilitation of the Dikhil-Galafi section. 1.4 Prepare with Bank assistance a long-term program for development of the national road network beginning in early 2001 with new investment outlays initially focusing on road links to Ethiopia in order to underpin the role of the port. 1.5 Increase of transport capacity. 1.6 New institutional arrangement aimed at concluding a concession agreement with a private company.	End 2002 March 2002 End 2002 End 2002 End 2002 End 2002
2. Telecommunications	2.1 Preparation of a national telecommunications strategy 2.2 Reinforcement and modernization of equipment. 2.3 Review costs and pricing of services.	End 2001 End 2002 March 2002
3. Electricity : Increase access to and reduce costs of electricity	3.1 Prepare a long- and medium-term plan for development of the electrical system 3.2 Make necessary investments over time 3.3 Adjust rates	March 2002 2001/2003 end 2001
4. Tourism	4.1 Prepare a development program including an action plan and implementation schedule for tourism, particularly specialized tourism (scientific or sports-related) 4.2 Study and establish a method of promoting Djibouti as a tourist destination among international tour operators. 4.3 Strive to reduce costs in the tourism sector.	March 2002 March 2002 End 2001
5. Mineral resources	5.1 Establish a legal, institutional, and fiscal framework to support the development of resources such as salt, perlite, etc. 5.2 Promote the use of local materials in Construction and Public Works branches.	End 2002 2001/03
6. Exports	6.1 Promote exports or re-exports of livestock (especially small ruminants) to the Gulf countries. 6.2 Implement necessary reforms and legal instruments to better prepare for entry into force of the COMESA and benefit from it. 6.3 Promote export of fisheries products (to Reunion, EU, etc.) by removing existing impediments (regulations) 6.4 Make economic operators in the zone aware of the advantages of the Djibouti market (transport system, banking system, etc.)	2002/03 End 2001 2002/2003 2002/03
7. Management	7.1 Prepare a management training program for each technical ministry aimed at strengthening planning and analysis capacities. 7.2 Initiate a process of reorganizing technical ministries and modernizing their management procedures and tools	March 2002 End 2002

E. SOCIAL POLICY AND POVERTY REDUCTION

Policy area and objectives	Strategies and measures	Timing/ Status
1. Employment and income: Provide income support to the poor by expanding employment opportunities	1.1 Programming and supervision of 2 nd phase tasks 1.2 Implementation of the 2 nd phase (ADETIP) 1.3 Programming and prioritization of 2 nd phase income-generating activities (FSD) 1.4 Implementation of the 2 nd phase 1.5 Completion of the ex-combatants social reintegration program (PRAC)	2001 2001-2003 2001 2001/2003 2001/2003
2. Education/ Health: Human resources development	2.1 Raise gross school enrollment rate from 52 percent to 55 percent. 2.2 Increase number of middle school students from 14,274 to 15,832. 2.3 Increase the number of general secondary students from 3,398 to 4,095 and the number of teachers from 165 to 198. 2.4 Increase the number of technical and vocational students from 1,212 to 1,426 and the number of teachers from 124 to 131. 2.5 Reduce the number of students from 1,306 to 1,237, and raise the number of those studying at the Pôle Universitaire de Djibouti from 619 to 733. The number of national university instructors will rise during the period from 25 to 29 2.6 Continue rehabilitation of secondary health centers in interior districts. 2.7 Construction of a surgical care facility and rehabilitation of internal medicine, maternity (MARTIAL) and delivery units. 2.8 Expand material and human resources of basic health units. 2.9 Establish a health research and planning office. 2.10 Develop a training program for health care workers and strengthen the capacities of the Professional and Social Training Center (<i>Centre de Formation Professionnelle et sociale</i>).	2001-2003 2001-2003 2001-2003 2001-2003 2001-2003 2001-2003 2001-2003 2001-2003
3. Rural Development: Improve rural standard of living	2.11 Formulate a long-term national agricultural development program (focused on livestock and oasis agriculture) to be implemented beginning 2001. 3.2 Formulate a long-term fisheries development program to be implemented beginning 2001. 3.3 Continue the special food security program aimed at developing 10,500 hectares on the Hanle, Gobaad, Assamo and Bissidouvou plains.	By end-2000
4 Housing	4.1 Launch a campaign to increase awareness of the Urban Development Master Plan 4.2 Draft an urban development and construction code 4.3 Build 1,000 low-cost housing units 4.4 Create a Housing Fund 4.5 Study on the development of local construction materials 4.6 Revitalize interdepartmental coordination	2002 2002 2002 2002 March 2002 2002/2003

F. WATER AND ENVIRONMENT

Policy area and objectives	Strategies and measures	Timing/ Status
1 Water	<p>1.2 Replace ancient wells supplying the capital and develop the ONED catchment area</p> <p>1.3 Conduct study on the management and protection of Djibouti's groundwater and comparative study between water supply from the Hanle plain (200 km) and seawater desalination</p> <p>1.4 Carry out hydrologic studies for secondary urban centers and carry out exploratory drilling.</p> <p>1.5 Through regulatory oversight, require the privatized national water company to address water scarcity by adopting water pricing policies that ensure the sustainable use of natural aquifers.</p> <p>1.6 Survey, rehabilitate and maintain existing water sources and create new ones in areas not currently served.</p>	<p>2002</p> <p>2002</p> <p>2002</p> <p>2002/2003</p> <p>2002/2003</p>
2 Environment	<p>2.2 Reach understanding on a long-term national environmental protection program focusing in particular on the establishment of an Environmental Law and creation of a national environmental monitoring and control agency.</p> <p>2.1 As part of the anti-desertification program, carry out development works in drainage basins, hillside dams, excavations, and underground tanks</p> <p>2.2 Continue the « Main Verte » [Green Hand] Program aimed at planting 100,000 trees throughout the country.</p>	<p>2002/2003</p> <p>2002/2003</p> <p>June 2001</p>
3 Natural disasters: Warn and manage	<p>3.1 Create a rapid alert system.</p> <p>3.2 Revitalize cooperation with organizations and institutions involved in this field</p> <p>3.3 Establish a permanent coordination and monitoring structure within the Ministry of the Interior</p>	<p>2002/2003</p> <p>2002/2003</p> <p>2002/2003</p>

G . GOVERNANCE AND MONITORING POVERTY REDUCTION

Policy area and objectives	Strategies and measures	Timing/ Status
1. Rule of Law: Strengthen democratic institutions and attitudes	1.6 Increase awareness of democratic institutions and their operations.	2001-2003
	1.7 Promote understanding of democracy through education and information.	2001-2003
	1.8 Strengthen legislative and judicial capacities.	2001-2003
	1.9 Promote the development of press and information organizations.	2001-2003
2. Transparency: Build trust between the public and the government	2.1 Gradually transfer decision-making and the management of local affairs to regional and local councils.	2001-2003
	2.2 Require the civil service to listen to the public and increase civil service accountability.	2001-2003
	2.3 Revise the judicial system to better adapt it to national traditions and customs and simplify and expedite its operation.	2001-2003
	2.4 Expand and increasingly formalize the possibilities of appeal against administrative decisions.	2001-2003
3. Participatory Process: Closely involve the public in poverty reduction	3.1 Promote debate and broad consultation in the establishment and prioritization of objectives and the selection of strategies and measures.	2001-2003
	3.2 Widely disseminate information on the issues.	2001-2003
	3.3 Fully involve representatives of civil society, civil and socio-professional associations, and development partners in the work of the PRSP Committee.	2001-2003
4. Monitoring mechanisms: Strengthen the capacities of the PRSP Committee and deepen the analysis of poverty	4.1 Transform the existing PRSP Preparation Committee into the SPR [Poverty Reduction Strategy] Monitoring and Coordination Committee.	2001-2003
	4.2 Give the public a comprehensive accounting of obstacles encountered and progress made, and include it in decisions concerning adjustments and corrections.	2001-2003
	4.3 Establish operating and liaison structures, mechanisms and procedures.	2001-2003
	4.4 Provide the <i>Primature</i> and, more particularly, the Monitoring Committee with appropriate human and material resources.	2001-2003
	4.5 Conduct supplementary studies necessary for preparation of the PRSP, then those necessary for a better understanding of the phenomenon of poverty.	Sept 2001
	4.6 Conduct surveys and studies to assess the impact of poverty reduction measures.	2002/2003

List of Sectoral and General Studies Carried Out

Economic Policy Framework Paper (PFP) + memoranda from IMF
Draft Poverty Reduction Strategy Paper (in progress)
World Bank Country Assistance Strategy (CAS) (2000-2003)
WTO and UNCTAD Technical Assistance Program (1999)

National Report on the Environment (Rio, 1992)
National Report for the Copenhagen Social Summit (1995)
National Report on Women (Beijing, 1995)
National Report on Population (Cairo, 1995)
Framework Paper for the Geneva Round Table (1997)
Household Survey Report—EDAM-IS (1996-97)
National Action Plan for the Environment (PANE) (2000)
National Strategy for Biological Diversity
National Report on Human Development 2000 (UNDP)
Economic and Social Orientation Law (1991-2000)
Five-Year Plan (1991-1995)
Statistical and Foreign Trade Yearbooks (1990-1999)
Government Budget and Supplementary Budget Laws (1992-1999)
Government Political Program (1999)

Special Program for Food Security (FAO) 1999
Primary Sector Development Strategy 2000-2010
Water Master Plan Report (2000)
Action Plan and Guidelines for Education (2001-2005)
Health Reform Policy 2001-2010
Action Plan for Reform of the Justice System (States General)
Tourism Development Plan (1999-2001)
National Evaluation Report on Implementation of the Beijing Platforms, presented in Beijing on June 5, 2000
Draft National Strategy for the Integration of Djibouti's Women in Development (December 2000)
Housing Report
Study on Economic Development in Djibouti within the Regional Framework (1998)
Proposals for the Reform of the Djibouti Public Administration (October 1999)
Master Plan for Urban Planning

Djibouti: Selected Economic and Social Indicators, 1998–2004							
	1998	1999	2000	2001	2002	2003	2004
			Est.		Revised Projections		
National income and prices							
GDP at current prices	2.3	4.2	3.1	4.1	3.6	4.1	5.2
GDP at constant prices	0.1	2.2	0.7	1.6	1.6	2.1	3.1
Consumer prices (annual average) 1/	2.2	2.0	2.4	2.5	2.0	2.0	2.0
(In percent of GDP)							
Government finance							
Total revenue and grants	34.2	31.2	31.0	29.8	30.9	30.9	31.2
Revenue	25.4	23.7	24.4	24.4	24.0	24.0	24.1
Grants	8.9	7.5	6.6	5.4	6.9	6.9	7.1
Total expenditure	33.4	33.4	32.8	30.5	33.2	31.0	30.8
Current expenditure	26.7	30.3	30.1	28.0	27.9	27.0	26.4
Capital expenditure	6.7	3.1	2.7	2.6	5.3	4.0	4.4
Overall balance (payment order basis)	0.9	-2.2	-1.8	-0.7	-2.3	0.0	0.4
Change in arrears (decrease-)	-0.8	1.3	0.5	-2.8	-18.6	0.0	0.0
Overall balance (cash basis)	0.1	-0.8	-1.3	-3.5	-20.9	0.0	0.4
Financing							
External	-0.1	0.8	1.3	3.5	20.9	0.0	-0.4
Domestic	0.7	0.5	0.6	2.7	4.0	2.3	2.2
Banks	-0.9	0.3	0.7	0.9	16.9	-2.3	-2.6
Nonbank	-0.8	0.3	0.7	0.9	1.8	-0.3	0.0
Nonbank	0.0	0.0	0.0	0.0	15.2	-2.0	-2.6
Government domestic arrears (stock) 2/							
Excluding arrears to public enterprises	20.2	21.8	22.1	19.3	0.0	0.0	0.0
Government domestic debt 2/	19.3	18.6	19.2	16.3	...	...	...
	17.6	17.0	...	...	...	...	...
(Change from preceding December; in percent of broad money)							
Money and credit							
Money and quasi money	8.2	5.2	1.1	4.1	4.1	4.1	5.2
Net foreign assets	-2.4	5.7	-7.3	6.6	0.4	2.9	2.1
Net domestic assets	10.6	-0.5	8.4	-2.4	3.7	1.2	3.0
Claims on the central government (net)	-1.1	-0.2	1.2	1.7	3.4	-0.5	0.0
Claims on nongovernment sector	11.0	2.7	5.2	-3.1	0.3	2.3	2.9
Interest rates (in percent)							
Lending rates	7.0-14.7	7.0-14.0	12.1-14.1	...	...	...	...
Deposit rates	2.5-5.1	2.5-5.1	3.8-5.0	...	...	...	...
(In millions of U.S. dollars, unless otherwise indicated)							
External Sector							
Current account	-3.3	-3.0	-39.7	-30.0	-29.9	-24.1	-21.8
Exports	59.1	69.2	75.4	75.8	77.0	78.0	88.2
Imports	239.5	251.7	270.3	263.8	265.9	271.1	285.0
Services (net)	97.6	104.5	86.2	92.2	94.3	97.5	101.0
Income (net)	10.6	12.2	15.8	12.8	11.7	17.5	16.0
Transfers (net)	68.9	62.7	53.1	52.9	53.0	54.0	58.0
Capital account	22.5	-1.2	30.7	30.0	26.5	27.0	23.0
Errors and omissions (incl. priv. capital)	-26.7	12.1	-9.1	7.8	-3.7	0.0	0.0
Overall balance	-7.5	7.9	-18.1	7.9	-7.1	2.9	1.2
Financing							
Monetary movements (increase-)	7.5	-7.9	18.1	-7.9	7.1	-2.9	-1.2
Monetary movements (increase-)	6.4	-15.8	21.3	-24.8	-13.9	-9.4	-7.2
Exceptional Financing	1.1	7.9	-3.2	16.9	21.0	6.5	6.0

Djibouti: Selected Economic and Social Indicators, 1998–2004							
	1998	1999	2000	Revised Projections			
			Est.	2001	2002	2003	2004
Memorandum items:							
Currency board gross foreign assets (end-period)							
In millions of U.S. dollars	64.4	70.4	67.6	69.9	72.0	73.9	77.1
Monetary and LOLR cover (in percent)	111.8	112.0	114.9	119.4	118.8	118.2	117.3
As a ratio to currency issue	1.2	1.3	1.2	1.2	1.2	1.2	1.2
In percent of GDP							
Current account	-0.6	-0.6	-7.2	-5.2	-5.0	-3.9	-3.3
Overall balance	-1.4	1.5	-3.3	1.4	-1.2	0.5	0.2
Official external debt 5/							
Before rescheduling (in millions of U.S. dollars)	337.0	336.9	369.9	400.7	426.4	448.3	466.6
Debt service ratio							
To exports of goods and services 6/							
Obligations basis before rescheduling	5.5	6.3	7.9	4.7	6.0	6.1	4.7
Obligations basis after rescheduling	4.9	5.4	4.8	1.5	5.1	6.1	4.7
Public sector overdue obligations							
In millions of U.S. dollars	5.4	10.9	7.7	0.0	0.0	0.0	0.0
Exchange rate							
Exchange rate (DF/US\$) end-of-period	177.7	177.7	177.7	177.7	177.7	177.7	177.7
Real effective exchange rate 7/ (End-year change in percent; depreciation-)	-6.4	4.1	8.0	...	...	...	...
Sources: Djibouti authorities.							
1/ For 1995–98 computed using Djibouti consumption weights applied to selected sub-indices from the French expatriate CPI. Data for 1999 and projections for 2001–2004 are based on the official CPI introduced in April 1999.							
2/ Arrears data from 1999 include wage arrears, arrears to private and public suppliers for goods and services, preliminary estimates of arrears to the pension funds, and the arrears of the liquidated public agency that formerly controlled the grain trade. Debt data include debt to public enterprises and to the domestic banking system only.							
3/ Beginning 1998 data include only three operating banks and exclude two closed banks which are being liquidated.							
5/ Public and publicly-guaranteed debt of the central government and the public enterprise sector.							
6/ Exports of locally-produced goods and nonfactor services.							
7/ The REER is calculated using the CPI proxy as noted in footnote 1.							