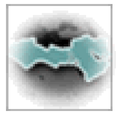
COUNTRY BRIEF



Middle East & North Africa Region (MENA) - Djibouti

Djibouti HIV/AIDS, Malaria And Tuberculosis Control Project

The World Bank approved a $12 million IDA grant in May 2003 to support the Government of Djibouti in setting up and implementing a response against HIV/AIDS, sexually transmitted infections (STIs), malaria and tuberculosis (TB), of which the latter two are important risk cofactors.

The project will support the implementation of Djibouti's HIV/AIDS National Strategic Plan, the National Malaria Strategic Plan, and the National Tuberculosis Strategic Plan through a wide variety of public sector agencies, private and non-governmental organizations, and community-based organizations.

The development objective of the project is to contribute to the change in behavior of the population in order to contain or reduce the spread of the HIV/AIDS epidemic, to mitigate its impact on infected and affected persons, and to contribute to the control of malaria and tuberculosis. It will do so through a multisector approach, including prevention of the spread of HIV/AIDS by reducing transmission, in particular among high-risk groups; expanding access to treatment of opportunistic illnesses, malaria, and tuberculosis, providing care, support, and treatment of those inflicted with the diseases; and supporting multisectoral, civil society, and community initiatives for HIV/AIDS prevention and care, and malaria and tuberculosis prevention.

Djibouti is a small, resource-poor country of 23,200 square kilometers, strategically located in the Horn of Africa at the southern end of the Red Sea. Djibouti is poorly endowed with natural resources, lacking arable land, sufficient rainfall and underground water, and oil or natural gas resources. The national population is estimated at about 800,000, of which 87 percent live in urban areas: Djibouti is essentially a city-state, with about two-thirds of town dwellers living in the capital city, Djibouti-Ville. The hinterland, an extension of the deserts of Ethiopia and Somalia, is sparsely occupied by a poor pastoral and largely nomadic population. Djibouti's population is young, with about 40 percent under age 15 and only 15 percent over age 40.

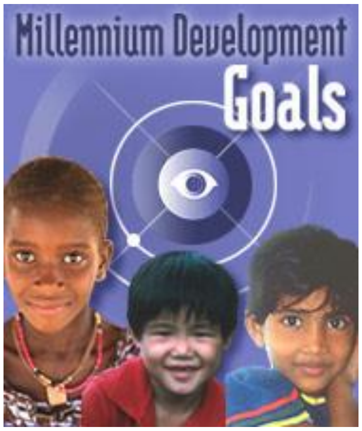
Djibouti has been an independent country since 1977. It experienced a civil war between 1991 and 1994 that had severe consequences for the economy – and has been politically stable since then. The most recent elections took place in April 2005 (presidential) and in February 2008 (legislative). In an unstable sub-region, Djibouti hosts foreign military bases, with contingents from France, Germany, and the US. Its ports constitute the main access to the sea for land-locked Ethiopia and its 75 million people.

Djibouti's economy is capitalizing on the country's strategic location. While the manufacturing sector is weak and agriculture almost non-existent, Djibouti has traditionally relied on rents –military bases, port revenues, and foreign aid. Over the last few years, the Government has actively reached out to foreign investors to further leverage the country's strategic location, with a view to creating a trading hub for the Horn of Arica. The port and airport were placed under management contracts, a new terminal has been built (in Doraleh), and a free zone was established. These efforts have paid off and resulted in accelerated economic growth.

Despite relatively high per capita income (US$ 1,060), the incidence of poverty remains high (42 percent absolute and 75 percent relative). Poverty is exacerbated by the presence of a relatively large number of refugees from neighboring countries, who place further pressure on the country's already strained social services. Despite some progress in increasing school enrollment and reducing mortality, social outcomes remain comparatively low, and Djibouti is unlikely to meet most Millennium Development Goals (MDGs) – except possibly for universal primary school enrollment, gender equality, and child mortality.As a food-deficit country, totally dependent on imports to meet its food requirements, Djibouti is highly vulnerable to external shocks such as surging food and fuel prices, and to natural disasters such as floods and droughts.

Economic Developments and Challenges

To address its social and economic challenges, the Government launched in January 2007 the "Initiative Nationale pour le Développement Social (INDS)", a new reform vehicle that replaces the Poverty Reduction Strategy. The INDS implementation will promote access to basic social services and improve the quality and effectiveness of delivery. It also aims to modernize the economic production process to alleviate the high unemployment rates. It emphasizes governance improvement as one of the main pillars of development and poverty reduction. As a first step, the government agreed on an interim action plan that includes milestones for 2007-2011 and the establishment of poverty-focused institutions.



Reaching for the Millennium Development Goals in Djibouti

The World Bank approved a US$15 million loan in June 2003 that will finance the Government of Djibouti's long-term health sector development program aimed at meeting the Millennium Development Goals for the reduction of child mortality and maternal mortality rates.

The first in a series of three projects slated for 2002-2015 period, the Health Sector Development Project (HSDP) falls in line with the World Bank's country assistance strategy of improving human development indicators by providing the poor with better access to health and basic services. Plans for the project were widely discussed in the country through open town meetings, and endorsed by the government, civil society and the international donor community in Djibouti.

Despite a relatively high per capita income of $780 in comparison to the average for sub-Saharan Africa, Djibouti suffers from a precarious health situation. Infant mortality rate stands at 106 per 1,000 live births and health facilities are constrained by lack of basic medicine and qualified personnel. Maternal mortality rates, estimated at about 800 per 100,000 live births, is one of the highest in the world. In addition, the incidence of endemic and infectious diseases such as HIV/AIDS, malaria and tuberculosis are on the rise. As a result, the Government of Djibouti developed a long-term strategy to respond to the challenges and reform of the health sector.

Djibouti's economy grew strongly in 2008. Real GDP increased from an annual average of 3 percent in 2001-2005, to 4.8 percent in 2006 and 5.9 percent in 2008, driven by large foreign private investment in port services and the construction sector. The share of Foreign Direct Investments (FDI) in GDP reached about 31 percent in 2008. Agricultural production and manufacturing represent only 4 percent and 16.9 percent of total GDP, respectively: growth prospects in both sectors are constrained by water shortage and the high cost of energy.

Inflation accelerated in 2008, mainly due to rising global prices for imported energy and food. The inflation rate rose from 5 percent in 2007 to 12 percent in 2008 (annual averages). This increase is largely due to the surge in international prices for food and energy (Djibouti imports the quasi-totality of its consumption). The trade and current account deficits widened in 2008 (due to imports for FDIs). Prudent expenditure management and an increase in fiscal revenues, in particular grants, helped to achieve a fiscal surplus of 1.3 percent of GDP in 2008.

An IMF-supported Poverty Reduction and Growth Facility (PRGF) is under implementation. The program, agreed in September 2008, provides Djibouti with access to SDR12.72 million (80 percent of quota; US$19.8 million), disbursed over three years. A first review of the program was concluded in March 2009 and attests to satisfactory progress in achieving most of the agreed structural benchmarks.
The recent economic growth has not (yet) translated into increased employment, in a country where 40 to 60 percent of the labor force is reportedly unemployed. Employment opportunities remain limited due to the absence of labor-intensive economic sectors (e.g., agriculture); the weak productivity of labor (resulting from low skill and education levels to match employment requirements); and the little potential for self-employment due to limited access to finance for micro and small enterprises. Recent investments in the port and free zones have generated few jobs to date – in large part due to structural issues (including infrastructure and shortage of skills).

Food prices remain high and continue to burden the poor. The food security situation has improved recently due to declining food prices internationally and higher rainfall within the country that has replenished water and pasture. However, food prices remain relatively high and parts of the poor population will continue to depend on food aid. The authorities are in active dialogue with development partners on food security related issues, including with the Bank on improving social assistance.

Djibouti is exposed to the impact of the global financial and economic crisis. Although the risk of direct crisis contagion into the country's embryonic financial sector remains low, the global crisis may affect Djibouti through the reduction or delaying of foreign direct investment, a reduction in the volume of trade to Ethiopia transiting through the ports, and further variations of global food and commodity prices. In the medium-term, Djibouti's prospects are closely linked to the stabilization of the sub-region and the integration of the regional economy.

World Bank Assistance

The World Bank is providing assistance through IDA. All IDA projects in Djibouti are financed through grants**.** IDA is also providing institutional development resources in support of capacity-building, pension reform, economic policy monitoring, and evaluation and statistics.

The Bank had extended to Djibouti a total of about US$184 million. The current portfolio (as of September 2009) comprises four projects with a net commitment value of US$42 million and a focus on health, education, energy, and public works. Overall, the current portfolio is healthy and project implementation has been satisfactory. Recently-closed operations include: a US$6 million grant from the catalytic fund for education for all, a US$2 million avian flu grant, and a $5 million food crisis response grant.

One project was approved in 2009: the Urban Poverty Reduction project. It aims to increase access to and use of local infrastructure and basic urban services, community development and micro-finance by targeted groups of the urban poor population of Djibouti-

Ville and secondary urban centers. It includes infrastructure upgrading, community driven development and improvement of revenue generating activities. It is co-financed with four other donors, including the Government.

Djibouti is also benefiting from a US$427 million guarantee by MIGA for the development, design, construction, management, operation and maintenance of the container terminal in Doraleh. By improving container facilities in Djibouti, the project aims to increase port traffic and open up new opportunities for investment and growth, including attracting other African countries to use the port as a gateway.

The World Bank's Board of Directors discussed the **2009-2012 Country Assistance Strategy (CAS)** in April 2009. The new CAS is articulated around three core objectives; i.e.: (i) supporting economic growth; (ii) supporting access to basic social services and human development; and (iii) supporting governance and public sector management.

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All dollar figures are in US dollar equivalents.

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