



FOR OFFICIAL USE ONLY

Report No: PAD5057

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR15.7 MILLION
(US\$20 MILLION EQUIVALENT)

FROM THE INTERNATIONAL DEVELOPMENT ASSOCIATION'S
CRISIS RESPONSE WINDOW EARLY RESPONSE FINANCING

TO THE

REPUBLIC OF DJIBOUTI

FOR A

DJIBOUTI EMERGENCY FOOD SECURITY CRISIS RESPONSE PROJECT

October 13, 2022

Agriculture and Food Global Practice
Middle East and North Africa Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2022)

Currency Unit = Djiboutian Franc (DJF)

DJF 176 = US\$ 1

US\$ 0.01 = DJF 1

US\$ 1.28 = SDR 1

FISCAL YEAR

January 1 - December 31

Regional Vice President: Ferid Belhaj

Country Director: Marina Wes

Regional Director: Paul Numba Um

Practice Manager: Marianne Grosclaude

Task Team Leader(s): Eva Hasiner, Jeren Kabayeva

ABBREVIATIONS AND ACRONYMS

CERC	Contingency Emergency Response Component
CGEP	Water Management Committee (<i>Comité de gestion des points d'eau et du pâturage</i>)
CPF	Country Partnership Framework
CPI	Consumer Price Index
CPL	Local Steering Committee (<i>Comité de pilotage local</i>)
CPS	Country Partnership Strategy
CRW ERF	Crisis Response Window Early Response Financing
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
DJF	Djiboutian franc
EFSCR	Emergency Food Security Crisis Response Project (<i>Projet d'Urgence en Réponse à la Crise de la Sécurité Alimentaire, PURCSA</i>)
EHS	Environment, Health and Safety
ENPV	Economic Net Present Value
ERR	Economic Rate of Return
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
ESS	Environmental and Social Standards
E&S	Environmental and Social
FA	Financing Agreement
FM	Financial Management
FFU	Food Stock and Fund Management Unit
FFM	Food Stock and Fund Management Manual
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GM	Grievance Mechanism
GoD	Government of Djibouti
GRS	Grievance Redress Service
IFR	Interim Financial Report
IMF	International Monetary Fund
INSTAD	Djibouti National Institute of Statistics (<i>Institut national de la statistique de Djibouti</i>)
IPC	Integrated Food Security Phase Classification
IPF	Investment Project Financing
LMP	Labour Management Procedures
MAEPE-RH	Ministry of Agriculture, Water, Fisheries, Livestock, in charge of Halieutic Ressources (<i>Ministère de l'Agriculture, de l'Eau, de la Pêche et de l'Élevage, chargé des Ressources Halieutiques</i>)
MASS	Ministry of Social Affairs and Solidarity (<i>Ministère des Affaires Sociales et des Solidarités</i>)
MAU	Market Analysis Unit
MCT	Ministry of Trade and Tourism (<i>Ministère du Commerce et du Tourisme</i>)
M&E	Monitoring & Evaluation
MENA	Middle East and North Africa
MEFI	Ministry of Economy and Finance, in charge of Industry (<i>Ministère de l'Économie et des</i>

	<i>Finance, chargés de l'Industrie)</i>
MoU	Memorandum of Understanding
ONARS	National Office for the Assistance to Refugees and Disaster-Stricken People (<i>Office National d'Assistance aux Réfugiés et Sinistrés</i>)
PDO	Project Development Objective
PFS	Project Financial Statements
PITCH	Integrated Cash Transfers and Human Capital Project (<i>Projet intégré de transferts monétaires du renforcement du capital humain</i>)
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PPSD	Project Procurement Strategy for Development
PRODERMO	Rural Community Development and Water Mobilisation Project (<i>Projet de développement rural communautaire et de mobilisation des eaux</i>)
PROLUC	Emergency Locust Response Program (<i>Projet d'urgence de Lutte Anti-Acridienne</i>)
PSC	Project Steering Committee
SEA/SH	Sexual Exploitation and Abuse and Sexual Harassment
SEP	Stakeholder Engagement Plan
SPECRP	Social Protection Emergency Crisis Response Project
STEP	Systematic Tracking of Exchanges in Procurement
tCO2-eq	Total Carbon Dioxide Equivalent
UNFCCC	UN Framework Convention on Climate Change
WBG	World Bank Group
WFP	World Food Program



TABLE OF CONTENTS

DATASHEET	1
I. STRATEGIC CONTEXT	7
A. Country Context.....	7
B. Sectoral and Institutional Context	8
C. Relevance to Higher Level Objectives.....	13
II. PROJECT DESCRIPTION.....	15
A. Project Development Objective	15
B. Project Components	15
C. Project Beneficiaries	21
D. Results Chain	21
E. Rationale for Bank Involvement and Role of Partners	22
F. Lessons Learned and Reflected in the Project Design	23
III. IMPLEMENTATION ARRANGEMENTS	23
A. Institutional and Implementation Arrangements	23
B. Results Monitoring and Evaluation Arrangements.....	25
C. Sustainability.....	26
IV. PROJECT APPRAISAL SUMMARY	26
A. Technical, Economic and Financial Analysis	26
B. Fiduciary.....	28
C. Legal Operational Policies.....	32
D. Environmental and Social.....	32
V. GRIEVANCE REDRESS SERVICES	34
VI. KEY RISKS	34
VII. RESULTS FRAMEWORK AND MONITORING	37
ANNEX 1: Implementation Arrangements and Support Plan	45
ANNEX 2: Financial Management Assessment	47
ANNEX 3: Economic and Financial Analysis and GHG Accounting	54
ANNEX 4: Criteria applied for the selection of food commodities.....	60



DATASHEET

BASIC INFORMATION

Country(ies)	Project Name		
Djibouti	Djibouti Emergency Food Security Crisis Response Project		
Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P178988	Investment Project Financing	Substantial	Urgent Need or Capacity Constraints (FCC)

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input checked="" type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
26-Oct-2022	31-Dec-2025
Bank/IFC Collaboration	
No	

Proposed Development Objective(s)

The project development objective is to contribute to mitigating food security risks posed by food supply shocks and drought.

**Components**

Component Name	Cost (US\$, millions)
Mitigating food security risks posed by food supply shocks	13.50
Mitigating food security risks posed by drought	5.00
Project management and preparation of a preparedness plan	1.50

Organizations

Borrower:	Republic of Djibouti
Implementing Agency:	Ministry of Social Affairs and Solidarity

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

Total Project Cost	20.00
Total Financing	20.00
of which IBRD/IDA	20.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	20.00
IDA Grant	20.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Djibouti	0.00	20.00	0.00	0.00	20.00
Crisis Response Window (CRW)	0.00	20.00	0.00	0.00	20.00



Total	0.00	20.00	0.00	0.00	20.00
--------------	-------------	--------------	-------------	-------------	--------------

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2023	2024	2025	2026
Annual	6.50	9.00	4.50	0.00
Cumulative	6.50	15.50	20.00	20.00

INSTITUTIONAL DATA

Practice Area (Lead)

Agriculture and Food

Contributing Practice Areas

Climate Change and Disaster Screening

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

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

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



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

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description



Schedule 2, Section I.A.1: The Recipient shall carry out the implementation of the Project through the MASS, and shall take all actions including the provision of funding, personnel, and other resources necessary to enable the MASS to perform its functions.

Sections and Description

Schedule 2, Section I.A.2: The Recipient shall establish no later than thirty (30) days after the Effective Date, and thereafter maintain throughout the Project implementation period, with composition, mandate and resources satisfactory to the Association, a steering committee, to be chaired by MASS, and responsible for providing technical supervision and guidance for the Project, as further described in the Project Implementation Manual (the "Steering Committee").

Sections and Description

Schedule 2, Section I.A.3: The Recipient shall establish and thereafter maintain throughout the period of Project implementation, a Project Implementation Unit (PIU) under MASS to run the day-to-day management of the Project, in form and with terms of reference, functions, composition, mandate, staffing, and adequate resources satisfactory to the Association, and as further described in the Project Implementation Manual. To this end, the Recipient shall maintain key staff, including: a coordinator, a monitoring and evaluation specialist, a communication specialist, a procurement specialist, a financial management specialist, an environmental and social specialist, and a grievance redress mechanism specialist, as well as the additional staff mentioned in sub-section 5 of the Financing Agreement.

Sections and Description

Schedule 2, Section I.A.4: The Recipient shall cause MASS and MCT to enter into not later than six (6) weeks after the Effective Date, and thereafter maintain throughout implementation of the Project, a written Memorandum of Understanding for the purpose of specifying the obligations and responsibilities of each party in the implementation of Part 1 of the Project, including the human and material resources to be made available, including the designation of a focal point and the recruitment of staff at MCT for the Market Analysis Unit (MAU).

Sections and Description

Schedule 2, Section I.A.5: The Recipient shall cause MASS and MAEPE-RH to enter into not later than six (6) weeks after the Effective Date, and thereafter maintain throughout implementation of the Project, a written Memorandum of Understanding for the purpose of specifying the obligations and responsibilities of each party for the implementation of Part 2 of the Project including the human and material resources (including two field technicians, a procurement assistant, and an environmental and social assistant) to be made available, in particular the designation of a focal point and the recruitment of additional staff at MAEPE-RH.

Sections and Description

Schedule 2, Section I.A.6: No later than two (2) months after the Effective Date, the Recipient shall establish the MAU in form and substance, and on terms of reference, all satisfactory to the Association.

Sections and Description

Schedule 2, Section I.A.7: No later than two (2) months after the Effective Date, the Recipient shall establish the the Food Stock and Fund Management Unit (FFU) in form an substance, and on terms of reference, all satisfactory to the Association.

**Sections and Description**

Schedule 2, Section I.E.8: Not later than two (2) months after the Effective Date, the Recipient shall prepare, consult upon, adopt and disclose the Environmental and Social Management Framework and the Stakeholder Engagement Plan; both in form and substance satisfactory to the Association.

Conditions

Type Effectiveness	Financing source IBRD/IDA	Description The Project Implementation Unit (PIU) has been established under the MASS, in form and substance satisfactory to the Association, including adequate resources and staffing with terms of reference and qualification satisfactory to the Association, including: a coordinator, a monitoring and evaluation specialist, a communication specialist, a procurement specialist, a financial management specialist, an environmental and social safeguard specialist, and a grievance redress mechanism specialist.
Type Effectiveness	Financing source IBRD/IDA	Description The Recipient has prepared and adopted in form and substance acceptable to the Association, the Project Implementation Manual (PIM) referred to in Section I.B. of Schedule 2 to the Financing Agreement.
Type Disbursement	Financing source IBRD/IDA	Description Notwithstanding the provisions of Part A of Schedule 2 Section III, no withdrawal shall be made: (a) for payments made prior to the Signature Date; or (b) under Category (2) until the Recipient has adopted the Food Shortage Preparedness Fund Management Manual (FFM) in form and substance satisfactory to the Association for the carrying out of Parts 1.2(a) and 1.3. of the Project. (c) under Category (3) until the Recipient has confirmed to the Association that a Food Security Crisis has occurred or is imminent, as evidenced in form and substance satisfactory to the Association.



I. STRATEGIC CONTEXT

A. Country Context

1. **Djibouti is a small, lower-middle income country with a strategic geopolitical and trade position in the Horn of Africa and the Gulf of Aden.** Djibouti overcame violent civil conflict in the early 1990s through a negotiated peace and power-sharing agreement between the country's main ethnic groups and has since enjoyed a peace dividend with steady economic growth made possible by an influx of foreign capital in the transport and logistics sectors, as well as rental fees from foreign military bases. The country is located near some of the world's busiest shipping lanes, controlling access to the Red Sea and the Indian Ocean. Djibouti serves as a key refuelling, transshipment, and major seaport for imports and exports to neighbouring Ethiopia, Somalia and Yemen. As a result, a significant flow of goods passes through the port of Djibouti to supply the region, while the Djibouti market alone accounts for only about 2 percent of the total flow.

2. **The combined effects of the war in Ukraine, the COVID-19 pandemic, the conflict in Ethiopia and the current drought have led to a deterioration in the country's economic situation, which could worsen further in the coming months.** Djibouti's economy has been hit hard by the 2020 pandemic, as Gross Domestic Product (GDP) growth dropped from 5.5 percent in 2019 to 1.2 percent in 2020. The economic recovery that began in the fourth quarter of 2020 and continued into the second half of 2021 was dampened by a decline in Ethiopian demand for logistics services in the second half of 2021. GDP growth reached 4.8 percent in 2021, 1.5 percentage points below the pre-war level in Ethiopia and more than 0.7 percentage points below the pre-pandemic level. Growth is expected to slow to 3.6 percent in 2022, due to the impact of the crisis in Ethiopia and the war in Ukraine. This decline in economic activity, combined with the severe drought of recent years, directly reduces consumer purchasing power and food availability, threatening the country's food and nutrition security. In addition, the current drought is having a serious impact on water availability, vegetable and livestock production and, consequently, household incomes in rural areas.

3. **The multiple crises the country is facing are putting pressure on fiscal and external accounts.** The COVID-19 pandemic and the conflict in neighbouring Ethiopia have already exacerbated fiscal pressures, as total revenue of the state fell by 4.1 percent to about 19.4 percent of GDP in 2021 and is expected to decline further in the medium term. In addition, while the external debt-to-GDP ratio was declining from 71.2 percent in 2017 to 69.8 percent of GDP in 2019, it has rebounded to 75.6 percent in 2020, mainly due to external financing to support the response to COVID-19 and the contraction of GDP. Fiscal pressures are likely to emerge in the medium term, due to further tax exemptions to support local cooking oil production, and continued pandemic-related tax relief. As a net importer of food and energy, the economic consequences of the war in Ukraine are likely to affect Djibouti's external account through higher import bills. Rising commodity prices and increasing costs of maritime freight, reflecting tensions in the supply chain, are causing a significant worsening of the external current account, which is expected to move from a comfortable surplus in 2020/21 to a deficit in 2022/23.

4. **Poverty affects one in six people and is subject to spatial disparities.** According to the 2019 poverty assessment, based on the 2017 household survey data, 17 percent of the population lived in extreme poverty, with less than US\$1.9 per day (in 2011 purchasing power parity terms). The regional distribution shows that extreme poverty lies at 10 percent in Djibouti City, 23 percent in Ali Sabieh, 28 percent in Arta, 35 percent in Obock, 51 percent in Dikhil, and 61 percent in Tadjourah. Djibouti's Gini coefficient, estimated at 0.451¹ in 2012, rose to 0.416 in 2017. The country was ranked 71st

¹ Djibouti Household Survey / Social Indicators (EDAM4-IS).



out of 95 countries in 2015 in terms of inequality. Compared to Djibouti city, where economic activities are concentrated, the rest of the country is characterised by marked differences in welfare levels between urban and rural areas. For example, in Tadjourah, which has the highest poverty rate, households in the 90th percentile enjoy consumption levels 8.2 times higher than those in the 10th percentile. The extreme poverty rate in Djibouti is estimated to have increased to 23-30 percent in 2020 (from 15 percent in 2019) due to the pandemic and income losses resulting from job losses, price shocks, reduced economic activity, and other factors.

5. **The war in Ukraine has had a sudden impact on world grain markets and on food, fuel, and fertiliser prices, posing major risks to global food and nutrition security.** Ukraine and the Russian Federation are major food exporters (of grain, especially wheat, and edible oil). The Russian Federation and Belarus are also among the world's largest exporters of fertiliser. The sudden halt in exports of these essential commodities has added to the immediate pressures on food and nutrition security, particularly for import-dependent countries such as Djibouti. The war has led to unprecedented disruptions in exports of grains and edible oils from Ukraine and the Russian Federation, with repercussions on shipping logistics beyond the Black Sea region and increases in food prices. By May 2022, the scale of current export restrictions had surpassed that of the 2007/2008 food crisis, affecting 17.3 percent of total calories traded worldwide. While grain prices eased slightly over the summer, high prices and market disruptions are likely to persist due to the uncertainties of the war in Ukraine and could lead to continued market volatility. Impacts will continue to unfold as exporters and importers adjust to market supply disruptions and some exporters may slow down or limit exports as the crisis continues. These impacts will be felt particularly by small countries, such as Djibouti.

6. **Djibouti's high vulnerability to climate change poses additional risks to the country's food and nutrition security.** Djibouti is one of the driest countries in the world and is currently experiencing drought conditions caused by rising seasonal temperatures and insufficient rainfall. In 2021, the average temperature recorded in Djibouti reached its highest value since 1981, with an increase of about +3.7°C compared to the values recorded during the 1981-2021 period. Djibouti has experienced exceptionally low rainfall over the past three years. In 2021, rainfall was less than 145 millimeters in most regions. The lack of rainfall in most of the country in 2021 and the first half of 2022 combined with high summer temperatures have greatly increased the degradation of vegetation and pastures and led to a rapid drop in the level of water tables in traditional wells and cisterns. In addition, the effects of climate change are expected to result in future temperature rises, increased aridity, decreased rainfall, and sea level rise. Rising temperatures are expected to reduce soil moisture, surface water, and groundwater reserves and significantly increase desertification. The resulting increase in evapotranspiration and decrease in soil moisture is likely to have a negative impact on water availability in the country, especially for human use but also for agricultural and livestock activities.²

7. **Refugees and their host communities are among the most affected by these crises.** Djibouti has remained relatively peaceful in the unstable Horn of Africa region, but it continues to face security and economic challenges due to the war in Ethiopia and the resulting trade shock, increased security, and social spending to cope with COVID-19 and the influx of refugees. Djibouti hosts about 35,000 internally displaced people, including over 23,000 refugees and 11,000 asylum seekers. It has seen an increased influx of refugees and migrants of almost 8 percent since January 2021.

B. Sectoral and Institutional Context

8. **Djibouti's food security is highly exposed to global risks in international markets (food availability and price fluctuations), such as the impacts of the war in Ukraine and the conflict in neighbouring Ethiopia, and to climate**

²<https://climateknowledgeportal.worldbank.org/country/djibouti#:~:text=Djibouti%20is%20considered%20highly%20vulnerable,precipitation%2C%20and%20rising%20sea%20levels.>



change, such as the severe drought that has affected the country in recent years. The war in Ukraine has caused a major shock to global food, fuel and fertiliser markets, driving up prices and potentially contributing to a further increase in food and nutrition insecurity. Djibouti meets up to 90 percent of its food needs through imports, as domestic agricultural and livestock production can only cover 10 percent of its consumption needs. The country depends exclusively on imports to meet its domestic demand for wheat and wheat products. While Djibouti's direct imports from Ukraine are small, the country imports 60 percent of its wheat flour from Turkey, which buys 74 percent of its wheat from the Russian Federation. In March 2022, Turkey partially banned the export of wheat flour as well as several other basic foodstuffs, joining other countries that have imposed trade restrictions, which has further disrupted the market. Other major countries active in global wheat trade (such as India) have also decided to restrict their exports. The conflict in neighbouring Ethiopia has also taken a heavy toll on Djibouti's economy, with effects felt by households through the reduction in economic activity linked to the port of Djibouti, the decline in cross-border trade, and food availability, leading to higher food prices. In addition, the current drought in the Horn of Africa is having a devastating effect on Djibouti's livestock herds and water tables, contributing to the deterioration of the country's food security, particularly in rural areas.

9. **For the first time since 2011, food prices, particularly those of wheat, vegetable oil, fruits and vegetables, increased significantly in 2022.** In June 2022, Djibouti's Consumer Price Index increased by 6.0 percent compared to the previous month, mainly due to an increase in the prices of food and non-alcoholic beverages (Table 1). The general level of consumer prices rose by 8.5 percent quarter-on-quarter, and year-on-year inflation was 11.5 percent. Prices for food and non-alcoholic beverages rose by 13.1 percent compared to the previous month. In addition, food and non-alcoholic beverage prices recorded a 19.7 percent increase quarter-on-quarter and a 25.6 percent increase over the past twelve months.

10. **Rising food prices and potential disruptions to food imports have recently caused concerns among Djibouti's population.** Possible food shortages and the sudden surge in food prices in domestic markets have caused people to worry about the further deterioration of the country's food and nutrition security situation. In addition, some bakeries have closed because the government has not authorized bread price increases. Inflationary trends have put pressure on household welfare as well as on productive sectors and have disproportionately affected the poor and vulnerable. This prompted the Government of Djibouti (GoD) not only to immediately seek short-term solutions to manage tensions in national food markets but also to put in place a sustainable system that would mitigate the risks of food insecurity.

**Table 1: Price increases of food commodities and non-alcoholic beverages since 2020**

	June 2020-21	June 2021-22
Rice Belam (25 kg)	1,7%	13,4%
Tomatoes (1 Kg)	-14,9%	132,5%
Onions (1 Kg)	-48,3%	63,3%
Milk powder (2,5 Kg) COWS	-16,5%	36,3%
Sugar (50 Kg)	10,8%	24,9%
Wheat flour (25 Kg)	8,5%	18,1%
Edible oil (5L)	27,2%	45,0%

Source: Institute of Statistics of Djibouti (INSTAD)

11. **There are six basic food items of strategic importance in Djibouti, namely wheat flour, rice, sugar, pasta, milk powder, and vegetable oil.** These products account for more than 75 percent of Djiboutians' total daily calorie intake (sugar contributes 19 percent, rice 17 percent, wheat flour 16 percent, vegetable oil 15 percent, and pasta 8 percent). The country consumes an average of 1,950 tonnes of pasta, 1,250 tonnes of rice, and 2,930 tonnes of sugar per month. In Djibouti, sugar represents an integral part of the diet and is a crucial energy source, particularly for rural populations. Similarly, pasta and rice are consumed on a daily basis. As these products form a large part of the food basket, the GoD exempts private importers from paying value-added tax and import taxes on these products, allowing it to closely monitor import prices and, in turn, set price margins for these products to be sold on national markets. Compliance with these fixed price margins is regularly monitored by the Ministry of Commerce and Tourism (*Ministère du Commerce et du Tourisme*, MCT).

12. **The risk of availability shortfalls and price increases of basic food commodities depends on several factors.** Since the number of global rice exporters is relatively limited, any adverse events in rice-exporting countries could lead to shortages and substantial price increases in international markets. Although the number of global producers of wheat flour and sugar is large, resulting in a moderate risk of shortages or price volatility for these products, the war in Ukraine has shown the potential effect of unforeseen crises on world prices. Furthermore, extreme climatic events increasing in frequency could potentially result in shortages and substantial price increases in the future. As the number of global producers of durum wheat, the input for pasta, is relatively limited and only a few specialised trading companies are active in the market, availability and price risks can be considered high. The market for milk powder has a moderate risk of shortage, but price risks could be considered high due to the high costs of changing the production process and the potential reluctance of producers to switch from high value-added production (fresh dairy products) to lower value-added dairy products, such as milk powder.

13. **Despite the country's heavy dependence on global food markets, the GoD has no system for monitoring global food trade trends and assessing the availability of key commodities in national markets.** This makes it difficult for the government to predict food shortages and formulate a rapid response to potential food crises. While the MCT collects monthly food price and consumption data for the national market, there is an urgent need for a systematic analysis of international agricultural commodity markets and reference markets, including futures and spot markets and related data (processing costs, ocean freight). A dedicated database on these markets and adequate analytical models are needed to support risk management approaches. In addition, a detailed analysis of the domestic market is required, including monitoring of private stocks to assess the risk of food shortages.



14. **Food trade is fully liberalised, with imports, storage and distribution managed entirely by the private sector.** There is a network of local wholesalers, semi-wholesalers, and retailers involved in the full cycle of trade, most of whom rent or own storage facilities. The country has good storage facilities, although their quality varies between operators, with occasional risks of flooding. The maximum storage time for food products varies according to product type, but wheat flour is currently only stored for one month due to unfavourable storage and climatic conditions.

15. **Djibouti's food security is highly exposed to risks related to climate change and adverse weather events, including drought, which has serious implications for water availability, livestock and vegetable production and, consequently, household incomes.** On February 13, 2021, the GoD in collaboration with the Food and Agriculture Organization (FAO), issued a drought alert for the country, indicating critically low groundwater levels and deterioration of vegetation and pastures due to the lack of rainfall over the past three years and record temperatures. The reduction in water availability has already resulted in the drying up of water points (cisterns, open reservoirs, wadis, etc.) and a filling rate of wells below 50 percent of the level considered normal for Djibouti. In addition, many water points need repair, which is generally hampered by the lack of necessary equipment. Vegetable crops have been affected by the lack of water, forcing most farmers to reduce their plots this year. Djibouti's livestock resources are important (mainly goats and sheep), as about 60 percent of the population depends on them as a source of livelihood. There are an estimated one million sheep and goats and 300,000 cattle in the country.³ According to the April 2022 edition of the Food Security and Nutrition Monitoring System (FSNMS) report conducted by the World Food Programme (WFP) and the National Statistics Institute of Djibouti (*Institut National de la Statistique de Djibouti*, INSD), drought is the main shock experienced by households in rural areas (Figure 1).⁴ The drought in rural areas has impacted agricultural and pastoral livelihoods across the country, and 22 percent of rural households reported that the number of livestock they currently own has decreased compared to the same period last year⁵. This is a serious concern, as livestock are the main asset of the poorest segment of the population, and an indicator of negative coping strategies.

16. **The country has weak institutional capacity to manage food security risks, including climate risks.** There is no early warning system for food supply shortages or adverse weather events, which significantly compromises Djibouti's ability to respond to pre-crisis signals. There is no national contingency plan that would allow for a concerted response by local and international institutions in the event of adverse events to the country's food security situation. The expected increase of extreme weather events in the country (drought, but also flash floods) requires an improvement in the country's capacity to manage these risks, in particular through the establishment of an effective forecasting and management system. On the other hand, the country has a National Solidarity Fund to deal with unforeseen events affecting the population; the management of this Fund is supervised by an Inter-ministerial Committee placed under the authority of the Ministry of Social Affairs and Solidarity (*Ministère des Affaires Sociales et des Solidarités*, MASS).

³ IGAD, April 2022

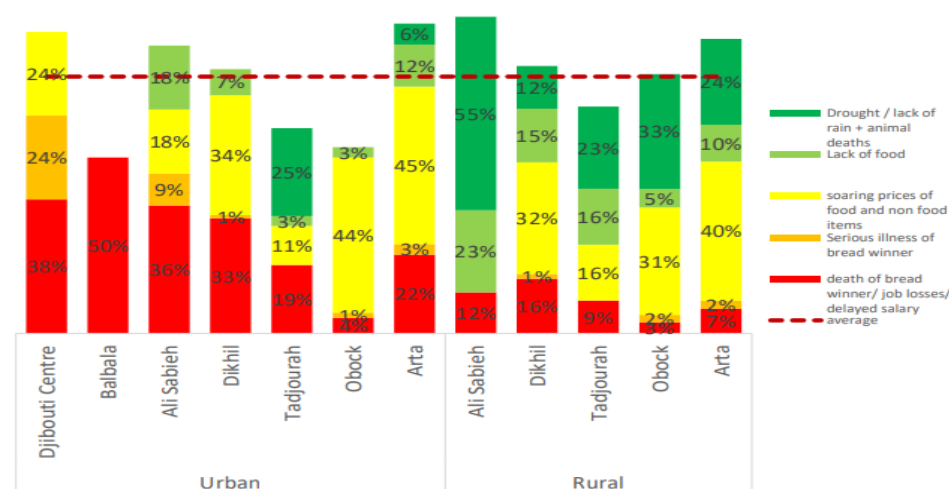
<https://www.igad.int/programs/95-icpald/1342-validation-of-djibouti-livestock-development-fund-ldf-report-undertaken#:~:text=Djibouti's%20livestock%20resources%20are%20important,300%20cattle%20in%20the%20country>

⁴ In March 2022, the Ministry of Agriculture, together with the FAO, prepared an assessment report on the current drought and a short-term action plan to address it.

⁵ WFP, Drought Impact in Djibouti, Issue 1, dated 3 March 2022.



Figure 1: Shocks experienced by households in the last six months (in February 2022)



17. **The combined effects of market disruptions, rising prices, and drought are negatively impacting consumers' purchasing power and consequently reducing their economic access to food, further threatening the country's food and nutrition security.** International market disruptions, inflation, and rising food prices, coupled with reduced incomes due to lower agricultural and livestock production and productivity, and reduced economic activity, will strongly affect Djibouti's poorest population, who spend on average 77 percent of their income on food⁶. The April 2022 edition of the Djibouti FSNMS report reveals that in February 2022, the number of people facing severe and moderate food insecurity in rural areas increased by 10 percent compared to January 2020. Moderate and severe food insecurity currently affects 37.1 percent of the rural population and 9.7 percent of urban dwellers in the five regions, or about 124,359 people. The latest Integrated Food Security Phase Classification (IPC) Analysis (which does not take into account the effects of the war in Ukraine) estimates that the number of people in crisis or worse food insecure (IPC3+) will increase from 131,997 (127,074 in the IPC3 and 4,923 in the IPC4) to 192,189, or 16 percent of the total population, between July and December 2022 - of which 179,799 will be in IPC3 (15 percent of the population) and 12,390 in the IPC4 (1 percent of the population). Due to the war in Ukraine, even more people are expected to be in IPC3+ conditions in Djibouti.

18. **The GoD's Vision 2035 recognizes the importance of a long-term, development-oriented approach to ensuring the food and nutrition security of Djibouti's population.** In this strategy, the GoD stresses the importance of ensuring the availability of food for its population in order to guarantee the country's food and nutrition security and also notes the importance of the role of the private sector in this context. The MASS has been assigned to coordinate the country's response to the food security crisis. The proposed Emergency Food Security Crisis Response Project (*Projet d'urgence en réponse à la sécurité alimentaire à Djibouti*, EFSCR/PURCSA) aims to: (i) build up a small physical stock of some basic food commodities and establish a food shortage preparedness fund, rightsized to avoid hoarding but sufficient to ensure the availability of basic food items in a context of market and shipping disruptions; (ii) provide support to drought-affected households, including farmers and pastoralists, to improve their access to water, restore their livelihoods and build their resilience to climatic calamities; and (iii) strengthen Djibouti's capacity to address food insecurity risks through the establishment of monitoring and management structures, as well as training of public sector and private partners.

⁶ <https://www.wfpusa.org/countries/djibouti/>



C. Relevance to Higher Level Objectives

19. **The project is fully aligned with the World Bank Group's (WBG) Country Partnership Framework (CPF) for FY 2022-2026 discussed by the Board of Directors on September 23, 2021, which recognizes the need for the WBG to remain flexible and adapt to events in a region experiencing volatility.** Responding to the impending food security crisis in Djibouti is aligned with the CPF's focus on strengthening basic services to improve access, quality, and inclusion, while increasing resilience to climate change and natural disasters. The CPF is fully aligned with the GoD's medium-term strategy, entitled "Institutions - - Connectivity - Inclusion" for the period 2020-2024, which constitutes the second phase of the implementation of the Vision 2035 for Djibouti. This strategy aims to support post-pandemic recovery by: (i) strengthening public institutions to improve service delivery and macroeconomic stability; (ii) implementing structural reforms to improve connectivity and leverage regional integration in the areas of logistics, water, energy, telecoms/information and communication technology and transport; and (iii) reinforcing social and economic inclusion.

20. **The project is aligned with the WBG's comprehensive approach on addressing the global food security crisis that stems from the war in Ukraine.** It is consistent with the "World Bank Group Response to the Global Impacts of the War in Ukraine - Proposed Roadmap" of April 12, 2022, particularly with regard to the proposed short-term response to support populations affected by the impacts of the war, including increases in food and fuel prices, and other economic and social impacts. In addition, the World Bank's criteria for financing of food imports were applied to the project, as outlined in the description below.

21. **The project supports the GoD's response to the multiple crises in the country.** Following concerns about rising global food and fuel prices and the effects of the drought in the Horn of Africa, the government outlined a national action plan on March 24, 2022 to *"save the country from the negative economic repercussions of the current international crisis caused by the war between Russia and Ukraine"*. The plan aims to protect the Djiboutian population from soaring prices, in particular for basic necessities, and to guarantee the acquisition of kerosene and diesel.

22. **The project complements the Emergency Social Protection Crisis Response Project (SPECRP, P178992), approved in June 2022.** The SPECRP, which is financed by the IDA19 Crisis Response Window Early Response Financing (CRW ERF) window, aims to provide cash transfers to targeted households through safety net transfers⁷ and to strengthen adaptive social protection mechanisms to respond to future crises. As required by the CRW-ERF, the GoD will be preparing a Food Security Crisis Preparedness Plan, and it is in the early stages of its preparation⁸. The EFSCRCP complements the Bank's support to the GoD with an allocation of US\$20 million from the IDA20 CRW-ERF window. The EFSCRCP is prepared in accordance with Section III, paragraph 12 of the Bank's policy: Investment Project Financing (IPF Situations in Urgent Need of Assistance or Capacity Constraints), including the application of abbreviated procedures and deferred publication of Environmental and Social Framework (ESF) instruments at the project implementation stage. The rationale for processing the EFSCRCP under condensed procedures is the urgent need for assistance to address the deteriorating food security situation in Djibouti due to the combination of factors that are: (a) disruptions in the food supply chain arising from the war in Ukraine and their impact on the global food price increases; and (b) the severe drought affecting access to water and livelihoods of vulnerable rural households.

23. **The project supports Djibouti's climate and development objectives in line with its Paris climate commitments and the WBG's climate change action plan for the fiscal years 2021-2025.** Djibouti submitted its Nationally Determined

⁷ Djibouti has an operational safety net system under the responsibility of the Ministry of Social Affairs and Solidarity, which is currently aiming to progressively provide national coverage for the country's poorest and most vulnerable population.

⁸ EFSCRCP indicates the same requirement, with only one action plan to be prepared.



Contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC) in 2016, to support the country's efforts to achieve its economic development goals, reduce vulnerability to drought, protect the country from rising sea levels, improve access to water, protect biodiversity and build resilience among rural populations. Adverse regional events have exacerbated the influx of refugees from the region into Djibouti, putting additional pressure on the country's fragile natural resources, and increasing vulnerabilities to climate change. The project activities will support Djibouti's adaptation efforts by establishing mechanisms to address the impact of climate change on food security through: (a) the creation of the Emergency Food Stock and Food Shortage Preparedness Fund under Component 1; and (b) strengthening the country's resilience to drought under Component 2.

Gender

24. **The project will pay particular attention to reducing gender gaps that exist in decision-making structures and livestock ownership.** For the distribution of livestock and inputs the Ministry of Agriculture, Water, Fisheries and Livestock, in charge of Halieutic Resources (*Ministère de l'Agriculture, de l'Eau, de la Pêche et de l'Elevage, chargé des Ressources Halieutiques*, MAEPE-RH) will establish regional committees in each of the five regions. These committees will be chaired by the President of the Regional Council or his/her representative and will include representatives of the prefecture, sub-prefecture, communities, civil society, women's associations, and the sub-directorates of the MAEPE-RH. An appropriate mechanism will cover the peri-urban area of Djibouti City. They will be chaired by the President of the Regional Council or his/her representative and will include representatives of the prefecture, sub-prefecture, communities, civil society, women's associations and the sub-directorates of the MAEPE-RH. In general, social and religious barriers result in low participation of women in these regional committees, currently lying at around 10 percent. Since these regional committees will be responsible for validating the list of beneficiaries and of inputs distributed to each beneficiary, the absence of women reflects a significant exclusion of women from the decision-making process⁹. To reduce the gender gap in decision-making over resources and representation in decision-making bodies, the project will aim that in the regional committees set up by the project at least 30 percent of the members are women. Such representation should result in a more equitable distribution of agricultural inputs and livestock and ultimately in better living conditions for women. In addition, the project will aim at having a minimum of 30 percent female members in the other committees involved in the implementation of the project. This specific activity will be measured by a dedicated results indicator "Percentage of women in regional committees."

25. **Livestock and production losses are generally felt more acutely by women.** The ownership of small ruminants (sheep and goats) in Djibouti is unequally distributed. In addition, livestock and production losses are generally affecting women stronger than men and there is a gender disparity in the ability to recover from shocks and remain a livestock owner in Djibouti. The project aims to distribute 10,000 small ruminants (goats, sheep) to 2,000 households. To help reduce the aforementioned gender disparity, the project will ensure that 60 percent (6,000 heads) of animals distributed will be distributed to women-headed households (defined as single, divorced, widowed, abandoned, or taking care of their handicapped husband). This specific activity will be measured by a dedicated results indicator "Number of small ruminants received by female-headed households."

⁹ Data from the Community Rural Development and Water Mobilisation Project (PRODERMO, P117355) and the Locust Emergency Response Project (PROLUC, P173702). Based on lessons learned in Djibouti, setting quotas in regional committees has increased women's participation.



Citizen Engagement

26. **The project will deploy a range of citizen engagement mechanisms throughout implementation to ensure that beneficiaries can provide input and feedback on the project's processes, progress, and results.** The project will conduct in-depth consultations with beneficiaries in the five regions and in the peri-urban area of Djibouti City, before, during and after the activity implementation through regional committees that represent inclusive platforms (including civil society) for local decision-making on the distribution of assets and of agricultural and livestock inputs. At least two rounds of qualitative interviews will be conducted before and during the implementation of the project by each regional committee with the aim of receiving feedback from beneficiaries on their specific needs and their satisfaction with project activities. The results will be used to generate action plans with an implementation schedule that will allow for a follow-up on the feedback provided by beneficiaries and the solutions provided. In addition, the project will conduct: (i) an initial survey of the targeted rural populations to establish the baseline of their agricultural assets as well as their access to water and inputs; and (ii) a final survey on beneficiaries' satisfaction with project support. The beneficiaries benefiting from training will be systematically asked to report their level of satisfaction. In addition, the populations will be able to address their questions, suggestions, and possible complaints through the grievance mechanism established by the project (see section V).

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

27. The development objective of the project is to contribute to mitigating food security risks posed by food supply shocks and drought.

PDO Level Indicators

28. The PDO level indicators are:

- Market Analysis Unit established and reporting on monthly basis (number of monthly reports);
- Emergency food stock procured and replenished (number of metric tons of food stored)
- Affected households supported with improved water infrastructures to restore livelihoods (number of households);
- Affected households supported with animals, and/or agricultural inputs and/or livestock inputs to restore livelihoods (number of households).

B. Project Components

29. The following key filters and criteria have been applied to the design of the project, taking into account the exceptional nature of the Bank's proposed emergency response in the context of the multiple crises that Djibouti is currently facing:

- **The country has experienced a significant disruption to food supply.** Djibouti has experienced sharp increases in the prices of basic food commodities due to the combination of the war in Ukraine, the conflict in



neighbouring Ethiopia, and the drought, which has led to growing concerns among the population over possible food shortages. Therefore, the GoD seeks to ensure the availability of a minimum level of basic food commodities in the country as one of the instruments to strengthen its capacity to withstand future food supply shocks. The project will not include retroactive financing.

- **The project intends only to establish foods stocks at minimum required levels.** The emergency stock of basic food commodities will be established at the strict minimum level corresponding to one month of consumption. This will allow the country to fill eventual food shortages and thus minimize the socio-economic impacts of related import disruptions, mitigate potential price increases and ensure food security in the short term.
- **The project has a reasonable likelihood of ensuring access to food on affordable terms to the most vulnerable.** Should a food security crisis occur and the decision for the release of the emergency food stock be taken, a part of the food reserve will be used for humanitarian purposes to be distributed (according to MASS criteria) directly to the poorest and most vulnerable, including refugees. The remainder of the food reserve will ensure the availability of commodities more broadly on the domestic market. The resulting mitigation of price increases will have a particularly positive effect on the poorest and most vulnerable, who spend on average 77 percent of their income on food. This project will complement the activities implemented by SPECPR (P178992).
- **Adequate measures will be put in place to address fiduciary/corruption risk and optimize efficiency.** Food procurement under the project will be carried out in full compliance with the Bank's procurement rules and the financial management of the project will be audited. The purchase of the initial stock of the basic food commodities will be phased over the first six months of project implementation; the proceeds from the sale of food commodities will be deposited in a dedicated account opened at a commercial bank and will be used according to the country's public finance procedures to replenish the emergency food stock. The proper supervision of the emergency food stock will be ensured by the Food Stock and Fund Management Unit (FFU), which will be responsible for the implementation of a comprehensive stock verification, release and replenishment mechanism. A specific Food Stock and Fund Management Manual (FFM) will detail the operational mechanisms for stock management, as well as for initiating and monitoring the distribution of food to wholesalers and retailers in a crisis. The project will then conduct independent market surveys to verify the availability of products in retailers' shops. The MASS will put in place formal procedures for the settlement of complaints.
- **Close coordination with partners.** The project will be closely coordinated with the activities of other technical and financial partners, in particular with the WFP for the distribution of food to the poorest and most vulnerable population, and the Intergovernmental Authority on Development (IGAD) and the Food and Agriculture Organization of the United Nations (FAO) for the establishment of the drought warning system.
- **Strengthening preparedness and resilience to food crises.** The project includes significant public and private sector capacity building and technical assistance to improve the country's resilience to future supply shocks. This includes: (i) strengthening the capacity of the government to anticipate food crises and provide a rapid response, including the management of an emergency food stock; and (ii) developing the skills of both the public and private sectors on price risk management.



30. **The project aims to help the GoD mitigate the multiple food security risks the country is currently facing.** In particular, the project aims to mitigate not only risks related to food supply shocks and price volatility but also risks related to climate change, including drought. It provides a short-term emergency response, such as the creation of an emergency food stock and support to drought-affected agricultural producers and livestock herders, but also supports longer-term measures aimed at ensuring strategic market and climate analysis and promoting food production and income generation in rural areas. The activities proposed in the project are therefore intended to be mutually reinforcing. The project will be funded by a US\$20 million grant from CRW-ERF and implemented over a three-year period. The project will include the following three components:

31. **Component 1: Mitigating food security risks posed by food supply shocks (US\$13.5 million).** The objective of this component is to establish a system that would enable the GoD to mitigate risks related to food supply shocks in the future. The project will finance: (a) capacity strengthening for risk management, through the (i) establishment and capacity building of the MAU; and (ii) capacity building of the public and private sectors on market efficiency, price risk management and related areas; (b) the establishment of an emergency food stock, through the (i) constitution of a small buffer stock (equivalent to approximately one month of consumption); and (ii) establishment and capacity building of the FFU; and (c) the establishment of a Food Shortage Preparedness Fund (FPF) for the purchase of basic food commodities to complement the emergency food stock.

32. **Sub-component 1.1: Strengthening capacity for risk management (US\$1 million).** The project will support: (a) the establishment, training, equipment, and staffing of the MAU at the MCT to anticipate and report on potential food supply shocks and (b) capacity building of the public and private sectors on market efficiency, price risk management and related areas and techniques. The MAU will be trained in local and international market analysis to understand and report on pre-crisis signals and will be housed at the MCT. The training will equally include price management risks (price hikes) driven by climate change and its impacts. It will exchange regularly with the private sector, and particularly with the Chamber of Commerce, on market trends and conditions, the status of national stocks and other relevant information and will integrate these considerations in its analyses. This analysis will enable the GoD to respond to crises ahead of time and thus contribute to building the country's resilience to market and climate-related risks. The MAU will report its findings and recommendations to the Project Steering Committee (PSC). Based on its analysis and predefined triggers, the MAU will advise the PSC on the partial or total release of the emergency food stock (see sub-component 1.2), as well as on the use of the Food Shortage Preparedness Fund (see sub-component 1.3). By the project's mid-term review, a more sustainable reporting arrangement to be followed by the MAU after project closure will be identified, including potentially through the National Solidarity Fund under the authority of the MASS. This mechanism will be put in place by the end of project implementation.

33. This sub-component also aims to: (i) provide training to the public sector on market efficiency analysis, including price transmission, market power, and potential collusion, as well as instruments and strategies for managing and monitoring price risks (related to climate change, conflict, pandemics, etc.); and (ii) develop private sector skills in price management to reduce domestic price volatility and limit price increases (related to climate change, conflict, pandemics, etc.), in close collaboration with the Chamber of Commerce.

34. **Sub-component 1.2: Establishing an emergency food stock (US\$7.5 million).** This sub-component will (a) support the establishment of an emergency food stock which will allow the GoD to respond to potential food shortages and reduce the negative effects of these shortages and their direct impact on the poorest; and (b) support the establishment, training, equipment and staffing of, and provide technical assistance to the FFU at the MASS. The emergency food stock will focus on selected basic food commodities in Djibouti. Regarding the emergency food stock



(see (a) above) the following activities will be financed: (i) the purchase of basic food products including rice (1,250 tonnes), pasta (1,950 tonnes) and sugar (500 tonnes)¹⁰, to cover consumption needs equivalent to approximately one month of rice and pasta and approximately one week for sugar; and (ii) transport, storage, rotation and distribution costs, incl. related insurance costs, of the purchased commodities until they are sold to the private sector by the GoD or, as necessary, partially distributed to the poorest and most vulnerable population, including refugees. Regarding the FFU, the following the activities will be financed: the establishment, training, equipment, staffing and technical assistance of the FFU to (i) manage the stock, including purchasing and selling selected food commodities as well as the initiation and monitoring of food distribution in the event of a crisis (including climate shocks, conflict, pandemics, etc.); and (ii) manage the Food Shortage Preparedness Fund established under sub-component 1.3. The establishment of the emergency food stock will also provide Djibouti with a climate adaptation mechanism in case agricultural production is affected by drought or floods. The MAU will work closely and exchange regularly with the FFU and advise on the management of the food stock. Storage-related activities will aim at ensuring energy efficiency in order to contribute to climate change mitigation. The terms and mechanisms to be followed for the procurement, storage and distribution of food commodities in case of crisis (including climate shocks, conflict, pandemics, etc.) will be stipulated in Framework Agreements signed between the GoD and importers/logistics companies. During project implementation, the GoD will ensure that a legal framework for the emergency food stock and its management tools (FFU, dedicated financial resources, etc.) is established.

35. In case of food shortages in domestic markets, the distribution of food products will be carried out either by the private sector through commercial channels or by the MASS to the poorest and vulnerable segment of the population. Proceeds from the sale of food will be used by the GoD to replenish the food stock. Most of the emergency stock will be sold to (and distributed by) the private sector, thus benefiting a larger proportion of the population. The private sector will rely on its own local commercial network to sell and distribute the food. Part of the food reserve will be distributed by MASS through its usual channels of social support and according to specific vulnerability assessment criteria to ensure that in times of crisis the food reaches the poorest and most vulnerable, including refugees. The criteria for triggering the use of the emergency food stock will be indicated in the Project Implementation Manual (PIM). The GoD will adopt a specific manual for the management, rotation, and distribution of the food stock and the management of the Food Shortage Preparedness Fund (see sub-component 1.3) by the FFU. Proceeds from the sale will be transferred to an account opened at a commercial bank and will be used to replenish the stock. While food will be sold by the private sector at market prices, price fluctuations and the distribution of food to the poorest and vulnerable, may not allow the GoD to restore the food stock at its initial level. The GoD will then be able to use the Food Shortage Preparedness Fund to cover the gap in order to replenish the stock (see sub-component 1.3). During project implementation, the GoD will ensure that the financing of the gap for the replenishment of the emergency food stock is integrated into the country's national budget, possibly through the resources of the National Solidarity Fund.

36. In the absence of a food shortage, the FFU will rotate the food stock by selling food to the private sector on a regular basis and well before the expiry date. The proceeds from these sales will also be deposited in a commercial bank account and used to replenish the stock. While the profits from the sales could be used to purchase additional quantities of food, the GoD can use resources from the Food Shortage Preparedness Fund (see sub-component 1.3) to cover any financial shortfalls in stock rotation. The GoD will adopt the Food Stock and Fund Management Manual (FFM) on the management, rotation, and distribution of the food stock and the management of the food shortage preparedness fund by the FFU.

¹⁰ See Appendix 5 for the selection criteria used for the choice of food products purchased under the project.



37. **The PIM will define the overall modalities for the purchase, storage, rotation, and distribution of food commodities. The FFM will establish detailed procedures for the control, rotation and destocking of food commodities.** The food stock will be procured through selected importers and Framework Agreements will be signed between MASS and the importers/logistics companies. The MAU will recommend the release of the emergency food stock on the market (following established triggers), while the PSC will approve the release. Contracts with private operators will include the standard clauses of the World Bank's Anti-Corruption Guidelines (ACG). The sale of market commodities in case of crisis (including climate shocks, conflict, pandemics, etc.) will be monitored through a traceability mechanism supervised by the MCT. The MCT team in charge of price control in the local market will conduct independent market monitoring surveys to verify the availability of products in retailers' shops to prevent food diversion and smuggling.

38. **Sub-component 1.3. Establishing a Food Shortage Preparedness Fund (FPF) (US\$5 million).** The project will establish a FPF that can be used for: (a) the purchase of basic food commodities (rice, sugar, wheat flour, pasta, milk powder or vegetable oil) in the event of a potential food supply shortage as well as associated costs of transportation, storage, rotation and distribution of these commodities; and (b) covering of financial gaps in the replenishment of the emergency food stock established under sub-component 1.2. The disbursement of the FPF to purchase food commodities as described in (a) will be subject to the GoD's confirmation in writing to the World Bank that a crisis has occurred or is imminent. The MAU will recommend the use of the FPF based on its analysis and the criteria established to purchase additional quantities of food commodities (beyond those purchased under sub-component 1.2). The PSC will approve the use of the FPF by declaring an emergency, which may also arise due to climate-related risks and disasters. The PSC will base its decisions on regular reports and recommendations received from the MAU. The procedures for purchasing food with the help of the FPF will be managed by the FFU. The FPF allows for the purchase of food commodities for an additional month. At the mid-term review of the project, a decision will be taken on partial or total reallocation (restructuring) of the Fund's resources, if necessary, based on existing food security risks and lessons learned from the first half of project implementation. The procedures for mobilizing the FPF will be described in the PIM and the role of the FFU will be detailed in the specific manual for managing the emergency food stock.¹¹

39. **The physical stock of selected basic food products (rice, pasta, and sugar) and the FPF would cover consumption needs for selected basic food commodities in Djibouti for a period of up to two months in case of food supply shortages.** The time needed to purchase, process, and transport these food commodities from the country of origin to the port of Djibouti can take up to two months under normal market conditions. This will bridge the gap between procurement and delivery and provide necessary time to adapt to a crisis in the short run while seeking appropriate long-term solutions (such as locating new suppliers or investigating substitutes for food supply).

40. **Component 2: Mitigating food security risks posed by drought (US\$5.0 million).** The objective of this component is to mitigate food security risks posed by drought. The project will finance: (a) the improvement of access to water, through the rehabilitation of water infrastructures, the purchase of equipment for the repair of water infrastructures, as well as the acquisition, operation, and maintenance of water trucks and vehicles; (b) the restoration of agricultural and pastoral livelihoods through the provision of agricultural inputs, greenhouses, assets and inputs for livestock production, as well as technical assistance and training on climate resilient practices and technologies; and (c) the design of a drought warning system, the preparation of a rapid response plan and the operationalization of the drought warning system. The project includes selected agro-pastoral activities that aim to support Djibouti's adaptation to climate change in the long term. The project activities will be implemented in the five regions of the country and in the peri-urban area

¹¹ The establishment of a trade finance facility has been discussed with the IFC. The current urgency of the project does not allow for the immediate establishment of such a facility in the short term, but the project will explore its establishment during implementation.



of Djibouti City, all of which have been affected by the recent drought. The areas of intervention will be defined based on available data, assessments made during field visits, and proposals received from Regional Committees. The practical modalities will be based on the experience of the previous World Bank-supported projects (notably PRODERMO¹² and PROLUC) and specified in the PIM.

41. Sub-component 2.1. Improving access to water (US\$1.9 million). To improve access to water for the population affected by drought and to strengthen the resilience of rural households to drought, the project will finance: (a) the rehabilitation of infrastructures for access to water (e.g. cisterns for human consumption, open-air reservoirs for livestock, and small dams to recharge aquifers, etc.); (b) the acquisition of equipment for the repair and maintenance of infrastructures for access to water; (c) the acquisition, operation, and maintenance of water trucks to fill the cisterns that have dried up due to the lack of rainfall; and the acquisition, operation, and maintenance of vehicles that will be used for planning, monitoring, and evaluation of the rehabilitation activities funded by the project. Climate resilient design standards will be applied for the rehabilitation of the above infrastructure to enhance adaptation to climate change. Based on an existing digital map showing the location of all water infrastructure in Djibouti, the precise selection of infrastructures to be rehabilitated will follow the assessments and needs expressed by the Local Steering Committees (LSCs) and the Water Management Committees (WMCs) that are already in place.

42. Sub-component 2.2. Restoring agricultural and pastoral livelihoods (US\$ 2.7 million). The objective of this sub-component is to support drought-affected farmers and livestock-holding households to restore their productive assets and initiate climate adaptation activities for sustained food security. The project will finance: (i) agricultural inputs, including seeds of drought-resistant varieties, fertilisers, and small equipment (tools, motor pumps, etc.) to support crop and fodder production; (ii) small greenhouses equipped with drip irrigation, which will contribute to an increase in agricultural production and provide means of adaptation to climate change; (iii) assets and essential inputs for livestock production, including drought-resistant breeds of small ruminants (sheep and goats)¹³, adapted feeds, veterinary products such as deworming tablets, vitamins, etc.; and (iv) technical assistance and training for farmers and livestock herders on climate resilient practices and technical itineraries. The PIM will define the modalities for the distribution of agricultural inputs and support to livestock. The selection of beneficiaries will be based on an existing list of farmers and livestock breeders, according to field assessments and the needs expressed by the Regional Committees. Priority will be given to women-headed household in the allocation of inputs¹⁴.

43. Sub-component 2.3. Supporting the establishment and operationalization of a drought warning system and the preparation of a rapid response plan (US\$0.4 million). As drought is a recurrent phenomenon in Djibouti, and the incidence is expected to increase with climate change, it is essential to strengthen the country's resilience to future episodes. The project will finance: (a) the design of a drought warning system and the preparation of a drought rapid response plan; (b) the operationalization of the drought warning system based at MAEPE-RH, including software, computers, human resources, training, and data collection. This assistance will be coordinated with the support of IGAD and FAO.

¹² Djibouti Rural Development and Water Mobilization Project, P173702

¹³ In order to promote the sustainability of the operation, the MAEPE-RH will examine the possibility of asking the beneficiaries to retrocede to neighbouring breeders the first female resulting from the crossbreeding of the animals received (F1). This will be specified in the PIM.

¹⁴ Given that 30 per cent of households in rural Djibouti are female-headed, the project will prioritise 600 female-headed households (30 per cent of 2,000 households) and ensure that these households receive at least 35 per cent of the animals distributed, or 3,500 animals. In practice, this will mean that female-headed households will receive on average one more animal than male-headed households.



44. **Component 3: Project management and preparation of a preparedness plan (US\$ 1.5 million).** The project will finance activities related to project management and implementation. The EFSCR will finance the establishment of a Project Implementation Unit (PIU) that will include a project coordinator, a monitoring and evaluation specialist, a communication specialist, a procurement specialist, a financial management specialist, an environmental and social safeguards specialist, a grievance redress mechanism specialist, and additional staff as needed. Furthermore, for the needs of Component 2, the project will finance two regionally based technicians, an environmental and social safeguards assistant and a procurement assistant to be hosted by the MAEPE-RH. The project will also support the GoD in the development of a Food Security Preparedness Plan to be completed within twelve months of project effectiveness under the terms and conditions of the CRW-ERF.

C. Project Beneficiaries

45. Direct beneficiaries will include:

- Djibouti's population, including the poorest and most vulnerable (including refugees) who are unable to afford basic food commodities.
- Farmers and livestock-holding households most affected by the recent drought, and
- Public and private sector actors supported through capacity building.

46. **Under Component 1, while the food stock will serve the entire population, the project will ensure that it also reaches the poorest and vulnerable, including refugees, who will benefit directly from a part of the emergency food stock in the case of crisis.** This component will also strengthen national capacity to manage future food crises, as relevant government agencies and private sector actors will benefit from capacity development through the project.

47. **Under Component 2, the project will reach direct beneficiaries in rural communities across the country.** The beneficiaries will include small-scale farmers and livestock herders, their families, and particularly women. It is estimated that about 8,000 households, including 6,000 herders and 2,000 farmers, residing in Obock, Tadjourah, Dikhil, Arta, and Ali-Sabieh and the outskirts of Djibouti city will benefit directly from the project. Given the average household size of 6.2 people, the total number of beneficiaries is expected to lie around 50,000 people, or around 21 percent of the total rural population estimated at 240,000 in Djibouti. Of the total number of beneficiaries, it is estimated that 21,000 (or 42 percent) will be women and that the youth (under 35) will represent more than half of the beneficiaries.

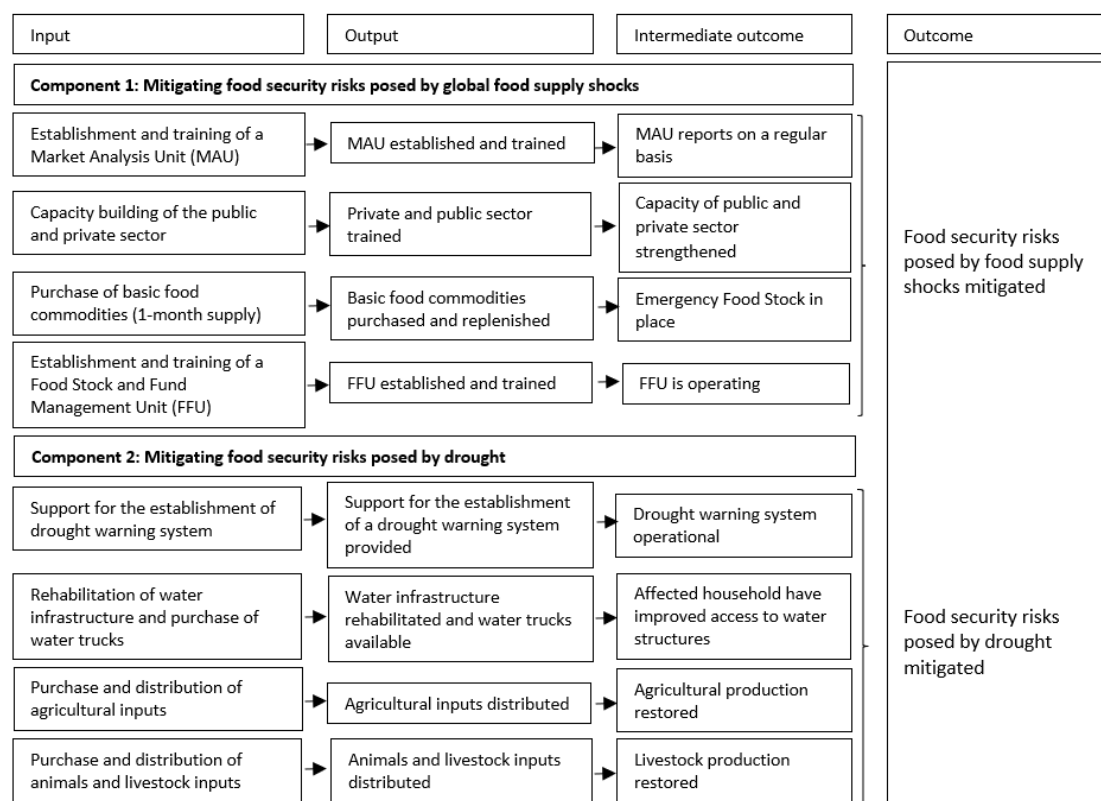
D. Results Chain

48. The results chain below (Figure 2) provides a hierarchical theory of change that illustrates the project's components and key activities, outputs and intermediate outcomes, and results that will contribute to the overall project development objective. The project will support the establishment of an emergency food stock and a Food Shortage Preparedness Fund and will therefore enable the GoD to respond to potential food supply shocks in the short term. In addition, the project aims to strengthen the capacity of the public and private sectors to anticipate potential crises and ensure better price management, thereby enhancing the Government's capacity to mitigate related risks in the medium- and long-term. Similarly, while addressing the immediate needs of drought-affected farmers and livestock herders in restoring their livelihoods, the project also aims to support the establishment of a drought warning system, thereby strengthening the country's capacity to respond appropriately to this risk in the medium and long term. The project assumes that: (a) the private sector is ready to engage with the public sector on importing and storing an emergency food reserve, as well as selling these commodities (regular stock rotation as well as distribution in case of a



food crisis); (b) public sector actors trained in pre-crisis signals and price risk management will use their knowledge to alert the PSC and other entities; (c) public sector actors trained in food stock management will use their knowledge to maintain the food reserve in the long run; (d) farmers and livestock herders will adopt the agricultural inputs, livestock and fodder distributed and climate-smart farming practices and techniques; and (e) the public and private sectors trained in price management will apply these tools.

Figure 2: Theory of change



E. Rationale for Bank Involvement and Role of Partners

49. **Preventing, preparing for and responding rapidly to crises is part of the World Bank's mandate and the role of food security in crisis prevention is explicitly recognized in its Word Bank Group Strategy for Fragility, Conflict, and Violence (FCV) 2020-2025.** The project design draws on lessons learned from the *Global Food Crisis Response Program* (GFRP) implemented during the 2008-2009 food crisis. The World Bank has also been active in the agriculture and rural development sector in Djibouti for over a decade. It is comparatively well placed to respond from this perspective and is making use of the flexibility offered by paragraph 12 of the Investment Project Financing Policy and the relevant procedures for Situations of Urgent Need of Assistance or Capacity Constraints ("Other Procedures: Proposal for Financing Certain Expenditures under the Loan - Section (3) Food Expenditures"). As a financial institution with a reconstruction and development mandate, the Bank's involvement in the response to the current food security crisis is based on its comparative advantage, driven by a strong development continuum rationale and an emphasis on sustained and long-term commitment to country systems, strengthening core state functions and building resilience and



institutional capacity (in line with paragraphs 3(a) and 8 of the Bank's Policy - Development Cooperation and Fragility, Conflict and Violence). The proposed project has been designed to use existing channels (public and private sectors) to avoid disruption and displacement of the private sector.

50. For the establishment of a drought warning system, the project will closely coordinate with other development partners, including IGAD and FAO. IGAD is currently assessing options for establishing a drought preparedness system for Djibouti and FAO has substantial experience in this area in contexts similar to Djibouti. The project, therefore, aims to work closely with these partners to build on existing knowledge and propose the best approach for Djibouti.

F. Lessons Learned and Reflected in the Project Design

51. **The project draws on the following relevant lessons from the World Bank Group's past and current responses to food and nutrition crises**, including the GFRP as well as lessons learned from the Bank's engagement in agriculture and rural development in Djibouti and other countries in the region:

- (a) Lessons learned from the *Community Rural Development and Water Mobilisation Project* (PRODERMO) underpin the design of component 2. Specifically, access to safe water for humans and animals in response to drought is a powerful entry point for attracting interest and building trust with rural communities and is also a prerequisite for seizing a wide range of other economic opportunities. Such interventions are also essential in the context of climate change in Djibouti.
- (b) *Importance of balancing speed with quality control*: the project builds on existing, well-functioning systems by financing activities through institutions with prior experience and capacity to prepare and implement the operation. This helps to mitigate some of the potential risks associated with the institutional, technical and fiduciary aspects of the proposed operation.
- (c) *Critical to ensure that the most vulnerable are targeted by emergency interventions*. While the food stock under Component 1 will serve the entire population, the project will ensure that the poorest and most vulnerable are reached first, including refugees, who will benefit directly from part of the emergency food stock. Under Component 2, the project will primarily reach small-scale farmers and livestock herders and support them by improving their access to water, livestock, and agricultural inputs and equipment.
- (d) *Focus on 'building back better' approaches to increase food production and build resilience*: the project aims to strike a balance between responding to the emergency and building resilience to future crises.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

52. **On behalf of the GoD, the MASS will be responsible for the overall coordination of project activities and will host the PIU.** The project is complementary to the Emergency Social Protection Crisis Response Project (SPECRP, P178992) which became effective at the end of September 2022 to provide support to the GoD's emergency response efforts. MASS will provide overall supervision of the project and will establish a PIU. The PIU will report to the Secretary General of MASS and will be responsible for project management, including procurement, financial management, environmental and social safeguards, communication, and monitoring and evaluation. In addition, for the purposes of Component 2, the PIU will include two regionally based technicians, an environmental and social safeguards specialist



and a procurement assistant who will be hosted by the MAEPE-RH. The Project Steering Committee (PSC) set up and led by MASS for the SPECRP will be expanded to include the key ministries of the EFSCR, in particular the MAEPE-RH, MCT, Ministry of Economy and Finance, in charge of Industry (*Ministère de l'Economie et des Finance, chargés de l'Industrie*, MEFI) and the Ministry of Budget; the Steering Committee will provide strategic guidance during the implementation of the project

53. The MASS and MCT will provide technical leadership for Component 1. A Memorandum of Understanding will be signed between MASS and MCT within six months of project effectiveness, specifying the obligations and responsibilities of each party, including the human and material resources to be made available, including the designation of a focal point and the recruitment of staff of the MAU at MCT. The FFU, established at MASS, will manage the emergency food stock and the food shortage preparedness fund and will work closely with the MAU. The focal point nominated at the MAU will exchange regularly with the FFU and advise the FFU on the management of the food stock. Framework Agreements between MASS and importers/logistics companies will be established to define the roles and responsibilities of each party, the technical and contractual requirements for the purchase, storage and release of food products, the pricing rules and payment conditions, as well as the responsibilities of local importers in case of damage or loss of food commodities. In order to be selected, local importers will have to meet pre-defined qualification criteria, in terms of compliance with the World Bank's eligibility requirements; the PIM will specify the selection criteria and procedures. For food importers, for example, these criteria will include the number of years in the business of importing food and the volume of annual food imports. Successful importers will source their food commodities through established market practices acceptable to the World Bank. The distribution of food to the poorest and most vulnerable (including refugees) will follow the criteria and distribution channels established by MASS and will be conducted in close collaboration with United Nations High Commissioner for Refugees and the National Office for the Assistance to Refugees and Disaster-Stricken People (*Office National d'Assistance aux Réfugiés et Sinistrés*, ONARS). The remaining food will be sold at market prices by the private sector through its established networks.

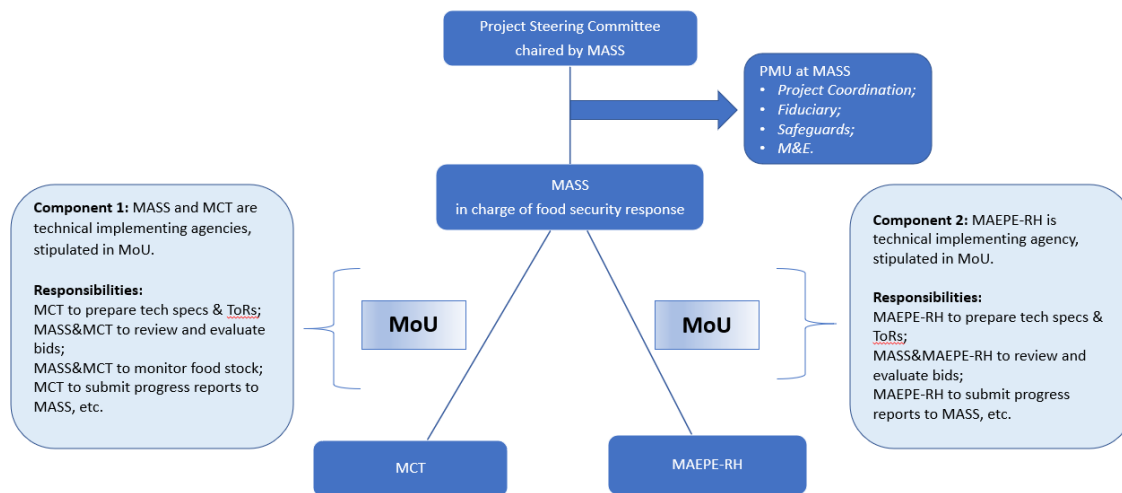
54. The MAEPE-RH will provide technical leadership for Component 2. A Memorandum of Understanding will be signed between the MASS and MAEPE-RH within six months of project effectiveness, specifying the obligations and responsibilities of each party, including the human and material resources to be made available, in particular the designation of a focal point and the recruitment of staff hosted by the MAEPE-RH. Two regionally based technicians (North and South), an environmental and social safeguards specialist and a procurement assistant will be hosted by the MAEPE-RH. See Figure 3 for an overview of the implementation modalities.

55. Project Implementation Manual (PIM). The adoption of a PIM acceptable to the World Bank is a condition of project effectiveness. All PIU and implementing agency staff working on their respective components will be trained on component implementation mechanisms, delineation of roles and responsibilities, monitoring, verification, and reporting mechanisms to ensure that the project achieves its objectives in a clear and transparent manner.

56. Specific Food Stock and Fund Management Manual. A separate manual on the management of the emergency food stock and fund will guide the procedures of the FFU. It will detail the operational mechanisms for stock management, as well as for initiating and monitoring the distribution of food to wholesalers and retailers in a crisis. The constitution of the Food Stock and Fund Management Unit and the adoption of the specific Food Stock and Fund Management Manual is a disbursement condition of the project.



Figure 3: Implementation procedures



B. Results Monitoring and Evaluation Arrangements

57. The project's monitoring and evaluation (M&E) arrangements will be managed by MASS, which will hire technical assistance from individuals and firms as needed and will work closely with MCT and MAEPE-RH on data collection. As an integral part of project implementation, the M&E system will provide timely and reliable results for project management to facilitate informed decision-making. In addition to being an important management tool, the M&E system will be a valuable source of learning and knowledge management.

58. The M&E arrangements will include regular monitoring through the project results framework and performance assessments, as deemed appropriate to determine implementation progress, verify results and challenges, and recommendations to address these challenges. The results framework includes indicators to verify progress towards the project's development objective, as well as intermediate indicators to monitor the implementation of all project components during the life cycle of the project. The results will be presented to the Bank in semi-annual progress reports as well as at the mid-term review (MTR) and in the final independent evaluation reports. The project will conduct a mid-term review and a final evaluation prior to the project closure, including a beneficiary satisfaction survey.

59. During project implementation and as part of Component 1, the PIU and the MCT (through the FFU) will jointly monitor the status of the emergency food stock on a monthly basis to ensure its integrity. Technical audits will be commissioned by the MCT to ensure that the food provided is in accordance with the quantity and quality stipulated in the contracts signed in collaboration with the National Food Analysis Laboratory. In addition, in the event of a food stock release, the MCT will monitor the availability of these products on national markets. To avoid elite capture under Component 2, potential beneficiaries of the project will be identified jointly by the PIU with the regional committees (and an appropriate arrangement for the peri-urban area of Djibouti City). These committees will be set up in each of the country's five regions; they will be chaired by the Regional Council and will include representatives of the prefecture, sub-prefecture, communities, civil society, women's associations, and the MAEPE-RH sub-directorate. An appropriate mechanism will cover the peri-urban area of Djibouti City. The MAEPE-RH will report to the PIU on the results of the implementation of component 2 through its focal point hosted at the MAEPE-RH.



C. Sustainability

60. The project will support the GoD in the procurement, storage, rotation, and distribution of basic food items and will support all related operational and technical aspects. Through these activities, the project will therefore substantially contribute to testing and establishing an emergency food stock system and building the capacity of the GoD in making this system operational and sustainable. As the GoD will ensure that the emergency food stock is maintained and replenished with public funds in the future¹⁵ and that the project will provide technical assistance to anchor the operation in the government's wider budget and financial management system, the project is expected to have a sustainable long-term impact. In addition, Component 1 will support the establishment of a MAU to anticipate and report on potential food supply shocks and provide training to the public and private sectors on price risk management that will benefit the country in the long term. Component 1 will also support the establishment of the FFU for stock management, and for initiating and monitoring food distribution in the event of a crisis. During project implementation, the GoD will ensure that the emergency food stock and its management and replenishment tools are based on a sustainable legal framework. Capacity building and technical assistance activities will be based on international best practice, adapted to the Djibouti context.

61. In addition, the project aims to restore rural livelihoods and food production in the short to medium term through a comprehensive set of activities aimed at restoring access to water and distributing inputs for agriculture and livestock, including the provision of small ruminants. Through these activities, the project will make a substantial contribution to ensuring the continuation of agro-pastoral activities in rural areas. The project will place particular emphasis on activities that strengthen the capacity of beneficiaries to adapt to climate change, including training in climate resilience practices and techniques and the distribution of climate-resilient animal breeds and seed varieties. The PIM will ensure that sustainability criteria govern the choice of investments and implementation procedures. In addition, the project will support the establishment of a drought warning system, strengthening the country's capacity to anticipate similar crises in the future and take the necessary preventive measures.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

Technical Analysis

62. **To address food security risks related to supply shocks, the project aims to establish an emergency food stock, following a simple and targeted approach.** The procurement, storage and distribution of basic food commodities will be carried out by the private sector and will therefore build on existing systems. To this end, the World Bank team assessed the capacity of Djibouti's private sector to import, store and distribute strategic food commodities purchased under the project. Meetings were held with the MASS, Chamber of Commerce and Port Authority/Free Zone Management, major importers, supermarkets (owned by two major business holdings), and logistics companies, including visits to business premises and warehouses in Djibouti city and the free zone. As per the findings of the assessment, the private sector importers have adequate capacity to import, store, and distribute strategic food commodities. Their import volume ranges from 5 to 50 containers per month, depending on the commodity, with an average turnover of US\$5-30 million in food commodity trading in the Djiboutian market. The importers generally

¹⁵ The Food Shortage Preparedness Fund will be able to contribute to this, as a first step.



benefit from economies of scale when procuring for the regional market, resulting in lower costs. The major importers conduct sizable trade with Ethiopia and use the free zone areas in Djibouti for storage and transit.

63. **While the storage facilities in Djibouti city vary, well-maintained storage facilities exist and can be used for the storage of food commodities purchased under the project.** Most importers have warehouses (rented or owned) inside Djibouti for storing products aimed for the Djiboutian market, as well as lease space or warehouses in the free zones for storing bigger quantities or merchandise destined for Ethiopia. The warehouses outside the free zones, located inside the city of Djibouti, are mostly of poor quality, with the need for rehabilitation. Commodities are piled on pallets, with minimum attention to pest control, safety, and environmental conditions. In contrast, warehouses (leased by importers and logistics companies) in the different free zones are well maintained, and in some instances in norm and compliance with ESF requirements. Logistics companies can even provide vertical storage in chilled or controlled temperature warehouses, which could increase the storage period of the different food commodities. For quantities less than 5,000 tons, all logistic companies have available space for subleasing.

64. **In response to drought-related food security risks, the project aims to restore livelihoods by adopting well-tested approaches focusing on climate-smart practices and techniques.** The project activities are beneficiary-driven and build on the MAEPE-RH's extensive knowledge of responding to similar crises as well as previous World Bank projects in the sector. Beyond the immediate support to farming and livestock-holding households, the project aims to prepare the ground for the establishment of a drought warning system by providing the necessary technical assistance and capacity building.

Economic and Financial Analysis

65. **Quantifiable benefits.** The expected quantifiable benefits of the project include: (a) access to an emergency food stock to avoid commodity shortages and mitigate price increases in the event of market shocks (component 1), (b) improved access to drinking and irrigation water (sub-component 2.1) and (c) improved livelihoods of drought-affected farmers and livestock herders (sub-component 2.2).

66. **The benefits of establishing an emergency food stock are expected to be substantial in relation to the costs incurred.** Short-term benefits will be achieved by preventing a shock in the availability of basic food commodities, which would have high social and economic costs, including demonstrations or reduced economic activity. By supporting an uninterrupted supply, the project will particularly help to avoid the potential negative consequences of shortages for the poorest and most vulnerable segment of the population. In addition, the full or partial release of food stocks could contribute to a reduction in price increases and prevent speculative behaviour by the private sector. Medium-term benefits will result from the establishment of a food stock system, involving the procurement, storage, rotation, and distribution of basic food commodities, and related capacity building that will enable Djibouti to anticipate and respond adequately to future supply shocks. Although these benefits are difficult to quantify, they can be considered substantial. The costs of managing an emergency food stock include the cost of food products, as well as the costs of transport, storage, management, and distribution. The costs of the emergency food stock can therefore be considered minimal compared to the benefits obtained.

67. **Overall estimated return of the proposed project.** Taking into account the above benefit and cost streams, the economic rate of return (ERR) for the baseline scenario is estimated at 10.8 percent. The economic net present value (ENPV) of the project's net benefit stream, discounted at 6 percent, amounts to US\$2.7 million (the detailed EFA is provided in Annex 4).



68. **Greenhouse gas (GHG) emissions analysis.** The FAO Ex-Act tool was used for the ex-ante assessment of the project's impact on GHG emissions. The results of the GHG analysis indicate that the total net carbon balance is expected to lie at 1,870 total carbon dioxide equivalent (tCO₂-eq) of mitigated emissions per year at full development or 37,395 tCO₂-eq over the entire project lifetime. The ERR and ENPV were calculated using the estimated shadow price of carbon that changes from year to year according to the World Bank's Shadow Price of Carbon Guidance Note. The results of the scenarios with a low carbon price (starting at US\$43 and changing over time), a high carbon price (starting at US\$86 and changing over time), and no carbon are presented in Table 2.

Table 2: GHG analysis

Indicator	Without carbon benefits scenario (Base case)	Low carbon price scenario	High carbon price scenario
ENPV (US\$ million)	2.7	3.8	4.8
ERR	10.8%	12.6%	14.3%

B. Fiduciary

Financial management

Overview of the Institutional Arrangements

69. The MASS will be the fiduciary executing agency and the MCT and MAEPE-RH are technical implementing entities. MASS is experienced in implementing World Bank-funded projects, but its capacity will need to be strengthened through the PIU and technical assistance.

70. The MASS will be responsible for the overall coordination and supervision of project activities, including fiduciary management, monitoring and evaluation, environmental and social risk management, knowledge sharing and reporting, including periodic financial reporting.

71. The financial management (FM) system of the MASS was assessed. The main objective was to determine whether the financial management arrangements: (a) are capable of correctly and completely recording all project transactions and balances; (b) facilitate the preparation of regular, accurate, reliable, and timely financial statements; (c) safeguard project assets; (d) monitor and safeguard the food commodities stored in the warehouses; and (e) are subject to audit arrangements acceptable to the Bank. The evaluation followed the World Bank's investment financing policy and guidelines, as well as the principles of financial management assessment and risk rating.

72. The proposed arrangements for monitoring and accountability of the project are considered acceptable and the financial management risk is Substantial after the implementation of the risk-mitigating measures. The critical risk is the risk of damages or loss of food commodities, and the financing gap in food stock replenishment. The financial management arrangements designed to mitigate the FM risk consist of: (a) the appointment of one financial management and one accountant in the PIU; (b) the preparation of financial management procedures, part of the Project Implementation Manual; (c) the design of food stock management procedures; (d) the preparation of interim financial reports in a format agreed with the World Bank, and deployment of an automated accounting system; (e) the recruitment of a qualified and experienced external auditor with terms of references acceptable to the World Bank,



including the physical review of food stock and the assessment of internal control system to manage the stock; and (f) citizen engagement (citizen survey on food availability and distribution). In addition, the Framework Agreement signed between MASS and importers/logistics companies shall detail the obligations of these operators in case of damages or loss of the food stock and binding compensation measures. The selection criteria of storage services providers shall include the existence of a strong internal control system to store, monitor, safeguard and report timely on the status of the stock. Finally, the Government should increase the budgetary reserve which could serve to cover the potential financing gap for the food stock replenishment during the project implementation and consider expanding the National Solidarity Fund mandate to manage the budgetary reserve in case of a food crisis. The details of the financial management assessment are provided in Annex 2.

Procurement

73. Procurement under the project will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services, dated November 2020 ('Procurement Regulations'). The project will be subject to the World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants', October 15, 2006, revised in January 2011, and as of July 1, 2016. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) to plan, record, and track procurement transactions.

74. The simplified procurement procedures for 'Situations in Urgent Need of Assistance or Capacity Constraints' described under paragraph 12 of Section III of the IPF Policy will be applicable to fast-track project procurement. Those will include: (a) direct selection, as appropriate; (b) increased thresholds for requests for quotations; and (c) selection of consulting firms using Consultant's Qualification-based Selection.

75. The MASS will be the project implementing agency with full fiduciary responsibility under the project while MCT and MAEPE-RH will provide technical leadership for Components 1 and 2 respectively. For the import of rice, pasta and sugar under sub-component 1.2, and for the purchase of basic commodities under sub-component 1.3, the MASS will enter into direct Framework Agreements with selected local importers/logistics companies who comply with the World Bank eligibility requirements and meet the predefined qualification criteria, in terms of the number of years in the food import business, volume of annual food imports and unqualified audit reports. The selected importers will procure food, using established market practices acceptable to the World Bank, in accordance with paragraph 6.46 of the Procurement Regulations. The guiding principles, procurement procedures, and contract conditions and form, acceptable to the World Bank shall be outlined in the PIM and in the Framework Agreements to be signed between the MASS and the importers/logistics companies including the template of the contract between the importers and suppliers. These principles shall, inter alia, include:

- a. Procurement procedures and contract conditions and form shall be consistent with market practices, acceptable to the World Bank;
- b. Ensuring that importers and suppliers comply with the World Bank eligibility requirements in accordance with paragraphs 3.21-3.24 of the Procurement Regulations and are qualified. In case of agents, the agent's commission will also need to be disclosed. The food items shall also be from eligible countries of origin;
- c. Avoiding situations of conflict of interest, in accordance with paragraphs 3.14-3.17 of the Procurement Regulations, in the award of contracts;
- d. Ensuring compliance by the importer, supplier, and agents with the World Bank Anti-Corruption Guidelines in the procurement process and during contract execution;



- e. Oversight by the MASS of the procurement process to be carried out by the importers, through prior review and clearance of the draft contracts with selected food suppliers. The MASS shall ensure: (i) compliance with the accepted procurement practices and contract conditions, (ii) adherence to MASS-MCT technical specifications and (iii) price reasonableness in comparison with prevailing market prices. The MASS shall obtain World Bank no objection to the contract with the local importers;
- f. The importer shall not sign contracts with suppliers until the clearance to proceed with the signature of the contract has been obtained in writing from the MASS;
- g. Payments for food purchased/shipped shall be made by MASS in US Dollars directly to suppliers in accordance with the terms stipulated in the signed contract. Payment for food import fees and storage shall be made by the MASS in US Dollars directly to importers;
- h. Maintaining all relevant records and allowing for inspections and audits by the MASS, through the external auditor, and by the World Bank, when requested.

76. As a result of the war in Ukraine, food prices rose on international markets. To ensure security of supply in the context of volatile markets, food imports will involve multiple purchases by selected importers. Importers will prepare and share with MASS a schedule of planned purchases of the selected commodities. Each importer will request quotations for every scheduled purchase, from eligible and qualified international food suppliers who have a track record of supplying rice, pasta, and sugar at quality and on time. The quotation which offers the best combination of quality, price, delivery schedule, and storage cost, if applicable, shall be selected and a draft contract with the selected supplier shall be prepared using conditions of contract, acceptable to the World Bank.

77. *Capacity of the private sector for the import and storage of strategic food commodities.* As part of appraisal, a food supply system assessment was conducted by the Bank to understand (a) the capacity of the private sector stakeholders in Djibouti to import, store and distribute strategic food commodities and (b) their interest in the participation in the implementation of the project with the GoD. The assessment concluded that the major importers of the targeted food commodities have longstanding business and relationship with international suppliers, sufficient technical capacity and financial capacity within the scope of volume envisioned in the project. These importers have warehouses (on rent or owned) inside Djibouti for storing products for the Djibouti market, but also lease space or warehouses in the free zones of Djibouti (e.g.: destined to Ethiopia). Given the long-standing relationship with suppliers, contract models are simple purchase orders without many details. For this project, a contract shall include relevant contract specifications and data, including description of the commodity, quality and additional specifications, quantity and applicable delivery terms, period of delivery, price, payment terms and any relevant additional documents. With regards to the willingness of importers to participate in purchasing and storing of food commodities for the GoD, importers indicated readiness to contribute based on contract provisions to be negotiated and included in the Framework Agreement between MASS and importers.

78. A procurement risk and capacity assessment of the project implementing agency (MASS) has also been carried out by the Bank. While the PIU at the MASS has experience in implementing projects following the World Bank Procurement Regulations, the MASS has no experience in the procurement of food commodities on international markets to be purchased under Component 1 and agricultural items to be purchased under Component 2. Historically, the procurement of food commodities has been carried out by private sector importers, in accordance with established market practices and they have managed to secure a continuous supply of food at market prices, through international qualified suppliers. Potential risks include the re-export of food to neighbouring countries, hoarding of food to resell at higher prices, and leakages downstream after the food is imported. Furthermore, there are risks of delays in procurement processing due to low threshold of oversight (DJF5 million equivalent to US\$0.028 million) by the national procurement



commission and contract award requiring multiple signatures. The Procurement risk is rated High. To ensure funds are used for the intended purposes and to mitigate procurement and integrity risks, the following measures will be put in place:

- a. The detailed procurement procedures, and contract conditions and form, acceptable to the World Bank shall be outlined in the PIM and in the Framework Agreements to be signed between the MASS and the importers as well as the form of contract between the importers and suppliers;
- b. The World Bank will review and clear the Framework Agreements between the MASS and selected importers prior to signature;
- c. The food purchase contracts between importers and suppliers shall be subject to the World Bank's prior review. The MASS will be responsible for reviewing and approving the award recommendations/draft contracts and submitting these for the World Bank's review through STEP;
- d. Given the volatile market conditions, and the short quotation validity period, the clearance of the draft contracts by the MASS and the World Bank shall be completed expeditiously as per timelines to be specified in PIM;
- e. Payments for food commodities purchased/shipped shall be made by the MASS directly to suppliers in accordance with the terms stipulated in the signed contract;
- f. The MASS will strengthen its procurement capacity through recruitment of additional staff;
- g. The World Bank team will provide close implementation support to the designated MASS staff during the initial stages of implementation;
- h. Technical audits will be commissioned by the MCT to ensure that the food supplied complies with the quantity and quality stipulated in the signed contracts and to monitor the distribution of wheat flour downstream;
- i. The MASS shall agree on the arrangements with the National Procurement Commission to give priority to procurement of food commodities to complete the entire procurement process including the Commission's approval within the short bid validity period.

79. Procurement contracts under Component 2 will include small rehabilitation works (underground cisterns, open-air reservoirs, and small dams to recharge aquifers), various goods (water trucks, agricultural inputs/seeds, small livestock, veterinary products etc.), and consultants for technical assistance. All these contracts are of low value (less than \$0.5 million per contract) and not complex.

80. Procurement Strategy for Development Project (PPSD). The MASS will develop a simplified Procurement Strategy for Development (PPSD). Given the urgent need for assistance, the PPCSD and the Procurement Plan will be finalized in the early stages of project implementation. While Framework Agreements and food procurement contracts will be subject to prior review, remaining procurements under the project are expected to be relatively small in value and will mostly be subject to post review.



C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

81. The project triggers OP 7.50 (Projects on International Waterways) as project activities will use the water of the Awash River/Lake Abbe system, Weima River and Afar aquifer which are considered international waterways in accordance with the Policy. The project activities will be implemented throughout the country with an emphasis on the agriculture/rural areas affected by drought. Given the small-scale of investments and focus on rehabilitation of existing schemes, the project's activities will not adversely change the quantity or quality of water flows to other riparians and will not be adversely affected by the other riparians' possible water use. Accordingly, the exception to the notification requirement under paragraph 7 (a) was approved by the Regional Vice President on September 8, 2022.

D. Environmental and Social

82. While the project is expected to have positive effects, such as improved food security and rural livelihoods through increased agricultural and livestock production, its activities carry substantial environmental and social (E&S) risks.

83. Under Component 1, environmental and social risks could include the loss of biodiversity due to trade and generic risks associated with food transportation and storage/retrieval operations (i.e. risks related to poor working conditions, occupational health and safety, waste generation). Poor storage and occupational health and safety practices can increase the risk of combustible dust explosions and inhalation of dust particles that are harmful to the health of storage workers. As food handling operations are expected to be minor and to be carried out exclusively by domestic contractors, the project is not expected to result in a significant influx of labour. Other risks/impacts include those related to forced labour in the supply chain among importers/logistics companies.

84. Under Component 2, a variety of environmental and social risks and impacts could arise from the proposed activities. These include E&S risks and impacts during civil works on rural water infrastructures (e.g.: air, noise, water and waste pollution) and the possibility of introducing animal diseases due to the import of livestock. In addition, elite capture or exclusion of disadvantaged and vulnerable groups and individuals due to the benefits of agricultural and livestock inputs could arise. Other risks/impacts are those associated with land and water management, use and generation of waste from agrochemicals, as well as manure and veterinary product management. The rehabilitation of small water reservoirs is expected to have limited negative effects on livelihoods and economic activity in the surrounding areas, as settlements near the reservoirs are restricted by the GoD.

85. Any civil works that lead to land acquisition, restriction of land use or access and involuntary resettlement will be excluded from financing and as such Environmental and Social Standard 5 (ESS5) is not deemed relevant. The risks of sexual exploitation and abuse and sexual harassment (SEA/HS) have been reviewed and assessed as moderate. The risk associated with exposure to and spread of COVID-19 was identified as a cross-cutting risk for all project activities.

86. To manage the above environmental and social risks of Components 1 and 2, the MASS and MAEPE-RH will rely on the existing Environmental and Social Management Framework (ESMF), which was developed under the ongoing



Emergency Locust Response Project (P173702) and communicated on December 17, 2020, in accordance with Djibouti's existing laws and relevant World Bank Environmental and Social Framework (ESF) requirements. The existing ESMF already includes provisions and requirements for the completion of site-specific environmental and social management plans (ESMPs) for each sub-project. The ESMPs will need to be developed and communicated prior to the commencement of all civil works (i.e.: water infrastructure). The existing ESMF already includes SEA/HS procedures and random measures of occupational health and safety plans for civil works.

87. The updated ESMF will include measures to control health risks related to the import of livestock to be implemented by the veterinary services of the MAEPE-RH. A negative list of activities not eligible for project financing will include activities that result in impacts on land use/acquisition, involuntary resettlement, risks and impacts on biodiversity and cultural heritage. The updated ESMF will refer to applicable good international industry practices, including the World Bank Group's general environment, health and safety (EHS) guidelines and the World Bank Group's EHS guidelines for agricultural production. The updated ESMF will include eligibility criteria for COVID-19 prevention measures in accordance with the World Health Organization and Djibouti guidelines, an updated Waste Management Plan, and occupational health and safety measures for loading/unloading activities of food commodities. The updated ESMF will also include recommendations from E&S reviews of existing storage facilities that will be used for the storage of rice, pasta and sugar, to identify gaps between existing environmental and occupational health and safety management plans and actions implemented in accordance with existing national laws and the requirements of the ESF and World Bank Group EHS guidelines. Terms of Reference will be prepared by the Recipient and approved by the Bank prior to the completion of these reviews, which should include time-bound actions to address deficiencies, if necessary. The updated ESMF will include guidance on environmental, social, health and safety specifications for procurement and contracts with major suppliers of food commodities.

88. In addition, the MASS and MAEPE-RH will update the Labour Management Procedures (LMP) developed under the Emergency Locust Response Project (P173702), in line with relevant Djibouti laws and the World Bank's ESS2. Labour requirements for contractors and primary suppliers will also be included in the tender documents and their contracts. In addition to the ESMF and Waste Management Plans to be prepared, MASS and the MAEPE-RH have developed a preliminary Stakeholder Engagement Plan (preliminary SEP) that includes provisions specifically for vulnerable and disadvantaged communities to ensure their access to project information and their meaningful and effective participation in the project.

89. The project will support an in-depth assessment of public systems as part of its technical assistance activity to deepen knowledge and make actionable recommendations to address the food security challenge in Djibouti. The areas of analysis and study will be further developed and selected during project implementation. Technical assistance activities include strengthening the capacity of national and regional public systems to respond to various shocks and stressors, thus enabling them to contribute to a more resilient food system. All recommendations resulting from the technical assistance activities will be reviewed and assessed for their direct and indirect environmental and social impacts, and necessary interventions will be designed in accordance with the ESF.

90. As the project was prepared under emergency procedures, it was agreed to defer the publication of the ESMF and the LMP until two months after project effectiveness and before the start of the relevant activities. The preliminary SEP and Environmental and Social Commitment Plan (ESCP) were approved and communicated prior to the assessment and will be updated following consultations with local communities. The preliminary SEP is based on a first round of consultations that took place from June to August 2022, which were limited to relevant government departments and entities. During this first round of meetings, the priority areas of the project were discussed without, however,



consulting the local governments or communities, who will also be affected by or benefit from the project. This preliminary SEP will be updated based on consultations with affected and vulnerable parties two months after project effectiveness and prior to the commencement of relevant project activities.

V. GRIEVANCE REDRESS SERVICES

91. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank'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 Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

VI. KEY RISKS

Table 3: Systematic Operations Risk-Rating Tool (SORT)

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

92. The overall project risk is rated Substantial. Three of the eight categories of risk are rated Substantial: Macroeconomic, Institutional Capacity for Implementation and Sustainability, and Environmental and Social Safeguards. The Fiduciary Risks are rated high. The key risks and mitigation measures are described below:

93. **Macroeconomic risks are rated Substantial.** The combined effects of the war in Ukraine, the COVID-19 pandemic, the impact of the conflict in Ethiopia, as well as the current drought, are expected to add to fiscal and external account pressures and could lead to a deterioration of the country's economic situation in the near future. The project aims to



mitigate some of these risks by building an emergency food stock and providing a Food Shortage Preparedness Fund that will ensure the availability of selected food commodities and allow time to adapt to the crisis while seeking alternative suppliers or substitutes in the medium term. In the event of more significant disruptions to food supply, the Food Shortage Preparedness Fund may not be sufficient to address the crisis. This risk will be mitigated by engaging the private sector and securing the Government's commitment to increase funding through the resources of the National Solidarity Fund.

94. **The risks related to institutional capacity for implementation and sustainability are considered Substantial.** While the MASS is the lead executing agency with overall fiduciary responsibility for the proposed project, MASS/MCT and MAEPE-RH are the technical implementation partner agencies for Components 1 and 2 respectively. The MASS and MAEPE-RH are considered to have satisfactory capacity and experience in implementing projects funded by the World Bank and other donors. However, for the MASS, the proposed project involves an increased workload, new activities outside their area of expertise, and requires substantial capacity building. The MCT has no prior experience in implementing World Bank projects. As a result, weak implementation capacity and limited staff may cause delays in project implementation. In addition, the lack of adequate communication and coordination between the relevant ministries (MASS, MCT, and MAEPE-RH) could also jeopardize project implementation and cause delays. Finally, there is a potential risk of low interest from importers to participate in the project as this will be the first time the private sector cooperates with the GoD on the establishment of an emergency food stock. Mitigation measures include the following: (a) a simplified design of Component 1 has been adopted and technical assistance and capacity building for MASS and MCT will be provided, including the creation of the MAU and the FFU; (b) the project will ensure that the MASS, MCT and MAEPE-RH have the resources to train existing and hire additional staff to ensure adequate support for project implementation; (c) Memoranda of Understanding will be signed between the MASS and MCT and between the MASS and MAEPE-RH to clarify the roles and responsibilities of each ministry and to establish regular channels of communication and reporting; and (d) Framework Agreements will be signed between the MASS and selected importers that will include relevant contract specifications and data, including a description of the commodity, quality and additional specifications, quantity and applicable delivery terms, period of delivery, price, payment terms and any other required documents. The Bank will provide enhanced implementation support to the PIU during project implementation.

95. **Fiduciary risks are rated high as the result of a High procurement risk and Substantial financial management risk.** The procurement risk is rated high, primarily due to the high volatility of food commodity markets, supply shortages, very short validity period of bids due to the nature of the global food market, as well as integrity risks associated with the urgent nature of procurement in an uncertain international market with no prior experience of MASS in food imports. In addition, this is the first time the GoD will enter into Framework Agreements with the private sector for the purchase, storage, and marketing of food products. Related mitigation measures are presented in the fiduciary section. Another potential risk may relate to the proper management of the physical food stock (storage and distribution). This risk will be mitigated by (a) stipulating selection criteria for the warehouse operators, including demonstrated strong internal control procedures to manage and report on the status of food stock; (b) stipulating clearly defined obligations for compensation in case of damages or loss of the food stock in the Framework Agreement signed with the importers/logistics companies; (c) citizen surveys on food availability and distribution; and (d) periodic visits of the FFU and PIU, as well as the MCT to check the condition and quantity of the food stock, as well as proper distribution to local markets at market prices in case of a crisis.

96. **Environmental and social risks are considered Substantial.** While the project is expected to have positive effects, including improved food security and rural livelihoods through increased agricultural productivity, there are significant



environmental and social risks associated with its activities. Under Component 1, environmental and social risks could include loss of biodiversity due to trade and generic risks associated with food transport and storage/disposal operations (i.e., risks related to poor working conditions, occupational health and safety). Under Component 2 E&S risks could stem from the rehabilitation of rural water infrastructure (e.g., air, noise, water and waste pollution), the introduction and spread of animal diseases from livestock imports, and the generation of waste from agricultural and livestock activities, including crops, veterinary and agrochemical products. To manage the aforementioned E&S risks, the MASS and MAEPE-RH will build on the existing Environmental and Social Management Framework (ESMF), which was developed as part of the ongoing Emergency Locust Response Project (P173702) and released on December 17, 2020. The existing ESCP already includes provisions and requirements for the completion of site-specific Environmental and Social Management Plans (ESMPs) for each subproject, which will be required for the rehabilitation of rural water infrastructure. The ESMF will be updated to cover other risks that are not covered under the Emergency Locust Response Project, such as health risk related to livestock imports.

97. **The overall risk of the project is considered Substantial.** The risks identified are manageable and mitigation measures have been identified. Resources will be set aside to provide technical assistance and capacity building as needed.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Djibouti

Djibouti Emergency Food Security Crisis Response Project

Project Development Objectives(s)

The project development objective is to contribute to mitigating food security risks posed by food supply shocks and drought.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
Mitigating food security risks posed by food supply shocks					
Market Analysis Unit established and reporting on monthly basis (Number)		0.00	2.00	12.00	12.00
Emergency food stock procured and replenished (Metric ton)		0.00	3,700.00	3,700.00	3,700.00
Mitigating food security risks posed by drought					
Affected households supported with improved water infrastructures to restore livelihoods (Number)		0.00	1,000.00	2,500.00	3,000.00
Affected households supported with animals, and/or agricultural inputs and/or livestock inputs to restore livelihoods (Number)		0.00	2,000.00	8,000.00	8,000.00



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
Mitigating food security risks posed by food supply shocks					
MCT staff trained to collect and process data to anticipate food supply shortage (Number)		0.00	15.00	15.00	15.00
MASS staff trained in the management of the emergency food stock (Number)		0.00	15.00	15.00	15.00
Public and private sector actors trained on price risk management (Number)		0.00	0.00	40.00	40.00
Poor and vulnerable people benefiting from food distribution in case of eligible crisis (Number)		0.00	20,000.00	20,000.00	20,000.00
of which female (Percentage)		0.00	60.00	60.00	60.00
Mitigating food security risks posed by drought					
Water infrastructures rehabilitated (Number)		0.00	35.00	51.00	76.00
Affected households trained in the use climate resilient practices and technologies (Number)		0.00	200.00	400.00	1,000.00
Affected households provided with climate-resilient seeds (Number)		0.00	1,000.00	2,000.00	2,000.00
Percentage of women in regional committees (Percentage)		10.00	30.00	30.00	30.00
Number of small ruminants received by women led households (Number)		0.00	3,000.00	6,000.00	6,000.00
Project management					
Feedback (complaints, queries, suggestions) addressed and responded to within stipulated timeframes publicly		0.00	100.00	100.00	100.00



Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
communicated by the project (Percentage)					
Directly targeted beneficiaries expressing satisfaction with project activities (Percentage)		0.00	75.00	75.00	75.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Market Analysis Unit established and reporting on monthly basis	Market Analysis Unit is established at the Ministry of Commerce and Tourism and prepares reports on a monthly basis. This unit includes experts from various fields and is in charge of collecting national and international prices, analyzing pre-crisis signals and preparing regular reports that are shared with the Steering Committee. Since the training will take place in the 1st year of project implementation, it is	Monthly	Project M&E system	Project progress reports, Monthly reports of MAU	MASS, MCT, MAU



	expected that the Market Analysis Unit will be fully functioning in the remaining 2 years. Hence, it is envisaged that the Unit will prepare 12 reports per month.				
Emergency food stock procured and replenished	Emergency food stock of approximately one month supply for rice and pasta, and one week supply for sugar is in place to immediately respond to a food security crisis. In case of a possible food supply shortages, it is expected that the main part of this emergency food stock is sold to and consequently distributed by the private sector on the local market at market prices, while the remaining part is distributed by the MASS to the poorest and most vulnerable.	Bi-monthly	Project M&E system	Project progress reports, Reports of FFU	MASS, MCT, FFU
Affected households supported with improved water infrastructures to restore livelihoods	Number of households affected by drought that benefit from rehabilitated water infrastructures (for example cisterns, open air reservoirs, small dams, boreholes etc.).	Semi-annual	Project M&E system	Project progress reports, Mission reports, Minutes of meetings held by regional/local steering committees	MASS, MAEPE-RH



Affected households supported with animals, and/or agricultural inputs and/or livestock inputs to restore livelihoods	Number of households affected by drought that receive animals and/or, agricultural and/or livestock inputs distributed by the project (animals, fodder, veterinary products, fertilizer, seeds, greenhouses, small tools, etc.)	Semi-annual	Project M&E system	Project progress reports, Mission reports, Minutes of meetings held by regional/local steering committees	MASS, MAEPE-RH
---	---	-------------	--------------------	---	----------------

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
MCT staff trained to collect and process data to anticipate food supply shortage	Number of MCT staff trained to collect and process data to anticipate food supply shortage to constitute the Market Analysis Unit (MAU).	Semi-annual	Project M&E system	Project progress reports	MASS, MCT
MASS staff trained in the management of the emergency food stock	Number of MASS staff trained in the management of the emergency food stock (including the purchase and sale of selected food commodities as well as the initiation and monitoring of food distribution in the event of a crisis) to constitute the Food Stock	Semi-annual	Project M&E system	Project progress reports	MASS



	and Fund Management Unit (FFU).				
Public and private sector actors trained on price risk management	Number of private and public sector actors trained on price risk management.	Semi-annual	Project M&E system	Project progress reports	MASS, MCT
Poor and vulnerable people benefiting from food distribution in case of eligible crisis	This indicator will only be considered in case of a food crisis, which has been declared eligible for project support. The indicator reflects the number of beneficiaries, including the poorest, most vulnerable and refugees that directly benefit from food distribution in case of crisis through the project.	Semi-annual	Project M&E system	Project progress reports	MASS, MCT, MAEPE-RH
of which female	of which female				
Water infrastructures rehabilitated	Number of water infrastructures rehabilitated, including cisterns, open-air reservoirs, small dams and boreholes, among others.	Semi-annual	Project M&E system	Project progress reports, Mission reports	MASS, MAEPE-RH
Affected households trained in the use climate resilient practices and technologies	Number of households directly affected by drought trained in the use of climate resilient practices and technologies under the project.	Semi-annual	Project M&E system	Project progress reports, Training reports	MASS, MAEPE-RH



Affected households provided with climate-resilient seeds	Number of households directly affected by the drought provided with climate-resilient seeds under the project.	Semi-annual	Project M&E system	Project progress reports, Minutes of distribution, Mission reports	MASS, MAEPE-RH
Percentage of women in regional committees	Percentage of women in regional committees, which decide on the distribution of agricultural inputs and livestock under the project.	Semi-annual	Project M&E system	Project progress reports, Mission reports, Minutes of meetings held by regional steering committees	MASS, MAEPE-RH
Number of small ruminants received by women led households	Number of small ruminants received by women led households, compared to the total number of ruminants distributed. Women led households are defined as households that are led by women either single, abandoned, divorced, widowed, or taking care of their disabled husband.	Semi-annual	Project M&E system	Project progress reports, Mission reports, Minutes of meetings held by regional steering committees	MASS, MAEPE-RH
Feedback (complaints, queries, suggestions) addressed and responded to within stipulated timeframes publicly communicated by the project	Feedback (complaints, queries, suggestions) addressed and responded to within stipulated timeframes publicly communicated by the project, in accordance with the grievance mechanism	Semi-annual	Project M&E system	Project progress reports, reports on GRM	MASS, MCT, MAEPE-RH



	approved by the World Bank for the project.				
Directly targeted beneficiaries expressing satisfaction with project activities	Percentage of beneficiaries directly targeted by project activities expressing satisfaction with project activities (training activities of component 1 and 2, beneficiaries of component 2, and in case in food supply shortage, the poorest and most vulnerable households).	Yearly	Project M&E system	Project progress reports, Independent surveys of project beneficiaries	MASS, MCT, MAEPE-RH



ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Djibouti Emergency Food Security Crisis Response Project

Implementation Arrangements

1. The project is an integral part of the World Bank's concerted support to the GoD's emergency food crisis response efforts, which is coordinated by MASS. In response to the various factors potentially contributing to a worsening of Djibouti's food security situation, the World Bank approved in June 2022 the Social Protection Emergency Crisis Response Project (SPECRP, P178992), which aims to provide safety net transfers to targeted households affected by the multiple crises facing Djibouti and to strengthen adaptive social protection mechanisms to respond to future crises. The Emergency Food Security Crisis Response Project (EFSCR, P178988) aims to complement the activities of the SPECRP. The EFSCR will be implemented by MASS as the lead implementing agency, in close coordination with MCT and MAEPE-RH as technical implementing partner agencies.
2. **Steering Committee (PSC).** The governmental steering committee put in place under the SPECRP led by MASS will be extended to include the key ministries involved under this project (in particular MCT, MAEPE-RH, MEFI, and the Ministry of Budget) as well as the Chamber of Commerce. The PSC will provide strategic guidance to the PIU and implementing agencies during the implementation of the project. This steering committee will meet every three months and upon request of the MAU or the FFU.
3. **Project Implementation Unit (PIU).** The PIU will report to the General Secretary of the MASS and will be responsible for the coordination of overall project implementation, procurement, financial management, environmental and social safeguards, monitoring and evaluation and communication. The recruited staff will include: a project coordinator, a monitoring and evaluation specialist, a communication specialist, a procurement specialist, a financial management specialist, an environmental and social safeguards specialist, a grievance redress mechanism specialist, and additional staff as needed. Additional PIU human resources will be hosted by the MAEPE-RH, including two field-based technicians, a procurement assistant, and an environmental and social safeguards specialist. The establishment of the PIU is an effectiveness condition. The focal points of each technical implementing institution will be represented and consulted by the PIU with regard to their respective activities.
4. **Inter-agency collaboration.** Due to the multi-sectoral nature of the proposed project, the MASS will establish MoUs with the other technical implementing institutions (MCT and MAEPE-RH). These MoUs will clarify, within six weeks of project effectiveness, the roles and responsibilities of each institution. The MoUs will be signed prior to the implementation of the activities with the MCT and MAEPE-RH.
5. **Project Implementation Manual (PIM).** The preparation of a detailed PIM is a condition of effectiveness. The PIM will be subject to the World Bank's no-objection. All PIU and implementing institution staff working on their respective components will be trained in component implementation mechanisms, demarcation of roles and responsibilities, monitoring, verification, and reporting mechanisms.
6. **Specific Food Stock and Fund Management Manual.** A specific manual on food stock and fund management will detail the operational mechanisms for stock management, as well as for initiating and monitoring the distribution of food to wholesalers and retailers in the event of a crisis. Its adoption is a project disbursement condition.



Implementation Support Plan

7. The implementation support plan takes into consideration: (a) the nature of the project and its implementation arrangements; (b) the fact that the proposed project is an emergency operation that requires timely implementation in a short timespan; and (c) the capacity requirements in relation to the Djiboutian context and project complexity. In addition, the support plan takes into account the needs for inter-institutional coordination between MASS, MCT, and MAEPE-RH.

Table 4: Main Areas of Focus for Support to Project Implementation

Time	Focus areas	Skills required
First 18 months	Implementation support	Agriculture Economist/Specialist
	Component 1 – market risk management	Commodity market risk management specialist
	Component 2 – water infrastructure	Water management specialist
	Component 2 – livestock & animal health	Livestock specialist
	FM and FM Control	FM Specialist
	Contracting and contract management	Procurement Specialist
	E&S Safeguards	E&S Specialist
18–39 months	Same as above	Same as above



ANNEX 2: Financial Management Assessment

Risk assessment and mitigation

1. The financial management (FM) system of the MASS was assessed. The objective was to determine whether the financial management arrangements: (a) are capable of correctly and completely recording all project transactions and balances; (b) facilitate the preparation of regular, accurate, reliable and timely financial statements; (c) safeguard project assets; (d) monitor and safeguard the food commodities stored in the warehouses; and (e) are subject to audit arrangements acceptable to the Bank. The evaluation followed the World Bank's investment financing policy and guidelines, as well as the principles of financial management assessment and risk rating.

2. The proposed arrangements for monitoring and accountability of the project are considered acceptable and the financial management risk is Substantial after the implementation of the risk-mitigating measures. The critical risk is the risk of damages or loss of food commodities, and the potential financing gap in food stock replenishment. The financial management arrangements designed to mitigate the FM risk consist of: (a) the appointment of one financial management specialist and one accountant in the PIU; (b) the preparation of financial management procedures, part of the Project Implementation Manual; (c) the design of food stock management procedures; (d) the preparation of interim financial reports in format agreed with the World Bank, and deployment of an automated accounting system; (e) the selection of a qualified and experienced external auditor with terms of reference acceptable to the World Bank and including the physical review of the food stock and assessment of the internal control system to manage the stock; and (f) citizen engagement (citizen surveys on food availability and distribution). In addition, the Framework Agreement signed between MASS and importers/logistics companies shall detail the obligations of these operators in case of damages or loss of the food commodities and binding compensation measures. The selection criteria of storage service providers shall include the existence of a strong internal control system to store, monitor, safeguard and report timely on the status of the stock. Finally, the Government should increase the budgetary reserve which could serve to fill a potential financing gap for the food stock replenishment during the project implementation and expand the National Solidarity Fund mandate to manage the reserve in case of a food crisis.

3. Table 1 below presents the results of the risk assessment and a summary of the main FM risks that could prevent the project from achieving its development objectives and the mitigating measures to address these risks. The residual risk is proposed to be substantial given the complexity of the food supply chain, including import, transport, storage and distribution, absence of past record in implementing such activity in the country and the fiscal constraints of the country which could limit the ability to increase to the fiscal space to fund the food stock replenishment in case of a financing gap.



Table 5: Assessment and mitigation of financial management risks

<i>Risk</i>	<i>Risk Pre-mitigation assessment</i>	<i>Risk mitigation measures integrated in the project design</i>	<i>Residual risk rating</i>	<i>Condition of negotiations, disbursement Or effectiveness (Y/N ?)</i>
Inherent risk				
National level The country's PFM system is characterised by low fiscal discipline, high debt and low fiscal transparency.	E	Rely on autonomous procedures and systems	M	N
Entity level MASS has experience in implementing World Bank-funded projects.	S	Build on the existing PIUs' at MASS and recruit necessary staff for a PIU for the project	M	N
Project level Overall, the scope and institutional set-up of the project is complex and involves multiple implementing entities.	S	Establish a coordination mechanism and procedures and clarify the role of each implementing entity.	S	N
Risk control				
Budgeting Unrealistic budget, inadequate reporting and monitoring	S	The PIM will include clear procedures for the preparation and monitoring of the budget. Establish a mechanism for setting reference food prices when assessing costs. Monitor the budget execution through the quarterly budget statement included in the IFR Train the project team in the above procedures	M	N
Accounting Inaccurate bookkeeping and unreliable IFR	S	Acquire an accounting system to record and report project transactions. Submit the IFR via client connection	M	N

[illegible]



<i>Risk</i>	<i>Risk Pre-mitigation assessment</i>	<i>Risk mitigation measures integrated in the project design</i>	<i>Residual risk rating</i>	<i>Condition of negotiations, disbursement Or effectiveness (Y/N ?)</i>
Audit Inadequate audit opinion and delayed audit report Lack of a mechanism to follow up on the implementation of the external auditor's recommendations.	S	Recruit a qualified external auditor on the basis of the terms of reference agreed with the World Bank. The ToR will include the audit of the food stock and the assessment of the effectiveness of the internal control measures in place to monitor the stock. Submit the audit report to the Bank by 30 June each year Elaborate the audit recommendations and action plan to attach to the audit report sent to the World Bank according to the model provided by the Bank	M	N
Overall risk assessment	S		S	

E - High S - Substantial

M - Moderate

F - Low

Staffing arrangements

4. The financial management staff of the PIU will consist of one Financial Management Specialist and one accountant appointed by the MASS. The qualifications and experience of the financial management staff must be acceptable to the World Bank. The existing financial management staff at the MASS are experienced in World Bank-funded project procedures and will support the implementation of the project.

Budgetary arrangements

5. The project budgeting procedures will be included in the Financial Management chapter of the PIM. The timetable for the planning and budgeting process will be described. In addition, the roles and responsibilities of the parties during the planning and budgeting process will be included. The budget planning process will be led by the Project Coordinator with the assistance of the Project's Financial Management Specialist. The Project Annual Work Plan and Budget will include other project implementing agencies' (MCT and MAEPE-RH) activities.

Accounting systems

6. **Accounting standards:** The project will follow the International Public Sector Accounting Standards (IPSAS) cash basis of accounting.

7. **Financial Management chapter of the PIM:** Accounting processes and procedures will be part of the PIM. The PIU will maintain books of accounts for the project, which should include cash book, ledgers, vouchers, fixed assets register, and accounts payable and receivable.

8. **Information systems.** The accounting system will be used throughout the implementation of the project for budgeting, recording of transactions, and reporting. The procurement of the system will be based on the technical description agreed with the World Bank.



Internal control systems

9. The PIM will include a Financial Management chapter with comprehensive financial management procedures for budgeting, accounting, financial reporting and external audit. In addition, procedures for the management of the food stock and the proceeds of food sale will be outlined in a specific Food Stock and Fund Management Manual.

Banking and financial flow arrangements

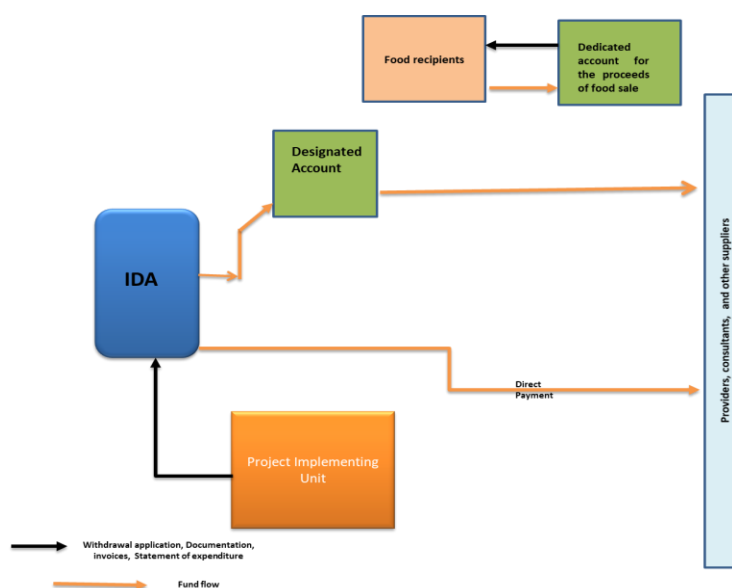
10. A separate designated account will be opened with a commercial bank acceptable to the World Bank. This designated account will be denominated in US dollars (US\$). It will be used to finance all eligible project expenditures in accordance with the Grant Agreement. The authorized ceiling of the designated account will be based on six months of cash flow requirements. The authorized ceiling of the designated account will be US\$3 million.

11. *Electronic disbursement:* The World Bank has introduced electronic disbursement for all projects it supports. Under e-Disbursement, all transactions will be completed, and related supporting documents scanned and transmitted online via the Bank's Client Connection system. e-Disbursement speeds up disbursements and facilitates project implementation. The e-Disbursement functionality will: (i) speed up the processing of disbursement requests by the World Bank; (ii) avoid common errors in filling out the Withdrawal Requests (WA) (form 2380); and (iii) reduce the time and cost of sending the paper version of withdrawal requests and supporting documents to the Bank.

12. Another account will be opened in a commercial bank to receive the proceeds from the sale of the food stock. This account will operate in accordance with the procedures described in the PIM and FFM.

13. In case of an identified gap for food stock replenishment, the financing reserve will be used to fill the gap. To sustain the financing mechanism of the food stock during project implementation and after project closure, the government should consider increasing the budgetary reserve to compensate the financing gap and expand the role of the National Solidarity Fund to manage the reserve in the case of a food crisis.

Figure 3: Financial flow chart





Financial reporting arrangements

14. Each semester, the PIU will prepare an interim financial report (IFR) to be submitted to the World Bank within 45 days of the end of the quarter. The IFR will include the following elements:

- a. a statement of sources and uses of funds,
- b. a statement of the use of funds by project activity/component and the budget execution report,
- c. the analysis and reasons for the discrepancies,
- d. the activity statement of the designated account,
- e. A statement of the accounting policies adopted, together with explanatory notes,
- f. The status of the food stock inventory.

The IFR will be submitted via the client connection system.

External audit arrangements

15. The external audit of the project will be carried out by a private external auditor recruited according to the terms of reference agreed with the Bank. The audit will be carried out in accordance with international auditing standards and the accounts will be prepared on a cash basis in accordance with International Public Sector Accounting Standards (IPSAS). The audited financial statements of the project will be sent no later than six months after the end of the financial year via the clientconnection system.

16. The recruitment of the external auditor will be initiated and completed within three months of project effectiveness. In accordance with the World Bank's policies on access to information, the audited financial report and audit opinion will be made available publicly.

17. The audit report will consist of an opinion report on the financial statement, a management letter and will be submitted to the World Bank by 30 June of each financial year via the client connection system.

18. **Governance and anti-corruption.** Project management will ensure that all anti-fraud and anti-corruption policies are in place and that the project is implemented in accordance with the provisions of the World Bank's anti-corruption guidelines. Citizen engagement is embedded into the project via citizen survey on the availability of the commodities released from the food stock on the market. The scope of the independent external financial audit performed by a seasoned audit firm will cover the review of the food stock and the assessment of the effectiveness of the internal control measures in place to manage the stock.

19. **Financial management dated covenant or conditions.** The main financial management commitments are: (a) the appointment of a financial management specialist (and project accountant) (effectiveness condition); (b) the recruitment of the external auditor no later than three months after project effectiveness; (c) the acquisition of the accounting system no later than two months after effectiveness; and (d) the preparation of the FM part of the PIM (effectiveness condition) and Food Stock and Fund Management Manual (disbursement condition).

20. Supervision missions to review progress in financial management will be an integral part of the project implementation support. Given the level of risk related to financial management, bi-annual supervision missions are planned.

**Financial Management Action Plan**

21. The following actions agreed to improve the project's financial management arrangements will be implemented accordingly to Table 6 below. FM support will be risk based with at least 2 missions per year.

Table 6: Financial Management Action Plan

	Action	Deadline	Responsible for
Accounting	Acquire the accounting system	2 months after effectiveness	MASS
Financial flows	Open the designated account in a commercial bank acceptable to the World Bank.	One month after the signing of the Financing Agreement	MASS
Internal control/internal audit	Prepare the Financial Management chapter of the PIM	Effectiveness condition	MASS
	Prepare the Food Stock and Fund Management Manual.	Disbursement condition	
	Appoint the Financial Management Specialist (and Accountant) in the PIU	Effectiveness condition	
	Recruiting the external auditor	3 months after effectiveness	



ANNEX 3: Economic and Financial Analysis and GHG Accounting

INTRODUCTION

1. **Quantifiable benefits.** The expected quantifiable benefits of the project are: (a) access to emergency food stock in case of food shortages on domestic markets (component 1), (b) improved access to water for human consumption, livestock, and irrigation (sub-component 2.1) and (c) improved livelihoods of agro-pastoralists affected by drought (sub-component 2.2). The latter will be achieved through the provision of: (i) agricultural inputs, including seeds, fertilisers, and small equipment to (re)start crop production ; (ii) greenhouses equipped with drip irrigation, which will contribute to an increase in agricultural production and constitute means of adaptation to climate change; (iii) livestock production packages, including drought-resistant breeds of small livestock (sheep and goats) and feed; (iv) veterinary products such as deworming products, vitamins, lickstones, etc.; and (v) technical assistance for agropastoralists on climate change resilient practices and techniques.

2. **Unquantifiable benefits.** There are also unquantifiable benefits associated with the project activities. The emergency food stock provided by the project would have a positive effect on the nutrition and health care of the Djiboutian population and could save lives. In addition, the improvement of water infrastructure would have a positive effect on the health and nutritional security of consumers. Project interventions would also include capacity building and training of implementing partners, resulting in institutional strengthening and sustainability of local and central administrations. The drought warning system introduced by the project would strengthen the country's drought resilience. The above benefits are difficult to estimate, mainly due to the lack of reliable data. Therefore, the analysis below focuses on quantifiable benefits, including environmental benefits (carbon emission reduction).

3. **Project beneficiaries.** While direct beneficiaries of Component 1 would include the entire population of Djibouti, the project aims to reach the poorest and most vulnerable, including refugees. Under Component 2 (sub-component 2.1 and 2.2), the project would reach direct beneficiaries at the local level, mainly members of rural households affected by drought and living in areas targeted by the project. Beneficiaries include small farmers, small livestock keepers, their families, women, and youth. It is estimated that about 8,000 households residing in Obock, Tadjourah, Dikhil, Arta and Ali-Sabieh would benefit from the project. Given the average household size of 6.2 individuals per household, the total number of beneficiaries would be about 50,000 people or about 21 percent of Djibouti's rural population of 240,000.

GENERAL ASSUMPTIONS USED IN THE FINANCIAL AND ECONOMIC ANALYSIS

4. **General approach.** The parameters used in the models are based on information collected remotely, including information obtained from donor agencies operating in Djibouti, ongoing and recently completed World Bank projects, and estimates of the task team. In particular, the team collected information on labour and input requirements for various operations, capital costs, prevailing wages, yields, farm gate and market prices, and input and farm to market transportation costs. Conservative assumptions were made for input and output prices, and potential risks were also taken into account. The models show the incremental revenues and costs generated by the investments financed by the project. They compare two scenarios: "With project" (WP) and "Without project" (WOP).

5. **Exchange rate.** The exchange rate used in the financial and economic analysis is set at US\$1 = FDJ 178¹⁶, assuming that future inflation in input prices will be offset by increases in output prices.

¹⁶ The Central Bank of Djibouti <https://banque-centrale.dj/> accessed August 2022.



6. **Prices.** Commodity/input prices reflect annual averages and those actually paid/received by farmers and involve potential risks.

7. **Discount rates.** The analysis differentiates between financial and social (economic) discount rates. A financial discount rate (FDR) of 2.5 percent (which is the average deposit rate in the country) is used in this analysis to assess the viability and soundness of investments, which corresponds to the current opportunity cost of capital (OCC) for a beneficiary. The selection criteria for the IRR is to accept of all sub-projects whose IRR is above the opportunity cost of capital (2.5 percent). The sensitivity of the models to changes in parameters is assessed by varying investment costs, production costs and revenues. The economic or social discount rate (SDR) of 6.0 percent¹⁷ is applied for the economic analysis, which is a social opportunity cost (SOC).

8. **Conversion factor.** A standard conversion factor of 0.90 was applied to inputs and outputs to convert financial prices into economic prices, taking into account the 10 percent VAT.

9. For the financial analysis, the following indicators were calculated: increase in net benefits, IRR, NPV and benefit-cost ratio (BCR). The benefit-cost ratio indicates the relationship between the relative costs and benefits of each farm/enterprise model, expressed in monetary terms.

FINANCIAL ANALYSIS

10. The financial analysis assesses the financial viability of the agriculture and livestock sub-projects to be financed under sub-component 2.2. The total cost of the sub-component is US\$2.7 million, with an average investment per beneficiary of US\$335.5 (based on the assumption that 8,000 households would be supported). As most project activities and interventions will be demand-driven, the ex-ante financial cost benefit analysis of project investments is therefore illustrative. Four farm/activity models were identified, namely: irrigated bean production, rainfed sorghum production for fodder, greenhouse tomato production and small ruminant rearing models. The results indicate a positive net present value (NPV) and an internal rate of return (IRR) well above the discount rate, which proves the financial viability of the models. In addition, the results indicate the average incremental net benefit per US dollar of investment, which is used to calculate an overall incremental benefit stream. Table 7 summarises the expected results of the five illustrative financial models mentioned above.

Table 7: Financial analysis of business models

Farm Models	Estimated Investment Costs (US\$)			Annual Net Benefits at Full Development (US\$)			Incremental annual net benefits per 1 US\$ of investment (US\$)	IRR (%)	NPV (US\$)
	Project	Beneficiary Contribution	Total	Without Project	With Project - Full Development	Incremental			
Irrigated bean (1ha)	429.8	0	429.8	0	195.0	195.0	0.45	23.3%	677.3
Rainfed sorghum fodder (1ha)	329.0	0	329.0	0	71.7	71.7	0.22	14.8%	621.1
Greenhouse tomato (200m2)	416.4	0	416.4	0	98.8	98.8	0.24	23.0%	763.3
Small ruminants rearing (4 heads)	499.5	0	499.5	0	105.8	105.8	0.21	11.4%	587.5

¹⁷ Globally established social discount rate in accordance with the latest World Bank requirements. The social discount rate used for the economic analysis is based on World Bank estimates, proposed by a standardised methodology. See Discounting of costs and benefits in the economic analysis of World Bank projects, OPSPQ. 9 May 2016.



ECONOMIC ANALYSIS

11. The economic analysis aims to assess the impact of the project at country level and the economic benefit streams for component 1, and sub-components 2.1 and 2.2.

Component 1

12. The economic benefits of Component 1 will be achieved by preventing a supply shock in basic food commodities (rice, pasta and sugar) that would bear high social and economic costs. Crop failure due to climate change and price increases due to a global geopolitical crisis, such as the war in Ukraine, directly affect the purchasing power of vulnerable groups. An in-depth empirical analysis of the effect of the 2007-2008 global financial and food crisis on fourteen African countries shows that soaring global commodity prices substantially affected the poor, triggering protests in developing countries and challenging policymakers to simultaneously address hunger, poverty and political instability¹⁸. These protests, also known as food riots, are more likely to occur in countries that are neighbours of unstable political environments¹⁹. Djibouti is indeed exposed to unstable neighbours, such as Ethiopia and Somalia. A recent IMF analysis indicates that unrest can have a negative effect on economic activity, with GDP falling on average, and depending on the severity, by 0.2 to 1.0 percentage points below the pre-shock baseline (1 ½ years before the crisis)²⁰. The economic analysis of Component 1 conservatively assumes that support for an emergency food stock of three basic food items could avoid a reduction in GDP of 0.2²¹ percentage points in the event of food riots. In addition, a comparison of storage costs between suppliers operating in Djibouti-city, shows that logistics companies in Djibouti are best placed to meet the requirements of environmental and social safeguards, security, and management services to ensure the quality of stock at relatively competitive prices.

Sub-component 2.1

13. While the analysis takes into account investments in animal water points and irrigation systems, which could lead to increased livestock and agricultural production under sub-component 2.2 (see below), the economic analysis of sub-component 2.1 is based on the benefit streams generated by the rehabilitation of underground tanks. The cisterns will improve rural households' access to safe water. This will reduce the drudgery and distance of fetching water, especially for women, thus giving them additional time to devote to household or livestock activities. The capacity of each tank is 100 m³, which is equivalent to 100,000 litres of drinking water. Assuming that an average household of 6.2 people needs 93 litres of water per day, and that the water in a cistern lasts on average for three months (90 days), one cistern would supply about 12 households per day (100,000/93/90). It is assumed that a woman spends an average of 4 hours fetching water, which could be reduced by half due the project activities. Two hours saved per day can then be monetized by using the hourly wage for unskilled labour (i.e.: US\$1.1). For each cistern, the total economic value of the time saved would be US\$2,366 for three months. These savings do not include the benefits of reduced waterborne disease due to improved water quality and thus improved sanitary conditions for the beneficiaries.

¹⁸ "Explaining the African food riots of 2007-2008: An empirical analysis", Berazneva and Lee in Food Policy, Volume 39, <https://doi.org/10.1016/j.foodpol.2012.12.007>

¹⁹ "The economics of social unrest", Barrett and Chen, published by IMF in 2022, <https://www.imf.org/external/pubs/ft/fandd/2021/08/economics-of-social-unrest-imf-barrett-chen.htm#:~:text=Economic%20and%20financial%20consequences&text=On%20average%2C%20major%20unrest%20events,unrest%20associated%20with%20political%20motives>.

²⁰ "The Macroeconomic Impact of Social Unrest", Hadzi-Vaskov et al, published by IMF in 2021, <https://www.imf.org/en/Publications/WP/Issues/2021/05/07/The-Macroeconomic-Impact-of-Social-Unrest-50338>

²¹ As of 2021, the nominal GDP of Djibouti was 3.37 billion, WB data, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=DJ>



Sub-component 2.2

14. The approach applied in the economic analysis of sub-component 2.2 is not a standard approach, usually based on aggregating household benefits from households using pre-defined intervention packages and comparing them to project costs. Due to the demand-driven nature of the project, the same representative farm/activity models used for the financial analysis are applied to estimate the potential returns on US\$1 of economic investment. The potential range of opportunities for resilience and economic progress in the country varies considerably across the region, and it is expected that farmers and herders will encourage diversity to accelerate economic progress.

15. Financial prices of locally traded products and inputs are converted to economic prices by deducting direct subsidies, taxes and duties and applying conversion factors. The economic cost of the project is estimated by removing taxes and duties from the financial cost using conversion factors.

16. The analysis identifies quantifiable benefits that are directly related to the activities undertaken after the implementation of the sub-component or that can be justifiably attributed to project activities. The illustrative models described above have been used to calculate the overall flow of benefits from the sub-component, using economic prices.

17. **Take-up rate.** Based on the experience of similar projects implemented in Djibouti, it was conservatively assumed that at least 80 percent of the investments would achieve the estimated returns, i.e.: a cumulative adoption rate of 80 percent was applied to the models.

18. Taking the above examples as reasonable assumptions for the illustrative models, an estimated average annual incremental net benefit per US dollar of investment is used. In particular, an average indicator for incremental annual net benefits per US dollar of investment is equal to US\$0.22 on average.

19. The incremental net benefits were calculated by multiplying this indicator by the size of the investments estimated under sub-component 2.2, but considering the gradual increase in these benefits over a four-year period.

Overall economic analysis

20. **The period of the economic analysis is 20 years** to take into account the phasing and gestation period of the proposed interventions. An indicative conservative scenario is presented in the analysis and shows the extent of cost-effectiveness under the conditions prevailing at the time of preparation.

21. **Overall estimate of the return on the proposed project.** Taking into account the above benefit and cost streams, the economic rate of return (ERR) for the baseline scenario is estimated at 10.5 percent. The economic net present value (ENPV) of the project's net benefit stream, discounted at 6 percent, is US\$2.7 million.

22. **Sensitivity analysis.** The economic returns of the baseline scenario have been tested against changes in benefits and costs and for various lags in the realisation of benefits. In relative terms, the EIRR is quite sensitive to changes in costs and benefits. Economic viability is neither threatened by a 10 percent decrease in benefits nor a 10 percent increase in costs, since the EIRR in both cases remains well above the discount rate. A one-year delay in project benefits reduces the EIRR to 8.4 percent, allowing it to remain economically viable. On the other hand, a 30 percent decrease in benefits makes the project economically unviable. The results are presented in Table 2.



Table 8: Sensitivity analysis

	$\Delta\%$	Link with the risk matrix	EIRR
Base scenario			10.8%
Project benefits	-10%	Combination of risks affecting output prices, productivity and adoption rates	8.1%
Project benefits	-30%		3.2%
Project costs	10%	Increase of goods costs	8.4%
Project costs	20%		6.5%
1 year lag in ben.		Risks affecting adoption rates and low implementation capacity	8.4%
2 years lag in ben.			6.7%

23. **GHG emissions analysis.** In its 2012 Environment Strategy, the World Bank adopted a corporate mandate to conduct GHG emissions accounting for Investment Project Financing. Quantifying GHG emissions is an important step in managing and ultimately reducing emissions and is becoming standard practice for many international financial institutions. To assess the net carbon footprint of a project, the World Bank has adopted the Ex-Ante Carbon-balance Tool (EX-ACT) developed by FAO in 2010.

24. The FAO Ex-Act tool was used for the ex-ante assessment of the project's impact on GHG emissions. The net carbon balance is calculated by estimating the difference between the gross results of the With and Without Project scenarios over a period of 20 years, including 3 years of project implementation and 17 years of capitalization period. The Project finances several activities that can be captured with the GHG accounting tool (for more details, see the EX-ACT working file).

25. The results of the GHG analysis show that the total net carbon balance is expected to lie at 1,870 tCO₂-eq of mitigated emissions per year at full development or 37,395 tCO₂-eq over the life of the project. The emissions are due to the use of fertilisers and agricultural chemicals. Mitigation estimates have been calculated on the basis of avoided emissions. It is estimated that the project beneficiaries would achieve an agricultural production of about 660 tonnes (cereals and vegetables) per year, which in the Without Project scenario would potentially be imported by cargo ship emitting about 1,540 m³ of diesel. If it leaves from a Black Sea port (where usually exporters of cereals and vegetables are located), this cargo ship would have to travel at least 6,000 km to Djibouti. The results of the Ex-ACT analysis are presented in Table 3.



Table 9: Results of the GHG analysis, EX-ACT tool

Project Name	Djibouti EFSCR		Climate	Warm Temperate (Dry)			Duration of the Project (Years)	20		
Continent	Africa		Dominant Regional Soil Type	HAC Soils			Total area (ha)	0		
Components of the project	Gross fluxes			Share per GHG of the balance				Result per year		
	Without	With	Balance	All GHG in tCO2eq			Without	With	Balance	
	All GHG in tCO2eq			CO2			N2O	CH4		
Land use changes	Positive = source / negative = sink									
Deforestation	0	0	0	0	0	0	0	0	0	
Afforestation	0	0	0	0	0	0	0	0	0	
Other LUC	0	0	0	0	0	0	0	0	0	
Agriculture										
Annual	0	0	0	0	0	0	0	0	0	
Perennial	0	0	0	0	0	0	0	0	0	
Rice	0	0	0	0	0	0	0	0	0	
Grassland & livestock										
Grassland	0	0	0	0	0	0	0	0	0	
Livestock	0	0	0				0	0	0	
Degradation & Management										
Forest degradation	0	0	0	0	0	0	0	0	0	
Peat extraction	0	0	0	0	0	0	0	0	0	
Drainage organic soil	0	0	0	0	0	0	0	0	0	
Reversing organic soil	0	0	0	0	0	0	0	0	0	
Fire organic soil	0	0	0	0	0	0	0	0	0	
Coastal wetlands										
Inputs & Investments	60,160	22,764	-37,395	0	0	-50,050	12,654	3,008	1,138	-1,870
Fishery & Aquaculture						0	0	0	0	0
Total	60,160	22,764	-37,395	0	0	-50,050	12,654	3,008	1,138	-1,870

26. The ERR and ENPV have been calculated using the estimated shadow price of carbon that will change from year to year according to the World Bank's Shadow Price of Carbon Guidance Note. The results of the low carbon price (starting at US\$43 and changing over time), high carbon price (starting at US\$86 and changing over time) and no carbon scenarios are presented in Table 4.

Table 10: Economic indicators of the project with carbon externalitiesIndicator	Without carbon benefits scenario (Base case)	Low carbon price scenario	High carbon price scenario
ENPV (US\$ million)	2.7	3.8	4.8
ERR	10.8%	12.6%	14.3%



ANNEX 4: Criteria applied for the selection of food commodities

1. **Selection criteria were established for the inclusion of basic food commodities to be purchased for the emergency food stock.** The following six food commodities are of strategic importance for Djibouti: wheat flour, rice, sugar²² pasta, powder milk and vegetable oil. Their inclusion was based on the following criteria: (a) part of overall caloric intake; (b) risk of availability shortfalls; and (c) storability. A summary of the assessment is presented below.
2. **Share of overall caloric intake.** Sugar contributes 19 percent, rice 17 percent, wheat flour 16 percent, vegetable oil 15 percent, and pasta 8 percent to total daily caloric consumption by Djiboutians. No data was made available for powder milk.
3. **Risk of availability shortfalls - number of importers/price spikes.**
 - Sugar. The number of global producers of sugar is considerable, therefore resulting in a moderate risk of shortage. Yet, export bans (such as recently announced by India) could put its availability at risk. While the price of sugar increased by 11.5 percent between March and April 2022, by June the price returned to its level of January 2022.
 - Rice. The number of global rice exporters is relatively limited, therefore adverse events or export bans (such as recently discussed by India) in exporting countries could induce both shortages as well as substantial price increases on international markets. The price of rice belam (1kg) increased by 20 percent over the January-June 2022 period in Djibouti.
 - Wheat flour. The number of global producers of wheat flour is considerable, therefore resulting in a moderate risk of shortages or price volatility. Yet, the war in Ukraine showed the potential effect of unforeseen crises on wheat prices. The price of wheat flour (1kg) increased by 9.1 percent over the January-June 2022 period in Djibouti.
 - Vegetable oil. The number of producers of soybean and rapeseed oil is substantial, related availability shocks can therefore be expected to be of limited nature. In addition, Djibouti disposes of a palm oil factory and therefore availability can be considered as provided if access to production inputs is guaranteed. The GoD and the Golden Factory producing palm oil in Djibouti came to the agreement to keep the price of palm oil stable for the months of April- June 2022, due to the occasion of Ramadan.
 - Pasta/durum wheat. As the number of global producers of durum wheat, the input for pasta, is relatively limited with a few specialized trading companies active on the market, the related availability and price risks may be considered high. The price of imported macaroni increased by 4 percent and the price of spaghetti by 8 percent in the January-June 2022 period.
 - Milk powder. The market for milk powder depicts a moderate risk for shortages, but price risks could be considered high due to the high costs of changing the production process and potential reluctance of producers to shift the production from high value (fresh milk products) to low value-added dairy products, such as skimmed milk powder. The price of milk powder increased by 3.6 percent in the January-June 2022 period.
4. **Storability of products.** Due to Djibouti's hot and humid weather as well as unfavorable warehouse conditions, it is estimated that rice, sugar, pasta, milk powder and vegetable oil could be stored for a minimum duration of 12 months (assuming proper storage management), while wheat flour can only be stored for a duration of 1-2 months.

²² Sugar is directly used for tea, coffee and "galette" for breakfast, and not used for further processing.