

**FOR  
AGENDA**

EBS/08/105  
Supplement 1

September 4, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Djibouti—Staff Report for the 2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with Djibouti and Djibouti's request for a three-year arrangement under the Poverty Reduction and Growth Facility (EBS/08/105, 9/4/08), which is tentatively scheduled for discussion on **Wednesday, September 17, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Djibouti indicating whether or not they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Delgado (ext. 34142), Mrs. Beidas-Strom (ext. 38922), and Mr. Pani (ext. 38536), in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, September 12, 2008; and to the African Development Bank, the Arab Monetary Fund, the Common Market for Eastern and Southern Africa, and the Islamic Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

DJIBOUTI

**Staff Report for the 2008 Article IV Consultation and  
Request for a Three-Year Arrangement Under the PRGF—Informational Annex**

Prepared by the Middle East and Central Asia Department

September 3, 2008

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**APPENDIX I. DJIBOUTI: RELATIONS WITH THE FUND**  
(As of July 31, 2008)

**I. Membership Status:** Joined: December 29, 1978; Article VIII

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	15.90	100.00
Fund holdings of currency	14.80	93.08
Reserve position in Fund	1.10	6.92

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	1.18	100.00
Holdings	0.18	15.46

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
PRGF arrangements	8.54	53.72

**V. Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	10/18/99	01/17/03	19.08	13.63
Stand-by	04/15/96	03/31/99	8.25	7.27

**VI. Projected Obligations to the Fund**

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	1.09	2.73	2.18	1.64	0.91
Charges/Interest	0.03	0.06	0.05	0.04	0.03
<b>Total</b>	<b>1.12</b>	<b>2.79</b>	<b>2.23</b>	<b>1.68</b>	<b>0.94</b>

**VII. Implementation of HIPC Initiative:** Not Applicable.

**VIII. Implementation of MDRI assistance:** Not Applicable.

## **Safeguards assessments**

In 2001, during the safeguard policy transition period, BCD was subject to a review of the external audit mechanism, which recommended the appointment of an external auditor. Subsequently, the BCD hired in August 2002 external auditors from Ernst & Young (E &Y) to audit its 1999, 2000, and 2001 accounts. These audits were completed by end-2002.

Since 2003, the BCD has had its accounts audited on a yearly basis by E &Y, even though with a delayed timeframe. The BCD's yearly Balance Sheet and Income Statement are published in the Journal Officiel.

An initial safeguards assessment (SA) is underway in the context of the new PRGF arrangement. In this regard, a SA mission was conducted during June/July 2008. Staff met with the BCD authorities and their external auditors. The full assessment is expected to be completed by the time of the first review under the new PRGF arrangement. Based on the findings of this mission, a strategy will be developed to address any potential shortcomings in BCD's legal framework and financial controls, and specific remedial measures will be incorporated into the program as needed.

## **Exchange arrangements**

Djibouti has a currency board arrangement. The Djibouti franc is pegged to the U.S. dollar at the rate of DF 177.721 = \$1. Djibouti maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

## **Article IV Consultation**

Djibouti is on an annual consultation cycle. Discussions for the 2007 Article IV consultation were held in Djibouti from January 7 to January 21, 2007. The staff report (SM/O7/129) was discussed by the Executive Board on May 27, 2007.

## **FSAP Participation, ROSC, and OFC Assessment**

Djibouti has not participated in any of the above-mentioned exercises. An FSAP was requested by the authorities in 2007 and is planned for the last quarter of 2008. The FSSA will be available as part of the 2009 Article IV consultation documents. The onsite mission for the AML/CFT ROSC took place in October 2007, also in the context of the forthcoming FSAP. This AML/CFT component is expected to be concluded by the end of 2008 and is based on the 2004 Assessment Methodology. It will report on the observance of the FATF 40 recommendations for AML and the 9 special recommendations for CFT and Djibouti's level of compliance and recommendations on how the AML/CFT system should be strengthened.

## Technical Assistance

FAD—Budget control and cash management of the treasury	April 2000
FAD—Direct tax reform	September 2000
FAD/MCD—Budget control and cash management of the treasury	February 2001
FAD—Tax administration and possible introduction of a VAT	April 2002
STA—Government finance statistics	May 2001
STA—National accounts and balance of payments statistics	January 2002
STA—Balance of payment statistics	November 2003
MFD—Banking supervision	December 2002
MFD—Banking supervision	December 2003
STA—Money and banking statistics	November/December 2004
FAD—Tax and customs administration	January/February 2005
MFD—Central banking accounting	October 2005
FAD—Tax administration	January 2007
FAD—Tax policy	January 2007
LEG—AML/CFT	June 2007
STA—Balance of payments statistics	June 2007
FAD—Tax policy	June 2007
FAD—Tax administration	July 2007
MCM—Central Bank Accounting	November 2007
STA—Monetary and Financial Statistics	December 2007
FAD—Public Fiscal Management	February 2008
MCM—Central Bank Accounting	February 2008

## Resident Representative

A resident representative was stationed in Djibouti from October 1998 until April 2007.

## APPENDIX II. WORLD BANK RELATIONS WITH DJIBOUTI (As of end-June 2008)

World Bank lending and non-lending interventions in Djibouti are tailored to support the pillars of the CAS, which are broadly aligned with Djibouti's full PRSP endorsed by the Boards of the World Bank and the IMF in June 2004. The FY2005–08 CAS, endorsed by the Bank Board in March 2005, is centered on three pillars: (i) growth and competitiveness, (ii) human development, and (iii) governance.

The CAS pillars are supported by various **projects**. The current portfolio has six active Bank-funded projects valued at US\$60.5 million. Of this total, 45 percent, by value, is for health-related activities, 17 percent for education, 12 percent for energy, 19 percent for urban infrastructure and flood emergency rehabilitation, and 8 percent for budget support in response to the food crisis. The distribution of projects across the CAS pillars is as follows:

- The growth and competitiveness pillar is being supported through: (i) a power sector project to lower the cost of the power utility and increase the poor's access to electricity; and (ii) a partial risk guarantee to the concession of the operation and management of the joint public railway company, following on a previous Bank road corridor project. Together with the port, transit activities along this corridor are a major source of growth in Djibouti.
- The human development pillar support focuses on: (i) a second school access and improvement project, following on a first successful project; (ii) two health sector projects (the HIV/AIDS, malaria and TB control and the health sector development projects); (iii) a social development and public works project; and (iv) an emergency floods rehabilitation project, for which an additional financing (grant) was approved on February 22, 2007.
- Support to the governance pillar is sought through IDF grants aimed at implementing the action plan and recommendations of the Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Review (CPAR).

In addition to the assistance through lending, the Bank supports Djibouti through **country analytical work**. Following a Public Expenditure Review completed in FY 2005, a country economic memorandum, aimed at recommending a set of policy options to face Djibouti's growth and competitiveness challenges, was completed in FY 2006. The Bank is also supporting the National Initiative for Social Development (INDS) by providing technical assistance to the INDS secretariat (SESN - *Secrétariat d'État chargé de la Solidarité Nationale*) in planning and monitoring policy reforms in close collaboration with the Fund. Close collaboration with the Fund is prevalent on macroeconomic issues (e.g., debt sustainability analysis) and on the PRSP evaluation and update. A joint FSAP is scheduled for FY 2009.

Finally, given Djibouti's weak institutional capacity, a great deal of emphasis is put on **technical assistance and capacity building efforts**. Currently, the Bank manages a portfolio of US\$9.6 million in trust funds, including four IDF grants, two multiple donors' trust funds and a statistical capacity-building trust fund. The IDF grants finance institutional capacity building in the areas of public procurement (US\$357,000), budget and debt management (US\$343,000), and preparation of the implementation of an integrated social protection system (US\$244,000). A fourth IDF grant was approved at the end of May 2008 to support the monitoring and evaluation systems of the INDS (US\$284,000). The multiple donors' trust funds support Djibouti's participation to the Education for All Fast Track Initiative (US\$6 million) and efforts aimed at controlling avian and human influenza (US\$2.1 million). The statistical trust fund (US\$252,700) supports the strengthening of national accounts and the implementation of a new census planned at the end of 2008.

In spite of Djibouti's poor economic environment, the overall performance of Bank projects is good and development objectives are expected to be achieved satisfactorily for all projects in the portfolio.

A new CAS covering the period FY09–FY11 is under preparation.



### APPENDIX III. DJIBOUTI: STATISTICAL ISSUES

#### Outstanding statistical issues

Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses are particularly significant in the areas of national accounts, the trade balance, and external debt, and to some extent for fiscal data. However, recent developments indicate an increasing awareness of the importance of statistics among government officials. In 2002, the authorities created the Directorate for Statistics and Demographic Studies (DISED) in order to enhance the capacity of the statistical system and the efficient use of available resources. Djibouti does not yet participate in the General Data Dissemination System (GDDS), but has submitted metadata and plans for improvements that are being reviewed.

#### National accounts

National account data have not been provided for publication in the *IFS* since 1999. With World Bank and UNDP assistance, the DISED has been re-estimating sectoral GDP for 2000–05 and elaborating national accounts according to the *1993 SNA* and updated statistical guidelines, using a wide range of data based on surveys, import statistics, and financial statements of public enterprises.

In 2009, once a population census has been completed, a survey to test its results using the polling basis in the poverty survey will be followed by a comprehensive household expenditure survey. This work will also help the revision of the CPI basket weights and to update various social indicators, in particular to provide new poverty and income distribution estimates (by end-2009). An economic survey, with support from development partners, to integrate the data in the estimated national accounts will also be carried out.

#### Prices

The Consumer Price Index (CPI), calculated by the DISED on a monthly basis since April 1999 using price surveys in Djibouti City, is the only measure of inflation. Before 1999, Fund staff monitored price developments on the basis of the CPI index compiled by the French government for French expatriate residents in Djibouti. The DISED is currently working to expand the national coverage of the index to areas outside the capital, as mentioned above.

#### Government finance

Following the establishment of a coordination unit in the Ministry of Finance (MOF) in 1998 to improve data coverage and timeliness, fiscal data are now available monthly although with some delays; however, these data do not cover a number of extra-budgetary accounts,

including three pension funds. In 2002, a comprehensive audit of domestic arrears was completed with assistance from the European Union and the World Bank. Foreign-financed capital expenditure and some foreign-financed current expenditures and their financing (i.e., grants and loans) have been reported more regularly since 1999. However, additional efforts are needed to improve the compilation and coverage of fiscal data, particularly at the institutional level, in order to fulfill the recommendations made by a government finance statistics mission in 2001; the above-mentioned pension funds, also need to be incorporated into a consolidated general government budget. The MOF is reporting neither annual data for dissemination in the *GFS Yearbook* nor high-frequency data for publication in the *International Finance Statistics (IFS)*.

### **Monetary accounts**

Monetary statistics are generally adequate and cover the central bank and the aggregated balance sheet of all commercial banks. The authorities initiated the publication of a monthly bulletin in 2001. Monetary data are also posted on the BCD's web site (<http://www.banque-centrale.dj/>).

In 2004, a STA mission assisted the BCD in compiling monetary and financial statistics in accordance with the Fund's *Monetary and Financial Statistics Manual (MFSM)*. The mission highlighted various weaknesses, including the definition of the criterion of residence and the classification of domestic assets and liabilities by sector, and advised on the preparation of financial sector metadata for the General Data Dissemination System (GDDS). In September 2005, the BCD reported test monetary data to STA using the Standardized Report Forms (SRFs), which embody the methodology in the MFSM.

A follow-up monetary and financial statistics mission visited Djibouti during December 2–12, 2007. The mission: (1) reviewed progress made by the BCD in implementing the recommendations of the 2004 mission; (2) provided technical assistance in the major areas of data collection, compilation, and dissemination; (3) assisted and provided guidance for the migration to the SRFs for the reporting of monetary statistics to the IMF; (4) addressed BCD questions on implementing the methodology in the *MFSM*; (5) assessed institutional coverage and data sources for the collection of data for other financial corporations; and (6) reviewed GDDS metadata for the financial sector.

The mission found that the BCD has made little progress in implementing the recommendations of the 2004 mission mainly because of insufficient staffing. The mission addressed several issues highlighted by the MFS mission in 2004 as well as new issues that have arisen since then and agreed with the authorities on a work plan for further improving the monetary statistics. The BCD appointed a well-qualified division chief for monetary and banking statistics. This will enhance BCD's capacity to initiate the regular reporting of monetary data in the SRF format following the next MFS mission scheduled in December 2008.

## External sector

Substantial progress has been made in improving balance of payments statistics in line with recommendations made by Fund's technical assistance missions over the past few years. Since August 2004, new balance of payments data adhering to the standards set forth in the *BPM5* are prepared. The new data set incorporates improvements involving transit trade to neighboring countries, imports by the foreign military forces stationed in Djibouti, and the treatment of the rent paid by the United States for the military base. The BCD is also compiling data on the country's international investment position (IIP) and has commenced collection of some balance of payments data on a quarterly basis.

However, significant issues remain, which were highlighted by a June 2007 mission. Three main problems were identified. The first one relates to trade statistics, which are no longer compiled by the DISED, essentially because of managerial changes within this entity. Therefore, the BCD has to make estimates of trade data, based on the trends in economic activity and direct investments in the country. The second problem is a lack of coverage of direct investment transactions in the BOP, which results mainly from the lack of human resources devoted to BOP work at the BCD. Finally, the estimates made to calculate workers remittances should be reviewed, as the figures appear underestimated (and which might help explain most of the negative errors and omissions in the balance of payments). The mission also found that some improvements could be made to several items such as freight transportation, investment income, transactions related to the presence of foreign military bases in the country, the treatment of external debt statistics (through more comprehensive information provided by the *Direction du Financement Extérieur* (DFE)), and other investment of private sector (use of IBS data).

In 2007, the BCD resumed submission of balance of payments statistics for publication to STA. With financial and technical assistance from the World Bank and UNCTAD, the authorities adopted in 2002 a new system for the management of external debt, centralized within the DFE of the MOF; the system became operational in mid-2003, and external debt statistics were revised based on information received from creditors and covering the period from 1999 onward. Debt statistics continue to be provided irregularly and with delay.

**Djibouti: Table of Common Indicators Required for Surveillance**  
**As of August 19, 2008**

	Date of Latest Observation	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange Rates	Jul 2008	Aug 2008	M	M	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	June 2008	July 2008	M	M	NA
Reserve/Base Money	June 2008	July 2008	M	M	M
Broad Money	June 2008	July 2008	M	M	M
Central Bank Balance Sheet	June 2008	July 2008	M	M	A
Consolidated Balance Sheet of the Banking System	June 2008	July 2008	M	M	A
Interest Rates <sup>2</sup>	Dec 2007	March 2008	M	M	A
Consumer Price Index	June 2008	July 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	April 2008	June 2008	M	M	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	April 2008	June 2008	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Dec. 2007	June 2008	A	A	NA
External Current Account Balance	Dec. 2007	June 2008	A	A	A
Exports and Imports of Goods and Services	Dec. 2007	June 2008	Q	Q	A
GDP/GNP	Dec. 2007 <sup>8</sup>	June 2008	A	A	A
Gross External Debt	Dec. 2007	June 2008	A	A	I
International Investment Position <sup>6</sup>	2003	Jul 2007	A	A	A

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (excluding extra budgetary funds and social security funds, and state and local governments).

<sup>5</sup>Including currency and maturity composition. .

<sup>6</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup>Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

<sup>8</sup>GDP data estimated by staff on the basis of partial data provided by the authorities.