1. This Tranche Release document informs the Executive Directors that the Government of Djibouti (Government) has met all technical conditions as stipulated under Schedule 1, Section 2 (c) of the Grant Agreement (TF092328) dated June 5, 2008 for the Global Food Crisis Response Development Policy Grant for release of the second tranche. The objective of the Grant is to help the Government of Djibouti in reducing hunger, preventing an increase in poverty and social unrest, and ensuring the fiscal stability needed to foster medium-term social and economic development. The supported policy measures are a tax exemption on basic food items, expansion of food aid, social assistance and related programs.

2. On May 29, 2008 the Board approved the Global Food Crisis Response Development Program of US$5 million. The first tranche was disbursed upon effectiveness and was linked to the tax exemptions on basic food items. The second tranche is conditioned on (i) satisfactory progress achieved by the Recipient in carrying out the program, (ii) the maintenance of an appropriate macro-economic policy framework, and (iii) the presentation of an action plan, which guides the improvement of direct support to the most vulnerable households.

3. The conditions for the release of the second tranche were met as follows:

- As confirmed by the supervision missions which took place in September and November 2008 as well as by annex 1 of the action plan submitted on December 17, 2008, the authorities have implemented or enrolled all elements of the food crisis urgency program as indicated in their Letter of Development Policy of May 21, 2008. In particular, all key measures included in the policy matrix were implemented (tax elimination, preparation of action plan). Further, the government continues to work with the country team on the improvement of targeting mechanisms for social assistance.

- Djibouti’s economy was affected by the global imbalances on commodity and financial markets. Recent data to appraise the situation is not available. However, the authorities entered an IMF-supported Poverty Reduction and Growth Facility in October 2008 and agreed on a debt re-scheduling arrangement with the Paris Club creditors soon thereafter. Overall, the country is broadly in compliance with the IMF program as well as with the medium macro-economic framework as specified in the grant document. As confirmed by the IMF staff in an e-mail exchange on January 13, 2009, there does not seem to be any immediate threat to macro-economic stability.
The authorities submitted an action plan for food security and direct social assistance on December 17, 2008. This plan includes several elements which aim at improving the targeting of social assistance to the most vulnerable households such as improving information systems (census, household surveys, update of poverty maps and poverty profiles). Moreover the authorities intend to study the feasibility of a reform of their social safety net and plan, to this end, study tours and workshops. In the meantime, workfare programs aim at increasing the revenue of the population in the poorest neighborhoods.