



#### **DJIBOUTI BUSINESS FACT SHEET**

NABC

This factsheet is prepared for the Trade Mission to Djibouti from May 12-15 2014, organized by NABC in close cooperation with the Dutch Embassy in Addis Ababa. This document aims to inform Dutch entrepreneurs about the business climate in Djibouti and the opportunities the country provides for the Dutch private sector.

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# 1. Introduction Djibouti

## 1.1 Brief political history of Djibouti

In 1888, Djibouti was found by the French and became a colony under the name of Côte Française des Somalis (The Somalis' French Coast). Later on, in 1967 the name changed into Afars et des Issas" (the Afar and Issa Territory). But on May 8 1977, the colonial power organized a referendum and the majority of the population voted for independence. That same year on the 27<sup>th</sup> of June the country acceded to independence under the name "*Republic of Djibouti*".

The first president of the country was "*Hassan Gouled Aptidon*". A one party-regime RPP (Rassemblement Populaire Pour le Progres: People's Progress Rally) presided over the country's affairs. The one party-regime RPP was the sole legal one. During its first year, Djibouti joined the OAU, the Arab League and the United Nations.

In 1991, due to tension over government presentation, civil war broke out between the government and a predominate Afar rebel group, the "*Front for the Restoration of Unity and Democracy*" (FRUD). In December 1994 a peace accord was signed, which was a power sharing agreement with the government. Two members of the FRUD became part of the government.

In 1999, at the age of 83, after being elected to a fifth term in 1997, the president Hassan Gouled Aptidon resigned. His successor was his nephew "*Ismail Omar Guelleh*".

### *The Presidency of Ismael Omar Guelleh*

Ismail Omar Guelleh won the presidential elections held on April 9, 1999 with 74% of the votes, defeating his only challenger, the independent candidate "*Moussa Ahmed Idriss*" of the Unified Djiboutian Opposition.

On October 7 2004, the president was nominated by the RPP as its presidential candidate for a second time. He was the only candidate in the presidential election held on April 8, 2005. Without a challenger, he won 100% of the ballots cast and was sworn in for a second six-year term, which he said would be his last.

However in 2010, he persuaded the National Assembly of Djibouti to amend the nation's Constitution, allowing him to be elected for the third time. This cleared the way for him for the election in 2011. This resulted in a large protest at the beginning of 2010, although these protests were quickly stopped. After all he won the elections with almost 80% of the votes. The next elections for Djibouti are planned for 2017.

### Economic political agenda Ismaïl Omar Guelleh

The present leadership has close ties with France, which maintains a significant military presence in the country. Djibouti also developed increasingly stronger ties with the United States and the country currently hosts the only United States military base in sub-Saharan Africa. Furthermore, the president launched a 4.3 billion US Dollar investment programme building new port facilities for salt and potassium exports that will come into operations in 2013-14.

## 1.2 About Djibouti

The Republic of Djibouti is located in the Horn of Africa and has an area of 23,000 km<sup>2</sup> (the Netherlands has an area of 41,543 sq km.). The country is surrounded by Eritrea in the North, Ethiopia in the West and Somaliland in the South. Djibouti has approximately 900,000 inhabitants.

Djibouti is a multi-ethnic nation. Somali and Afar make up the two largest ethnic groups, both speak Afro-Asiatic languages. Arabic and French are the country's two official languages. About 94% of the inhabitants are Islamic and Islam has been predominant in the region for more than 1,000 years. Djibouti has semi-presidential institutional system.

The country has a strategic position because of the important seaport at the Red Sea and Gulf of Aiden. Djibouti is the main seaport for Ethiopia serving a market around 90 million people. Furthermore, approximately 65% of the world's commercial shipping fleet use the country's waters; this makes the country a major global shipping hub.

Djibouti remains political and economical stabile even though the Horn of Africa has been very unstable. Driven by foreign direct investment (FDI) approaching US\$250mn a year, real GDP growth averaged 4.5% per annum between 2004 and 2011. In 2012 the volume of GDP was \$2.354 billion. Between 2014-2017 the economic growth is expected to reach an average of 5.8%.

## 2. The economy

### 2.1 Country Facts

Table I General information

<b>Capital</b>	Djibouti
<b>Major Cities</b>	Djibouti city, Ali Sabieh, Tadjourah, Obock, Dikhil, Arta
<b>Institutional System</b>	Semi-presidential, Republic
<b>Surface Area</b>	23,200 sq km
<b>Position</b>	11 30 N, 43 00 E
<b>Climate</b>	desert; torrid, dry
<b>Rainfall</b>	163.5 mm
<b>Terrain</b>	coastal plain and plateau separated by central mountains
<b>Coastline</b>	314 km
<b>Land use</b>	arable land: 0.09% permanent crops: 0% other: 99.91% (2011)
<b>Time Zone</b>	UTC +3
<b>Area Code</b>	253
<b>Currency</b>	Djiboutian franc, 1 EUR = 246.062 DJF
<b>GDP</b>	\$2.354 billion (2012 est.)
<b>GDP Composition by sector</b>	
<b>agriculture:</b>	3.1 %
<b>industry:</b>	16.9%
<b>services:</b>	80% ( 2012 est.)
<b>GDP growth rate</b>	4.8% (2012 est.)
<b>Population</b>	792,198 (July 2013 est.)
<b>Life expectancy</b>	61.99 years
<b>Growth rate</b>	2.26% (2013 est.)
<b>Religion</b>	Muslim 94%, Christian 6%
<b>Official language</b>	French (official), Arabic (official), Somali, Afar
<b>National Language</b>	French (official), Arabic (official), Somali, Afar
<b>Poverty headcount ratio at national poverty line</b>	42% (2007 est.)

Sources: World Bank, CIA The World Fact Book and Doing Business in Djibouti

“Livestock is very minimal in Djibouti but there is the ability to extensive livestock farming. As well as Commercial pastoral livestock but this has to be supported”. Jan Abbink, Specialist East Africa, African Study Centre.

## 2.2 The economy of Djibouti

At the junction of three continents, Djibouti is geo-strategically positioned between Africa, Asia and Europe. It is near the world's busiest shipping lanes, controlling access to the Red Sea and the Gulf of Aiden. Djibouti is a transit port and an international transshipment and refuelling centre for the region. Almost 75% is generated from international and transit port activities. Djibouti's port is also the principal port for import and exports for neighboring country Ethiopia. The import and export from Ethiopia represents about 70% of port activity at Djibouti's container terminal. Furthermore, Djibouti has a Free Trade Zone\*.

Djibouti has few natural resources and little industry. Therefore, the nation is heavily dependent on foreign assistance to help support its balance of payments and to finance development projects. The minimum rainfall is not enough for the production of fruits and vegetables, so most food must be imported. In the urban areas, an unemployment rate of almost 60% is a major problem. The Djiboutian Franc is fixed to the US dollar,  $1\text{ USD} = 179.698\text{ DJF}$ ; therefore the artificial high value of the Djiboutian Franc adversely affects Djibouti's Balance of payments<sup>1</sup>.

To improve the environment for FDI, Djibouti authorities in cooperation with various non-profit organizations have launched a number of development projects aimed at highlighting the country's commercial potential. For example, to address the problem of electricity shortages, the Global Environmental Facility, World Bank and Organization of Petroleum Exporting Countries have collaborated to set up a 56-megawatt geothermal power plant to be completed in 2018<sup>1</sup>. The government has also introduced new private sector policies targeting high interest and inflation rates, including relaxing the tax burden on enterprises and allowing for exemptions on consumption tax. In order to divert the current massive shopper traffic from Africa to Dubai, Djibouti is currently studying its tax system with a view to introduce a low flat tax system (5% or lower being the target)<sup>2</sup>.

Djibouti's ranking is 121st out of 185 economies in Doing Business 2014. Djibouti was ranked 188 in 2013. This shows that Djibouti raised in a year time 61 places<sup>3</sup>.

Despite recent economic success, the country remains very poor, 75% of the population is classified as poor and 42% lives in extreme poverty. The active population (48%) has now jobs, although many are engaged in the informal economy. In 2011, the horn of Africa experienced one of the worst droughts in the past 60 years, leading to acute food shortage throughout the region. The ongoing financial crisis also affected Djibouti, FDI slowed down and port activity falling.

Table II Economic facts

<b>GDP</b>	\$2.354 billion ( 2012 est. )
<b>GDP Per Capita</b>	\$2,600 (2012 est.)
<b>GNI per capita</b>	\$ 1513 ( 2011 est.)
<b>GDP Growth Rate</b>	4.8% ( 2012 est. )
<b>Inflation Rate</b>	7.9 % ( 2012 est. )
<b>Volume of Goods and Services imports</b>	38.3% (2012 est. )
<b>Volume of Goods and Services Exports</b>	-53.1% (2012 est. )
<b>Main imported products</b>	foods, beverages, transport equipment, chemicals, petroleum products
<b>Main exported products</b>	Re-exports, hides and skins, coffee (in transit from Ethiopia)

Sources: World Bank, CIA The World Fact Book and Doing Business in Djibouti

<sup>1</sup> [indexmundi.com/djibouti/economy](http://indexmundi.com/djibouti/economy)

<sup>2</sup> <http://www.aaeffrica.org/start/current-development-projects-and-future-opportunities-indjibouti/>

<sup>3</sup> <http://www.doingbusiness.org/data/exploreconomies/djibouti>

\* A free trade zone (FTZ) is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

Growth in annual gross domestic product (GDP) rose from an average of 3.5% in the period 2000-2010 to 4.8% in 2012. Djibouti is one of the African countries that has explicitly included FDI issues in its policy documents since the early 2000s. In addition, the National Agency for Investment Promotion (NIPA) of Djibouti is one of the pioneers on the continent.

Table III GDP growth Djibouti

GPD Growth %	2010	2011	2012	2013	2014-17
Real GDP	3.5%	4.5%	4.8%	5%	5.8%

Sources: IMF, figures for 2013 onwards are projections.

### 2.3 Economic outlook

In 2012 the economic growth speeded up to reach 4.8% mostly driven by two main elements: FDI and port activity. Even though the ports activity increased due to a higher volume of transit goods, it is still less than before the world's financial crisis started. The increase in FDI came mostly from the salt mining at Lake Assal and building the Chabelley airport complex. Djibouti has few natural resources and most remain unexploited and undeveloped. Other sectors such as tourism, infrastructure and fishery continue to grow steadily.

Djibouti is at the crossroads of major routes for many goods and wants to become the hub for commercial, logistical and financial services for the Arabic countries. Therefore the government launched 4.3 billion US Dollar investment programme building new port facilities for salt and potassium exports that will come into operations in 2013-14.

In May 2012, the government completed an International Monetary Fund's (IMF) Extended Credit Facility (ECF) that had begun in September 2008. The country's performance throughout was satisfactory and included major structural reforms in public finance management and the financial sector. A new ECF has already been worked out with the IMF in the first half of 2013<sup>4</sup>.

In 2012 a national poverty survey showed the percentage of Djiboutian living in relative poverty which was estimated at 79% compared to 74% in 2002. The unemployment affects 48% of the working population. Furthermore industrial development is still slowed down because of the high production costs but this could be less of a problem with new water and energy infrastructure projects( see chapter 3 page 14), which helps developing the few resources Djibouti has and creates jobs.

### 2.4 Foreign Investment

Djibouti is a country with few resources and as mentioned before the economy dependents on FDI, foreign countries' military bases, and its port services, which capitalize on the strategic position at the southern entrance to the Red Sea. The largest source of FDI in Djibouti is the Doraleh Port Project. Other FDI's include the construction of the five-star Kempinski Palace hotel, other construction and real estate growth, a U.S.-led salt extraction project at Djibouti's Lac Assal, and nascent projects in the renewable energy sector. In addition, all the commercial banks operating in Djibouti have full or majority foreign ownership. FDI is part of a long-term strategy of the authorities to make Djibouti a regional platform for commercial, logistics and financial services.

<sup>4</sup> African Economic Outlook, 2013

The following data on annual FDI, from Djibouti's Central Bank, shows that the revised FDI in 2010 was much smaller than estimated. However, the decreasing trend is expected to be reversed in 2012:

Table IV FDI Statistics - Djibouti

Year	2008	2009	2010	2011	2012
US\$ million	234	100	29	79	110 est.

Sources: Djibouti Central Bank 2010

## 2.5 National investment promotion agency Djibouti - NIPA

In 2001, NIPA of Djibouti was established. This agency was set up to encourage the promotion of investments in Djibouti through a flexible policy in investments operations, a modern regulatory framework and procedures. Their mission is to provide full advice and support for current and new investors. The NIPA is overseen by the Minister of Investment Promotion and is a partner and representative of the private sector.

NIPA's objectives are to promote Djibouti as a regional logistics and financial hub, and to encourage private investments in the financial sector, to include the establishment of<sup>5</sup>:

- Expanded facilities and customer oriented banks;
- Investment Banks to provide funds to sectors prioritized by government (principally the agricultural and industrial sectors);
- Private and local partnerships;
- To develop the microcredit and;
- Microfinance sectors;
- Mutual Fund Agencies;
- Portfolio Management Agencies.

### Reasons to invest in Djibouti<sup>6</sup>

- It is located on the world's 2nd shipping route with 65% of world's sea traffic;
- The country is strategically positioned in the region, to serve hub neighbor countries without a port;
- It enjoys a political stability;
- Nationals and foreigners alike enjoy the same right;
- Its **currency is pegged to the US dollar and is freely convertible**, with a weak inflation rate;
- It has a financial system, free of exchange control, allows totally free currency transfer;
- Telecom system ranks it among the best in Africa, with station of SEA ME WE and EIG sub-marine fiber cables;
- Djibouti is a natural gateway for the Common Market for Eastern and Southern Africa, COMESA\*\*. A market of around 400 million inhabitants, from 19 countries;
- Djibouti has a free trade zone.

<sup>5</sup> Investing in Djibouti 2013, report

<sup>6</sup> National investment promotion agency, invest in Djibouti

\*\* COMESA: a free trade area with 19 members. It is to provide excellent technical services to COMESA in order to facilitate the region's sustained development through economic integration. Member states: Burundi, Comoros, Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia & Zimbabwe.

## 2.6 Trade

Djibouti belongs to a number of regional organizations, including the Inter-Governmental Authority on Development (IGAD), and the COMESA. Djibouti is eligible to benefit from the African Growth and Opportunity Act (AGOA), and is also a member of the World Trade Organization (WTO). In addition, Djibouti is among the 34 African least developed countries with the option of entering the European Union Generalized System of Preferences<sup>7</sup>.

The government of Djibouti has always adopted a proactive approach to encourage trade. According to the *Worlds Bank's 2013 Ease of Doing Business report*, Djibouti ranks favourably in terms of trading across borders, 41<sup>st</sup> place out of 183.

Table V shows the import and export that comes and leaves the country. *Note* that Ethiopia is not seen as an import or export partner. Thus, as mentioned before Djibouti is 'the port' for Ethiopia.

Table V Exports - Partners		Imports - Partners	
Somalia	77.6 %	China	24.4 %
Egypt	5.3 %	Saudi Arabia	16.4 %
UAE	4.3 %	India	10.6 %
Yemen	4.0 %	Indonesia	7.3 %
Exports - products		Imports - Products	
Re-export		Foods	
Hides & Skins		Beverages	
Coffee ( in transit)		Transport Equip.	

Source: CIA World Fact book 2012. Main exported and imported products are in order of their export value (so re-export is the largest export product of Djibouti).

<sup>7</sup> Doing business in Djibouti 2012

## 2.7 Free Trade Zones

The 42-acre Djibouti Free Zone has been operational since 2004 and can house up to 100 companies. In July 2012, the government approved a new 57 hectares free zone (Jabanaas Free Zone) just outside of the capital. Companies that register their business outside of the Free Zone automatically become members of the Djibouti's Chamber of Commerce. The free zone offers plenty of incentives:

- 100 % Foreign ownership;
- 100 % repatriation of capital and profits;
- Tax Completely;
- No Corporate Tax;
- No Income;
- Duty Free Environment;
- Possibility to sell on local market;
- Possibility to employ foreign;
- No currency restrictions<sup>8</sup>.

## 2.8 Investment incentives regime

The government of Djibouti has established a legal and regulatory framework to encourage investments:

- Djibouti does not obligate joint venture operations with a national citizen in order to invest in the country;
- Business law establishes legal equality between domestic and foreign investors;
- All investors can freely repatriate profits without restrictions;
- Investments of more than US \$280,000 that create a number of permanent jobs may be exempted from license and registration fees, property taxes, taxes on industrial and commercial profits, and taxes on the profits of corporate entities;
- Companies and individual traders operating in the free zone are not subject to any direct or indirect taxes;

*Goods imported or manufactured in the Free Zone are exempt from all customs and tax liability, unless they are imported into the customs territory of the Republic of Djibouti.*

## 2.9 Tenders

Tenders can be found online on several websites, such as <http://www.tendersinfo.com/> and <http://www.globaltenders.com/>. For government tenders, the US embassy in Djibouti provides tenders on <http://djibouti.usembassy.gov/procurement.html>.

## 2.10 Economic & political Relations Djibouti - the Netherlands

Since 1950, the Netherlands has an embassy in Addis Ababa, Ethiopia. The Dutch embassy in Addis Ababa is also responsible for Djibouti. In addition, the station shall act as Permanent Representative to the African Union. Key areas of cooperation with the African Union are peace and security, shared values and institutional capacity building. The Netherlands maintains very limited relations with Djibouti. But there is a Honorary Consul of the Netherlands in Djibouti, Mr. Luc Marill.

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<sup>8</sup> [http://www.djiboutinvest.com/index.php?option=com\\_content&view=article&id=253&Itemid=613](http://www.djiboutinvest.com/index.php?option=com_content&view=article&id=253&Itemid=613)

## 3. Business Opportunities in Djibouti

### 3.1 Port development

Nowadays, large investments are taking place in Djibouti's port. The coming 3 years, the port authorities are planning to invest over US \$6.081 billion on the development of ports and maritime related business activities in and around Djibouti's capital, Djibouti city<sup>9</sup>. Already, 43% of the total amount has been secured. The major portion of the country's revenues (almost 75%) is generated from international and transit port activities through various transit and harbor taxes. With a distance of 18 meters draught and a container terminal designed for container carriers of the sixth generation, the port of Djibouti is one of the largest ports in Africa.

The port of Djibouti imports bulk and bagged goods and containers, processes 4,5 million tons of traffic a year, and employs about 900 people. From 2007 to 2011 the number of ships visiting the port of Djibouti increased from 1400 to 1730. 40% was container shipping, 22% naval shipping and 9.9% general cargo. The port of Djibouti is world class and the ISO 28000 certification proves that Djibouti is able to provide a safe and secure environment for customers, employees and visitors.

In 2012, the Djiboutian government in collaboration with DP World started construction on the multi-purpose Doraleh Container Terminal, a third major seaport intended to further develop the national transit capacity. A \$396 million project, it has the capacity to accommodate 1.5 million twenty foot container units annually, with a container storage area of 700 000 m<sup>2</sup><sup>10</sup>. The new developments in the container port of Doraleh will provide multipurpose facilities to relieve the main Port of Djibouti and also include a four km long quay with 15 berths to handle 29 million tons of cargo per year. Djibouti ports and Free Zones Authority has plans for a US \$5.88bn investment in the country's ports and associated infrastructure. This includes the further expansion of the DCT, which will enable the accommodation of three million containers per year by 2015, a doubling of capacity. This expansion will make the DCT the largest terminal on the continent.

#### Opportunities in Port Development

- December 2012, Djibouti and Ethiopia laid the cornerstone for a new US\$ 61 million port in Tadjoura, designed to ship potash from northern Ethiopia;
- February 2012, Djibouti, Ethiopia and South Sudan signed a tripartite Memorandum of Understanding (MOU) to build an oil pipeline from South Sudan to Djibouti port via Ethiopia;
- November 2012, Djibouti and China Exim Bank signed a US\$ 64 million loan to build a mining terminal to export salt from Lake Assal;
- Air transportation is also a growing sector with the entry of Turkish Airlines in September 2012 and Egypt Air in March 2013<sup>11</sup>.

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<sup>9</sup> presentation, Chairman of the Djibouti ports & free Zones Authority

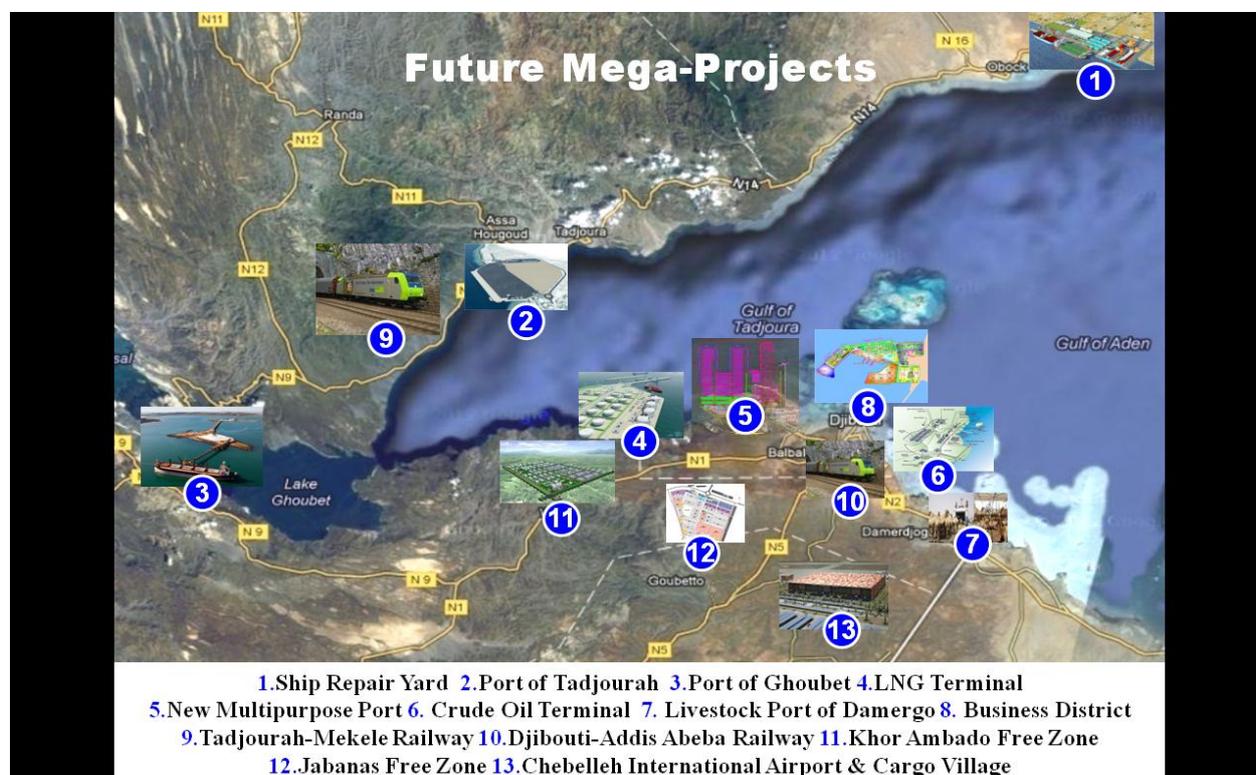
<sup>10</sup> <http://www.aaefrica.org>

<sup>11</sup> <http://m.state.gov/md204631.htm>

Table VI below shows a summary of development projects in Djibouti ports, Free Zone and Maritime related business activities.

Projects	Start of studies	Start of projects	Finance
Livestock port Damerjog	3 <sup>rd</sup> quarter 2013	2013-2014	Not yet secured
Port of Ghoulet ( export of salt from Lake Assal	Completed	1 <sup>st</sup> quarter 2013-2015	Secured
Port of Tadjourah ( potash/mineral)	Completed		
Phase I		2012-2014	Secured
Phase II		2015-2016	Not yet secured
Oil Port	2012	2013	Secured
Crude Oil Terminal	End of 2013	2014	Secured
Khor Ambado Free Zone	End of 2013	To be determined	Not yet secured
Djibouti Shipping Company	4 <sup>rd</sup> quarter of 2012	2 <sup>nd</sup> quarter 2013	Not yet secured
Ship repair & Drydocks	2013	2013-2016	Not yet secured
Development activities of the fishing port	2013	2013-2015	Secured
Chebelleh Airport & Cargo Village	1 <sup>st</sup> quarter of 2013	2013-2016	Secured
Jabanas Free zone	2012-2013	2013	Secured
Doraleh Terminal			
Phase I b	Completed	2013	Secured
Phase II	In progress	2013-2014	Secured
New multi-purpose Port ( port of Djibouti)	3 quarter of 2013	2014-2015	Secured
Business district	Under study	Under study	Under stud

Source: UK-Djibouti, Trade & Investment Forum, London May 8<sup>th</sup> 2013



### 3.2 Agro-logistics

Agro-logistics are very important, especially when considering Djibouti's hinterland Ethiopia. Djibouti's port is for 70 % occupied by import and export activities to and from Ethiopia, containing for a large part agricultural products. Moreover, an expected development is that other countries like South-Sudan will also depend more on Djibouti port in the future.

An important development in agro-logistics is the increasing shift from airfreight towards reefer transport. Cooled road containers and ships with on board cooling facilities (or use of the same containers as for air transport) will be used for this kind of transportation. This provides a good business opportunity for Dutch companies to step in. Through this development, transport over land and sea has become more attractive for companies in a number of agri-business sectors, e.g. horticulture, crop management, livestock products, etc. Several Dutch companies have a large interest in this new development in logistics and would strongly benefit from solid agreements with the Djibouti Port Authorities about the reefer transport.

Opportunities:

- The shift from air freight towards reefer transport, with cooled road containers;
- Cooling systems; both cooling systems used during transportation but also in-port cooling systems;
- Trucks and ships for the transport of goods;
- Ship/truck related servicing or supplying companies.

### 3.3 Financial services

According to the US think tank the Heritage Foundation's annual Economic Freedom index, Djibouti ranked 40<sup>th</sup> in terms of financial freedom – well above the world average and the country's overall ranking of 127<sup>th</sup>.

The government is very keen on developing the financial sector. It offers access to a growing domestic market for financial services but as well for international shipping operations, neighboring countries and the 19 member states of the COMESA, a marketplace for a population of over 389 million. The strong growth of the economy and existence of a liberal economic regime creates a supportive environment for the expansion of financial services.

The financial sector represents 13 % of GDP of 2011 and reserves are estimated to be over US \$600mn. The financial sector continues to expand with the arrival of two new banks in 2010, bringing the total of banking institutions in the country at 11 in 2014, compared to only two in 2006. **This means that in five years time, the financial sector has grown with 9 banks.** Increasing competition for banking services, did cause a fall in interest rates, they however remain relatively high, at 15% for overdrafts, 10% for property loans and 12% for low risk credit. Bank deposits were boosted due to the fact that employees earning more than 40,000DJF are obliged to open a bank account.

The two oldest banks still hold 85% of total assets. The country's major banking institution is "*the central bank of Djibouti*" (CBD), responsible for the monetary regulation and technical oversight of the banking and financial system. And the second banking institution is "*Banque pour le Commerce et L'Industrie*" ( BCIMR) , for 57% partly owned by French Banking organization Groupe Banque Populaire, 33% owned by the Djiboutian Government and 16% owned by the Yemeni Bank.

The IMF approved the US 20mn Poverty Reduction and Growth ( EFC) Facility in 2008. This programme is focused on monetary and financial sector development, strengthening of banking supervision and regulation and increasing access to financial services.

#### Opportunities:

- Free convertibility of the Djibouti franc;
- Absence of foreign exchange controls;
- Free movement of capital are also pull factors;
- policy to facilitate access by enterprises to domestic credit would leverage their growth and the employment-generating potential of SMEs/SMLs;
- Djibouti's financial services sector continues to grow.

### 3.4 Infrastructures

The Horn of Africa nation, which is seeking to become a middle-income nation by 2035, plans to develop rail links, ports, and oil and gas pipelines, Djiboutian Ports and Free Zones Authority Chairman Aboubaker Omar Hadi said in an interview 8<sup>th</sup> may 2013, London.

The 2012 African Economic Outlook (AEO) Report, noted that improvements in the population's living conditions, particularly the reduction of poverty levels, are major challenges. In response to this, the government embarks upon a far-reaching infrastructure development plan designed to diversify Djibouti's economy. A recent positive political step in support of this plan is a 2012 tripartite partnership agreement between Ethiopia, South-Sudan and Djibouti. This agreement stands for the construction of road, railway and oil transport networks.

Road infrastructure is very undeveloped. It has approximately 3000km of road, of which less than 400km are paved. During the 18 African Union (AU) summit in 2012, a trans-African highway was proposed as part of the New Partnership Development ( NEPAD)<sup>12</sup>. It would link Dakar to Djibouti, crossing multiple countries such as, Mali, Burkina Faso, Niger, Nigeria, Cameroon etc. This highway is expected to help support the development of road transport in Africa. This would lead to freer movement of goods and people, improving the imports and exports, strengthen the intra-Africa trade and motivate the greater complementarities between the road and railway networks on the continent.

Railway network is jointly owned by the Ethiopian governments, and is the only railway network Djibouti has. It is a 781km line but unfortunately no longer operating. Ethiopia and China have signed a US \$1.5bn agreement to build a 268km railway. This will connect the northern part of Ethiopia with the under construction port at Tadjourah, Djibouti.

An Oil refinery is planned to be build in Djibouti's Port. According to the government of Djibouti, talks are under way for a \$600 million oil refinery that will allow for the import of crude oil from South Sudan by pipeline. The finished products are planned to be sold in East Africa. There are ongoing discussions with a Turkish and a Chinese company, but DPFZA is interested in talking to more potential partners. South Sudan signed an agreement with Ethiopia and Djibouti to build an oil pipeline that would reduce its dependence on crude shipments via neighboring Sudan<sup>13</sup>. Furthermore, the second phase of the Oil Terminal Construction phase has started in the last quarter of 2013.

#### Opportunities

- Air Djibouti is on course for launch in April 2014 for cargo and June 2014 for passenger transport<sup>14</sup>
- Doubling the capacity of Doraleh container port

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<sup>12</sup> Investing in djibouti report 2013

<sup>13</sup> <http://www.bloomberg.com/news/2013-05-08/djibouti-to-raise-5-9-billion-from-investors-forinfrastructure.html>

<sup>14</sup> Proposal Djibouti Trade mission19-12-2013

### 3.5 Fishery

The primary sector, including agriculture, livestock, forestry and fishing, has recorded an annual growth of 3.5% of GDP in 2010. However, this is an area deemed with high priority by the Government in its strategy against poverty and improving food security<sup>15</sup>.

The main fish products that are exported are salted anchovies and sardines. There are two factories processing fish for the international market (located in Djibouti) and these will need accreditation as exports are facilitated to the Europe and elsewhere. The majority of fishermen (95%) use boats mostly 6 to 8 m long, fibreglass, equipped with outboard engines of 25 to 40 horses. The crew exists out of 3-4 fishermen. Currently, the fishery sector has about 3 600 workers of which 600 are distributed among five fishermen.

The under-exploitation of fishery resources is due to the limited number of boats, non-mastery of appropriate fishing techniques and low level of training of fishermen.

The sector receives monetary aid from different sources to exploit the potentiality of the fisheries in Djibouti. The African Development bank for example provides a loan for the Djibouti Agriculture Integrated Fisheries Development Project. This project aims at the development of fishing ports and also to the making of a food standards laboratory.

Whilst there is no national fisheries policy a number of national development documents clearly state government policy for the sector. The National Initiative for Social Development (NISD) includes objectives for the sustainable management of marine resources matched by improvement of fishing income and job creation through the development of exports with accompanying improvements of food security<sup>16</sup>.

#### Opportunities

- An annual production of 1500 tons (2011);
- A potential of fishing estimates of 47 000 tons a year (Only 4.2% of the potential, or 2,000 tonnes per year, is exploited);
- Relatively low capital inflow for the small-scale fishing but with good profitability;
- Possibility of exports to the sub-region countries.

*"There is plenty of fish in the Red Sea & Golf of Aiden. Unfortunately is has reduced a little because of piracy but pirates are no longer on these waters. The sector is yet underdeveloped but has great potential to grow. Nowadays many Spanish companies are fishing in the waters". – Jan Abbink, Specialist East Africa, African Studie Centre*

<sup>15</sup> [http://www.djiboutinvest.com/index.php?option=com\\_content&view=article&id=297&Itemid=606](http://www.djiboutinvest.com/index.php?option=com_content&view=article&id=297&Itemid=606)

<sup>16</sup> <http://acpfish2-eu.org/index.php?page=djibouti-fr>

## 3.6 Energy

Djibouti has extensive problems with infrequent power supplies and power cuts of energy. Mainly to the ongoing expansion of the port facilities and a lack of natural sources and capacity. The development of the sector is highly priority as well as to establish a department of Rural Electricity Management within the Minister of Energy. Thus, it will need major FDI. Djibouti's power system has been very depended on imported petroleum for Ethiopia, resulting in very high costs. In 2002, the two countries made an agreement to implement an electricity interconnection project giving Djibouti an access in Ethiopia's hydropower. In 2011 the interconnection was completed and they are currently in the second phase of developing a second interconnection, financed by AFDB for 250km, 230kV line between Kika and Dire Dawa. This led to reduction in retail and industrial domestic tariffs. For example, poor households got a reduced tariff by 30% for their cost of energy in 2013.

### 3.6.1 Geothermal power plant

The Global Environmental Facility, World Bank and Organization of Petroleum Exporting Countries have collaborated to set up a 56 megawatt geothermal power plant to be completed by 2018. This will reduce the country's dependence on Ethiopia for power. Oil imports currently account for 20% of Djibouti's total imports<sup>17</sup>.

### 3.6.2 Geothermal energy

The World bank's International Finance Corporation (IFC) and Iceland's Reykjavik Energy Invest (REI) signed an agreement to develop and explore geothermal resources at Lake Assal. This project will replace some of the electricity grid which runs now on diesel. To export this idea to other sites is in the planning and attracting potential investors from Turkey, India and China.

### 3.6.3 Wind farms

The government stated that the country would like to become a regional distribution centre for energy in the COMESA region by investing in renewable, especially in geothermal, wind and solar power. Successful studies for the development of wind farms already has been adopted at Ghoubbet/Assal, Gali Maab Wein and Bada. The agency for social development placed small solar projects to equip schools and homes with photovoltaic panels.

### 3.6.4 Solar energy

The country has great potential to develop solar energy on a much bigger scale then so far has been developed. This is due to the extreme high level of solar radiation, 3500 hours per year and exhibitions of sunshine 2300kWh per square meter per year. The government has as set a target to achieve 30% electrification of the rural population by solar photovoltaic's by 2013.

### 3.6.5 Wind energy

Djibouti has considerable potential for wind energy. Studies from the '80's shows that the average wind speeds peaks at 4m/s. in 2012 Djibouti planned to construct a US100mn wind farm and water desalination facility in the port of Doraleh, predicting that the output would be 20mw per day. The European Development Fund has pledge to support this project with US 25mn.

### Opportunities

- Djibouti has unexploited renewable energy resources (geothermal, wind, and solar);
- 2012, Djibouti's President pledged to make a full transition to renewable energy by 2020.

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<sup>17</sup> www.aaeafrica.org

### 3.7 Tourism

With a coastline of 370km lined by coral formations and reefs teeming, Djibouti is a great place for scuba diving. It is ideal for travelers seeking for diverse landscapes and rich eco-systems. The NIPA sees the tourism sector as one the main sectors to invest.

The Djibouti International Airport estimated that the number of foreign visitors was 58,425 in 2009. Most of the tourist come from Europe, especially France, which is close to 70% of tourist trade. 6% of the tourists are local and 5% comes from Asia, mainly from Japan. By 2030, the country predicts to accommodate up to 500,000 tourists.

Kempinski Djibouti Palace hotel \*\*\*\*\*, with investments from the Gulf, the country's first five star resort was opened in the capital in 2006. The hotel, which is now managed by the Kempinski Group. In 2009, the hotel was further expanded. The hotel rooms increased from 117 to a total of 254, and 55 furnished apartments. The hotel hosts various foreign delegations, regional symposiums and tourists, largely from the Arab world, and luxury accommodations for the growing number of military and business travels through the city.

#### Opportunities

- A large resort hotel complex, managed by the Kempinski Hotel Group, opened in 2006;
- Unique ecotourism and dive tourism opportunities exist but are underexploited;
- New hotels, holiday resorts, lodges etc;
- Creating parks, marinas and divertissement centers for tourists and local people<sup>18</sup>;
- The expansion of Dolareh port leads to increasing number of business tourists ( investors) and developments in the travel and tourism industry;
- Reduce poverty by creation of jobs and businesses;
- Marina fauna among the richest to the world;
- Cultural diversity due to cosmopolitan communities.

### 3.8 Other opportunities for investment<sup>19</sup>

- Electricity shortages, high interest rates and high inflation booming at around 4%, have formed significant barriers to investment. Local authorities have taken steps in order to ease processes and encourage investment in the private sector. They have brought in policies to ease tax implications for businesses, and are beginning to grant exemptions on consumption tax;
- The Djiboutian Franc is a stable currency. The exchange rate policy in the country is designed around maintaining a fixed parity with the dollar. This supports regional investors and assures them some financial security;
- Primary sector agriculture is highly underdeveloped with little investment and the high dependence of the country on imports for its food requirements. Agriculture contributes around 3.5% of total GDP. Investment is required to educate people about modern agricultural techniques for irrigation, storage etc.

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<sup>18</sup> NIPA National Investment Promotion Agency

<sup>19</sup> <http://www.aaeafrika.org/start/current-development-projects-and-future-opportunities-in-djibouti/>

## 4. Business Climate

*“ We are determined to move Djibouti to a middle-income country by the year 2035, and the indicators show that steady progress is being made towards that objective – for example, an enabling business environment that promotes a thriving and vigorous private enterprise, comprising both large- and small-scale enterprises”- President Ismail Omar Guelleh announced in the foreword of “investing in Djibouti 2013” report.*

Globally, Djibouti stands at 127 in the ranking of 189 economies on the ease of starting a business. Starting a business there requires 9 procedures, takes 17 days and costs 184.7% of income per capita and requires paid-in minimum capital of 0.0% of income per capita. Djibouti made starting a business easier by simplifying registration formalities and eliminating the minimum capital requirement for limited liability companies<sup>20</sup>.

Djibouti’s economy faces major structural bottlenecks. The country remains largely dependent on the economy of its neighbors. Energy supply costs remain very high and, despite the country’s vigorous growth, new infrastructure construction does not really create employment for the largely unskilled local populations, plagued by high unemployment and poverty rates.

Djibouti maintains good political relations with its neighbors, especially with Ethiopia, strengthened by their economic interdependence. The country is also strongly supported by the western powers due to its strategic position in the region. Djibouti indeed remains an essential base for combating terrorism and piracy because of its proximity to Somalia, the Yemen and the Gulf of Aden. The country thus hosts the only US military base and biggest French military base on the African continent.

*“For Dutch companies investing in Djibouti it is very important to negotiate good terms of condition due to the minimum of transparency”. – Jan Abbink, specialist East Africa, African Study Centre.*

### Strengths

- Trans-regional transshipment hub;
- investments and modernizations of port infrastructures;
- Substantial foreign direct investment inflows;
- Geo-strategic location at the entrance to the Red Sea and strong support from the;
- international community.

### Weaknesses

- Heavily dependent on neighboring countries;
- Substantial budget costs;
- Widespread poverty and unemployment;
- Food insecurity in rural area;
- Inadequate business environment.

### **Business Climate rating<sup>21</sup>: D**

The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in the highly risky environments rated D\*\*\*.

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<sup>20</sup> Doing business in Djibouti Report 2014

<sup>21</sup> <http://globaleledge.msu.edu/countries/djibouti/memo>

\*\*\* Coface analyses use a seven-level ranking. In ascending order of risk, these are: A1, A2, A3, A4, B, C and D.

## 5. Practical information

### Spoken language

French and Arabic are the official languages. Afar and Somali are the two inland dialects.

### Weather

The climate is hot, and from May until September has average daily temperatures of about 40°C. The cooler season (including occasional rain) runs from mid-October to mid-April, when temperatures average 25°C. This is the ideal time to visit Djibouti, when the stifling heat is over.

### Time difference

Netherlands has 2 hours less than Djibouti in winter and 1 hour in summer.

### Required travel documents

A visa is mandatory to enter Djibouti. Travel within the three months following the date of issue of your visa. Allowance to stay on the territory for 90 days. Passport must be valid for six months after return date and return ticket will be requested.

### Currency

The currency is the Djibouti Franc (DJF), 1 EUR = 246.062 DJF. Credit cards (Visa and MasterCard) and travelers cheques are accepted in large hotels, for car rental payments and in travel agencies in Djibouti city, but not further out in the country. There are no ATM machines but it is possible to withdraw money at banks using a Visa card. Banks are open in the morning from 7.00am to 11.30am and close in the afternoon and on Fridays and Saturdays.

### Local transportation

The city of Djibouti has plenty of taxis, that can be used at a reasonable price and without too much negotiation. For buses, the price is 30 DJF. They follow a fixed route but will stop if asked.

### Taxes & tips

Taxes and services are included in the rates, and leaving a tip is not common practice in Djibouti.

### Vaccinates

The following vaccines are not mandatory but recommended: yellow fever, tetanus, poliomyelitis, diphtheria, typhoid, hepatitis's A and B. Tap water isn't recommendable.

### Flights

There are no direct flights from the Netherlands to Djibouti. In the chart below the number of airlines are outlined including stops and flight duration. The best way is to fly with Air France due to the 1 stop and short flight duration.

Airline	1+ stop	Duration
Air France	Paris	10 - 14 hours
Egypt air <i>new</i>	Cairo & Addis Ababa	14 - 20 hours
Lufthansa	Frankfurt & Addis Ababa	14 - 20 hours
Turkish Airlines <i>new</i>	Istanbul & Addis Ababa	14 - 20 hours
Emirates Airlines	Dubai & Addis Ababa	14 - 20 hours
Kenya Airlines	Nairobi & Addis Ababa	14 - 20 hours

### **Useful numbers:**

Police: 17  
Fire brigade: 18  
Hospital Centre of the Army: 35.13.51. extension 4081  
Emergency services: 35.24.35  
Embassy: 35.09.63

**Holidays 2014**

January 1	New Years Day
January 13	Birth of the Prophet Muhammed
May 1	Labour Day
may 27	Independence Day
July 28	End of Ramadan
October 4	Feast of Sacrifice
October 25	Islamic New Year
December 25	Christmas Day

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