U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

Executive Summary

Djibouti is a country with few resources and recognizes the crucial need for foreign investment to stimulate economic development. The country's assets include a strategic geographic location, Free Zones, an open trade regime, and a stable currency. Djibouti has identified a number of priority sectors for investment, including transport/logistics, financial services, energy, and tourism. Djibouti's investment climate has improved in recent years, most notably through adoption of a new commercial code in 2011. There are, however, a number of reforms still needed to create a "friendlier" business environment.

Foreign direct investment totaled 21% of Djibouti's GDP in 2012. In the nineties, Djibouti's economy was weakened by an influx of refugees, a persistent droght, a four-year civil war, and a substantial decrease of foreign aid. In recent years, intensive port activities, changes in tax and labor codes, and an influx of foreign direct investment have significantly improved Djibouti's economy. Real GDP growth has remained between 4% and 5% per year for the last five years, and inflation has dropped from 7% in 2009 to 4% in 2012. Growth is expected to remain above 5% for the next five years.

Djibouti has made strides in various areas measured in the World Bank's "Doing Business" reports, moving up 12 spots from its 2013 ranking. Notable improvements include making starting a business easier by simplifying registration formalities and eliminating the minimum capital requirement for limited liability companies. In addition, Djibouti adopted a new commercial code, which broadens the range of movable assets that can be used as collateral to obtain credit.

The business environment in Djibouti would benefit from significant reforms to its legal and regulatory framework. Other reforms needed include simplifying the tax code, especially for small businesses, and streamlining the institutional procedures for investment. Economic development is currently hindered by high electricity costs, unemployment, lack of skilled workforce, regional instability, and a need to diversify the economy.

Djibouti belongs to a number of regional organizations, including the Inter-Governmental Authority on Development (IGAD) and the Common Market for Eastern and Southern Africa (COMESA), which groups 19 countries into a common market of more than 300 million people. 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.

1. Openness To, and Restrictions Upon, Foreign Investment

Djibouti's laws encourage foreign investment. There is no screening of investment or other discriminatory mechanisms. Navigating the bureaucracy, however, can be complicated. Certain sectors - most notably public utilities - are state-owned and are not open to investors.
Djibouti's National Investment Promotion Agency (NIPA), created in 2001, promotes private-sector investment, facilitates investment operations, and works to modernize the country's regulatory framework. –The Ministry of Finance oversees NIPA. NIPA assists foreign and domestic investors by disseminating information and streamlining administrative procedures. Its ultimate goal is to serve as a one-stop shop for investors. NIPA identifies fishing, banking, insurance, tourism, housing, livestock, health, infrastructure, renewable energy and manufacturing as priority sectors for investment.
Djibouti will undergo a World Trade Organization (WTO) Trade Policy Review in October 2014. The United Nations Committee on Trade and Development conducted an Investment Policy Review in 2013.
(http://unctad.org/en/PublicationsLibrary/diaepcb2013d1summary_en.pdf).

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	94 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	118 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	160 of 189	http//doingbusiness.org/rankings

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or $4,085 or less. Djibouti's scorecard is available at http://www.mcc.gov/documents/scorecards/score-fy14-english-dj-djibouti.pdf. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf

2. Conversion and Transfer Policies

Djibouti has no foreign exchange restrictions - businesses are free to repatriate profits. There are no limitations on converting or transferring funds, or on the inflow and outflow of cash. The Djibouti franc, which has been pegged to the U.S. dollar since 1949, is stable. The fixed exchange rate is 177.71 Djibouti francs to the dollar.

3. Expropriation and Compensation

Foreign industries enjoy the same benefits as domestic industries under Djibouti's investment code. Djibouti's Investment Code stipulates that "no partial or total, temporary or permanent expropriation will take place without equitable compensation for the damages suffered." The Embassy is not aware of any recent act of expropriation or compensation related to foreign companies.

4. Dispute Settlement

Djibouti's legal system is based on French law, and consists of three courts: a Court of First Instance presided over by a single judge; a Court of Appeals, with three judges; and the Supreme Court. International lawyers practicing in Djibouti have reported effective application of maritime and other commercial laws, but there have been reports in the past from foreign companies operating in Djibouti that court deliberations were biased or delayed. Djibouti's rule-of-law is weak as it relates to business disputes involving non-Djiboutians. Foreigners may be pressured to quickly resolve disputes in favor of Djiboutians. Djibouti is a member of the International Center for the Settlement of Investment Disputes.

5. Performance Requirements and Investment Incentives

Performance requirements are not a pre-condition for establishing, maintaining, or expanding foreign direct investments. Incentives do, however, increase with the size of the investment and the number of jobs created. Tax benefits and incentives fall under two categories detailed in the investment code. Investments greater 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. Imported raw materials used in manufacturing are exempted from the internal consumption tax. These exemptions apply for up to a maximum of ten years after production commences. Investment matters fall under the jurisdiction of the national investment board, which approves all investments.

Foreign investors are not required by law to have a local partner except in the insurance industry and only if the company is registered as a local company and not a branch of an existing foreign company. Djibouti offers significant incentives to private-sector individual and corporate investors when establishing a company within its Free Zone. Establishing a local company outside the Free Zone is significantly more time-consuming. The Djiboutian investment code guarantees investors the right to freely import all goods, equipment, products, or material necessary for their investments; display products and services; determine and run marketing policy and production; choose customers and suppliers; and set prices. Foreign investors are also free to determine their own hiring and firing policy as long as it remains within the structure of the labor code, which strongly favors the employee.

6. Right to Private Ownership and Establishment

Djiboutian laws guarantee rights for foreign and domestic private entities to establish and own business enterprises. Legally established private-sector companies have the same access to markets, land ownership, credit, and other business facilities as public enterprises. Although restrictions on private enterprises are minimal, competitive equality in regard to public enterprises, namely public utilities, remains limited.

7. Protection of Property Rights

Djibouti's legal system officially protects the acquisition and disposition of all property rights and safeguards intellectual property. However, intellectual property rights are rarely enforced. Trade involving counterfeit products occurs mostly in the informal market, which is not controlled or monitored by the government. The Djiboutian Office of Industrial and Commercial Property (ODPIC), created in April 2009, controls patent and trademark registration for companies and industries. Intellectual property falls under the authority of the Ministry of Communication.

Djibouti ratified the World Intellectual Property Organization (WIPO) convention, the Paris Convention on the Protection of Industrial Rights, and the Bern Convention on the Protection of Literature and Art Works.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Emily Stoll StollEM@state.gov
The local lawyers list is found in the Doing Business section:
http://djibouti.usembassy.gov/doing-business-local.html.

8. Transparency of the Regulatory System

With guidance from the International Monetary Fund, the Government of Djibouti is making progress toward improving the transparency of its regulatory system. The Chamber of Accounts and Fiscal Discipline (CAFD) has the authority to verify and audit all public establishments for transparency and accountability, and to implement necessary legal sanctions. The CAFD has reported on cases of lack of transparency and accountability in government agencies.

9. Efficient Capital Markets and Portfolio Investment

Two large banks - Bank of Africa (BOA) and Bank for Commerce and Industry – Mer Rouge (BCI-MR) dominate Djibouti's banking sector. While these two banks account for the majority share of deposits in-country, they face competition from nine other banks, all established in Djibouti between 2006 and 2011. Djibouti's nine new commercial banks are: the Malaysian International Commercial Bank; the Saba Islamic Bank of Yemen; the Bank of Deposits and Credits of Djibouti, a bank backed by Swiss capital; Salam African Bank, an Islamic bank with shareholders from East Africa; the Agricultural Bank of Yemen, Dahabshil Bank International, an Islamic bank owned by Dahabshill Money Transfer, Shura Bank from Egypt, and an Iraqi bank, WARKA Bank; Exim Bank from Tanzania. In March 2014, the Central Bank issued a license to a new bank, Djibouti Commercial Bank, whose shareholders are based in Dubai. Credit is allocated on market terms, and foreign companies do not face discrimination in obtaining it. Generally, however, only well-established businesses obtain bank credit, as the cost of credit is high.

Credit to the private sector represented 32% of GDP in 2012. The percentage of the population with access to banking services was 12% in 2012, and deposits in banks totaled 193 billion Djibouti Francs (US$1.09 billion).

10. Competition from State-Owned Enterprises

State-owned enterprises control telecommunication, water, and electrical distribution in Djibouti. Major print, television, and radio outlets are also state-run. Other state-run services, such as municipal garbage collection and real estate, do not hold legal monopolies but are afforded material advantages by the government (i.e. government-backed loan guarantees for the real estate sector).

Senior management of state-owned enterprises report directly to line ministers, as well as an Administrative Council. State-owned enterprises are required by law to publish an annual report. The Chamber of Accounts and Fiscal Discipline is charged with auditing state-owned enterprises.

11. Corporate Social Responsibility

There is nascent but growing awareness among both companies and consumers in Djibouti of internationally accepted corporate social responsibility standards.

12. Political Violence

Djibouti offers a stable political environment when compared with neighbors Somalia, Eritrea, and Yemen. The country does not have a history of politically motivated damage to projects or installations. Disputes over the results of the 2013 legislative elections, and the subsequent imprisonment of charismatic religious figures associated with the political opposition, led to low-grade civil unrest that continues in certain neighborhoods of Djibouti City. Political opposition groups are expected to continue to mobilize in advance of the 2016 presidential election, creating the possibility of continued civil disturbance. An on-going border dispute with Eritrea, which led to fighting in 2008, remains a source of instability in northern Djibouti.

13. Corruption

No U.S. firms have specifically noted corruption as an obstacle to direct investment in Djibouti, although corruption is seen as one of the typical hurdles to be overcome when doing business in the region. Officially, Djibouti has laws and regulations prohibiting corrupt practices, but consistent prosecution and punishment for corruption is rare.

There are two government entities responsible for investigating corruption and enforcing the regulations. The State General Inspection (SGI) is tasked with ensuring human and material resources in the public sector are properly utilized. The Chamber of Accounts and Fiscal Discipline (CAFD) has the authority to verify and audit all public establishments for transparency and accountability, and to implement necessary legal sanctions. While both institutions are mandated to produce annual corruption reports, these are rarely completed in a timely fashion.

14. Bilateral Investment Agreements

Djibouti has several bilateral investment agreements with France, China, Ethiopia, Yemen, Egypt, Malaysia, Sudan, South Sudan, and India.

Other treaties to which Djibouti is a party include:

- Partnership Agreement between the Members of the African, Caribbean and Pacific Group of States (ACP)
- Agreement for the Promotion, Protection and Guarantee of Investment Among Member States of the Organization of Islamic Conference
- Articles of Agreement of the Islamic Corporation for the Insurance of Investment and Export Credit
- Unified Agreement for the Investment of Arab Capital in the Arab States
- Arab Authority for Agricultural Investment and Development

15. OPIC and Other Investment Insurance Programs

Djibouti is eligible for Overseas Private Investment Corporation (OPIC) programs. Djibouti is a member of the Multilateral Investment Guarantee Agency (MIGA), which guaranteed the construction of the Doraleh Container Terminal in 2009.

16. Labor

Djibouti has complicated labor laws that favor the employee, especially in the areas of disputes and termination.

Vocational and professional training facilities remain limited. Skilled Djiboutian workers - especially in highly demanded trades such as construction - are in short supply. Unskilled labor is widely available. The Government of Djibouti has launched an initiative to audit foreign workers in Djibouti. The goal of this initiative is to put more Djiboutians to work by replacing them in low-skill jobs currently held by foreign nationals. As a result of this initiative, obtaining a work permit for foreign workers has become more onerous. In December 2013, the cost for a work permit increased from 20,000 Djibouti francs (USD 112) to 200,000 Djibouti francs (USD 1,124). The National Agency for Employment, Training, and Professional Integration (ANEFIP) maintains a database of Djiboutian job-seekers and issues work permits to foreign workers.

The Government of Djibouti, Port of Djibouti, and Camp Lemonnier are the country's top employers. There are limited private sector employment opportunities. Minimum wage is USD 250 per month. By law, all employers are obligated to make social security payments on behalf of their employees, through the National Council for Social Security. Two large labor unions exist in Djibouti, but only the Djiboutian Workers Union (UDT) is recognized by international organizations.

Widespread use of the legal narcotic khat substantially impacts both employee performance and family incomes. Reports show that over half of the Djiboutian male population consumes khat. Khat chewing begins around noon and lasts well into the afternoon. Work productivity during that time period is significantly decreased.

17. Foreign Trade Zones/Free Ports

The Djibouti Free Zone (DFZ), located on 40 hectares, offers office space, warehouses, light industrial units, and hangars. Businesses located in the Free Zone do not pay corporate taxes and receive other benefits such as assistance obtaining work permits and visas. Currently, more than 160 companies, comprising 39 nationalities, operate out of the Free Zone. In December 2013, the DAM Commercial Free Zone opened in the Damerjog region, south of Djibouti City. There are plans to build two other free zones, the Khor Ambado Free Zone and Jabanas Free Zone, in the coming years.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*			2011 2012	\$1244.00 \$1359.00	Source: *Rapport Annuel Sur la Situation Economique et Sociale, Ministere de l'Economie et des Finances,* 2013

Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
Total inbound stock of FDI as % host GDP	2012	21%			Source: Djibouti National Investment Promotion Agency

19. Contact Point at Post for Public Inquiries

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