DJIBOUTI
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

Djibouti, a country with few natural resources, recognizes the crucial need for foreign investment to stimulate economic development. The country's assets include a strategic geographic location, tax incentives favorable to business, Free Zones, an open trade regime, and a stable currency. The government of Djibouti (GoDj) has identified a number of priority sectors for investment; transport/shipping, services (logistics and port-related), energy, tourism, and fishing. 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 further promote investment.

The IMF has projected GDP growth at or above 5 percent annually for the next several years. In the 1990s, Djibouti's economy was weakened by an influx of refugees, a persistent drought, a four-year civil war, and a substantial decrease of foreign aid. Recent years have seen a significant improvement driven by intensive expansion of the port, changes in the tax and labor codes, and an influx of foreign direct investment (totaling 19.7 percent of Djibouti's GDP in 2013). Real GDP growth has remained between 4 percent and 5 percent per year for the last five years, and inflation has remained below 8 percent.

Djibouti has made strides in various areas measured in the World Bank's, Doing Business reports, moving up 12 spots in 2014 and one spot in 2015. Notable improvements include making it easier to start a business, 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.

Several new infrastructure projects are scheduled to begin in the next 1-2 years. Many of those projects are Chinese-funded with tied loans. Several other projects will have open tenders, for example the upcoming expansion of the Horizon Oil Terminal, which will have two tenders totaling roughly 150 million USD. Additional large infrastructure projects are already in progress, in most cases financed by Chinese banks.

The business environment in Djibouti would benefit from significant reforms to its legal and regulatory framework. Needed reforms include: simplifying the tax code, especially for small businesses, and streamlining the procedures for investment. In addition, the adoption of a new investment code based on international best practices is necessary as indicated by UNCTAD in their investment policy review of Djibouti (http://unctad.org/en/PublicationsLibrary/diaepcb2013d1summary_en.pdf).

Economic development is 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 least developed African countries with the option of entering the European Union Generalized System of Preferences.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Djibouti’s laws encourage foreign investment, with state-run media providing favorable coverage of projects funded by foreign entities.

There is no screening of investment or other discriminatory mechanisms. Navigating the bureaucracy, however, can be complicated. Foreign investment in Djibouti is constrained by inadequate investor protections, difficulty in obtaining credit, and lengthy procedures for creating a new business. Certain sectors - most notably public utilities - are state-owned and are not open to investors. In March 2015, however, the Djiboutian government approved a bill liberalizing the production of electricity. The state-owned Djibouti Electricity (EDD) has had a monopoly on electricity production for decades. The bill will begin the process of opening this sector to competition, though this will likely be slow, as EDD will retain all rights to the transmission and distribution of electricity. Nonetheless, the liberalization of production is a positive step towards promoting private investment in the energy sector.

Recently, the government issued a decree that regulates the maritime transport sector. The decree transfers authority to issue licenses for stevedoring, transit, and maritime companies from the Ministry of Transport to the Free Zone and Port Authority. The decree introduced the payment of an USD 85,000 deposit to the National Treasury as a precondition for license renewal. This measure will likely restrict investment in this sector.

Djibouti's National Investment Promotion Agency (NIPA), created in 2001 under the Ministry of Finance, promotes private-sector investment, facilitates investment operations, and works to modernize the country's regulatory framework. NIPA assists foreign and domestic investors by disseminating information and streamlining administrative procedures. To simplify the process, Djibouti seeks to use the post office as a one-stop-shop where new business owners can register their company with all the appropriate government agencies. This will be in coordination with NIPA. NIPA has identified several priority sectors for investment, including infrastructure and renewable energy.

Other Investment Policy Reviews

As a World Trade Organization (WTO) member, Djibouti had its second review on trade policies and practices in 2014. The report found that manufacturing and agricultural sectors have remained weak, due to heavy taxation and the high costs of factors of production (labor and energy). Djibouti grants Most Favored Nation (MFN) status to its trading partners.
(For more information on the TPR go to http://www.wto.org/english /…/tp405_e.htm)

The United Nations Committee on Trade and Development also conducted an Investment Policy Review in 2013. (http://unctad.org/en/PublicationsLibrary/diaepcb2013d1summary_en.pdf).

Laws/Regulations of Foreign Direct Investment

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. Funds can be transferred by using banks or international money transfer companies such as Western Union, which are both monitored by the Central Bank.

Industrial Promotion

Performance requirements are not a precondition 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 USD 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.

Limits on Foreign Control

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 have some freedom 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.

Privatization Program

Djiboutian laws guarantee rights for foreign and domestic private entities to establish and own business enterprises. Legally established private-sector companies have access to markets, land ownership, credit, and other business facilities. Although restrictions on private enterprise are minimal in the sectors which are open to them, state monopolies in utilities, telecommunications, and media limit the available space for private sector growth.

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).

Within state owned enterprises, senior management reports to line ministers and the Administrative Council. SOEs are required by law to publish an annual report. The Court of Auditors is charged with auditing state-owned enterprises.

Screening of FDI

Not applicable.

Competition Law

In 2008, Djibouti adopted a new law on competition and consumer protection, which does not cover State-owned enterprises. Under this law, the GOD regulates prices in areas where competition remains limited, for example; postal services, telecommunications, utilities and urban transport services are all regulated by the State.

Investment Trends

Not applicable.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	107 of 175	**transparency.org/cpi2014/results**
World Bank's Doing Business Report "Ease of Doing Business"	2015	155 of 189	**doingbusiness.org/rankings**
Global Innovation Index	2014	N/A	**globalinnovationindex.org/content.aspx?page=data-analysis**
World Bank GNI per capita	2005	USD 1,030	**data.worldbank.org/indicator/NY.GNP.PCAP.CD**

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation MCC), a U.S. Government foreign aid agency focused on promoting growth in the recipient countries by emphasizing good economic policies such as free markets and low corruption. Developing nations must demonstrate positive performance in three key indicators; ruling justly, investing in people, and fostering economic freedom. In 2015 Djibouti was not deemed as eligible for Millennium Challenge Account (MCA) compact assistance. 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

Foreign Exchange

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. Funds can be transferred by using banks or international money transfer companies such as Western Union.

Remittance Policies

Information not available

3. Expropriation and Compensation

In Djibouti, both foreign and domestic companies enjoy the same benefits. 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 acts of expropriation against U.S. companies. There have been cases of other foreign companies facing indirect expropriation via the application of large fines, while other have had their concessions unilaterally revoked.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

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. Despite Djibouti’s participation as a member of the International Center for the Settlement of Investment Disputes, foreigners may still be pressured to quickly resolve disputes in favor of Djiboutians.

In February 2014, the Intergovernmental Authority on Development (IGAD), of which Djibouti is a member, agreed to the creation of an international Business Arbitration Centre in Djibouti. This institution will provide a mechanism for resolving business disputes, and may also help to create a more transparent business environment in the region by reinforcing the principles of contract law and increasing the number of lawyers practicing commercial and contract law in Djibouti. A successful arbitration center could boost confidence among foreign investors.

Bankruptcy

Information not available.

Investment Disputes

Not applicable/information not available.

International Arbitration

The IGAD, which consists of member states Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan and Uganda, will establish by March 2016, an international arbitration center in Djibouti, The center will focus on handling business disputes within the region. It will provide alternative mechanisms for resolving business disputes. I**G**AD believes that this will improve the investment environment and aid in gaining investor confidence in the region.

ICSID Convention and New York Convention

Djibouti is not a member state to the International Centre for Settlement of Investment Disputes (ICSID convention). Djibouti is a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention)

Duration of Dispute Resolution

Information not available.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Djibouti has been a member of the World Trade Organization since 1995.

Investment Incentives

To promote exports, Djibouti has multiple free zone**s** in which companies enjoy full exemption from direct and indirect taxes.

Research and Development

Information not available

Performance Requirements

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 US280,000, which 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 percentage of company stock owned by a local partner. The only exception is 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 have some freedom 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.

Data Storage

Djibouti does not have any known localized data storage requirements

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 access to most sectors, land ownership, and other business facilities. Although restrictions on private enterprise are minimal in the sectors which are open to them, state monopolies in utilities, telecommunications, and media limit the available space for private sector growth.

7. Protection of Property Rights

Real Property

Djibouti's legal system officially protects the acquisition and disposition of all property rights.

Intellectual Property Rights

The Ministry of Communication is responsible for safeguarding intellectual property, but intellectual property rights are rarely enforced. Trade involving counterfeit products occurs mostly in the informal market. The Djiboutian Office of Industrial and Commercial Property (ODPIC), created in April 2009, controls patent and trademark registration for companies and industries. Djibouti ranked 149 out 189 on the ease of "registering property" (http://www.doingbusiness.org/data/exploretopics/registering-property).

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/.

Resources for Rights Holders

Embassy POC: Tyler Joyner
DjiboutiCommerce@state.gov.

For a list of local lawyers, see:
http://photos.state.gov/libraries/djibouti/304020/PDF/attorneys_list_2013.pdf

8. Transparency of the Regulatory System

Djiboutian laws and regulations are available online. The regulatory regime is written in a way that promotes open competition, at least in the sectors that are open to private investment. Implementation of the law is sometimes not transparent, and public functions such as licensing and issuing permits are not always done in a systematic fashion. Application of the rules is not always consistent.

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, there were nine other banks, all established in the last ten years. Two of the new banks closed in the last year—WARKA Bank from Iraq and Shura Bank from Egypt. 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 is available to the private sector, whether foreign or domestic. Where credit is not available, it is primarily due to the associated risk and not structural factors. In 2014, the percentage of the population with access to banking services was 14 percent, and deposits in banks totaled DJF 207.5 billion (USD 1.17 billion).

Portfolio investment in Djibouti is done through private equity. Some multinational companies with investments in Djibouti are publicly traded. Investments in Djibouti are inherently illiquid for that reason, and the purchase or sale of any sizeable investment in Djibouti affects the market accordingly.

Money and Banking System, Hostile Takeovers

In 2006 Djibouti had two banking institutions; by 2014 it had a total of eleven. This shows the economic growth and the evolution of the services sector in general, based on the free movement of capital and limited exchange restrictions. In 2011, when a new banking law went into effect, it fixed the minimum capital requirement for financial institutions at DJF 1 billion (USD 5,651,250) and extended the scope of the law to include financial auxiliaries, such as money transfer agencies and Islamic financial institutions.

10. Competition from State-Owned Enterprises

SOEs 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 (e.g., government-backed loan guarantees for the real estate sector).

SOEs are required by law to publish an annual report. The Court of Auditors is charged with auditing state-owned enterprises.

OECD Guidelines on Corporate Governance of SOEs

Djibouti does not apply the OECD guidelines on corporate governance of SOEs.

Sovereign Wealth Funds

Djibouti does not have a sovereign wealth fund.

11. Corporate Social Responsibility

There is growing awareness among both companies and consumers in Djibouti of internationally accepted corporate social responsibility (CSR) standards. The GoDj has not been involved in promoting CSR in a systematic way, although it does acknowledge good corporate social responsibility and covers it favorably in state media.

OECD Guidelines for Multinational Enterprises

Not applicable.

12. Political Violence

Djibouti is a haven of stability in a neighborhood that includes Somalia, Eritrea, and Yemen. The country does not have a history of politically motivated attacks on businesses. Disputes over the results of the 2013 legislative elections, and the subsequent harassment and imprisonment of political opposition leaders, led to low-grade civil unrest in the months after the election. The political opposition signed a framework agreement with the government in late 2014. Key provisions of the agreement have yet to be enacted. The opposition is expected to continue to mobilize in advance of the 2016 presidential election, creating the possibility of renewed civil disturbance. An on-going border dispute with Eritrea, which led to fighting in 2008, remains a potential source of instability in northern Djibouti.

13. Corruption

U.S. firms have not specifically noted corruption as an obstacle to direct investment in Djibouti but there were allegations of foreign companies having to meet requirements such as renting houses of high dignitaries or hiring certain employees as a condition of receiving government procurement contracts. Djibouti is a signatory country of the UN Convention against Corruption and has laws and regulations prohibiting corrupt practices. Nonetheless, 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 Court of Auditors is mandated to verify and audit all public establishments for transparency and accountability, and to implement necessary legal sanctions. Both institutions are mandated to produce annual corruption reports. Despite the legal mandates, both institutions lack the authority to push meaningful reform.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Not applicable.

Resources to Report Corruption

Not applicable.

14. Bilateral Investment Agreements

Djibouti does not have a bilateral investment treaty (BIT) with the United States. The U.S and the Common Market for Eastern and Southern Africa (COMESA), which Djibouti is a member of, signed a Trade and Investment Framework Agreement (TIFA) in 2001.

Djibouti has signed several bilateral investment treaties with other countries.

Other treaties to which Djibouti is a party include:
ESA (Eastern and South Eastern Africa)-EU Interim Economic Partnership Agreement, COMESA, Agreement for the Promotion, Protection and Guarantee of Investment among Member States of the Organization of Islamic Conference, The Cotonou Agreement, AU Treaty, League of Arab States Investment, Arab League Investment Agreement, Arab Economic Unity Agreement

Bilateral Taxation Treaties

Djibouti does not currently have a bilateral taxation treaty with the United States.

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 loan for the construction of the Doraleh Container Terminal in 2009. In addition, OPIC is currently extending credit for the creation of a salt mining industry, including a port terminal dedicated to salt exports.

16. Labor

Djibouti law provides for the rights to form and join independent unions, to bargain collectively and to strike and prohibit acts of anti-union discrimination. In practice, these rights are limited in several ways. Two large labor unions exist in Djibouti, but only the Djiboutian Workers Union (UDT) is recognized by international organizations. There were reports of persistent acts of anti-union discrimination against leaders of the UDT and anti-union dismissals of members of a dockworkers' union. Djibouti has complicated labor laws that favor the employee, especially in the areas of disputes and termination. Over 12 percent of children in Djibouti continue to engage in child labor in street work and illicit activities.

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 policy gives priority to hiring Djiboutian nationals when they are qualified.

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.

Widespread use of the legal narcotic khat substantially affects 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/Trade Facilitation

The Djibouti Free Zone (DFZ) is located on 40 hectares and 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. In the coming years, there are plans to build five additional free zones: Khor Ambado Free Zone, Jabanas Free Zone, UKAB Holdings Free Zone, Fabtec Industries Free Zone, and the Djibouti Free Trade Zone.

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: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	N/A		2013	1,456	www.worldbank.org/en/country
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)	N/A		2013	N/A	http://bea.gov/international/factsheet/factsheet.cfm?Area=412
Host country's FDI in the United States ($M USD, stock positions)	N/A		2013	N/A	http://bea.gov/international/factsheet/factsheet.cfm?Area=412
Total inbound stock of FDI as % host GDP	N/A		2013	19.7%	

*Official statistics not available.

Table 3: Sources and Destination of FDI

Foreign direct investment position data are not available for Djibouti.

Table 4: Sources of Portfolio Investment

Portfolio investment data are not available for Djibouti.

19. Contact for More Information

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