



Analysis of the business environment in Least Developed Countries

Djibouti

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A powerful
and balanced
voice for business

Djibouti

Region
East Africa

Population
958,920

Demographic growth
2.80 %

GDP per capita (2020)
3,425.5 USD

Human Development Index:
0.524 (166/189)

Economic overview

As an East African country considered the gateway to East Africa, Djibouti's economy is primarily dependent on the tertiary sector, particularly the maritime sector. However, Djibouti's economy is essentially dominated by the urban informal sector in terms of employment, income and the satisfaction of basic needs, and implicitly also in terms of maintaining social balance. Economic and institutional constraints linked to tax pressure, administrative procedures (regulations), inadequate access to financing and strong market competition due to the lack of markets are some of the obstacles to improving the business environment in Djibouti. However, the reforms undertaken by the government in recent years are beginning to bear fruit.

It is important to note that the government has taken unprecedented measures as part of the COVID-19 response plan in terms of social protection for the most vulnerable groups, strengthening social dialogue, protecting workers and stimulating the economy. Accordingly, government intervention is currently focused on meeting the basic needs of the most vulnerable groups through social protection mechanisms (cash transfers, food distribution, UNDP has helped the government target the most vulnerable and most affected), as Djibouti's social protection system was considered sufficiently inclusive and effective prior to the health crisis.¹

In addition, the government has issued an initial decree to regulate the labour market and to protect workers in the workplace. The Djibouti Ministry of Labour, after consultation with the ILO, introduced a presidential decree (2020-63/PR/MTRA) setting out extraordinary measures and requiring companies with eleven or more workers to adopt alternative work measures (paid leave, teleworking, part-time work) in order to protect their employment contracts. Employers were also instructed to deploy workplace measures that would allow workers to adequately protect themselves and to limit meetings. The government also took measures to support companies that followed these instructions, as well as to sanction those that openly violated them. Accordingly, a special system for labour relations was implemented via the President of the Republic under Decree No. 2020-063/MTRA of 23 March 2020 governing the labour market during the pandemic period. Indeed, after the response to the public health crisis, it was necessary to respond to the economic and social impact of the COVID-19 crisis. It was in this context that the government issued Order 2020-049/PR/MTRA of 29 April 2020 on the conditions for granting compensation to employees and companies during the pandemic. The aim of this new order was to implement an extraordinary part-time work scheme initiated and decided by the Office of the President of the Republic. This public policy tool aimed at preventing economic redundancies and at



¹ Child-sensitive social protection: <https://www.unicef.org/djibouti/protection-sociale> (in French)

helping companies cope with economic difficulties. The adoption of this measure enabled those employees placed on the part-time work scheme to receive an indemnity from their employer to offset the loss of remuneration due to hours not worked. Accordingly, this proposal enabled employees to receive compensation of up to 70 per cent of their gross salary. This compensation was financed by the state to the tune of 30 per cent of the gross pay of the employee placed on the part-time scheme, with the remaining 40 per cent financed by the employer, in order to enable companies to avoid redundancies and retain their skills and to allow employees to keep their jobs.

Other proposals from the Ministry of Labour include plans to: (i) strengthen the undoubtedly effective Occupational Health and Safety programme that aimed to ensure occupational safety and health as a vital contribution to the fight against the pandemic; (ii) strengthen the labour market regulatory framework to keep the focus on decent work; (iii) strengthen the momentum of the culture of social dialogue and cooperation in the workplace that was essential for consolidating the response to the crisis; (iv) initiate a discussion on creating employment insurance to provide temporary income support to unemployed workers while they look for work or to upgrade their skills; (v) strengthen social protection; and (vi) strengthen job support mechanisms as well as micro-enterprises and SMEs.

Challenges faced by the private sector

African Development Bank data on the economic and social situation in Djibouti in 2021 reveal the following:

- **Impoverishment of the population due to runaway inflation, despite an attractive growth rate of around 3.9 per cent** - The unemployment rate in Djibouti is estimated at nearly 50 per cent, with 23-24 per cent of the population living on less than USD 1 a day. This situation is made more difficult by the high unemployment rate of 39 per cent, which mainly affects young people. Some 70 per cent of young people between 15-35 years of age are unemployed.
- **A weak private sector in terms of job creation** - The annual job growth rate is estimated

at 1.8 per cent. Furthermore, the precariousness of the employment situation is largely due to the underdevelopment of the private sector. In addition, there is:

- **Gender inequality in the labour market** - Only 29 per cent of women aged 15-64 are active in the labour market and only 54 per cent of women with at least three years of university education are in the labour market, compared to 76 per cent of men.

- **A business climate that is still difficult** - Due to high start-up costs, poor contract enforcement, heavy taxation, red tape and lack of access to finance. Only 3.33 per cent of entrepreneurs have a bank account. As regards sources of finance for the initial capital for their business, 47 per cent came from the entrepreneur's personal savings and 15 per cent from loans obtained from friends or family.

- **Lack of access to infrastructure** - Lack of access to infrastructure, such as water and electricity, and business premises, coupled with the fact that over 70 per cent of IPU's do not have accounting records.

- **Low level of human-capital education/training** - Djibouti is 166th out of 189 countries on the Human Development Index.

- **Very high level of corruption** - According to Transparency International's 2021 report, Djibouti ranks 128th out of 180 countries, which shows that much work remains to be done in the area of improving the business climate.

Private sector policy recommendations

The recommendations apply to the following areas:

1. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Establishing and maintaining a genuine

public-private partnership;

- Developing a roadmap and agenda for public-private dialogue at national level;
- Actually considering the needs of private sector partners in sectoral development strategies;
- Strengthening state institutions, including assessing the legal and regulatory framework for creating and formalising businesses in the formal sector;
- Constantly coming up with reforms to improve the business climate;
- Complying with agreements;
- Bolstering the role of the state as a guarantor of peace, security and good governance;
- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors;
- Establishing a unit or commission to work on promoting and popularising the incentives to be given to the private sector in the short, medium and long term.

2. Supporting young investors and women, developing entrepreneurship and fighting against informality

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;
- Creating training and apprenticeship centres

for self-employment for out-of-school youth;

- Creating a favourable climate for investment by providing incentives, e.g. access to credit at subsidised interest rates and on flexible repayment terms;
- Establishing a genuine partnership between the state and the banking sector to encourage domestic financing and investment, including the promotion of self-employment among youth and women;
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the development of agri-food cooperatives;
- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;
- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;
- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;
- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;
- Promoting access to digital technology for young people and women in rural areas by

creating free digital training centres within local authorities;

- Promoting women's access to land in particular and favouring a reorganisation of the land register;
- Eliminating minimum fees for business start-ups and shortening the waiting period for registering and authenticating documents;
- Creating national savings in the various countries to finance income and employment-generating projects, especially for young people and women.

3. Cross-border trade

Specific objectives include:

- Promoting the development of intra-African trade by removing customs barriers;
- Improving national and regional infrastructure, such as developing roads, pedestrian walkways, lighting and utility poles, access to the digital network, and building structures to house markets at borders;
- Modernising and deploying one-stop shops;
- Guaranteeing a secure and stable climate at national level, particularly in terms of customs services to facilitate the free movement of people and goods (rule of law); this would also improve entrepreneurship by women, particularly the creation of income-generating activities (trade) carried out most often by small traders (women) at the borders;
- Guaranteeing follow-up for the supply and distribution of petroleum products;
- Deploying national, regional and international sectoral strategies to ensure exchange rate predictability;
- Implementing sectoral strategies to develop the resilience of the economy, particularly of businesses, to cope with various shocks;
- Reducing export and import delays;
- Setting up and modernising an electronic payment system for port fees at national level;
- Going paperless in customs formalities and extending the opening hours of ports;
- Increasing the size of inter-African markets and diversifying production in order to expand markets and improve the competitiveness of the formal private sector globally;
- Promoting good governance and responsible business conduct and fair competition in markets in order to improve the global competitiveness of the formal private sector;
- Establishing simplified trade arrangements (exemption from customs duties) and simplifying customs clearance formalities for small-scale transactions, usually carried out by small traders, especially women;
- Enhancing regional integration, in particular economic cooperation between the different regional economic communities to remove persistent barriers to intra-regional trade;
- Strengthening the fight against smuggling at borders and ports;
- Establishing and developing regional power pools to reduce electricity connection costs and link markets to resources;
- Establishing mutually beneficial trade agreements to attract more investors; boosting intra-regional trade through digital technology;
- Diversifying the energy market with a focus on promoting solar panels to improve the competitiveness and productivity of businesses and also to reduce the costs of connecting to the power grid;
- Expanding the telecommunications market, especially the digital market, to improve access to the electronic network for businesses and enable them to increase their competitiveness in the global market;

- Establishing effective cyber security and cyber defence strategies at regional level;
- Strengthening the African Continental Free Trade Area (AfCFTA).

4. Fighting informality

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;
- Sharing and exchanging regional experiences;
- Developing a strong and effective institutional legislative framework;
- Annually implementing structural reforms and sectoral strategies aimed at facilitating the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;
- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically viable income- and employment-generating projects;
- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;
- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Developing a national directory of formal sector companies;

- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better channel and adapt sectoral strategies to facilitate their transition to the formal sector;

- Establishing and modernising an electronic system for creating and registering businesses at national level;

- Creating a level playing field for businesses to facilitate their formalisation.

5. Developing human capital

Specific objectives include:

- Improving the supply of public services (education, health and social protection);
- Ensuring a match between training/education received and the needs of the labour market in technical and vocational education, general secondary education and universities;
- Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
- Priority training for public sector managers;
- Mandatory internships for students to immerse them in the world of business.

The NDP actions in this sub-programme are: **1.** Promote the use of information technology through support for the University of Djibouti's electronic campus; improve the exchange point and the quality of the Djibouti Data Centre's local Internet networks. **2.** Prepare and implement a programme that holistically addresses the cross-cutting issue of capacity building in connectivity infrastructure and services. **3.** Implement a business intelligence programme to ensure a good understanding of the functionalities of the elements of the logistics platform, the global delivery chain and change management.

6. Improving the labour market

Specific objectives include:

- Increasing the number of jobs through access to new investments at national level;
- Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
- Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal businesses to formalise;
- Promoting flexible working hours for workers;
- Improving employment frameworks, policies and conditions;
- Improving wages and paying compensation for work stoppages due to the occurrence of happy occasions (e.g. births) and unhappy events (illnesses, accidents, etc.) in workers' lives.

7. Promoting digitalisation/new technologies

This should consist of/and enable:

- Updating/strengthening the digital skills of economic actors;
- Facilitating access to a variety of services and opportunities through the Internet and IT by means of timely reforms and national projects/programmes;
- Promoting online payment of taxes and other services;
- Providing large-scale digital literacy programmes;
- Promoting engineering training and professions in order to capitalise on innovation through strategic partnerships (schools-companies, state and development partners, etc.).

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