

COUNTRY PROFILE

DJIBOUTI



| | |
|------------------------|--|
| Full Name: | The Republic of Djibouti |
| Area: | 23,000 km ² |
| Capital: | Djibouti |
| Main Languages: | French (official), Arabic (official), Somali, Afar |
| Currency: | Djibouti franc (DJF) |
| Head of State: | President Ismail Omar Guelleh |



The Profit 2007 Regional Investment Conference in Kampala, Uganda is a component of the Pro€Invest programme which is a common initiative of the European Commission (EC) and institutions from the ACP states (Africa, the Caribbean and the Pacific).

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1. BUSINESS OVERVIEW

1.1 Key Economic Indicators

Table 1 shows the recent trend for selected key economic indicators using the most up-to-date available information. More general country information is provided in the websites referred to in Section 5.0 at the end of this report.

Table 1: Key Economic Indicators, 2002-06

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|--------|--------|--------|--------|--------|
| Population (mn.) | 0.693 | 0.705 | 0.716 | 0.728 | 0.747 |
| Population Growth (%) | 1.5 | 1.4 | 1.4 | 1.4 | 1.3 |
| GDP (US\$ mn. at current prices) | 596 | 628 | 666 | 709 | 761 |
| GDP per capita (US\$ current prices) | 860 | 890 | 931 | 973 | 1019 |
| GDP growth at constant prices (%) | 2.6% | 3.2% | 3.0% | 3.2% | 4.2% |
| Current account balance (US\$ mn.) | 27 | 33 | (8) | (29) | (31) |
| Inflation Rate (%) | 0.6% | 2.0% | 3.1% | 3.1% | 3.0% |
| Exchange Rate: annual average Djiboutian franc per US\$ | 177.72 | 177.72 | 177.72 | 177.72 | 174.75 |

Sources: COMTRADE, Economist Intelligence Unit, World Development Indicators, Oanda.com

1.2 Economic Context

In 2006, total Gross Domestic Product (GDP) amounted to US\$761 million at current market prices. Djibouti's economy is dominated by the services sector whose activities are primarily related to its strategic location in the Horn of Africa and to its status as a free trade zone. According to the African Development Bank, services represented 71 percent of GDP between 1999 and 2003. This sector also benefited substantially from the Ethiopian Government's decision in 1999 to order all its imports through the Djibouti port.

Djibouti's economy has been growing in real terms above three percent since 2003 (4.2 per cent in 2006) and is forecast to achieve 4.5 percent in 2007, mainly due to the French military presence and more recently to that of the United States, together with the construction of the new port at Doralé. The current port acts as both a transit port for the region and an international transshipment and refuelling facility.

Djibouti is highly dependent upon official development assistance which amounted to 33 percent of public expenditure between 1999 and 2003. In 2004 and 2005, the international donor community contributed an average of \$71 million per year. France was the major donor providing \$31 million each year with other notable bilateral assistance from the US and Japan. Not only was France the main donor, but its officials estimate that it contributes at least \$150 million per year to the Djiboutian economy.

Djibouti is a member of the Common Market for Eastern and Southern Africa (COMESA), which groups over 20 countries into a common market of more than 300 million people. Given this relationship and its strategic location, the Government plans to make Djibouti into the focal economic, commercial and financial centre of the East African sub-region.

1.3 Population and Labour Force

Unsurprisingly, since the last census dates from 1984, population estimates vary widely. The International Monetary Fund (IMF) estimated Djibouti's population at 747,000 in 2006, of which over 80 percent lives in urban areas (including two-thirds of the total in the capital city). The remainder consists mainly of nomadic herders. The overall population density is approximately 32 persons per km². The total labour force was estimated at 282,000 in 2002 but will have increased significantly since then. Unemployment was estimated at around 50 percent in the same year.

1.4 Role of Tourism

The country's tourism potential is based on its geological heritage as well as its rich and long-standing traditions and culture. However, the development of the sector has been hampered by difficulties such as the high cost of transport, insufficient hotel infrastructure and the inaccessibility of major touristic sites. A strategic sector development plan has been prepared by the Government to promote appropriate investment, step up training in tourism trades, encourage public and private sector partnership and set up sector financing mechanisms such as the Djibouti Development Fund.

1.5 General Institutional and Regulatory Framework

The laws dealing with the protection of property rights are based on the French Civil Code. The legal system is designed to protect the acquisition and disposition of all property rights and offers protection for intellectual property, patents, and so on.

The Government of Djibouti is open to all foreign direct investment and has introduced a new investment code to facilitate this process. There are no foreign exchange restrictions, and no limitations on converting or transferring funds, or on the inflow and outflow of cash. Various tax benefits and incentives are available to private sector investors.

1.6 Operating Costs

Due to the high cost of living, wage levels in Djibouti are among the highest in the region. Whilst unemployment is high, the labour force is not highly skilled, rendering it difficult to find competent workers.

The Caisse National des Retraites handles the social security of government workers with long-term contracts, and the Organisme de Protection Sociale deals with the private sector and government employees with short-term contracts. The Labour Code allows for employees to form labour unions. It also provides guidelines on wages, overtime pay, annual leave, sick leave, work schedules and holidays.

1.7 Infrastructure Services

1.7.1 International access

Air

The only international airport for civilians is Djibouti (JIB) which is located some 5km south of the city. Daalo Airlines operates flights between Djibouti and Paris, London, Dubai, Addis Ababa, Nairobi, Jeddah and Somalia (Bosasso, Burao, Hargeisa and Galkacyo). Flights to Mogadishu are presently suspended.

Rail

The Djibouti–Ethiopian Railway operates regular trains between Addis Ababa and Dire Dawa with one train daily connecting with Djibouti. Trains are old and not always reliable.

Road

There are roads from Djibouti to Assab (Eritrea) and going west into Ethiopia via Dikhil. Road conditions are generally poor (the roads are more often dirt tracks than asphalted) and personal security might be at risk when travelling. Travel to neighbouring Somalia (which has bus links with Djibouti) is not presently *recommended* due to the highly unstable political situation.

1.7.2 Internal Transport

Air

Private charter services may be available.

Sea

Ferry services sail daily from L'Escale (Djibouti) to Tadjoura and Obock (on the northeast coast of the Gulf of Tadjoura).

Rail

The only service is provided by the daily train to the border with Ethiopia.

Road

Four-wheel-drive vehicles are recommended for the interior. There is a new highway from Djibouti to Tadjoura. Traffic drives on the right. Buses operate from Djibouti to most towns and villages throughout the country. Car hire is available in Djibouti and at the airport.

1.7.3 Communications

Telecommunications are reliable, but expensive.

Telephone: IDD is available. The country code is 253.

Mobile Telephone: roaming agreements exist with most international mobile phone companies. Coverage is good in and around the capital and parts of the coast, and poor to non-existent elsewhere.

Internet: internet services are accessible in the main post office and some hotels. There is at least one internet cafe in Djibouti.

2. TOURISM SECTOR

There has been steady growth in international visitor arrivals in recent years. The number has increased from 20,000 in 2000 to an estimated 30,000 in 2005.

Djibouti's varied tourism supply comprises special interest products such as diving and fishing, and products connected with the discovery of the country's natural resources. The rich and varied cuisine of Djibouti is another important tourism resource. In addition, the warmth of its people, its strategic location on the Horn of Africa, at the crossroads between Africa, the Middle East and the Indian Ocean, and the abundance and variety of its natural and cultural resources are key enabling factors for Djibouti's recent growth in tourism.

2.1 Product Offer

The tourism product is mainly centred on four activities:

- Diving in the Sept Freres archipelago, the Gulf of Tadjoura, Obock, the islands of Musha and Maskali, and Le Goubet;
- Fishing in the Bay of Goubet, Arta Beach or the Sables Blancs;
- Bathing, chiefly at the islands of Musha and Maskali, the Sables Blancs, Le Goubet and the Gulf of Tadjoura; and
- The Bush: discovering the main natural resources (Assal and Abbe Lakes, the Forest of Day, Le Goubet, Dittilou, Bankoualé and Randa).

The prime attractions are:

Djibouti

In Djibouti, a late 19th-century city with a distinctly Arabic feel, one may see

- the lively Central Market (Le Marché Central) near the Mosque;
- the Tropical Aquarium with underwater exhibits from the Red Sea;
- the Presidential Palace; and
- just outside Djibouti, the Ambouli palm grove.

Beaches

The beaches at Doralé and Khor-Ambado, which are both about 15km from Djibouti, offer safe swimming. Another good beach can be found at Goubet al Kharab, which is about an hour's drive from Lake Assal. Black-lava cliffs border this beach.

Diving

The Gulf of Tadjoura (especially Obock) contains many species of fish and coral and is ideal for diving, snorkelling and underwater photography; in many places, the coral reefs in the Red Sea are easily accessible from the beaches. Waterskiing and windsurfing can also be arranged.

Geology and wildlife

The wilderness around Lake Abbé (accessible by 4-wheel-drive vehicles only) is a gathering place for flamingos and pelicans, and the location of natural steaming chimneys.

Afar Triangle

Djibouti lies within the Afar Triangle, one of the hottest and most desolate places on Earth. Part of the Great Rift Valley system, it is a wedge of flat desert pushing into the Ethiopian Massif. Much of it is below sea level.

Lake Assal

Surrounded by dormant volcanoes and lava fields, Lake Assal (100km to the south-west of Djibouti city) is one of the world's lowest surface areas. It is reachable only by 4-wheel-drive vehicle. It is possible to windsurf on wheels in the desert areas.

2.2 Accommodation

In spite of recent improvements in the quality of hotels, accommodation capacity is still very limited. The total accommodation supply consists of only 655 hotel rooms and two large establishments with respectively 185 rooms and 177 rooms. Owing to the scarcity of accommodation, hotels achieve high occupancy rates throughout the year.

2.3 Market Trends

2.3.1 Visitor arrivals

The estimated number of foreign visitors was 30,000 in 2005, of which some 65 percent of tourists were French nationals. The main tourist activities are scuba diving, fishing, trekking and hiking, discovering the nomadic world, bird watching, and sun, sea and sand. French, Italian, German and Swiss tour operators feature Djibouti as a destination in their brochures.

Purpose of visit

Leisure visitors are estimated to account for approximately two-thirds of the total.

Mode of transport

Practically all international visitors arrive in Djibouti by air.

2.3.2 Average length of stay

The average length of stay of holiday visitors is an estimated two weeks.

2.3.3 Visitor expenditure

In 2004, international tourism receipts amounted to an estimated \$7 million – about the same as in 2003. This compares with total earnings of \$250 million from re-exports and exports of hides and skins, and coffee (in transit) in 2004.

2.4 Institutional Arrangements

The main responsibility for tourism development and promotion lies with the National Tourism Office (Office National du Tourisme de Djibouti (ONTD) which falls under the Ministry of Tourism. The main private sector body is the Chamber of Commerce (Chambre internationale de commerce et d'industrie de Djibouti).

2.5 Future Outlook

Djibouti's tourism has a promising future, and, with the development of the economic hub of Doralé, it should attract an increasing number of business as well as leisure tourists. Government measures to facilitate access to credit will serve to ease the expand accommodation capacity. The funds ear-marked for economic development will grant loans at preferential rates to Djiboutians wishing to develop tourism projects. A programme of training set up by the ONTD will upgrade the skills of Djiboutians working in the sector and ensure that local operators offer quality products. As well as its marketing and promotional activities, ONTD has also initiated a campaign to sensitise the local population to the benefits of tourism, emphasising sustainability and protection of the environment, public/private partnerships, quality improvement, and technical assistance and training for the industry.

3. INVESTMENT OPPORTUNITIES IN TOURISM

3.1 Investment Sectors

The Government of Djibouti recognizes the crucial need of foreign investment for the economic development of the country. Potential areas of investment include Djibouti's port, tourism, manufacturing and telecom sectors.

The authorities efforts to promote tourism include improvement of the highway network, preparation and implementation of a marketing plan, raising awareness among the population in order to improve the reception of tourists; introduction of a training programme for guides and managers of tourist camps, and support to private operators to enable them to offer services and leisure facilities tailored to the needs of target customers. These developments will have positive implications for the fast growing tourism industry.

Prospects for investing in the tourism sector are also enhanced by the limited capacity of hotels and resorts of international standard and the increasing international recognition of Djibouti as one of the world's rare undeveloped destinations for diving, fishing and discovery tourism.

Priority tourism investment sectors have been identified as follows:

- New hotels and holiday resorts and lodges;
- New and expanded diving and fishing facilities; and
- Access roads, electricity, water, ports.

4. INVESTMENT ENVIRONMENT

4.1 Investment Framework

4.1.1 Government policy

Djibouti's assets include a strategic geographic location, an open trade regime, a stable currency, substantial tax breaks and other incentives. In 1995, the entire country of Djibouti was designated a free-export processing zone.

The Government has made considerable efforts to create an environment conducive to private investment, both domestic and foreign. Foreign direct investment is actively encouraged, and Government has pledged to seek the help of the international private sector to develop the country's infrastructure. The most important direct foreign investment in Djibouti is the project of the Port of Doralé, which is estimated at a worth of \$400 million upon completion.

Djibouti has no major laws that would discourage incoming foreign investment. In principle, there is no screening of investment or other discriminatory mechanisms.

4.1.2 Investment agencies

Created in 2001, the Agence Nationale pour la Promotion des Investissements (ANPI) - in English, the National Investment Promotion Agency (NIPA) - promotes investment, facilitates investment operations and works to modernise the country's regulatory framework. ANPI has been mandated the task of encouraging and facilitating foreign investment by assisting with all administrative procedures. Its ultimate goal is to serve as a one-stop centre for investors who currently have to deal with several ministries located at various sites. ANPI has identified tourism and manufacturing as priority sectors for investment.

4.1.3 Investment guarantees

Djibouti is a member of the Multilateral Investment Guarantee Agency (MIGA) which protects investors against non-commercial risks. Djibouti is also eligible for Overseas Private Investment Corporation (OPIC) programmes which offer up to \$400 million in combined financial and political risk insurance to eligible investors. In addition, the Djibouti Investment Code (Code des Investissements) stipulates that "no partial or total, temporary or permanent expropriation will take place without equitable compensation for the damages suffered".

4.2 Investment Incentives

Djibouti offers significant incentives to private sector individuals and corporate investors. Investments greater than \$280,000 that create a number of permanent jobs are entitled to exemption 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. The Investment Code also guarantees investors the right to freely import all goods, equipment, products, or material necessary for their investments.

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.

4.3 Access to Finance

The Banque Nationale de Djibouti (BND) is the central bank of Djibouti.

4.3.1 Commercial banks

The main commercial banks are Banque Al Baraka; Banque de Djibouti et du Moyen-Orient; Banque Indosuez (Le Mer Rouge); Banque pour le Commerce et l'Industrie - Mer Rouge (BCIMR); and the Commercial Bank of Ethiopia.

The two large French commercial banks, Banque Indosuez (BIS) and Banque pour le Commerce et l'Industrie (BCIMR), dominate the banking system. They account for most deposits but their exposure to the economy is limited to mostly short-term (trade) financing and lending. Credit is allocated on market terms and foreign companies do not face discrimination in obtaining it. However, generally only well-established businesses obtain bank credit, as the cost of credit is high.

The principal local development bank is the Banque de Développement de Djibouti.

4.3.2 International Financial Institutions

Djibouti, as a signatory to the agreement between African, Caribbean and Pacific nations (ACP) and the European Union, known as the Cotonou Agreement, has access to the facilities of the European Investment Bank (EIB).

As a member of the World Bank, the facilities of the International Finance Corporation (IFC) would also be available for projects in Djibouti. Other potential development finance sources include the Abu Dhabi Fund for Arab Economic Development, the African Development Bank (AfDB), the Kuwait Fund for Arab Economic Development and the New Partnership for Africa's Development (NEPAD).

4.3.3 Transfer of Capital and Profits

Transfer of capital and profits can be done on declaration. Djibouti has no foreign-exchange restrictions. 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 1973, is stable.

4.4 Residential and Work Visas

Nationals of EU and most other countries going to Djibouti require a passport valid for at least six months beyond date of departure and a visa (except for transit passengers not disembarking and continuing their journey by the same aircraft or ship). There are four types of visa (valid from one day to three months): Entry (visa de séjour); Tourist (visa de tourisme); Business (visa d'affaires); Transit (visa de transit). An extension may be granted in Djibouti on request to the Headquarters of the Police Nationale.

ANPI is able to facilitate the acquisition of residential and work visas for approved foreign investors.

4.5 Technical and Promotional Assistance

Generic tourism promotion is undertaken by the Office National du Tourisme de Djibouti (ONTD). The comparatively small marketing budget is complemented by some private sector marketing initiatives. A large-scale campaign aimed at promoting Djibouti as a tourist destination was launched in targeted international markets 2005 and continued in 2006 with focus, in particular, on trade shows, visits by journalists, website development, and publications, plus the development of themed tourism which protects the environment and is inclusive of local populations.

5. LIST OF KEY CONTACTS

Ministry of Tourism

B.P.79 Djibouti
Tel: +253 352 540
Fax: +253 353 290

Office National du Tourisme de Djibouti (ONTD) - National Tourism Office

Place du 27 juin
B.P. 1938 Djibouti
Tel: +253 352 800 or 353 790
Website: www.office-tourisme.dj

Agence Nationale pour la Promotion des Investissements (ANPI) -

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Useful Websites:

- **The British Broadcasting Corporation (BBC):** full profiles provide an instant guide to history, politics and economic background of countries and territories, and background on key institutions.
http://news.bbc.co.uk/2/hi/country_profiles/default.stm