DJIBOUTI LOOKS TO THE FUTURE:
A SOUTH-SOUTH HIGH LEVEL EXCHANGE

Homa-Zahra Fotouhi, Arthur Foch, Roya Vakil

Introduction: This Quick Note highlights the key discussions and recommendations made during the High-Level Development Exchange held in Djibouti on June 20-23, 2014. The event was co-organized by the World Bank Office in Djibouti and the Ministry of Economy and Finance under the high patronage of the President of the Republic of Djibouti. The event provided a platform to promote dialogue, share knowledge, and develop policies to eliminate poverty and enable a dynamic private sector. It aimed to strengthen Djibouti’s capacity to define, through a concerted open dialogue, a path to sustainable development and ensure that growth translates into poverty reduction, jobs, and economic opportunities for all.

The goal was to (i) launch “Djibouti Vision 2035”; (ii) share the development experiences of Mauritius, Cape Verde, and Dubai; and (iii) enable the public sector, the private sector and civil society to engage in a dialogue, through round-tables, and develop recommendations for Djibouti to achieve inclusive and sustainable growth.

Cape Verde, Mauritius and Dubai were selected due to similarities with Djibouti, and their success in developing sectors that are currently under-exploited in Djibouti but have the potential to create jobs and generate sustainable growth: transport and logistics, telecommunications, tourism, fisheries, and light industry.

Opening of the High-Level Development Exchange held in Djibouti on June 20-23, 2014

Wide Attendance with a Participatory Format: The event was very well attended, with over 300 local and foreign participants from government, development partners, the private sector, civil society, and academia. The level of engagement was unprecedented in Djibouti for such an event and reflected the interest of the private sector and civil society to learn from the experiences of other countries, and to contribute to the conceptualization of Djibouti’s development strategy. Responses from feedback questionnaires stressed the satisfaction of participants with the governments’ inclusion of all stakeholders in an open and constructive dialogue, and underlined the importance of maintaining momentum by implementing the recommendations made during the roundtables, and pursuing south-south cooperation and open dialogue more regularly.

Another innovation was the live broadcast of the event and the use of a twitter account enabling viewers to participate virtually and pose questions.

Roundtable Recommendations: The central part of the Exchange was devoted to smaller, interactive round-table sessions covering four central themes: (i) the private sector as engine of growth, (ii) tourism

---

1 Homa-Zahra Fotouhi, Representative, World Bank Liaison office, Djibouti (MNCDJ); Arthur Foch, Transport and ICT Global Practice (GTIDR), World Bank; Roya Vakil, Finance and Markets Global Practice (GFMDR), World Bank. This Quick Note was cleared by Hart Schaefer, Country Director, Djibouti, Egypt, Yemen (MNCA3), World Bank.

2 The High-Level Round Table benefited from funding from the South-South Experience Exchange Facility Trust Fund.
development, (iii) regional integration through the service industry, and (iv) economic growth and poverty reduction. Each roundtable discussed existing constraints and produced recommendations based on the four ‘thematic areas’.

Roundtable 1: Private Sector as Engine of Growth: The private sector in Djibouti remains embryonic: only 3,000 companies have operating licenses, and 2000 private firms report at least one employee to the Caisse Nationale de Sécurité Sociale. Most companies are in services (29%), trade (27%) and transit activities (19%). The business climate is difficult and procedurally burdensome for most firms. The cost of starting a business is very high (184.7% of income per capita, versus an average of 28.9% for the MENA region, 13.5% in Cape Verde, and 3.6% in Mauritius).

With unreliable quality or availability, the cost of electricity in Djibouti is among the highest worldwide and mobile telephone and broadband internet services are expensive and of poor quality, with some of the lowest penetration rates in the world. Djibouti’s SMEs have very limited access to bank financing, and they often face onerous collateral requirements, high interest rates, and short tenors. The judicial system suffers from insufficient resources, lack of training and independence and impartiality, and the slowness with which judgments are executed. Many companies lack international experience and knowledge of methods and standards of modern management which poses difficulties in accessing markets in the sub-region.

Key South-South Lessons Learned: Mauritius had a clear strategy to develop the private sector and capitalized on its comparative advantages. After identifying strategic sectors, they developed regional strategies to attract investment and set clear and detailed targets. Mauritius also created a formal interaction mechanism between the private sector and government which enabled the private sector to be effectively and officially represented vis-à-vis the public sector. Dubai created an enabling investment climate, facilitating a strong and dynamic private sector. The creation of Free Trade Zones allowed firms to function in a liberal economic environment where they could fully own businesses and operate free from currency restrictions.

Roundtable 2: Tourism Development: Despite Djibouti’s tourism potential (marine resources, land and geological resources; cultural resources), the sector is severely underdeveloped, despite a significant growth in recent years. In 2010, tourism revenue amounted to USD15 million (only 1.5 percent of GDP) and Djibouti recorded only 53,000 international tourist arrivals and 100,000 overnight stays in hotels. In 2013 revenues had gone up to $21 million, dwarfed by Cape Verde’s $471 million and Mauritius’ $1.8 billion. Tourism in Djibouti is primarily driven by business travel, and remains highly dependent on the presence of foreign military bases and anti-piracy operations in the Horn of Africa.

Roundtable Recommendations for Djibouti:
- Reduce electricity and telecommunications costs
- Improve governance and the business climate
- Improve intra-private sector, intra-public sector, and public-private dialogues
- Establish a roadmap for the High Council of the Public-Private Dialogue (PPD)

Roundtable 2: Tourism Development:
- Tourist accommodation capacities are limited, reflecting the low level of investment in the sector.
- The lack of a real tourism strategy.
- The low connectivity of the country is a major obstacle to tourism development and services (i.e. time to obtain visas and quality/availability of taxis) are ill-suited to support the growth of the sector.
- The visibility of the country as a tourist destination is extremely low.

Key South-South Lessons Learned: Cape Verde developed and implemented an action plan focused on six priorities: (1) development of transport sector to improve access; (2) strengthening of general infrastructure through substantial investment programs; (3) development of tourism-specific infrastructure; (4) creation of a Ministry of Tourism; (5) development of legal framework to ensure environmental, social and cultural sustainability of the tourism sector; and (6) implementation of mechanisms for monitoring and evaluation of impacts.

---

3 The World Bank, 2014. World Development Indicators, Washington D.C.
Roundtable Recommendations for Djibouti:

- Develop a national strategic plan for tourism promotion
- Implement a comprehensive airport policy to improve the accessibility of Djibouti
- Develop training programs for tourism jobs
- Improve the development of the heritage of Djibouti and services provided to tourists
- Develop fiscal incentives for sectoral operators.

Roundtable 3 - Regional Integration through the Service Industry: The strategic location of Djibouti, its modern port sector with new projects underway (Tadjourah port, extension of Doraleh, etc.) and excellent internet connectivity (six submarine cables land in Djibouti; two more are in progress) are assets offering Djibouti the opportunity to strengthen its position as a regional hub for many activities in finance, ICT, and logistics. However, this potential is untapped due to the persistence of structural obstacles and the lack of a reform program.

- The infrastructure for connectivity in Djibouti remains low (e.g. airport, fiber optic backbone).
- The business climate in Djibouti does not attract large-scale investment. It suffers from a lack of homogeneity and transparency and also from the narrowness of the Djibouti Free Zone.
- Electricity and telecommunication services are one of the most expensive in Africa and are still operated under state monopolies.

All of these factors combine to affect Djibouti’s competitiveness negatively. In particular, they hinder the transition toward a digital economy model through increasing computerization and internet connectivity of the public and private sectors whose economic and financial benefits could be substantial (increased productivity, development of market opportunities: e-commerce, mobile banking, financial platforms). As a result, they prevent the private sector from being able to position Djibouti as the East African “lighthouse” for African and international companies and from benefiting from business opportunities in the COMESA market.

Key South-South Lessons Learned: Mauritius has undertaken a wide range of reforms aimed at: i) improving the business environment; ii) preventing the tax system from discriminating between firms of different sizes and investors of different nationalities; and iii) facilitating the attribution of work permits and liberalizing capital movements. Mauritius also promoted economic diversification not only by preserving the traditional sectors (sugar industry, textile industry and tourism) but also by promoting the growth of emerging sectors such as financial services, ICTs and BPOs, and port services.

Roundtable Recommendations for Djibouti:

- Improve transport and telecommunications connectivity with other COMESA countries through public-private partnerships.
- Reduce the costs and improve the quality of factors of production (especially electricity, telephony and internet) by reforming and opening up the sectors. The restructuring of the historical operator and the introduction of competition explains the gap between mobile phone penetration rates in Djibouti (28 per 100 persons), Cape Verde (100 per 100 persons) and Mauritius (128 per 100)4.
- Develop computing platforms to increase the supply of Djibouti services in the COMESA region.
- Extend the Djibouti Free Zone and create other zones to attract foreign companies.

Roundtable 4 - Economic Growth and Poverty Reduction: Over the past two decades, the development of the Djiboutian economy has been uneven and marked by a series of internal and external shocks (domestic armed conflict, regional wars, drought, financial crisis, oil shocks, among others) which have undermined Djibouti’s competitiveness, financial position, and economic and social infrastructure. At the same time, human development indicators have deteriorated. All indications are that significant increases in the flow of FDI and the ongoing strengthening of Djibouti’s position as a transit platform have not benefited the very poor and vulnerable segments of society.

The government has not been able to significantly promote job creation and improve the efficiency of the social transfers system (lack of adequate targeting). While it is estimated that 3 billion FDJ per year are needed to distribute allocations to the poorest, the Government is spending almost 10

---

4 The World Bank, 2014. World Development Indicators, Washington D.C.
billion FDJ. Djibouti has recently completed a profiling of the poor and is developing a national registry to improve the targeting of social services.

**Key South-South Lessons Learned:** Mauritius’ poverty reduction strategy has been to expand employment opportunities while modernizing the economy to reach upper-middle income status by the end of the 21st century. The country also maintains an elaborate social safety net. The Government of Mauritius has allocated significant shares of public expenditure to education and health, and has worked with civil society and NGOs to profile the poor populations in the country. This has enabled the government to better design and target social transfers, and design vocational training programs for people lacking the right skills for the new economy. The government also made a concerted effort to target poor children as a priority, placing them in schools and actively managing their cases – noting that without a proper early education, the cycle of poverty can never be broken.

**Roundtable Recommendations for Djibouti:**

- Improve the governance and the efficiency of social transfers.
- Improve access to finance for the poor.
- Develop and implement a transparent policy to support the provision of social housing through the creation of a dedicated public investment bank.
- Promote stronger linkages between training programs and employers to better reflect the needs of firms in priority sectors: electricity, IT, hospitality, transport and construction.
- Develop and promote e-government services to improve access of citizens to public services (i.e. birth certificates, social transfers, etc.)

**Conclusion:** While the state still plays a predominant role in the economy of Djibouti, international experience shows that a vibrant private sector can fuel sustainable economic growth, provide employment opportunities for young people, and help reduce poverty. The experiences of Cape Verde, Mauritius, and Dubai, also demonstrate that the small size of the Djiboutian market, along with the high cost of electricity, do not constitute binding constraints to economic development.

It is now critical that serious consideration be given to the recommendations made during the roundtables. To this end, the implementation of sector-specific 5-year plans by the Government of Djibouti should include, to the extent possible, consultations between private and public actors and civil society. As significantly, while the organization of the High-Level Development Exchange was an important first step towards true South-South collaboration, Djibouti should seek to deepen its relations with Cape Verde, Dubai and Mauritius. The cases of Mauritius and Cape Verde – which recorded significant improvements in the space of a few years – particularly demonstrate the importance of transparency, good governance and competition at the sector level to promote economic diversification and encourage job creation. This can, in turn, bring Djibouti a step closer to reducing poverty and achieving sustainable and inclusive growth for the benefit of the entire population.