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DJIBOUTI COUNTRY ECONOMIC MEMORANDUM

Djibouti Beyond the Ports and Bases: A Path to Prosperity for All

Fixing High Costs, Low Human Capital, and Governance for Sustained Growth and Jobs Creation

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ABREVIATIONS ET ACRONYMES

AMO	Universal health insurance system
ARMD	Multisector regulatory authority of Djibouti
BOP	Balance of payments
CPPI	Container port performance index
CEM	Country economic memorandum
CEQ	Commitment to equity
CGE	Computable general equilibrium (model)
COMESA	Common market for eastern and southern Africa
COVID-19	Coronavirus 2019
DDID	Djibouti Damerjog industrial development
DMP	Doraleh multipurpose port
DPFZA	Djibouti ports and free zones authority
DT	Djibouti Telecom
DTIS	Diagnostic trade integration study
EBRD	European bank for reconstruction and development
EDD	Electricity of Djibouti
EEP	Public Enterprises And Establishments
FDI	Foreign direct investment
FGM	Female genital mutilation
FTZ	Free trade zone
G7	Group of seven
GDP	Gross domestic product
GHIH	Great horn investment holding
GNI	Gross national income
GVA	Gross value added
HDI	Human development index
HIC	High income country
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome
ICI	Inclusion, connectivity and institutions
ICT	Information and communications technology
IGAD	Intergovernmental authority on development
ILO	International labour organization
INSTAD	National institute of statistics
ISP	Internet service provider
KWH	Kilowatt-hour
LFP	Labor force participation
LMIC	Lower middle-income country
LPI	Logistics performance index
MENA	Middle East and North Africa
MIC	Middle income country
MNO	Mobile network operator
MOF	Ministry of economy and finance
MSME	Micro, small and medium enterprises
NCD	Non-communicable disease
ND-GAIN	Notre Dame global adaptation index
NDP	National development plan
NEET	Not in employment, education or training
OECD	Organization for economic co-operation and development
PAG	Port of Ghoubet

PDSA	Port of Djibouti (public limited company)
PDT	Port of Tadjourah
PASS	Universal health care program
PLI	Price level index
PNSF	National care transfer program
PSD	Private sector diagnostic
QFA	Quasi-fiscal activity
REER	Real effective exchange rate
SAIDI	System interruption duration index
SAIFI	System average interruption frequency index
SCAPE	Strategy of accelerated growth and promotion of employment
SCD	Strategic country document
SEPE	Executive secretariat in charge of the state portfolio
SGTD	Doraleh container terminal operator
SME	Small and medium-sized enterprise
SOE	State-owned entreprise
SSA	Sub-Saharan Africa
SSE	Social and solidarity economy
STEM	Science, technology, engineering and mathematics
TFP	Total factor productivity
TVET	Technical and vocational education and training
UNCTAD	United Nations conference on trade and development
UNICEF	United Nations children's fund
USD	United States dollars
VAT	Value added tax
WB	World bank
WDI	World development indicator
WHO	World health organization
WTO	World Trade Organization

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EXECUTIVE SUMMARY

Over the past two decades, Djibouti's economy has demonstrated remarkable growth, reaching the status of lower middle-income country. With an annual GDP growth of 4.4 percent from 2000 to 2021, the nation's GDP per capita more than doubled, exceeding USD 3,200. This success can be attributed to a combination of factors, each playing a significant role. Infrastructure investment has been a prominent and well-founded driver of growth, supported by Djibouti's advantageous geo-strategic location, political stability in a volatile region, and economic stability attained through its currency board and membership in the World Trade Organization (WTO). Djibouti's growth has garnered international recognition, evident from the substantial net inflows of foreign direct investment totaling USD 2.3 billion between 2000 and 2020.

However, this remarkable performance was achieved despite the enduring presence of persistent structural challenges, notably the high cost of electricity and telecommunications, and a fragile business environment. A critical concern is the high operating costs, particularly in electricity and telecommunications. Djibouti's average price for fixed services is twice as high as Cape Verde and three times higher than Ethiopia, while its internet speed performance ranks among the slowest in the world . Additionally, electricity prices in the country remain among the highest in the MENA region and worldwide. The presence of dominant state-owned enterprises (SOEs) in these pivotal sectors tend to stifle competition, contributing to these elevated costs. Operating with monopolistic privileges, these SOEs often establish prices without considering market dynamics and may lack motivation to improve service quality.

In this context, economic growth has predominantly relied on debt-financed public investment and private investments with limited linkages to the broader economy or job creation. While sustained public investment in significant infrastructure projects has bolstered growth, the increasing level of external debt has pushed debt sustainability to a critical limit, posing substantial risks to the country's macroeconomic stability. Specifically, Djibouti has witnessed a sharp increase in State-guaranteed debt over the past decade, soaring from approximately USD 200 million in 2013, equivalent to 10 percent of GDP, to USD 1.9 billion in 2021, amounting to 55 percent of GDP. Beyond the mounting debt, the limitations of Djibouti's growth model are also evident in the lack of economic diversification, both in terms of sectors and economic partners, as well as the insufficient job creation, all of which stem from low competitiveness and an underdeveloped, capital-intensive private sector.

Furthermore, the positive impacts of economic growth have not been evenly distributed across all sections of society, raising concerns about inclusive development. The country's high Gini coefficient underscores the existing inequality. Poverty is particularly prevalent among households with low education levels, with around one-third of these households experiencing economic hardship. The country is confronted with the critical challenge of generating enough job opportunities to accommodate its expanding labor force, particularly among youth, women, and individuals residing outside Djibouti-city. Djibouti's unemployment rate exceeds three times the MENA region average. The labor market faces several challenges. On the demand side, there is a lack of job opportunities due to an underdeveloped, capital-intensive private sector. On the supply side, labor supply is limited by insufficient human capital, characterized by low secondary enrolment rate, especially for girls and low quality of education, despite progress in both areas. These factors contribute to significant imbalances in the labor market, with demand for skilled workers exceeding supply, while the supply of low-skilled workers is in excess. These factors contribute to significant labor market mismatches, characterized by a demand for skilled workers alongside an oversupply of low-skilled workers.

Moreover, Djibouti is increasingly vulnerable to climate change. The country faces increasing climate-related risks such as floods, droughts, heatwaves, and earthquakes. Djibouti is one of the most water-scarce nations globally. The impacts of climate change are exacerbating vulnerabilities, with rising sea levels, extreme temperatures, and unpredictable rainfall patterns This situation necessitates an urgent shift from the past growth model to a more resilient and adaptive one

As Djibouti embarks on its second phase of development, it is crucial to ensure that the benefits of growth are felt by all segments of society, particularly women and youth. To achieve this, three critical priorities have been identified in the Country Economic Memorandum (CEM): (i) enhance economic resilience and foster diversification by improving the macro-fiscal framework, promoting competitiveness, and fostering diversification; (ii) improve human capital and labor market outcomes for a more inclusive society by investing in education and health as well as enhancing the effectiveness and efficiency of the social protection system; (iii) strengthen the SOE sector by introducing competition in SOE dominated sectors, operationalizing the Djibouti Multi-sector Regulatory Authority (ARMD) in charge of regulating the energy and telecommunications sectors, and strengthening the institutional framework for financial oversight to mitigate fiscal risks associated with SOEs.

Addressing these issues is crucial to foster a more conducive environment for businesses and stimulate economic growth. The report suggests that a progressive reduction in Djibouti's electricity and telecommunications costs could lead to a substantial 39.1% increase in the country's real GDP by 2030.. This positive impact would extend beyond GDP growth, with the potential to generate approximately 23000 jobs and to bring about a 25 percent increase in household income and consumption. While reducing costs is essential for rapid additional growth, it is crucial to recognize that sustained and long-lasting impact requires complementary measures to enhance human capital and improve governance.

Recognizing these challenges, the Government of Djibouti has recalibrated its development strategy through the "Djibouti 2035 Vision" and the National Development Plan (NDP) for 2020-2024. The NDP, structured around the pillars of Inclusion, Connectivity, and Institutions (ICI), aims to address structural challenges in social inclusiveness, sustainable development, infrastructure, and governance. The ICI strategy targets the right issues and lays a foundational framework for addressing the high costs, enhancing national integration, consolidating democratic principles, and ensuring public transparency.

By effectively addressing these priorities Djibouti can pave the way to a transformative path toward a more dynamic, inclusive, and poverty-reducing future. This new growth trajectory places a strong emphasis on generating employment opportunities, diversifying the economy, and empowering all segments of society. It acknowledges Djibouti's distinct status as a small state, recognizing the associated limitations and challenges; yet these factors should not be perceived as insurmountable constraints to Djibouti's development. By proactively addressing these constraints, Djibouti can fully unleash its potential. On the other hand, neglecting these challenges poses risks to the sustainability of its economic growth and financial stability, especially considering the country's heavy reliance on trade activities, its high level of indebtedness, and high vulnerability to climate change.

KEY POLICY RECOMMANDATIONS

HIGH-LEVEL OBJECTIVE	MEDIUM-TERM OBJECTIVE	REFORM AREAS
INCREASING ECONOMIC RESILIENCE AND FOSTERING DIVERSIFICATION	Improving the macro-fiscal framework	• Establishing a strategic medium-term macroeconomic and fiscal framework to support a new long-term growth path. • Improving domestic revenue mobilization by rationalizing tax expenditures, promoting tax compliance, and improving tax administration. • Increasing the efficiency and appropriateness of public spending (including social spending).Rationalizing untargeted subsidies to create more fiscal space.
	Promoting increased competitivity, strengthening the business and investment environment for the private sector	• Finalizing the operationalization of the Djibouti Multisectoral Regulatory Authority (ARMD), in charge of regulating the telecommunications and energy sectors, in particular the appointment of members of the Regulatory Board. • Promoting lower production costs, particularly in telecommunications and electricity. • Institutionalizing the public-private dialogue on private sector development reform: structuration of sectors and professional organizations, norms and standards, assessment of workforce skill needs, PPP investment opportunities, access to finance, access to government/ public contracts, SOE subcontracting/outsourcing
	Extending access to financial services and building institutional capacity to increase financial inclusion and SME financing	• Reforming the microfinance sector by restructuring the CPECs (opening to private capital, partial privatization of administration and management, etc.) and opening the sector to private MFIs. • Make greater use of risk-sharing mechanisms (credit guarantee funds) by diversifying products and increasing coverage in order to increase financing for the private sector, especially SMEs, and develop market-driven training programs in partnership with private-sector entities (including employers and chambers of commerce). • Supporting the development of Islamic financing through inclusion in risk-sharing mechanisms (extend access to SME guarantee fund). • Building the institutional capacity of the Central Bank of Djibouti for better supervision and oversight of the rapidly growing financial system, specifically of Islamic finance and Sharia-compliance governance.
	Strengthening the competition framework	• Implementing pro-competition regulations and policies that encourage the entry of private companies in sectors dominated by SOEs. • Gradually reducing market barriers and exclusive rights held by SOEs, creating a level playing field for private enterprises. • Encouraging PPPs and joint ventures between SOEs and private companies to foster knowledge transfer and enhance efficiency. • Strengthening the independent regulatory bodies responsible for overseeing key sectors dominated by SOEs, such as energy, transport, and telecommunications. • Enhancing the capacity of regulatory bodies through training and technical assistance, ensuring their ability to effectively enforce regulations.
	Fostering diversification and encouraging digital transformation	• Establishing a public-private alliance to promote investment in sectors with diversification potential. • Promoting labor-intensive sectors, such as tourism, manufacturing, and agriculture. • creating more opportunities for digital transformation and innovation, including promoting a more favorable investment financing framework for digital transformation and innovation (basic standards, technology adoption, and productivity innovation policies).

	Increasing resilience and leveraging opportunities related to climate change	• Engaging in preparedness for resilience to shocks and climate change effects. • Leveraging opportunities related to climate finance and green investments, embracing low-carbon paths for better trade opportunities, and promoting green-climate jobs.
IMPROVING HUMAN CAPITAL AND LABOR MARKET OUTCOMES FOR A MORE INCLUSIVE SOCIETY	Improving the overall level of education and health of human capital	• Investing in basic skills programs, particularly for women. • Accelerating reforms to expand access to quality education and skills, especially for underserved groups. • Investing in high quality health services both on the prevention of disease as well as treatment.
	Enhancing equality of opportunity	• Promoting sustained and equitable investment in human capital across demographic groups and geographic areas.
	Developing technical and professional skills	• Advancing education and training programs promoting cognitive and socioemotional skills combined with occupation-specific skills to improve work readiness. • Providing the labor force with adult training programs that target relevant foundational and work-specific technical skills. • Ensuring formal TVET programs are focused on strategic economic sectors with practical work placements and engagement of the private sector
IMPROVING THE GOVERNANCE OF THE SOE SECTOR	Strengthening the institutional framework for financial oversight to limit SOE fiscal risk	• Issuing instructions that all SOE accounts should be published, and that SEPE be required and empowered to publish aggregate SOE performance data. • Establishing systems and procedures for oversight and monitoring of SOEs. • Institutionalizing the production by SEPE of a consolidated analysis of trends and risks associated with SOEs. • Strengthening the legal and regulatory framework for SOEs, notably by clarifying the role of boards, their accountability, and reporting requirements. • Strengthening the independent regulatory bodies responsible for overseeing key sectors dominated by SOEs, such as energy, transport, and telecommunications.

RÉSUMÉ

Au cours des deux dernières décennies, l'économie de Djibouti a connu une croissance remarquable, atteignant le statut de pays à revenu intermédiaire de la tranche inférieure. Avec une croissance annuelle moyenne du PIB de 4,4 % entre 2000 et 2021, le PIB par habitant a plus que doublé, dépassant les 3 200 USD. Ce succès peut être attribué à une combinaison de facteurs, chacun jouant un rôle important. L'investissement dans les infrastructures a été un moteur de croissance important et bien fondé, soutenu par la situation géostratégique avantageuse de Djibouti, la stabilité politique dans une région instable et la stabilité économique obtenue grâce à sa caisse d'émission (currency board) et à son adhésion à l'Organisation mondiale du commerce (OMC). La croissance de Djibouti a suscité une reconnaissance internationale, comme en témoignent les entrées nettes substantielles d'investissements directs étrangers (IDE), d'un montant total de 2,3 milliards USD entre 2000 et 2020.

Toutefois, ces résultats remarquables ont été obtenus malgré la persistance de contraintes structurelles, notamment les coûts élevés de l'électricité et des télécommunications avec cependant des efforts récents dans ces deux secteurs et la fragilité de l'environnement des affaires. En particulier, les tarifs élevés de l'électricité et des télécommunications constituent une préoccupation majeure. Le prix moyen des services de haut débit fixe à Djibouti est deux fois plus élevé que celui du Cap-Vert et trois fois plus élevé que celui de l'Éthiopie, tandis que la vitesse de l'internet se classait jusqu'à l'été 2023 parmi les 10 % les plus faibles du monde. En outre, les prix de l'électricité dans le pays restent parmi les plus élevés de la région MENA et du monde. La présence d'entreprises publiques dominantes dans ces secteurs clés tend à freiner la création d'un marché compétitif, et l'accumulation d'arriérés d'électricité signalés par des entités subventionnées par le budget de l'État contribue à l'inefficacité du secteur et donc à ces coûts élevés. Bénéficiant de privilèges monopolistiques, ces entreprises publiques peuvent fixer les prix sans tenir compte de la dynamique du marché et peuvent manquer de motivation pour améliorer la qualité du service.

Dans ce contexte, la croissance économique a été principalement tirée par des investissements publics financés par la dette et des investissements privés dont les impacts sur l'économie globale et la création d'emplois ont été restreints. Si l'investissement public soutenu dans d'importants projets d'infrastructure a stimulé la croissance, le niveau croissant de la dette publique extérieure a poussé la viabilité de la dette à une limite critique, posant des risques substantiels pour la stabilité macroéconomique du pays. Plus précisément, Djibouti a connu une forte augmentation de la dette garantie par l'État au cours de la dernière décennie, passant d'environ 200 millions USD en 2013, soit 10 % du PIB, à 1,9 milliard USD en 2021, soit 55 % du PIB. Au-delà de la dette croissante, les limites du modèle de croissance de Djibouti sont également évidentes dans le manque de diversification économique, à la fois en termes de secteurs et de partenaires économiques, ainsi que dans l'insuffisance de création d'emplois, qui découlent tous d'une faible compétitivité et d'un secteur privé peu développé et à forte intensité de capital.

En outre, les effets positifs de la croissance économique n'ont pas été répartis de manière équitable à tous les segments de la société, suscitant ainsi des préoccupations concernant l'inclusivité du modèle de croissance Djiboutien. Les inégalités persistantes sont mises en évidence par le coefficient de Gini élevé du pays. La pauvreté est particulièrement répandue parmi les ménages ayant un faible niveau d'éducation, un tiers d'entre eux éprouvant des difficultés économiques. Le pays est confronté au défi crucial de créer suffisamment d'opportunités d'emploi pour répondre à l'augmentation de sa population active, en particulier parmi les jeunes, les femmes et les personnes résidant en dehors de la ville de Djibouti. Le taux de chômage de Djibouti est trois fois supérieur à la moyenne de la région MENA. Le marché du travail est confronté à divers défis. Du côté de la demande, on observe une insuffisance d'opportunités d'emploi en raison d'un secteur privé peu développé et à forte intensité de capital. En ce qui concerne l'offre de main-d'œuvre, elle est limitée par un capital humain insuffisant, caractérisé par un faible taux de scolarisation dans le secondaire, en particulier pour les filles, et une faible qualité de l'éducation,malgré les progrès réalisés dans les deux domaines. malgré des progrès observés dans l'accès à l'éducation. Ces éléments contribuent à des déséquilibres notables sur le marché du travail, se traduisant par une demande de travailleurs qualifiés excédant l'offre, tandis que l'offre de travailleurs peu qualifiés est en excès.

Par ailleurs, Djibouti est de plus en plus vulnérable au changement climatique. Le pays est confronté à des risques climatiques croissants tels que les inondations, les sécheresses, les vagues de chaleur et les tremblements de terre. Djibouti est l'une des nations qui manquent le plus d'eau dans le monde. Les effets du changement climatique exacerbent les vulnérabilités, notamment à travers la montée du niveau de la mer, les températures extrêmes et les régimes pluviométriques imprévisibles. Cette situation nécessite de passer d'urgence de l'ancien modèle de croissance à un modèle plus résilient et adaptatif.

Alors que Djibouti entame sa deuxième phase de développement, il est crucial de s'assurer que les bénéfices de la croissance sont ressentis par tous les segments de la société, en particulier les femmes et les jeunes. Pour y parvenir, trois priorités essentielles ont été identifiées dans le mémorandum économique du pays (CEM) : (i) renforcer la résilience économique et favoriser la diversification en améliorant le cadre macro-budgétaire, en promouvant la compétitivité et en encourageant la diversification ; (ii) améliorer le capital humain et les résultats du marché du travail pour une société plus inclusive en investissant dans l'éducation et la santé et en renforçant l'efficacité et l'efficience du système de protection sociale ; (iii) renforcer le secteur des entreprises publiques, par exemple en introduisant la concurrence dans les secteurs dominés par les entreprises publiques, en opérationnalisant l'Autorité de Régulation Multisectorielle de Djibouti (ARMD) en charge de la régulation des secteurs de l'énergie et des télécommunications, et en renforçant le cadre institutionnel de surveillance financière afin d'atténuer les risques budgétaires associés aux entreprises publiques.

Il est essentiel de s'attaquer à ces problèmes pour favoriser un environnement plus attractif aux entreprises et stimuler la croissance économique. Le rapport suggère qu'une réduction progressive des coûts de l'électricité et des télécommunications de Djibouti pourrait entraîner une augmentation substantielle de 39,1 % du PIB réel du pays d'ici 2030. Cet impact positif irait au-delà de la croissance du PIB, avec la possibilité de créer environ 22 822 emplois et d'entraîner une augmentation de plus de 25 % du revenu et de la consommation des ménages. Si la réduction des coûts est essentielle pour une croissance supplémentaire rapide, il est crucial de reconnaître qu'un impact soutenu et durable nécessite des mesures complémentaires pour renforcer le capital humain et améliorer la gouvernance.

Conscient de ces défis, le gouvernement de Djibouti a recalibré sa stratégie de développement à travers la "Vision Djibouti 2035" et le Plan national de développement (PND) pour 2020-2024. Le PND, structuré autour des piliers de l'inclusion, de la connectivité et des institutions (ICI), vise à relever les défis structurels en matière d'inclusion sociale, de développement durable, d'infrastructure et de gouvernance. La stratégie ICI cible les bonnes questions et établit un cadre fondamental pour faire face aux coûts élevés, renforcer l'intégration nationale, consolider les principes démocratiques et garantir la transparence publique.

En répondant efficacement à ces priorités, Djibouti peut ouvrir la voie à une transformation vers un avenir plus dynamique, plus inclusif et plus propice à la réduction de la pauvreté. Cette nouvelle trajectoire de croissance met fortement l'accent sur la création d'opportunités d'emploi, la diversification de l'économie et l'autonomisation de tous les segments de la société. Elle reconnaît le statut particulier de Djibouti en tant que petit État, ainsi que les limites et les défis qui y sont associés ; cependant, ces facteurs ne doivent pas être perçus comme des contraintes insurmontables pour le développement de Djibouti. En s'attaquant de manière proactive à ces contraintes, Djibouti peut libérer pleinement son potentiel. D'un autre côté, négliger ces défis pose des risques pour la durabilité de sa croissance économique et de sa stabilité financière, surtout si l'on considère la forte dépendance du pays à l'égard des activités commerciales, son niveau élevé d'endettement et sa grande vulnérabilité au changement climatique.

PRINCIPALES RECOMMANDATIONS POLITIQUES

OBJECTIF DE HAUT NIVEAU	OBJECTIF À MOYEN TERME	DOMAINES DE RÉFORME
ACCROITRE LA RESILIENCE ECONOMIQUE ET FAVORISER LA DIVERSIFICATION	Améliorer le cadre macro-budgétaire	• Établir un cadre macroéconomique et budgétaire à moyen terme pour soutenir une nouvelle trajectoire de croissance à long terme. • Améliorer la mobilisation des recettes intérieures en rationalisant les dépenses fiscales, en encourageant le respect des obligations fiscales et en améliorant l'administration fiscale. • Accroître l'efficacité et l'adéquation des dépenses publiques (y compris les dépenses sociales). • Rationaliser les subventions non ciblées afin de créer une plus grande marge de manœuvre budgétaire.
	Promouvoir une compétitivité accrue, renforcer l'environnement des affaires et des investissements pour le secteur privé	• Finaliser l'opérationnalisation de l'Autorité de Régulation Multisectorielle de Djibouti (ARMD), en charge de la régulation des secteurs des télécommunications et de l'énergie, et en particulier la nomination des membres du Conseil de Régulation. • Promouvoir la baisse des coûts de production, notamment dans le domaine des télécommunications et de l'électricité. • Institutionnaliser le dialogue public-privé sur le programme de réforme du développement du secteur privé : structuration des secteurs et des organisations professionnelles, normes et standards, évaluation des besoins en compétences de la main-d'œuvre, opportunités d'investissement PPP, accès au financement, accès aux marchés publics/aux contrats publics, sous-traitance/externalisation des entreprises publiques.
	Élargir l'accès aux services financiers et renforcer les capacités institutionnelles pour accroître l'inclusion financière et le financement des PME	• Réformer le secteur de la microfinance par la restructuration des CPEC (ouverture aux capitaux privés, privatisation partielle de l'administration et de la gestion, etc.) et ouvrir le secteur aux institutions de microfinance privées. • Exploiter davantage les mécanismes de partage des risques (fonds de garantie des crédits) en diversifiant les produits, en augmentant la couverture afin d'accroître le financement du secteur privé, en particulier des PME, développer des programmes de formation adaptés au marché en partenariat avec des entités du secteur privé (y compris des employeurs et des chambres de commerce). • Soutenir le développement du financement islamique en l'incluant dans les mécanismes de partage des risques (étendre l'accès au fonds de garantie des PME). • Renforcer les capacités institutionnelles de la Banque centrale afin d'améliorer la supervision et le contrôle du système financier en pleine expansion, en particulier en ce qui concerne la finance islamique et la gouvernance de la conformité à la charia.
	Renforcer le cadre de la concurrence	• Mettre en œuvre des réglementations et des politiques favorables à la concurrence qui encouragent l'entrée d'entreprises privées dans les secteurs dominés par les entreprises publiques. • Réduire progressivement les obstacles au marché et les droits exclusifs détenus par les entreprises publiques, afin de créer des conditions de concurrence équitables pour les entreprises privées. • Encourager les partenariats public-privé (PPP) et les coentreprises entre les entreprises publiques et les entreprises privées afin de favoriser le transfert de connaissances et d'améliorer l'efficacité. • Renforcer les organismes de régulation indépendants chargés de superviser les secteurs clés dominés par les entreprises publiques, tels que l'énergie, les transports et les télécommunications. • Renforcer la capacité des organismes de régulation par la formation et l'assistance technique, en veillant à ce qu'ils soient en mesure d'appliquer efficacement les réglementations.
	Favoriser la diversification et encourager la transformation numérique	• Établir une alliance public-privé pour promouvoir l'investissement dans les secteurs présentant un potentiel de diversification. • Promouvoir les secteurs à forte intensité de main-d'œuvre tels que le tourisme, l'industrie manufacturière et l'agriculture. • Créer des opportunités pour la transformation numérique et l'innovation, notamment en promouvant un cadre de financement des investissements plus favorable à la transformation numérique et à l'innovation (normes de base, adoption des technologies et politiques d'innovation en matière de productivité).

	Accroître la résilience et exploiter les possibilités liées au changement climatique	• S'engager dans la préparation à la résilience aux chocs et aux effets du changement climatique. • Tirer parti des possibilités liées au financement de la lutte contre le changement climatique et aux investissements verts, adopter des pratiques à faible émission de carbone pour améliorer les possibilités commerciales et promouvoir les emplois verts.
AMELIORER LE CAPITAL HUMAIN ET LES RESULTATS DU MARCHE DU TRAVAIL POUR UNE SOCIETE PLUS INCLUSIVE	Améliorer le niveau global du capital humain, dans les domaines de l'éducation et de la santé	• Investir dans des programmes de compétences de base, en particulier pour les femmes. • Accélérer les réformes pour élargir l'accès à une éducation et à des compétences de qualité, en particulier pour les groupes mal desservis. • Investir dans des services de santé de haute qualité, tant pour la prévention des maladies que pour leur traitement.
	Renforcer l'égalité des chances	• Promouvoir un investissement soutenu et équitable dans le capital humain à travers les groupes démographiques et les zones géographiques.
	Développer les compétences techniques et professionnelles	• Faire progresser les programmes d'éducation et de formation qui favorisent l'acquisition de compétences cognitives et socio-émotionnelles combinées à des compétences professionnelles spécifiques afin d'améliorer la préparation à l'emploi. • Offrir à la main-d'œuvre des programmes de formation pour adultes qui ciblent les compétences techniques fondamentales et spécifiques à l'emploi. • Veiller à ce que les programmes formels d'EFTP soient axés sur les secteurs économiques stratégiques, avec des stages pratiques et l'engagement du secteur privé.
	Renforcer les systèmes de protection sociale	• Élaborer des lignes directrices pour lier la protection sociale aux programmes et stratégies nationaux de lutte contre les catastrophes. • Mettre en œuvre la nouvelle stratégie de protection sociale en cours d'élaboration. • Développer des interventions de protection sociale plus sensibles aux besoins des enfants et veiller à leur mise en œuvre. • Développer les interventions d'inclusion productive qui sont pilotées en tant qu'aspects intégraux du financement de la protection sociale
AMELIORER LA GOUVERNANCE DES ENTREPRISES PUBLIQUES	Ouvrir les secteurs dominés par les entreprises publiques à la concurrence	• Mettre en œuvre des réglementations et des politiques favorables à la concurrence qui encouragent l'entrée d'entreprises privées dans les secteurs dominés par les entreprises publiques. • Réduire progressivement les obstacles à l'accès au marché et les droits exclusifs détenus par les entreprises publiques, afin de créer des conditions de concurrence équitables pour les entreprises privées. • Encourager les partenariats public-privé (PPP) et les coentreprises entre les entreprises publiques et les entreprises privées afin de favoriser le transfert de connaissances et d'améliorer l'efficacité.
	Renforcer le cadre institutionnel de la surveillance financière pour limiter les risques budgétaires liés aux entreprises publiques	• Émettre des directives exigeant la publication de tous les comptes des entreprises publiques et conférant au SEPE la responsabilité et l'autorité de diffuser des informations consolidées sur les performances des entreprises publiques. • Élaborer des mécanismes et des directives pour s'assurer que les entités financées par le budget de l'État restent à jour dans le paiement de leurs factures d'électricité afin d'éviter l'accumulation d'arriérés. • Elaborer une politique globale en matière de distribution des dividendes des entreprises publiques • Mettre en place des systèmes et des procédures de contrôle et de suivi des entreprises publiques • Institutionnaliser la production par le SEPE d'une analyse consolidée des tendances et des risques associés aux entreprises publiques. • Consolider le cadre juridique et réglementaire qui régit les entreprises publiques, en apportant des éclaircissements quant aux fonctions des conseils d'administration, leur responsabilité, ainsi que les exigences en matière de communication d'information.

الملخص

على امتداد العقدين الماضيين، شهد اقتصاد جيبوتي نموا ملحوظا، بحيث وصلت جيبوتي إلى مرتبة الدول ذات الدخل المتوسط الأدنى. وفي ظل وصول متوسط نمو الناتج المحلي الإجمالي السنوي إلى 4.4 % خلال الفترة 2000 و2021، زاد نصيب الفرد من الناتج المحلي الإجمالي بأكثر من الضعف، متجاوزًا 3200 دولار أمريكي. ويمكن إيعاز هذا النجاح إلى مجموعة من العوامل، كل منها يلعب دورا هاما. فقد كان الاستثمار في البنية التحتية محركاً هاماً وراسخاً للنمو، يدعمه الموقع الجغرافي الاستراتيجي المميز لجيبوتي، والاستقرار السياسي في منطقة تتميز بغياب الاستقرار، والاستقرار الاقتصادي الذي تحقق من خلال هيئة النقد وانضمام الدولة إلى منظمة التجارة العالمية. وقد حظي نمو جيبوتي باهتمام دولي، كما يتضح من صافي تدفقات الاستثمار الأجنبي المباشر الكبيرة، والتي بلغ مجموعها 2.3 مليار دولار أمريكي خلال الفترة 2000 و2020.

إلا أن هذه النتائج الملحوظة تم تحقيقها رغم استمرار المعيقات الهيكلية، أبرزها ارتفاع تكلفة الكهرباء والاتصالات، رغم الجهود المبذولة مؤخرا في هذين القطاعين وهشاشة بيئة الأعمال. وعلى وجه الخصوص، يشكل ارتفاع أسعار الكهرباء والاتصالات مصدر قلق كبير. ويبلغ متوسط سعر خدمات النطاق العريض الثابتة في جيبوتي ضعف نظيره في الرأس الأخضر (كابو فيردي) وثلاثة أضعاف مثيله في إثيوبيا، في حين صنفت سرعة الإنترنت حتى صيف 2023 ضمن 10% من السرعات الأدنى في العالم. بالإضافة إلى ذلك، تظل أسعار الكهرباء في البلاد من بين أعلى الأسعار في منطقة الشرق الأوسط وشمال إفريقيا والعالم. وأدت هيمنة الشركات المملوكة للدولة على هذه القطاعات الرئيسية إلى إعاقة إنشاء سوق تنافسية، كما أن تراكم متأخرات الكهرباء التي أبلغت عنها الكيانات المدعومة من ميزانية الدولة يساهم في عدم كفاءة القطاع وبالتالي ارتفاع التكاليف. وبالاستفادة من المميزات الاحتكارية، تقوم هذه الشركات العامة بتحديد الأسعار دون مراعاة لديناميكيات السوق وغياب الحافز لتحسين جودة الخدمة المقدمة.

في هذا السياق، كان النمو الاقتصادي مدفوعا بشكل رئيسي بالاستثمارات العامة الممولة بالديون والاستثمارات الخاصة التي كانت آثارها محدودة على الاقتصاد بشكل عام وعلى خلق فرص العمل. وفي حين أدى الاستثمار العام المستدام في مشاريع البنية التحتية الكبرى إلى تعزيز النمو، فإن المستوى المتنامي للدين العام الخارجي دفع القدرة على تحمل الديون إلى حد حرج، الأمر الذي يشكل مخاطر كبيرة على استقرار الاقتصاد الكلي في البلاد. وعلى وجه التحديد، شهدت جيبوتي زيادة حادة في الديون المضمونة من قبل الدولة على مدى العقد الماضي، من حوالي 200 مليون دولار أمريكي في عام 2013، أو 10% من الناتج المحلي الإجمالي، إلى 1.9 مليار دولار أمريكي في عام 2021، أو 55% من الناتج المحلي الإجمالي. وبالاضافة الى الديون المتزايدة، فإن محددات نموذج النمو في جيبوتي تتجلى أيضاً في الافتقار إلى التنويع الاقتصادي، سواء من حيث القطاعات أو الشركاء الاقتصاديين، وكذلك في عدم كفاية استحداث فرص عمل جديدة، وكل ذلك ينبع من انخفاض القدرة التنافسية وقطاع خاص يتسم بضعف تطوره وكثافة رأس ماله.

علاوة على ذلك، لم يتم توزيع الآثار الإيجابية للنمو الاقتصادي بشكل عادل على جميع شرائح المجتمع، مما يثير المخاوف بشأن شمولية توزيع مكاسب التنمية. ويتجلى استمرار عدم المساواة في ارتفاع مُعامل جِينِي في البلاد. وينتشر الفقر بشكل خاص بين الأسر ذات مستويات التعليم المنخفضة، ويعاني ثلثها من صعوبات اقتصادية. وتواجه البلاد التحدي الحاسم المتمثل في خلق فرص عمل كافية لاستيعاب قوتها العاملة المتنامية، لا سيما بين الشباب والنساء والمقيمين خارج مدينة جيبوتي. ويبلغ معدل البطالة في جيبوتي ثلاثة أضعاف متوسط معدل البطالة في منطقة الشرق الأوسط وشمال أفريقيا. ويواجه سوق العمل تحديات مختلفة. وبالنسبة للطلب، هناك نقص في فرص العمل بسبب ضعف تطور وكثافة رأس مال القطاع الخاص. وفيما يتعلق بعرض العمالة، فهو محدود أيضاً بسبب عدم كفاية رأس المال البشري، الذي يتميز بانخفاض معدلات الالتحاق بالمدارس وجودة التعليم التي تعتبر غير مقبولة، على الرغم من التقدم الملحوظ في الحصول على التعليم. وتساهم هذه العناصر في اختلالات ملحوظة في سوق العمل، مما يؤدي إلى وجود طلب على العمال المهرة بشكل يتجاوز العرض، في حين أن هناك فائض في المعروض من العمال ذوي المهارات المتدنية. وتساهم هذه العوامل في حدوث حالات عدم تطابق كبيرة في سوق العمل، والتي تتميز بالطلب على العمال المهرة وزيادة المعروض من العمال ذوي المهارات المتدنية.

من ناحية أخرى، فإن جيبوتي معرضة بشكل متزايد لتغير المناخ. وتواجه البلاد مخاطر مناخية متزايدة مثل الفيضانات والجفاف وموجات الحر والزلازل. جيبوتي هي واحدة من أكثر الدول التي تعاني من ندرة المياه في العالم. وتؤدي آثار تغير المناخ إلى تفاقم نقاط الضعف، ولا سيما من خلال ارتفاع منسوب مياه البحر، ودرجات الحرارة القصوى، وأنماط هطول الأمطار التي لا يمكن التنبؤ بها. ويتطلب هذا الوضع تحولا عاجلا من نموذج النمو القديم إلى نموذج أكثر مرونة وقدرة على التكيف.

ومع دخول جيبوتي مرحلتها الثانية من التنمية، من المهم جدًا أن تشعر جميع شرائح المجتمع بمكاسب النمو، وخاصة النساء والشباب. ولتحقيق ذلك، تم تحديد ثلاث أولويات رئيسية في المذكرة الاقتصادية للبلاد: (1) تعزيز المرونة الاقتصادية ودعم التنويع من خلال تحسين الإطار المالي الكلي، وتعزيز القدرة التنافسية وتشجيع التنويع؛ (2) تحسين نتائج رأس المال البشري وسوق العمل من أجل مجتمع أكثر شمولا من خلال الاستثمار في التعليم والصحة وتعزيز فعالية وكفاءة نظام الحماية الاجتماعية؛ (3) تعزيز قطاع الشركات المملوكة للدولة، على سبيل المثال من خلال إدخال المنافسة في القطاعات التي تهيمن عليها هذه الشركات، وتفعيل هيئة التنظيم المتعددة القطاعات في جيبوتي المسؤولة عن تنظيم قطاعي الطاقة والاتصالات، وتعزيز الإطار المؤسسي للرقابة المالية للتخفيف من المخاطر المالية المرتبطة بالشركات العامة.

ومعالجة هذه القضايا ضروري لتعزيز بيئة أعمال أكثر جاذبية ومحفزة للنمو الاقتصادي. ويشير التقرير إلى أن التخفيض التدريجي في تكاليف الكهرباء والاتصالات في جيبوتي يمكن أن يؤدي إلى زيادة كبيرة في الناتج المحلي الإجمالي الحقيقي تصل نسبة 39.1% بحلول عام 2030. وسيتجاوز هذا التأثير الإيجابي النمو في الناتج المحلي الإجمالي، مع إمكانية خلق ما يقرب من 22822 فرصة عمل ويؤدي إلى زيادة بأكثر من 25% في دخل الأسر واستهلاكها. ورغم أن خفض التكاليف يشكل ضرورة أساسية لتحقيق النمو المتزايد السريع، فمن الأهمية بمكان أن ندرك أن التأثير المستدام والدائم يتطلب اتخاذ تدابير تكميلية لتعزيز رأس المال البشري وتحسين الحوكمة.

وإدراكاً منها لهذه التحديات، أعادت حكومة جيبوتي مراجعة استراتيجيتها التنموية "رؤية جيبوتي 2035" وخطة التنمية الوطنية للفترة 2020- 2024. وتهدف خطة التنمية الوطنية، التي تتمحور حول ركائز الشمول والاتصال والمؤسسات (ICI)، إلى معالجة التحديات الهيكلية في الإدماج الاجتماعي والتنمية المستدامة والبنية التحتية والحوكمة. وتستهدف استراتيجية الشمول والاتصال والمؤسسات التعامل مع القضايا الهامة وتؤسس إطاراً أساسياً لمعالجة التكاليف المرتفعة، وتعزيز التكامل الوطني، وترسيخ المبادئ الديمقراطية، وضمان الشفافية العامة.

ومن خلال الاستجابة الفعالة لهذه الأولويات، يمكن لجيبوتي أن تمهد الطريق للتحول نحو مستقبل أكثر ديناميكية وشمولا وأكثر ملاءمة للحد من الفقر. ويركز مسار النمو الجديد على خلق فرص العمل وتنويع الاقتصاد وتمكين جميع شرائح المجتمع. ويعترف بالوضع الخاص لجيبوتي كدولة صغيرة، فضلا عن القيود والتحديات المرتبطة بها. إلا أنه لا ينبغي النظر إلى هذه العوامل على أنها قيود لا يمكن التغلب عليها أمام تنمية جيبوتي. ومن خلال معالجة هذه القيود بشكل استباقي، تستطيع جيبوتي أن تطلق العنان لقدراتها بالكامل. ومن ناحية أخرى، فإن إهمال هذه التحديات يشكل مخاطر على استدامة نموها الاقتصادي واستقرارها المالي، خاصة بالنظر إلى اعتماد البلاد الكبير على الأنشطة التجارية، وارتفاع مستوى ديونها وتأثرها الكبير بتغير المناخ.

هدف رفيع المستوى	هدف متوسط المدى	مجالات الإصلاح
زيادة المرونة الاقتصادية وتعزيز التنويع	تحسين الإطار المالي الكلي	• إنشاء إطار اقتصادي كلي ومالي على المدى المتوسط لدعم مسار نمو جديد طويل المدى. • تحسين عملية توفير الإيرادات المحلية من خلال ترشيد النفقات الضريبية، وتشجيع الالتزام الضريبي، وتحسين إدارة الضرائب. • زيادة كفاءة وكفاية الإنفاق العام (بما في ذلك الإنفاق الاجتماعي). • ترشيد حالات الدعم غير الموجه لخلق حيز مالي أكبر.
	تعزيز زيادة القدرة التنافسية، وتعزيز بيئة الأعمال والاستثمار للقطاع الخاص	• الانتهاء من تفعيل "هيئة التنظيم المتعددة القطاعات في جيبوتي"، المسؤولة عن تنظيم قطاعي الاتصالات والطاقة. • تعزيز خفض تكاليف الإنتاج، خاصة في مجال الاتصالات والكهرباء. • إضفاء الطابع المؤسسي على الحوار بين القطاعين العام والخاص بشأن برنامج إصلاح تنمية القطاع الخاص: هيكلة القطاعات والمؤسسات المهنية، والقواعد والمعايير، وتقييم احتياجات مهارات القوى العاملة، وفرص الاستثمار في الشراكة بين القطاعين العام والخاص، والحصول على التمويل، والوصول إلى المشتريات العامة/العقود العامة، والتعاقد من الباطن/الاستعانة بمصادر خارجية لإدارة الشركات العامة.
	توسيع نطاق الوصول إلى الخدمات المالية وتعزيز القدرة المؤسسية لزيادة الشمول المالي وتمويل الشركات الصغيرة والمتوسطة	• إصلاح قطاع تمويل المشاريع الصغيرة من خلال إعادة هيكلة "الصندوق الشعبي للادخار والقروض" (الانفتاح على رأس المال الخاص، والخصخصة الجزئية للإدارة والتنظيم، وما إلى ذلك) وفتح القطاع أمام المؤسسات الخاصة لتمويل المشاريع الصغيرة. • زيادة استغلال آليات تقاسم المخاطر (صناديق ضمان الائتمان) من خلال تنويع المنتجات، وزيادة التغطية من أجل زيادة التمويل للقطاع الخاص، وخاصة الشركات الصغيرة والمتوسطة، وتطوير برامج تدريبية تتكيف مع السوق بالشراكة مع كيانات القطاع الخاص (بما في ذلك أرباب العمل وغرف التجارة). • دعم تطوير التمويل الإسلامي من خلال إدراجه في آليات تقاسم المخاطر (توسيع الوصول إلى صندوق ضمان الشركات الصغيرة والمتوسطة). • تعزيز القدرات المؤسسية للبنك المركزي لتحسين الإشراف والرقابة على النظام المالي المتنامي، لا سيما فيما يتعلق بالتمويل الإسلامي وحوكمة الالتزام بالشريعة الإسلامية.
	تعزيز إطار المنافسة	• تنفيذ الأنظمة والسياسات الداعمة للمنافسة والتي تشجع دخول الشركات الخاصة إلى القطاعات التي تهيمن عليها الشركات المملوكة للدولة. • التخفيض التدريجي لحواجز السوق والحقوق الحصرية التي تمتلكها الشركات العامة، من أجل خلق فرص متكافئة للشركات الخاصة. • تشجيع الشراكات بين القطاعين العام والخاص والمشاريع المشتركة بين الشركات العامة والخاصة لتعزيز نقل المعرفة وتحسين الكفاءة. • تعزيز الهيئات التنظيمية المستقلة المسؤولة عن الإشراف على القطاعات الرئيسية التي تهيمن عليها الشركات المملوكة للدولة، مثل الطاقة والنقل والاتصالات. • تعزيز قدرة الهيئات التنظيمية من خلال التدريب والمساعدة الفنية، وضمان قدرتها على إنفاذ اللوائح بشكل فعال.

	تعزيز التنويع وتشجيع التحول الرقمي	• إنشاء تحالف بين القطاعين العام والخاص لتشجيع الاستثمار في القطاعات التي تتمتع بإمكانات التنويع. • تعزيز القطاعات كثيفة العمالة مثل السياحة والتصنيع والزراعة. • خلق فرص للتحول الرقمي والابتكار، لا سيما من خلال تعزيز إطار تمويل الاستثمار أكثر ملاءمة للتحول الرقمي والابتكار (المعايير الأساسية، واعتماد التكنولوجيا وسياسات الابتكار الإنتاجية).
	زيادة القدرة على الصمود واستغلال الفرص المرتبطة بتغير المناخ	• المشاركة في الإعداد للقدرة على الصمود في مواجهة الصدمات وآثار تغير المناخ. • الاستفادة من الفرص المتعلقة بتمويل المناخ والاستثمارات الخضراء، واعتماد ممارسات كثيفة الكربون لتحسين فرص الأعمال وتعزيز الوظائف الخضراء.
تحسين نتائج رأس المال البشري وسوق العمل من أجل مجتمع أكثر شمولا	تحسين المستوى العام لرأس المال البشري في مجالات التعليم والصحة	• الاستثمار في برامج المهارات الأساسية، وخاصة بالنسبة للنساء. • تسريع وتيرة الإصلاحات لتوسيع نطاق الوصول إلى التعليم الجيد والمهارات، وخاصة للفئات المحرومة. • الاستثمار في الخدمات الصحية عالية الجودة، سواء للوقاية من الأمراض أو علاجها.
	تعزيز تكافؤ الفرص	• تعزيز الاستثمار المستدام والعادل في رأس المال البشري عبر المجموعات السكانية والمناطق الجغرافية.
	تطوير المهارات التقنية والمهنية	• تطوير برامج التعليم والتدريب التي تعزز اكتساب المهارات المعرفية والاجتماعية والعاطفية جنبا إلى جنب مع مهارات وظيفية محددة لتحسين الاستعداد الوظيفي. • تزويد القوى العاملة ببرامج تدريب الكبار التي تستهدف المهارات الفنية الأساسية الخاصة بالوظيفة. • التأكد من أن برامج التعليم والتدريب الفني والمهني الرسمية تركز على القطاعات الاقتصادية الاستراتيجية، مع التدريب العملي وإشراك القطاع الخاص.
	تعزيز أنظمة الحماية الاجتماعية	• وضع مبادئ توجيهية لربط الحماية الاجتماعية ببرامج واستراتيجيات الكوارث الوطنية. • تنفيذ استراتيجية الحماية الاجتماعية الجديدة التي يجري وضعها حالياً. • تطوير تدخلات الحماية الاجتماعية الأكثر حساسية لاحتياجات الأطفال وضمان تنفيذها. • تطوير تدخلات الاحتواء الإنتاجي التي يتم تجريبها باعتبارها جوانب متكاملة لتمويل الحماية الاجتماعية.
تحسين حوكمة الشركات العامة	تعزيز الإطار المؤسسي للرقابة المالية للحد من مخاطر الميزانية المرتبطة بالشركات العامة	• إصدار توجيهات تتطلب نشر جميع حسابات الشركات العامة ومنح "الأمانة التنفيذية المكلفة بملف الدولة" المسؤولية والسلطة لنشر المعلومات الموحدة حول أداء الشركات العامة. • وضع الآليات والمبادئ التوجيهية التي تضمن بقاء الجهات الممولة من الموازنة العامة للدولة ملتزمة بسداد فواتير الكهرباء لتجنب تراكم المتأخرات. • وضع سياسة عامة بشأن توزيع أرباح الشركات العامة • وضع أنظمة وإجراءات للرقابة ومتابعة الشركات العامة • إضفاء الطابع المؤسسي على مخرجات الأمانة التنفيذية المكلفة بملف الدولة لتحليل موحد للاتجاهات والمخاطر المرتبطة بالشركات العامة. • توحيد الإطار القانوني والتنظيمي الذي يحكم الشركات العامة، وتقديم التوضيحات بشأن مهام مجالس الإدارة، ومسؤولياتها، وكذلك متطلبات إعداد التقارير.

CHAPTER I:
OVERVIEW OF DJIBOUTI'S ECONOMIC PERFORMANCE

Abstract:

Over the past two decades, Djibouti has demonstrated remarkable growth. With an annual GDP growth of 4.4 percent from 2000 to 2021, the nation's GDP per capita has more than doubled, exceeding USD 3,200. Infrastructure investment has been a prominent and well-founded aspect of this success, supported by Djibouti's advantageous geostrategic location and its political stability in a volatile region. However, Djibouti's current SOE-centered model, hinging on a single sector and one major client, although initially fruitful, appears to have reached its limits. Not only is it imposing challenges to Djibouti's macroeconomic stability, but it is also stifling the development of its private sector. Additionally, the benefits of growth have not been evenly distributed across all sections of society, raising concerns about inclusive development. As Djibouti embarks on its second phase of development, there is a pivotal opportunity to build upon past investments and extend their positive impact to a broader economic base. However, the success of this phase hinges on addressing three critical constraints: (1) the exorbitant cost of basic services, particularly electricity and telecommunications; (2) a shortage of skilled human capital; and (3) weak governance. Comparing Djibouti to its peers, the average price for fixed services is twice Cape Verde's and three times Ethiopia's, and electricity prices are among the highest in the MENA region and worldwide. Addressing these cost issues is crucial to foster a more conducive environment for businesses and to stimulate economic growth. In addition, sustaining long-lasting growth requires complementary measures to enhance human capital and improve governance. Successfully overcoming these constraints will enable Djibouti to chart a transformative path toward a more dynamic, inclusive, and poverty-reducing future.

INTRODUCTION

1. In the fragile Horn of Africa, Djibouti has successfully managed to leverage its geostrategic location to turn its resource-constrained, small economy into a fast growing regional hub for transport and logistics. However, this growth has been However, this growth has been volatile, generating limited employment and lacking inclusiveness. Despite experiencing robust economic growth, Djibouti has faced significant external shocks that have resulted in substantial foregone growth. This vulnerability can be attributed to lack of diversification, with the services sector and trade with Ethiopia dominant drivers of growth. Moreover, limited structural changes and employment opportunities have hindered the country's inclusive growth objectives. Despite high growth rates, Djibouti has struggled to provide meaningful employment opportunities for its working-age population and improve living standards for its people. Key constraints such as high production costs, a weak human capital base, and poor governance performance, have impeded Djibouti's ability to diversify its economy and create jobs. Looking ahead, Djibouti's growth may face sustainability challenges due to Ethiopia's efforts to diversify its trade partners, increasing debt burdens, and the impact of climate change on the economy. Nevertheless, Djibouti has the potential for a more sustainable, job-friendly, and revenue-generating growth trajectory. To ensure economic sustainability and unlock this potential, it is urgent for Djibouti to address the constraints that hinder growth, particularly the high costs associated with electricity and telecommunications.

2. This chapter provides an in-depth examination of the Djibouti economy, encompassing historical trends, the current situation, and future prospects.[1] The chapter is structured as follows: first, an analysis of Djibouti's growth trajectory and key development outcomes over the past two decades; second, an exploration of the binding constraints that impede Djibouti's economic transformation; and third, an examination of strategies to enhance the resilience of Djibouti's economy and unleash its untapped potential.

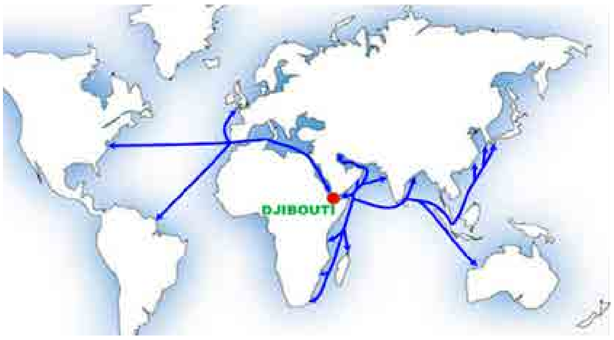
A – THE PAST: DJIBOUTI'S GROWTH AND DEVELOPMENT OUTCOMES OVER 20 YEARS

1. Djibouti, a small country in the Horn of Africa, successfully transformed its resource-constrained economy into a fast-growing hub.

3. Djibouti, situated in the Horn of Africa, is a small country with a population of approximately 1 million, primarily concentrated in urban areas (80 percent of the population). Spanning an area of 23,200 square kilometers (sq. km), it is one Africa's smallest nations. Divided into five interior regions (Ali Sabieh, Dikhil, Tadjourah, Obock, and Arta) and the capital, Djibouti City, which is home to approximately 625,000 people, Djibouti holds a strategic position along the Gulf of Aden (Figure 1), serving as the southern entrance to the Red Sea, which in connecting Africa, the Middle East, and Europe through the Suez Canal, is a vital conduit for global markets. More than 20,000 ships transit through Bab al-Mandeb each year, accounting for roughly 30 percent of global maritime trade, with a turnover exceeding USD 700 billion.

[1] This chapter builds on the CEM 2.0 Country Scan, a World Bank diagnostic exercise intended to better reveal a country's growth story by addressing 20 guiding questions. In addition, to support the analysis of the most binding growth constraints and opportunities, the chapter uses a selection of country-benchmarking groups. The first group of regional peers includes MENA region countries, excluding high income countries, and Intergovernmental Authority on Development (IGAD) member countries. These have been frequently used as comparators in recent World Bank studies. Structural and aspirational peers are selected using a data-driven approach. Structural peers share similar economic characteristics as Djibouti over the 2000-2019 period in terms of income per capita; the key role of ports in the economy; economies tied strongly to a large neighbor; and small states. They include Comoros (COM), Cabo Verde (CBV), Sao Tome and Principe (STP), Belize (BEL) and Malaysia (MAL). Aspirational peers include Singapore (SGP), which stands out as an example generally, and Mauritius (MUS) due to its successful development experience.

Figure 1. Djibouti has leveraged its strategic location at the southern entrance to the Red Sea into a hub for some lanes of the world’s busiest shipping

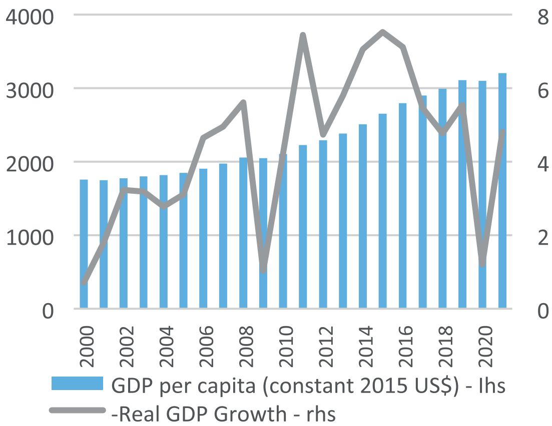


Source : DPFZA

4. Djibouti hosts important military bases operated by various foreign countries and accommodates a considerable number of refugees. Its hosting of Africa’s largest permanent U.S. military base and the first Japanese and Chinese overseas military bases (established in 2011 and 2017, respectively) is evidence of its pivotal security role in the Horn of Africa. France, Spain, and Italy also maintain a military presence in Djibouti. In addition, Djibouti’s social and political stability makes it an attractive destination for refugees and involuntary displaced population from neighboring countries. Djibouti shares borders with Eritrea, Ethiopia, and Somalia and provides refuge for over 36,000 refugees and asylum-seekers, who account for 3.6 percent of the country’s population. The majority originate from these three countries, and, more recently, Yemen. The country also hosts an estimated 150,000 undocumented residents in urban centers.

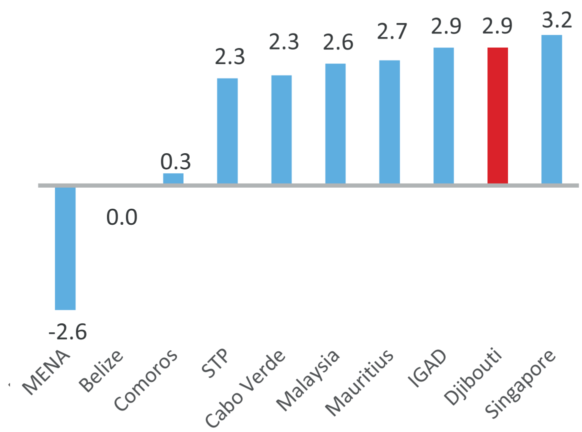
5. Djibouti’s rapid growth over the past two decades propelled it to LMIC status. With an average, annual real GDP growth of 4.4 percent from 2000 to 2021, the economy has experienced a twofold increase in GDP per capita, rising from under USD 1,800 in 2000 to over USD 3,206 in 2021 (Figure 2). This remarkable progress has enabled Djibouti to attain LMIC status. Moreover, since 2000, Djibouti has surpassed the MENA region and most comparator and aspirational peer countries in per capita growth, except Singapore (Figure 3).

Figure 2. Djibouti grew rapidly over the past decades ... (GDP per capita in USD, 2000–2021)



Source : WDI

Figure 3. more rapidly than most peers(average annual change in real GDP per capita in %, 2001–21)



Source : WDI

6. Djibouti's remarkable growth can be attributed to a combination of key factors that have played integral roles in its development. First, its political stability and strategic location have attracted substantial FDI, with net inflows of USD 2.3 billion from 2000 to 2020. This investment has primarily focused on developing the deep-water port and related infrastructure, capitalizing on Djibouti's advantageous position. Second, Djibouti's crucial role as a transit point and reexport hub for Ethiopia, its largest landlocked neighbor and one of Africa's fastest growing economies, has significantly contributed to its growth. Approximately 80 percent of the merchandise handled in Djibouti's ports consist of onward transit and reexports to Ethiopia, generating annual revenues of about USD 400 million from port fees alone. Third, Djibouti's stability within the region and the establishment of foreign military bases in the country have also contributed to its growth, generating approximately USD 125 million in annual revenue. Fourth, its robust economic institutions, including the currency board and its WTO membership, have played pivotal roles in creating a conducive environment for economic development. Collectively, these factors have been instrumental in driving Djibouti's high growth performance.

7. In order to understand Djibouti's development dynamics, as discussed in this chapter, It is essential to appreciate that, as a small state, Djibouti faces a range of significant economic constraints. These include: (i) a limited domestic market – Djibouti's small domestic market restricts the scale of economic activities, hindering its industrial growth potential and limiting opportunities for economies of scale; (ii) vulnerability to external shocks – the economy of Djibouti is highly vulnerable to external shocks, as limited diversification and heavy reliance on the trade sector make it susceptible to global economic fluctuations and disruptions; (iii) limited natural resources and dependence on imports – Djibouti has minimal arable land and is heavily reliant on imports of goods and services that cannot be produced domestically, which exposes it to global price fluctuations and supply chain disruptions; (iv) limited access to finance – Djibouti faces challenges in attracting FDI, other than for the ports, and accessing finance due to perceived risks, small market size, and underdeveloped financial sectors; (v) institutional and human resource capacity constraints – Djibouti's limited institutional and human resource capacity poses challenges to formulating and implementing effective economic policies and reforms. These constraints partially explain Djibouti's heavy reliance on the port sector, which offers strategic advantages but also exposes the country to external shocks, particularly given the sensitivity of that sector to global downturns

8. However, the World Bank's Djibouti Systematic Country Diagnostic (SCD) report of 2018 recognized that, despite its small size, Djibouti possesses valuable assets that can be leveraged to expand its market and attract international private investors. These assets include its strategic location, proximity to Ethiopia, membership in the Common Market for Eastern and Southern Africa (COMESA) and the Intergovernmental Authority on Development (IGAD), as well as extensive connectivity through multiple submarine and terrestrial telecommunications cables. These factors create potential for business opportunities, FDI inflows, and growth of the private sector. Interestingly, surveys conducted among various private sector companies do not emphasize the size of the economy as a significant obstacle. Instead, the stability of Djibouti's political and social environment is consistently highlighted as an appealing factor for private investors looking to serve the regional market.

9. In addition, examples from Cape Verde, Mauritius, and Dubai demonstrate that Djibouti's small market size is not a binding constraint on economic development. Mauritius, with fewer natural resources and a population similar to Djibouti's, successfully transitioned from an economy reliant on a single crop (sugar) to one driven by manufacturing, tourism, and business through targeted private sector reforms and supportive policies. Similarly, Dubai, a strategically located city-state, transformed its economy from fishing and goods trading to one propelled by tourism, mass communications, shipping, and financial services by creating an investment-friendly climate that nurtured a strong and dynamic private sector. Finally, Cape Verde, facing similar challenges to Djibouti's in the nascent stage of its tourism sector, successfully transitioned to high-value tourism, contributing significantly to its GDP (20 percent) and generating thousands of direct jobs (almost 6,000). These examples underscore the potential for Djibouti to emulate their success through strategic government efforts, private sector reforms, and sustainable tourism development. [2]

2. Marked by external shocks, Djibouti's robust growth trajectory in the past two decades can be divided into three distinct phases.

10. From 2000 and 2009, growth in Djibouti picked up after the civil conflict, averaging 3.1 percent per year (Figure 4). The civil war in the 1990s and subsequent unrest had negatively impacted the economy. However, in the early 2000s, Djibouti capitalized on its strategic location, attracting foreign military bases and investment in logistics and trade infrastructures. Crucial institutions were also established in this period, which was one of stability, significant amidst regional turmoil.

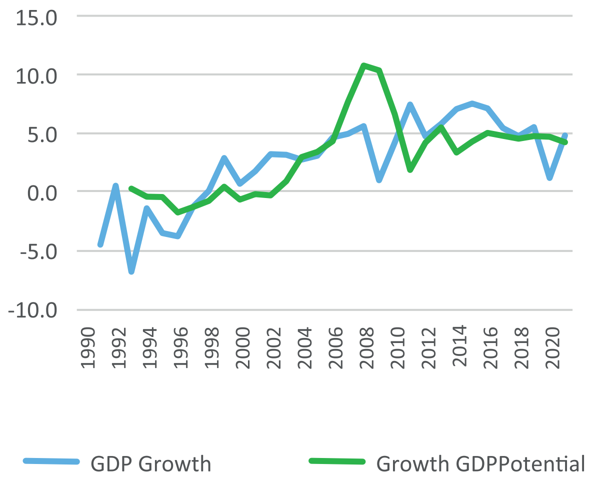
11. Between 2010 and 2019, Djibouti's economic performance strengthened further, with average real GDP growth of 6.0 percent per year. The Government continued to prioritize investments to position Djibouti as a regional logistics and trade hub, catering to the fast-growing but landlocked Ethiopia and East-African countries. The launch of the Stratégie de Croissance Accélérée et de Promotion de l'Emploi (Strategy of Accelerated Growth and Promotion of Employment – SCAPE) in 2015 led to substantial investments in key infrastructures, including the Doraleh multipurpose Port, the electric railway connecting Djibouti to Addis Ababa, the Ethiopia-Djibouti water pipeline, and the establishment of free trade zones (FTZ). Djibouti attracted nearly USD 1 billion in FDI under the Investment Code over 2014–2019, with significant investments in the service sector from China, the Gulf countries, and Ethiopia (Figure 5).

12. Since 2020, the economy has faced several exogenous shocks. The COVID-19 pandemic had a severe impact in 2020, with GDP growth dropping to 1.2 percent from 5.6 percent in 2019, reaching the lowest level since 2009 (Box 1). However, economic activity recovered in 2021 (4.8 percent) as lockdown measures were lifted, leading to increased investment, construction, and overall growth in the domestic sector. Nonetheless, container traffic remained 25 percent below 2019 levels by the end of 2021. In 2022, growth softened to 3.0 percent due to spillover effects from the crisis in Ethiopia and the Russian invasion of Ukraine, which reduced trade and raised commodity prices, impacting Djibouti's economy.

[2] High -Level Development Exchange Launch of "Vision Djibouti 2035." Outcome Note June 20–23, 2014, World Bank https://documents1.worldbank.org/curated/fr/870641468246040913/pdf/916950WP0DJIBO0x385342B00300PUBLIC0.pdf.

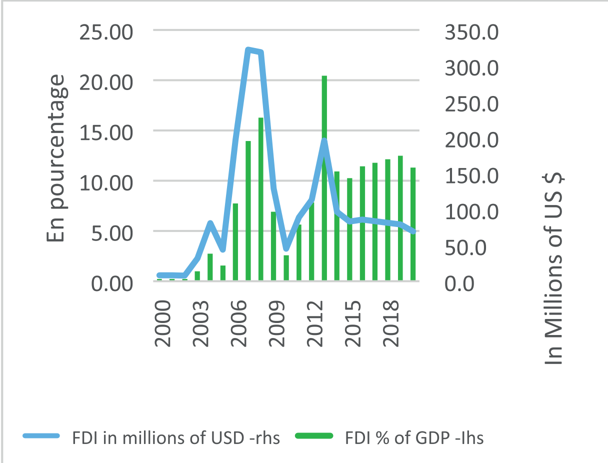
[3] The SCAPE is the strategy adopted by the Government over 2015–2019 to meet the challenge of accelerating growth and promoting employment. It sets out four strategic priorities: (i) economic growth, competitiveness, and the competitiveness and driving role of the private sector; (ii) human capital development; (iii) public governance and institutional capacity-building; and (iv) regional development hubs and sustainable development.

Figure 4: Djibouti's growth has been high but volatile (real GDP growth, 1990–2022)



Source : WDI

Figure 5: Djibouti has attracted large FDI inflows (net inflows, 2000–2020)



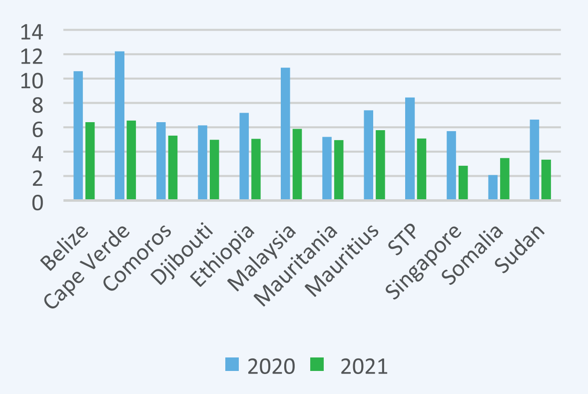
Source : WDI

Box 1. Impact of the COVID-19 crisis in Djibouti

The COVID-19 pandemic had significant impacts on Djibouti's economy:

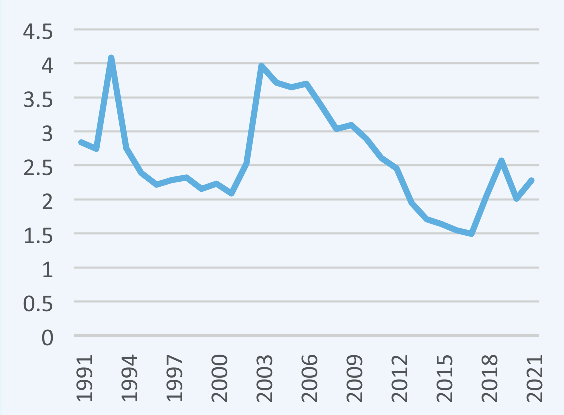
- **Global downturn and domestic lockdown impacting growth:** The pandemic led to lower global demand, reduced exports and FDI, as well as a decline in domestic demand due to lockdown measures. Disruptions in the value chain hindered Djibouti's ability to trade; and border closures, in particular, affected sectors such as air and road transport, travel agencies, hotels, restaurants, service providers, and retail. The tourism sub-sector experienced more than 50 percent reduction in travelers, while the maritime transport sub-sector also saw a decline in activity. The services sector slowed to 3.1 percent, and the industrial sector's GDP declined by 4.4 percent, primarily due to the impact on construction and public works.
- **Private sector distress, reduced employment and household Income.** A survey by the Office of Statistics (INSD) in 2020 revealed that 54 percent of businesses had more than 75 percent of their activities affected by lockdown. Sectors such as tourism, food and beverages, and travel faced significant disruptions, leading to financial stress. Business closures and job losses resulted in increased poverty and inequality, as many people lost their livelihoods. Formal sector companies in Djibouti reduced working hours during the lockdown (Figure 6), leading to a loss of 6.2 and 5.0 working hours on average in 2020 and 2021, respectively. More than 50 percent of companies placed employees in technical unemployment, resulting in reduced household income. Informal workers, lacking proper working conditions and safety nets, were particularly vulnerable.
- **Lower remittances and higher balance of payments (BoP) financing needs:** Djibouti's reliance on global markets for goods, inputs, tourism, and financing amplified the effects of the crisis. Lower service exports and FDI created an urgent need for BoP financing. Remittances declined by 21.7 percent in 2020 compared to 2019, affecting household incomes, consumption, and spending habits (Figure 7).
- **Deteriorated fiscal position and increased debt vulnerabilities.** The COVID–19 crisis increased public financing needs as the Government had to spend more to protect lives and jobs, while revenue dropped due to the economic slowdown. Governments ran large primary deficits, leading to higher debt levels and raising sustainability concerns for Djibouti, which had already been experiencing increasing debt in recent years.

Figure 6: Working hours lost during COVID-19



Source : ILOSTAT

Figure 7: Personal remittances (% of GDP)



Source : (WDI)

3. Recent external shocks affecting Djibouti's economy resulted in significant foregone growth.

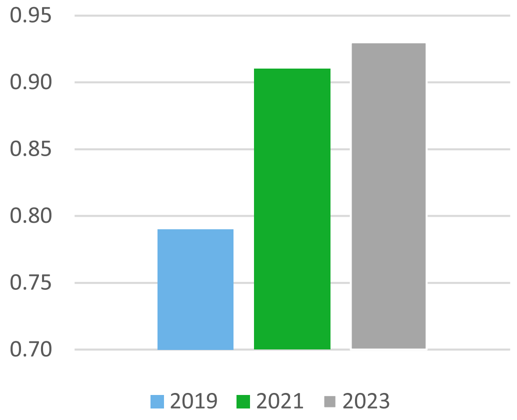
13. **Djibouti has faced significant external shocks since 2020, primarily impacting its trade, which is a key driver of the country's growth. These shocks include the COVID-19 pandemic, the Ethiopian war, and the impact of Russia's war, leading to substantial foregone growth.** According to CGE modelling conducted by the World Bank,[4] the reduction in export demand caused by the COVID-19 pandemic and the Ethiopian war resulted in a potential decrease in GDP of up to 0.9 percent in 2021 and almost 1 percent in 2023. Additionally, the Russian invasion in Ukraine could hurt Djibouti's economic growth of up to 3 percent in 2023. The assumptions and results of these estimations are provided below.

14. **The COVID-19 pandemic and the Ethiopian war have affected the Djiboutian economy through various channels, with trade being the most significant.** International maritime trade, which handles almost 90 percent of Ethiopia's exports, plays a crucial role in driving Djibouti's growth. The shocks from the pandemic and the war have led to a reduction in export and import volumes due to disruptions in the value chain and lower demand. In 2020, the COVID-19 pandemic caused a 7 percent decrease in the number of treated containers, while the conflict in the Tigray region resulted in an 8 percent trade slowdown in 2022 (INSTAD). To estimate the foregone activity resulting from these shocks, the model considers a 7 percent increase in port activities from 2019 to 2020 and an additional 8 percent increase from 2022

15. **The simulations demonstrate that, in the absence of the export reduction caused by the war in Ethiopia and the COVID-19 pandemic, GDP could have been higher by up to 0.9 percent in 2021 and almost 1 percent in 2023** (Figure 8). As mentioned, trade and consumption have been the most affected components of GDP (Figure 9). The reduction in port transit activities has limited the availability of goods and services, leading to increased prices. Transportation disruptions have resulted in delivery delays, canceled orders, lost revenue for businesses, which had a ripple effect throughout the entire supply chain, and diminishing economic activity.

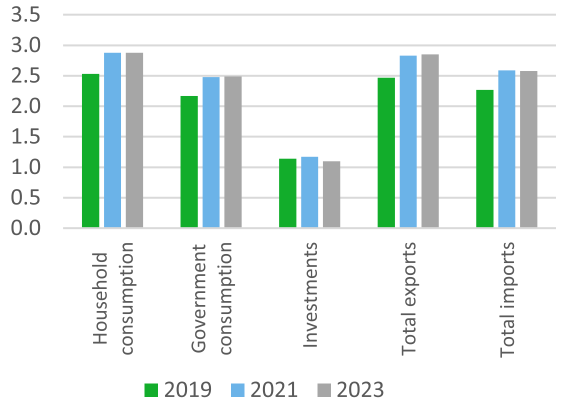
[4]The methodology is presented in Annex 2

Figure 8. Growth effect (% deviation from baseline)



Source :Simulation results

Figure 9. GDP components (% deviation from baseline)



Source : Simulation results

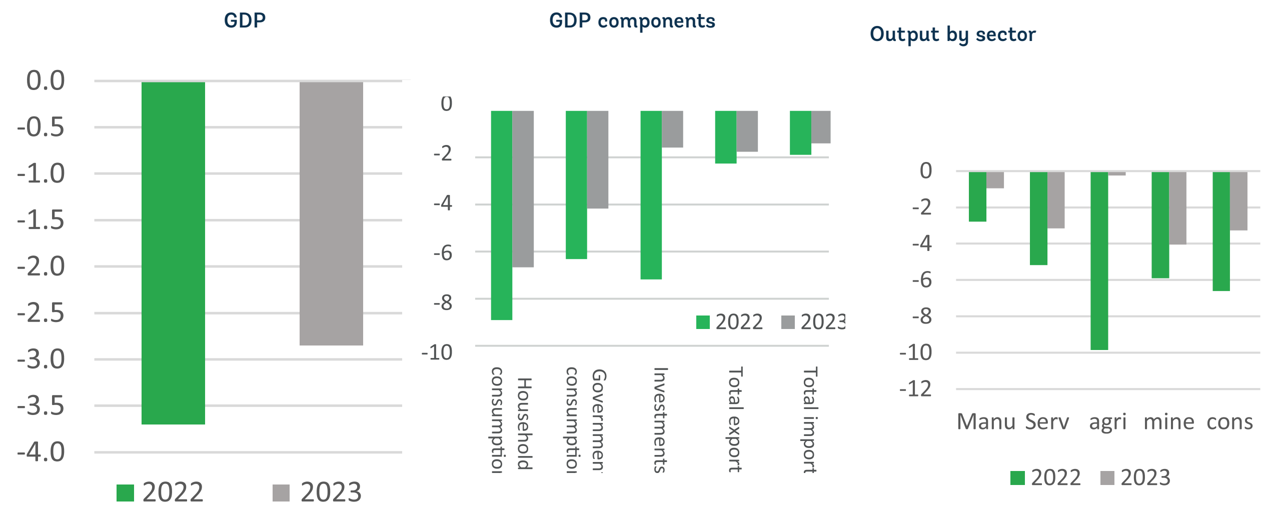
16. Russia's war on Ukraine also has a notable impact on Djibouti's economic growth, primarily from increases in fuel and food import prices. This has an overall effect on GDP impact, which could reach up to 3.7 percent in 2022 and 2.9 percent in 2023 (Figure 10). Djibouti relies heavily on imports, particularly agricultural products, processed foods, and fuels. Refined petroleum and food products account for 39 percent and 16.5 percent of Djibouti's total imports, respectively. The rise in fuel, petroleum products, and food import prices, has significant growth implications. It reduces demand from Djibouti's trading partners, impacting port transit activities and domestic consumption. Higher import prices affect all sectors directly or indirectly, particularly services, construction, and mining. The decline in the services sector also has significant employment consequences, being the largest employer.

Table 1: Food and fuels price growth projections

Products /year	2022	2023	2024 onwards
Agriculture products	4.5%	1.2%	1.4%
Processing foods	1.0%	-3.7%	-4.2%
Oil	41.7%	30.6%	13.6%
Other fuel products	27.8%	20.4%	9.1%

Source: Authors' calculation based on CMO World Bank 2023 and INS Trade Yearbook 2022.

Figure 10: Growth impacts (% deviation from baseline)



Source : Simulation results

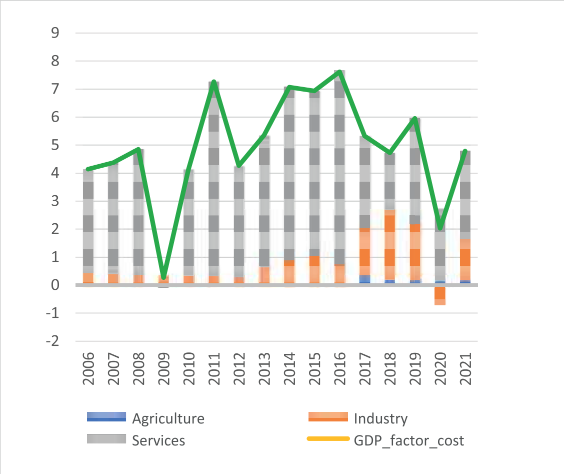
4. Djibouti's vulnerability to external shocks highlights its low diversification.

4.1. Djibouti's growth has been relying heavily on one sector.

17. From the supply side, Djibouti's economic growth has primarily been driven by services. Services constitute approximately 80 percent of GDP and 60 percent of formal employment, benefiting from Djibouti's strategic location for transportation, port services, and hosting of military bases (Figure 11). The industrial sector, which accounts for only 15 percent of GDP and 10 percent of employment, is predominantly focused on construction. However, this sector faces various challenges, including high production costs and a difficult business environment. Agriculture is virtually non-existent, contributing only 1 percent to GDP. Harsh climate conditions and recurring droughts hinder agricultural production, leading to chronic and periodic food insecurity that affects nearly 30 percent of the population.

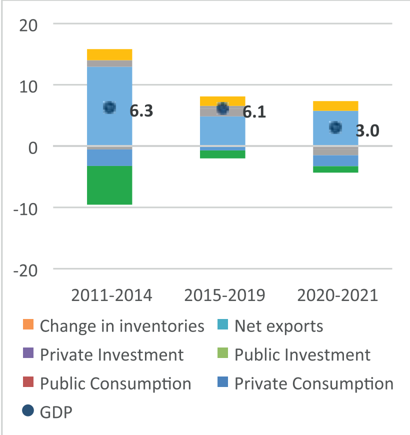
18. From the demand perspective, growth has been primarily driven by private consumption and investment. Private consumption has been the main driver, contributing to over 5 percent of total GDP growth on average since 2011 (Figure 12). Investment has also played a positive role, largely influenced by the construction boom. Despite efforts to shift the growth model towards service exports, after a period dominated by public investment with high import content financed through debt accumulation, net exports have consistently remained harmful to growth.

Figure 11: Services have been the largest contributor to growth (supply-side contribution to growth, pp) ...



Source : World Bank staf calculations

Figure 12: along with private consumption (demand-side contribution to growth, pp)

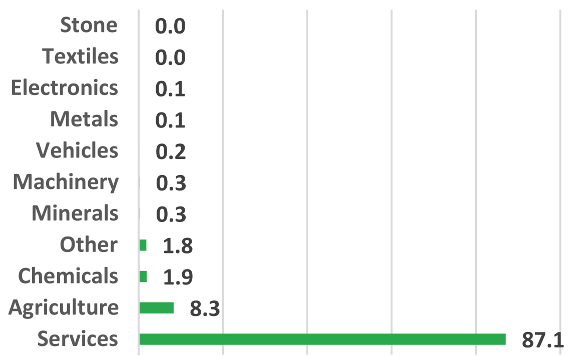


Source : World Bank, Macro Poverty Outlook

4.2. Djibouti's trade is heavily dependent on a single partner.

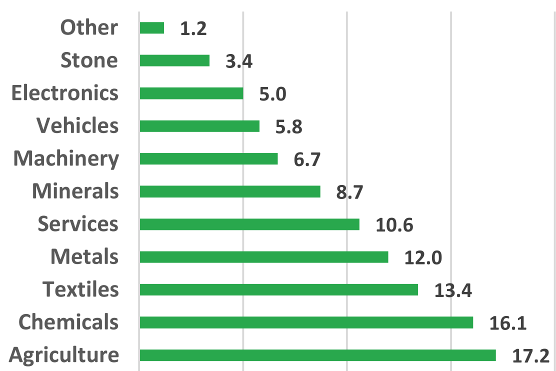
19. Djibouti's foreign trade has been largely dominated by service exports to Ethiopia, particularly in transport, ICT, and tourism, accounting for 87 percent of total exports (Figure 13). Imports, however, predominantly consist of goods, notably agricultural products (Figure 14). Djibouti's exports demonstrate a strong positive correlation with Ethiopia's imports. Djibouti and Ethiopia have historically maintained a close political and economic relationship driven by mutual necessity. When the Ethiopia-Eritrea border war erupted in 1998, Ethiopia lost access to Eritrea's port, posing an existential crisis for a landlocked country. Since then, Djiboutian ports have become crucial for processing Ethiopia's imports and exports, with approximately 90 percent of Ethiopian imports transiting through Djibouti. Djibouti, in turn, has relied on its larger neighbor for food, fresh water, and electricity imports. Conflicts in Ethiopia adversely affect Djibouti's imports and exports (Figure 13). This strong dependency on Ethiopia highlights a major vulnerability in Djibouti's economy, emphasizing the importance of adopting a diversification strategy.

Figure 13: Services represent 87 percent of total exports (share of exports, %)



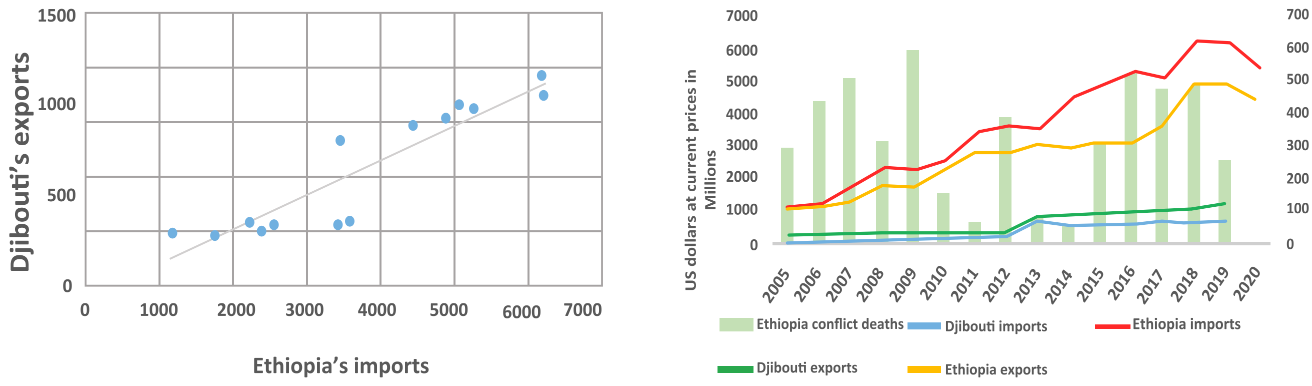
Source :Harvard Atlas of Econoic Complexity

Figure14: Imports are dominated by goods, notably agricultural products (share of imports, %)



Source : Harvard Atlas of Economic Complexity

Figure 15: Correlation between Djibouti's exports and Ethiopia's imports is strong

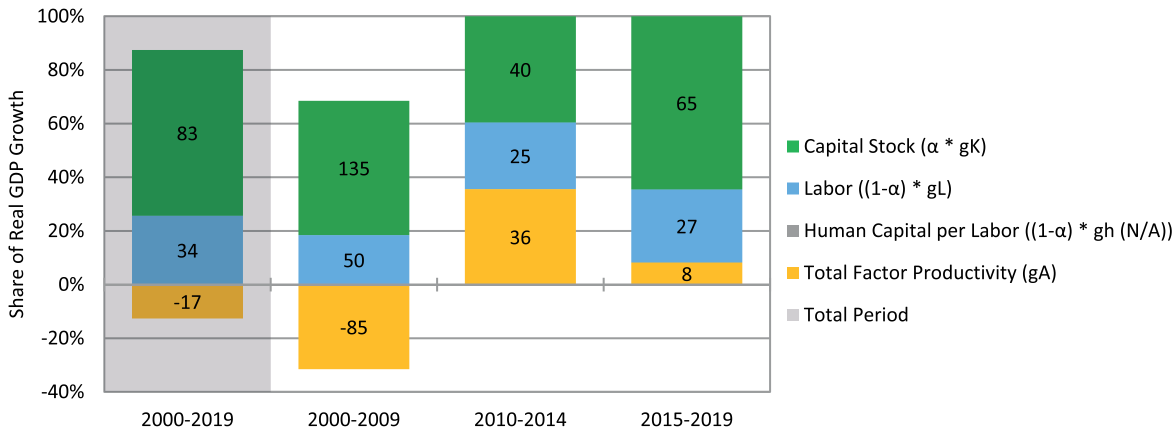


Source : UNCTAD and UCDP

5. Structural change has been limited, and employment has made minimal contributions to growth.

20. Over the past two decades, Djibouti's growth has primarily been fueled by capital accumulation, while total factor productivity (TFP) and labor have had relatively lesser roles in driving growth (Table 2).[5] Capital accumulation has been the largest driver, with an average growth rate of 10.3 percent during 2000–2019 and contributing to over half of real GDP growth (Figure 16). In contrast, labor has only grown by 2.5 percent, accounting for just one-fifth of real GDP growth during the same period. The economy has been heavily reliant on capital-intensive investments in ports and related activities, resulting in limited job creation and spillover effects. The contribution of TFP to growth was negative in the period from 2000 to 2009 and, despite some improvement in subsequent years, has remained a drag on overall growth. These findings highlight that relying solely on capital accumulation is insufficient to drive sustainable growth and emphasize the need to invest in human capital to enhance growth through improvements in TFP and labor productivity.

Figure 16: Djibouti growth has been mainly driven by capital accumulation (share of real GDP growth)



Source : World Bank staff calculations using WDI andIMF data (investment and capital stock data)

[5] The growth-accounting exercise assesses the contribution to growth from factors of production (human and physical capitals) and TFP. This assessment uses the World Bank tool for TFP, with a methodology that builds on Ghosh and Kraay (2000). The model assumes that GDP can be expressed as a function of physical and human capital. The TFP calculation considers labor participation rate, return to schooling, average years of schooling, and share of the working-age population. Thus, it comprehensively assesses human capital.

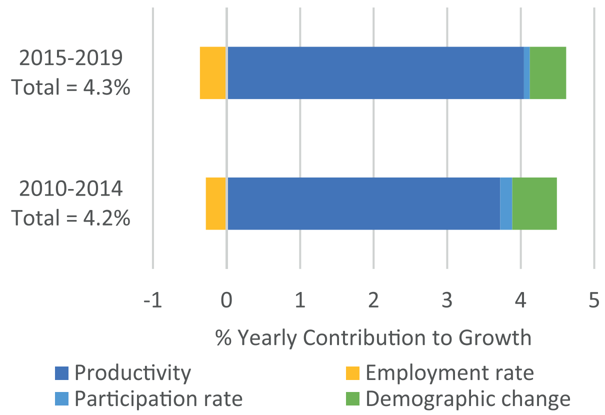
Table 2: Annual growth rates and contributions to growth (%)

	Compound Annual growth Rates (pp)				Contributions to Growth (pp)			
	2000-2019	2000-2009	2010-2014	2015-2019	2000-2019	2000-2009	2010-2014	2015-2019
Capital Stock	10.3	12.1	6.5	9.7	3.8	4.5	2.4	3.6
Labor	2.5	2.6	2.4	2.4	1.6	1.7	1.5	1.5
Human Capital per Labor	.	.	.	.	.	.	.	.
Total Factor Productivity	-0.8	-2.8	2.2	0.5	-0.8	-2.8	2.2	0.5
Real GDP	4.6	3.3	6.1	5.6	4.6	3.3	6.1	5.6

Source: Authors' calculation using the World Bank's growth accounting tool

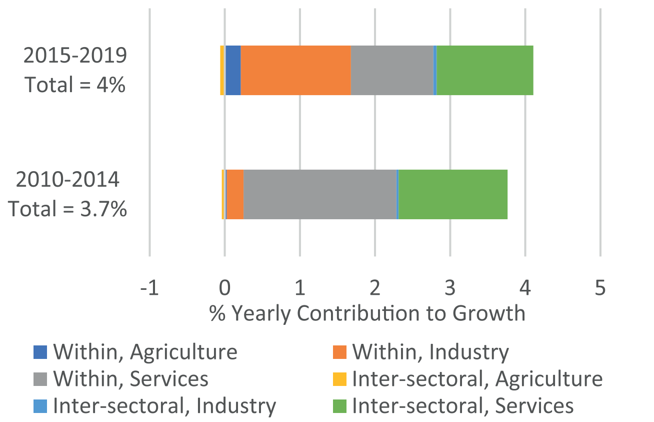
21. Further analysis of Djibouti's growth in value added per worker reveals that, since 2010, it has been primarily influenced by productivity growth and demographic change, while experiencing limited progress in terms of structural transformation.[6] The annual growth rate of total value added per worker witnessed an average increase of approximately 4.2 percent during the 2010–2019 period, mainly attributable to productivity growth, with demographic changes playing a lesser role. Conversely, employment rates and labor force participation (LFP) rates made negligeable, or even negative, contributions to overall growth per worker (Figure 17). Despite substantial investments in port infrastructure, Djibouti's persistently high unemployment rate has not been alleviated due to the capital-intensive nature of modern ports. Notably, productivity growth in the past decade has been predominantly driven by improvements within the services and industry sectors, and, to a lesser extent, by intersector transitions in services. However, marginal gains in productivity growth, stemming from intersector transitions in industry and agriculture, suggest limited structural change in the economy (Figure 18).[7]

Figure 17: Growth in value added per worker was mainly due to productivity growth (decomposition of per capita value added)



Source : Government data and World Bank staff calculations

Figure 18: Productivity growth was mainly due to intra-transitions and intersector transitions in services (productivity changedecomposition)



Source : Government data and World Bank staff calculations

[6] Labor productivity compares growth in output to growth in hours worked. It is different from TFP, which compares growth in output to growth in a combination of inputs that include labor, capital, energy, materials, and services.

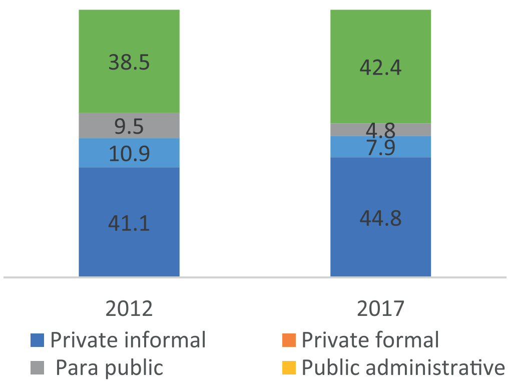
[7] Structural change is defined as labor reallocation from less to more productive sectors, resulting in improvement in economywide productivity.

6. Despite high growth rates, Djibouti has lacked inclusiveness.

6.1. Growth fell short in providing more and better job opportunities for the working-age population.

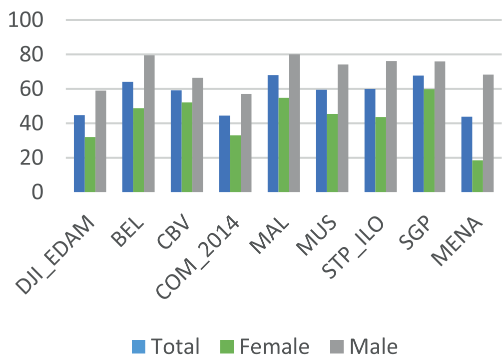
22. **Djibouti's labor market has not kept pace with its strong economic growth. Unemployment, especially among women and young people, remains high, while the labor participation rate is one of the lowest compared to similar countries.** Djibouti's labor market characteristics and development are extensively discussed in Chapter 3. Since 2000, employment growth has declined, as growth was mainly driven by capital-intensive investment in ports with limited spillover effects. Many jobs have been filled by expatriates due to the lack of qualified local workers. The public sector, which accounts for 47.2 percent of jobs, dominates employment but fails to generate enough formal jobs for new entrants and the unemployed. The formal private sector provides only 7.2 percent of employment, while informal employment dominates, at 44.8 percent (Figure 19). Djibouti's unemployment rate, one of the highest globally at 47 percent, particularly affects women (64 percent) and youth (86 percent). Moreover, the low labor participation rate exacerbates dependence on the working population and hinders growth prospects (Figure 20).

Figure 19: Employment is dominated by the public sector (%)



Source: Djibouti Household Survey 2012 and 2017

Figure 20: The LFP rate is among the lowest (%)



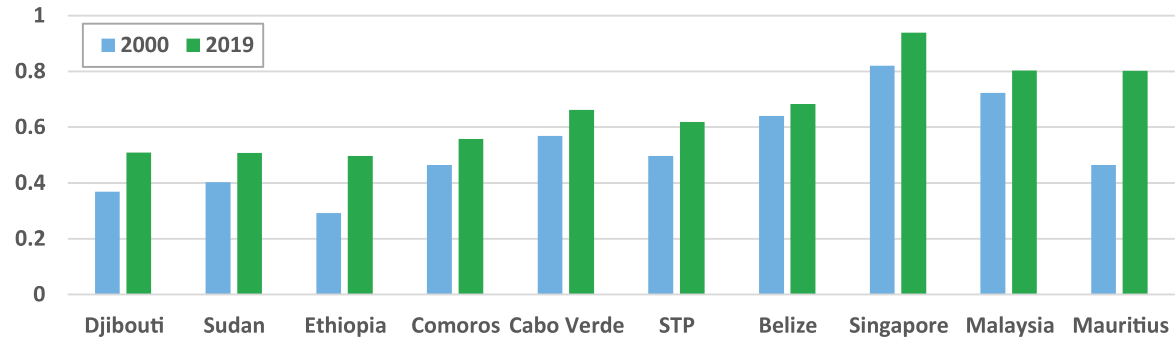
Source: WDI, 2017, except for Comoros

6.2. Growth also fell short in improving standards of living for Djibouti's population.

23. **Djibouti's development level remains low.** According to the United Nations Development Program,[8] between 2000 and 2019, Djibouti's Human Development Index (HDI) increased by 41 percent from 0.361 to 0.509 (Figure 21). However, the country remains in the low human development category, ranking 171st out of 189 countries on the HDI.

[8] https://hdr.undp.org/system/files/documents/global-report-document/hdr2021-22pdf_1.pdf

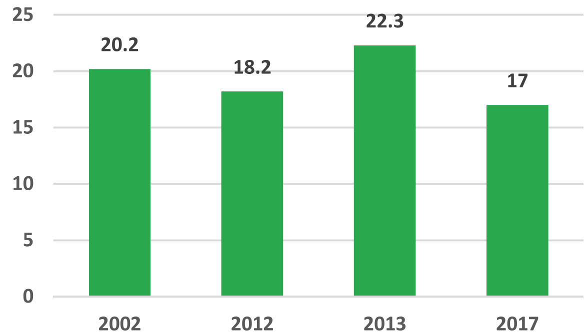
Figure 21: Growth fell short in improving development outcomes (HDI index)



Source : Nations Unies

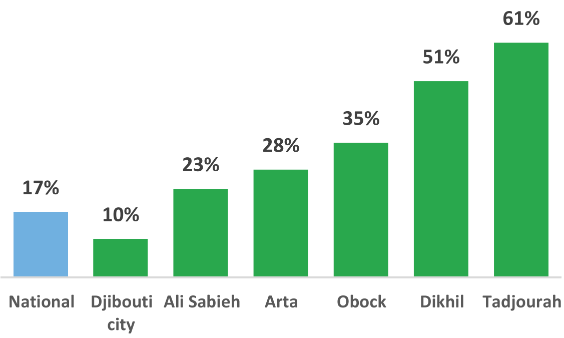
24. While poverty in Djibouti has declined, it continues to be pervasive. The authorities have made significant efforts since 2013 to address poverty, leading to notable progress. However, as revealed by the 2019 Poverty Assessment, a significant proportion of the population still lives in extreme poverty, estimated at approximately 17 percent below the international poverty line (Figure 22). It is worth noting that this figure represents a decrease from the 22.3 percent recorded in 2013. Additionally, for the national poverty line, the poverty rate stands at 21.1 percent, despite the country's strong economic growth.[9] Extreme poverty is more prevalent in regions outside Djibouti City, particularly in Tadjourah and Dikhil, which have large rural populations (Figure 23). Poverty strongly correlates with the level of education, with a poverty rate of 30 percent in households where the head has no education, compared to 3 percent in households where the head has completed at least secondary education.

Figure 22: Though poverty is declining overall, 17 percent of Djiboutians are still extremely poor...



Source : Word Bank Poverty assessment, 2019

Figure 23: ... especially in the regions.



Source : Word Bank Poverty assessment, 2019

25. Inequality remains a pressing concern in Djibouti, despite the robust economic growth witnessed over the past decade. As of 2017, the wealthiest 10 percent of the population owned a staggering one-third of the country's wealth, which is 17 times more than the poorest 10 percent. Moreover, Djibouti exhibits one of the highest levels of overall inequality in the region, with a Gini coefficient of 0.46. The fiscal system, encompassing government revenues and public expenditure, holds significant potential as a tool for promoting sustainable and inclusive growth during normal times, as well as facilitating inclusive recovery in times of crisis.

[9] The 2019 Poverty Assessment used data from the 2017 Household Survey. The extremely poor live with less than USD 1.90/day (2011 PPP terms).

The COVID-19 pandemic served as a stark reminder of this, with World Bank estimates indicating that fiscal responses mitigated almost all adverse impact in high-income countries (HICs), about half in upper middle-income countries (UMICs), and approximately a quarter in lower middle-income countries (LMICs) and low-income countries (LICs). Using Commitment to Equity (CEQ) methodology, the World Bank's analysis of Djibouti's fiscal system sheds light on its influence on poverty and inequality. This analysis highlights three key areas for reform to combat poverty and inequality: (1) rethinking the efficiency of kerosene subsidies, considering their intended purpose of protecting the poor and whether they truly benefit households rather than value chain inputs; (2) sustaining investments in social protection and services that enhance human capital, since they play a pivotal role in reducing poverty and promoting shared prosperity; (3) mobilizing significant resources to expand pro-poor social programs, including both direct and in-kind transfers, to ensure their reach is extended to those in need.[10]

B – THE PRESENT: BINDING CONSTRAINTS TO DJIBOUTI'S ECONOMIC TRANSFORMATION

7. Djibouti faces several key constraints that hinder its growth and ability to diversify and create jobs, particularly high energy and telecommunication prices.

26. To achieve the objectives outlined in Vision 2035, Djibouti must address significant constraints that impede both productivity growth and competitiveness. These challenges have been meticulously identified through the CEM Country Scan, a World Bank benchmarking diagnostic aimed at gaining deeper insights into a nation's growth narrative and primary challenges compared to peers.[11] The following constraints have been identified: (1) high production costs; (2) fragile human capital base; and (3) weak governance performance. The subsequent section is centered around constraint (1), which pertains to the high cost of production, with specific focus on the elevated cost of electricity and telecommunications. The second chapter, Human Capital and Labor Market, explores constraint (2), related to the fragile human capital base, while the third chapter, SOE Sector Diagnosis, delves into constraint (3), linked to weak governance.

27. The IFC Private Sector Diagnostic (PSD) 2021 corroborates the findings of the country scan, affirming that Djibouti's high living costs reflect its elevated production expenses. According to 2021 IFC PSD, Djibouti faces elevated costs in factors such as electricity, telecommunications, port passage, and public sector wages, which significantly impede private sector development. Although the misalignment of the real effective exchange rate is minimal, addressing these high costs through structural reforms can yield import gains in external competitiveness.[12]

[10] See complete fiscal incidence analysis in Annex 1.

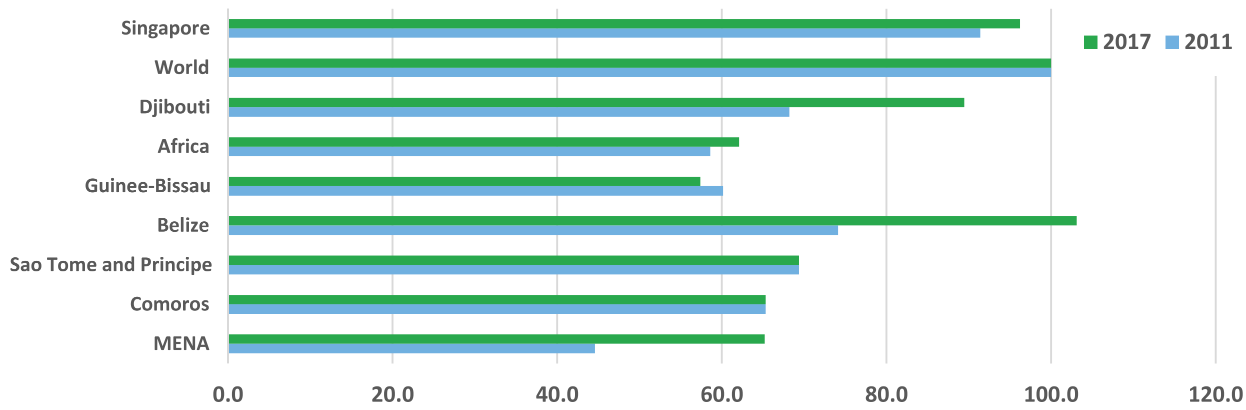
[11] The Country Scan is a diagnostic exercise intended to better reveal a country's growth story. The 20 guiding questions of the Country Scan Framework can help draw the growth storyline and make a case for the growth constraints meriting in-depth analysis.

[12] IMF analyses, based on the equilibrium REER approach, show no evidence of large misalignment of the Djibouti Franc during the past two decades. In 2007, the exchange rate was slightly overvalued in real effective terms (in the order of 8–12 percent), which is within the margin of error in this type of analysis. However, over the past decade, the REER amodel found a small overvaluation of about 3.3 percent, implying a weaker external position. IMF, Djibouti Staff Reports for the Article IV Consultation, Washington, DC (2014-16-19-22).

7.1. Djibouti's cost of production exceeds that of its peers and hampers competitiveness.

28. The Price Level Index (PLI) reveals that, even among similar countries, Djibouti's cost of living is notably high, hindering its competitiveness and ability to diversify its economy.[13] It is nearly 40 percent higher than the average PLI in the MENA region, 44 percent higher than the average PLI in Sub-Saharan Africa (SSA) countries, and between 37 percent and 56 percent higher than most of structural and aspirational comparators (such as Comoros, Sao Tome, Mauritius) where PLIs are available. Among these comparators, only Belize has a higher PLI than Djibouti. Between 2011 and 2017, Djibouti's PLI increased at a faster pace (+31 percent) compared to SSA (+6 percent), while it remained stable in structural comparators (Comoros, Sao Tome and Principe), or decreased (Guinea Bissau) (Figure 24).

Figure 24: Evolution of the consumer PLI, Djibouti, and structural and regional comparators



Source : International Comparison Program (ICP) 2020 Report, May 2020

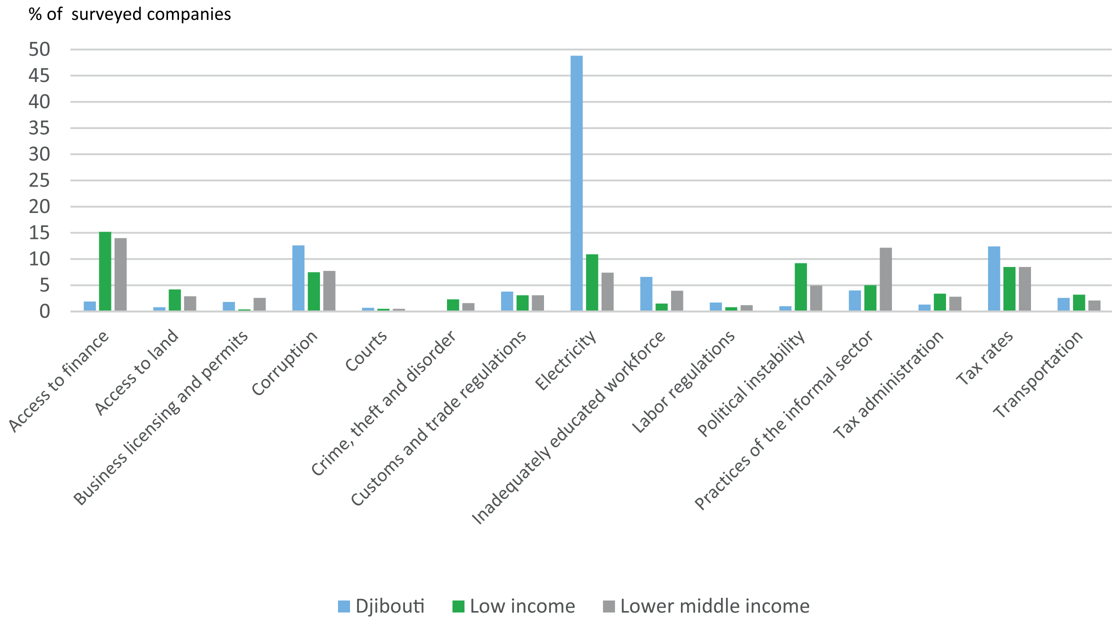
7.1.1. High electricity costs hinder Djibouti's competitiveness and business development, despite sector improvements.

29. In Djibouti, high electricity costs were identified as the main obstacle to doing business. In the 2013 World Bank Enterprise Survey, 47 percent of businesses identified high electricity tariffs as the main obstacle to conducting business in Djibouti (Figure 25).[14] Seven out of 10 companies rely on private generators as a backup, and power bills account for approximately 25 percent of average business expenses. While there has been some improvement in power supply reliability since 2013, the high cost of electricity continues to impede Djibouti's economy, discouraging investments and limiting the growth, productivity, and competitiveness of businesses.

[13] The PLI expresses the price level of a given country relative to others, by dividing purchasing power parities (PPPs) by the current nominal exchange rate.

[14] Last available survey

Figure 25: The high cost of electricity is identified by 50 percent of companies as the main constraint to business (2013)



Source : World Bank Enterprise Surveys.

30. Djibouti's electricity sector has made significant progress in recent years but still lags behind its regional peers. electricity services service. As the SAIDI and SAIFI indices illustrate, the reliability of Djibouti's electricity infrastructure is comparable to that of other MENA countries, reflecting the country's substantial investment in strengthening its electricity infrastructure to improve supply and the quality of service (Figure 26).[15] Although the shift from expensive domestic fossil fuel-based generation to affordable hydropower imports from Ethiopia has improved the power system, electrification programs strain the distribution infrastructure, affecting service quality for consumers, particularly those connected to the low-voltage grid.

31. Djibouti is committed to reducing electricity supply costs, notably by diversifying its energy mix through an electricity interconnection with Ethiopia since 2011. By 2020, this initiative has enabled 81%[16] of the electricity consumed in Djibouti to come from hydroelectric imports, reducing the share of local thermal generation to just 19% (Figure 27). Imported electricity, at a cost of 0.069 USD/kWh, is significantly less expensive than domestic production, estimated at 0.19 USD/kWh. However, due to seasonal variations in the supply of Ethiopian hydroelectric power, Djibouti must rely on its thermal power plants during the hot and dry seasons. To increase supply and stabilize energy availability, a second interconnection project with Ethiopia has been initiated with World Bank support for the Djiboutian side since 2022, aiming to triple import capacity and maintain an affordable cost of $0.07/kWh[17]. However, current power purchase agreements with Ethiopia do not guarantee a firm electricity supply, leaving the power system and service vulnerable. At the same time, Djibouti is diversifying its energy sources, notably towards solar and wind power, as part of the 2018 Country Strategy Paper (CSP) guidelines, in order to further reduce supply costs and ensure greater energy security and a green transition. As part of this transition drive, in September 2023 the country inaugurated its first 60 MW wind farm, developed by a consortium under the Red Sea Power flag in the Ghoubet region.

[15] SAIDI: System Average Interruption Duration Index; SAIFI: System Average Interruption Frequency Index

[16] Electricity generation/distribution data, source EdD

[17] PAD, Power Interconnection Project between Djibouti and Ethiopia

Figure 26: AIDI and SAIFI indices in MENA economies

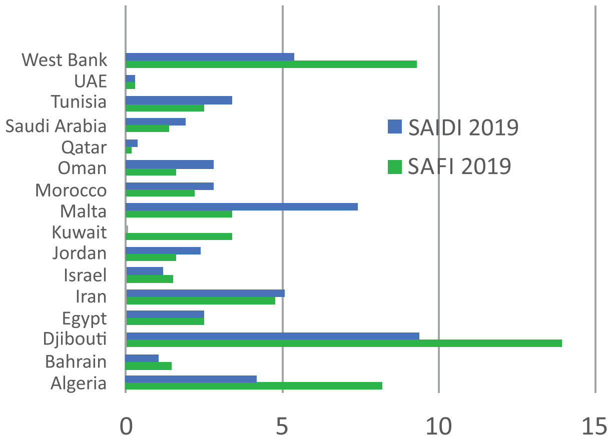
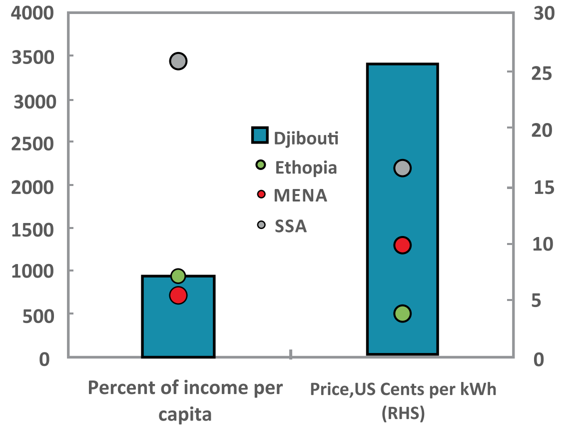


Figure 27: Domestic power generation vs imports shares

32. Despite the diversification of the country's energy mix with the introduction of affordable hydroelectricity from Ethiopia, Djibouti's end-users continue to face high electricity costs. Djibouti has the highest electricity tariff in the MENA region, with an estimated average selling price of 0.28 USD/kWh across all customer categories. Djibouti's electricity tariff is also one of the highest in sub-Saharan Africa (Figure 28). However, in most of these countries, electricity tariffs are heavily subsidized by governments to align them with the economic capacity of domestic and professional end-users, thus guaranteeing accessibility for all. Tariffs in these countries therefore do not necessarily reflect the true cost of electricity services. This high level of subsidies makes it difficult to compare Djibouti with MENA and sub-Saharan countries. However, the tariff in Djibouti remains abnormally high. By comparison, in Niger, which shares similarities with Djibouti in terms of sector structure, the average electricity tariff was around 0.17 USD/kWh, and the cost of services was 0.18 USD/kWh in 2021 (without subsidies). Like Djibouti, Niger also relies on electricity imports (representing around 70-75% of electricity supply) from Nigeria (at a price comparable to Djibouti's), while the rest of the electricity consumed is generated domestically using an expensive diesel-based generation system.

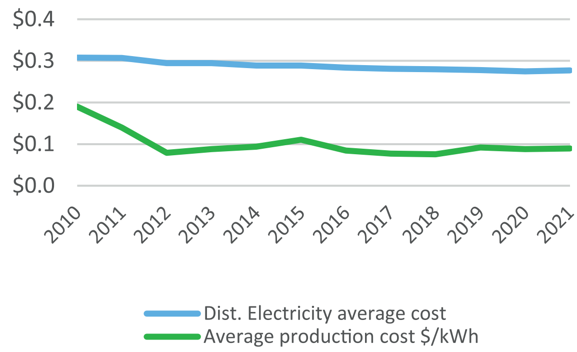
33. End users have not benefited from reduction in supply side costs (Figure 29). Despite a significant decrease in the average cost of electricity supply, which now stands at around 0.09 USD/kWh, the prices charged to end users remain relatively high. It has also remained constant at USD 0.28/kWh despite the introduction of the interconnection in 2011, meaning that the reduction in the cost of supply, to USD 0.09/kWh, was not reflected in prices charged to end users. However, falling power supply costs have allowed the utility to improve its financial viability, while simultaneously increasing investment in expanding power transmission and distribution infrastructure.

Figure 28: Cost of electricity is higher than in peer countries



Source : IMF

Figure 29: The halving of production cost since 2011 has not been passed on to consumers with distribution costs remaining broadly stable



Source : EDD and World Bank calculations

34. The high cost of electricity in Djibouti can be attributed to several factors, including Electricité de Djibouti's (EDD) low bill collection rate, outdated infrastructure, inefficiencies, and overstaffing within the company. One of the primary challenges is the low rate of bill collection by EDD, which poses a significant problem. Despite EDD's financial stability and its potential to generate surplus funds for expansion and investment programs, it has the lowest bill collection rate in Africa and the MENA regions, indicating that only a fraction of users contributes to covering the company's expenses. Additionally, aging domestic electricity distribution infrastructure, both in generation and distribution, leads to substantial energy losses and elevated operational costs, further adding to the overall high cost of electricity in the country. Lastly, the issue of overstaffing and electricity fringe benefits are also identified as factors contributing to the country's high electricity costs.

35. An analysis of electricity sector indicators in comparison with those of the MENA and African regions highlights several specific challenges facing Djibouti. Djibouti's operating cost per connection (OPEX/connection) stands at USD 2,200 per connection, significantly exceeding the MENA median of USD 1,237 and the African median of USD 533[18]. OPEX/connection reflects the expenses associated with generating and distributing energy to end-users, and ideally, this cost should be low. A high OPEX/connection value may indicate elevated operational costs per customer, primarily due to factors such as overstaffing, which can result from inadequate hiring processes or policies, excessive fuel bills, and inefficiencies in the electrical infrastructure. This situation is further underscored by the low number of connections per employee in Djibouti, totaling only 49, which is well below the MENA region's average of 90 and the Africa region's average of 336, indicating the possibility of overstaffing.

36. In the context of Djibouti, excessive operating expenses can be partly attributed to ongoing investments in electricity access programs, the expansion of distribution infrastructure, and the diversification of the energy mix. Notably, private investors have been actively involved in wind and solar power projects, aligning with the goals of Vision 2035, which aims to achieve a 100% renewable energy supply and complete coverage of the population. Additionally, overstaffing at the power company is influenced by challenging climatic conditions, particularly during hot periods. These conditions increase heat-related physical stress and reduce staff productivity, necessitating a higher number of employees to meet the government's set targets.

[18]ESMAP, UPBEAT, Utility Performance & Behavior in Africa Today

37. Djibouti's high electricity consumption per connection is atypical but characteristic of an economy with a high level of industrialization relative to its GDP. In Djibouti, the amount of energy sold per connection (7.386 kWh) significantly surpasses the medians for the MENA region (4.223 kWh) and Africa (2.693 kWh). This high consumption per connection is primarily a result of the harsh climatic conditions prevalent in the country, characterized by elevated heat levels. These conditions necessitate the widespread use of air conditioning, not only in residential areas but also in tertiary and industrial sectors. Furthermore, in Djibouti, these factors are compounded by a low rate of bill collection by public institutions. Sector consultations with key stakeholders in the electricity sector have revealed that the government represents the largest customer for the utility, accounting for 12% of its customer base and consuming nearly 50% of the country's energy. Unfortunately, a significant portion of this energy remains unpaid, contributing to a low collection rate. In Djibouti, this indicator stands at only 38%, in stark contrast to the 85% and 98% collection rates observed in the MENA and African regions, respectively. Addressing the low collection rate of government invoices is seen as a crucial and urgent step to alleviate the pressure on electricity tariffs for end-users and ensure a more equitable distribution of costs among all users, including public institutions. Implementing such remedial actions would not only help Electricité de Djibouti (EDD) maintain or improve its financial situation but also enable it to secure additional funds for critical investments in the electricity infrastructure. This aligns with the objectives outlined in Vision 2035 for Djibouti's electricity sector.

38. While improving the bill collection rate is crucial for significantly reducing electricity costs, it is equally imperative to implement other measures aimed at strengthening the performance of the sector. One of these measures includes conducting a study on the cost of service and tariffs. Additionally, a comprehensive policy reform of the sector to address its key challenges is strongly recommended. The study on the cost of service and tariffs would serve as a foundational step, allowing for the introduction of a transparent methodology for tariff adjustment. This methodology is essential to ensure the development of a tariff structure that not only supports the sector's financial viability but also maintains the solvency of Electricité de Djibouti (EDD). Moreover, it fosters the overall development of the sector while simultaneously ensuring the sustainability, reliability, and affordability of electricity supply for end-users.

39. Djibouti has opened up its electricity market to private-sector participation, particularly in the generation segment. The development of renewable energies by independent producers could reduce production costs by substituting domestic thermal generation. For Djibouti, it would be important to strengthen the policy and regulatory framework in line with international best practice, with effective planning tools and a least-cost electricity supply plan for generation and transmission. This involves strengthening the regulatory framework to stimulate competition in renewable energies and make the investment environment sufficiently attractive to attract private investors to the sector. The necessary efforts include the preparation of a grid code, and opening up access to the national grid to third parties. At the same time, the government and ESD should step up investment in transmission and distribution infrastructure development, improve operational performance, and expand access to electricity for households and businesses. In addition, the government and ESD should also work to stimulate demand for electricity, which remains modest despite efforts to consolidate the industrial, service and commercial sectors.

40. To address the structural challenges within the electricity sector, Djibouti urgently requires a fully functional regulatory authority equipped with the necessary. capabilities. In 2020, the Autorité de Régulation Multisectorielle (ARMD) was established with the responsibility of regulating both the electricity and telecommunications sectors. However, it has not yet achieved full operational status.In order to effectively lower electricity prices, it is imperative to enhance governance and accountability within Electricité de Djibouti (EDD).

This enhancement should encompass improvements in billing and collection processes, particularly concerning public customers, as well as the modernization of the electricity infrastructure. The anticipated investments should primarily target network upgrades, digitization efforts, and the integration of renewable energy sources. Furthermore, it is highly advisable to conduct a detailed tariff study to assess the fairness of electricity prices in Djibouti. These comprehensive measures will not only contribute to reducing electricity costs but also promote a more competitive and efficient electricity sector.

7.1.2. The cost of mobile broadband data services makes Djibouti the third most expensive market in the MENA region.

41. Despite the presence of an extensive international connectivity market, broadband services in Djibouti have not fully realized their potential in terms of affordability, performance, and coverage. The penetration rate for mobile internet access was 24.19% at the end of 2022[19] , which is still below the desired level, compared with 54.8% in the MENA region[20] , for example. Given that 78% of Djibouti's population resides in urban areas, it should, in theory, be more cost-effective to provide digital connectivity to the entire population. However, the country lags behind other countries facing more difficult deployment barriers and costs and has only recently achieved 90% 4G coverage. This late development of the telecoms sector has led to significant digital divides based on income, geography and gender, with women particularly affected due to their lower socio-economic position and educational attainment (DISED survey, 2018). These gaps not only hinder the transformative potential of digital services, but also exclude the most vulnerable segments of the population from associated benefits.

42. The high costs of fixed and mobile broadband in Djibouti can be attributed to the historically low priority placed on developing the domestic telecommunications market, and potentially, a lack of competitive pressure within the telecommunications sector..While Djibouti's relatively small population of approximately 1 million presents challenges in achieving economies of scale similar to neighboring countries like Ethiopia, there remains an opportunity to provide affordable broadband access, which is crucial for facilitating internet adoption by individuals and businesses. Historically, high telecommunications costs are largely a result of monopolistic practices exercised by the state-owned operator, Djibouti Telecom (DT). DT was the sole provider of voice telephony and data services in the country until a new internet service provider (ISP), AfriFiber, launched its broadband services in a pilot phase in the city of Djibouti in May 2023.[20]

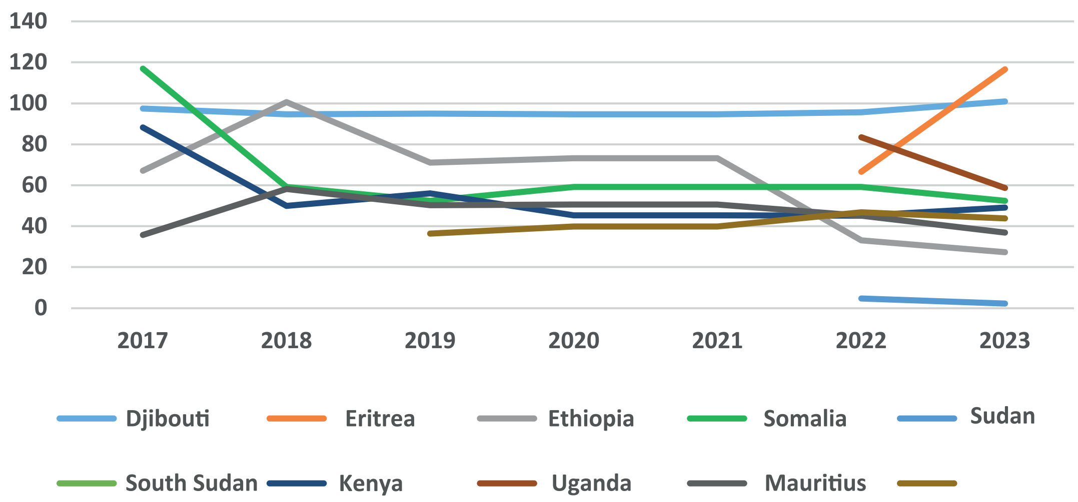
43. The price of a subscription of at least 2GB of mobile data represents 6.1% of monthly GNI per capita, far from the 2% target set by the United Nations. Djibouti is in the process of implementing significant initiatives to improve access to fixed broadband services[21] , which remain considerably more expensive compared to other countries in the region. The average price of fixed broadband in Djibouti is estimated to be more than twice that of Cape Verde's, three times Ethiopia's, and between 2–20 times Sudan's and Kenya's (Figure 30).

[19] GSMA

[20] GSMA

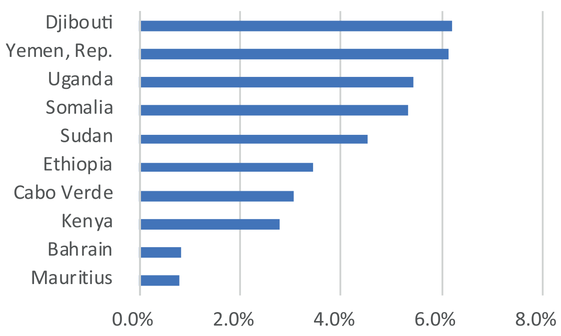
[21] https://www.adi.dj/index.php/site/Plus/10654.

Figure 30: Evolution of fixed-line broadband packages (average cost per month in USD)



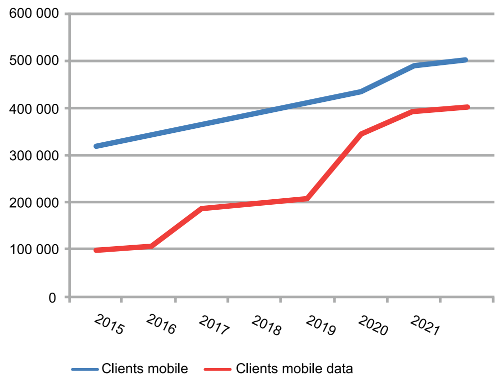
Source : Cable.co.uk

Figure 31: Average cost of mobile broadband packages (per month in USD)



Source: Cable.co.uk

Figure 32: Mobile Subscribers across voice, data, and dongle



Source : Cable.co.uk

44. The longstanding monopolistic structure of the telecommunications sector in Djibouti has contributed significantly to keeping broadband prices high. Djibouti and Eritrea are the last countries in Africa where the national, state-owned telecom company retained a monopoly over all telecom services, including fixed lines, mobile, internet, and broadband. The persistence of high prices has not only hindered the development of the ICT sector as an engine of economic growth and employment, but also affected other sectors, such as tourism, finance, and logistics, which rely heavily on telecommunications services. The high prices charged by DT also potentially reflected the company's substantial operating expenses, including major investments in submarine cables and, consumables, personnel, and provisions, posing a significant barrier to various services where telecommunications are a critical input.

45. The introduction of competition in fixed and mobile broadband and internet services represents an opportunity to reducing costs, promoting innovation, and expanding access to economic opportunities and connectivity for more people. A recent World Bank analysis emphasizes the need to foster competition in the ICT sector and involve the private sector in the development of national infrastructure to enhance the delivery, efficiency, innovation, and affordability of telecom services. Studies have demonstrated that the entry of one additional competitor in the market could result in a price reduction of 13–22 percent in Djibouti. [22]Although progress has been made with the granting of new licences, the ISP market remains fragile due to the risk of price squeeze [23] .

[22] Welfare Effects of Introducing Competition in the Telecom Sector in Djibouti, World Bank Policy Research Working Paper, May 2019. https://openknowledge.worldbank.org/server/api/core/bitstreams/b7abd5d6-2e35-5457-af47-a0d3d177d1ca/content.

[23] A price squeeze occurs when the dominant upstream operator (operator A) sets its prices for retailing (downstream) and for supplying inputs to its competitors (upstream) in such a way as to leave insufficient economic space for its downstream competitors.

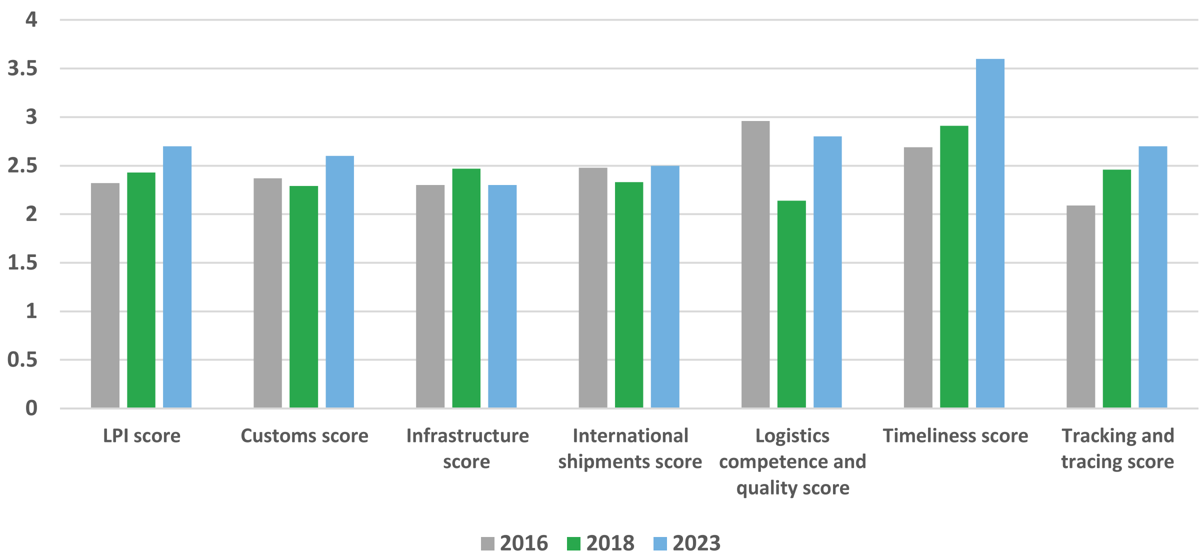
The operationalization of ARMD, responsible for overseeing the telecom and energy sectors, in particular the appointment of members of the Regulatory Board, will be a pivotal step towards liberalizing the telecom market, enabling Djibouti to establish a modern, efficient, and affordable national digital infrastructure.

7.1.3. Djibouti boasts one of the world's premier deep-water port complexes, yet its elevated port tariffs contribute to increased supply costs for goods passing through these ports. ports.

46. In recent years, Djibouti has made significant improvements in logistics management, resulting in notable progress on the Logistics Performance Index (LPI) (Figure 33). The LPI measures the efficiency of supply chains in connecting companies to domestic and international opportunities. In 2016, Djibouti ranked 134th out of 160 countries in the overall LPI ranking, with tracking and tracing receiving particularly low scores. However, the country made remarkable strides, jumping 8 places to 126th in 2018, and made a substantial leap of 47 places in 2023, securing the 79th position. These advancements were accompanied by improvements in tracking and tracing as well as timeliness, showcasing Djibouti's commitment to enhancing logistics performance.

47. Djibouti boasts one of the world's top-ranked, deep-water port complexes. The Port of Djibouti has achieved remarkable recognition in the 2022 CPPI report as the leading container port in SSA, the 3rd in Africa, and the 26th globally (compared to 61st in 2020). The Container Port Performance Index (CPPI) assesses port efficiency based on total port hours per ship call, which measures the time elapsed from a ship's arrival at the port until its departure after completing cargo exchange. This exceptional performance highlights Djibouti's substantial investments in ports and infrastructure, solidifying its position as a prominent global trade and logistics hub. Substantial advancements in the governance of Djibouti's port sector have also played a pivotal role in enhancing its performance and productivity. The management of Djibouti's ports and free zones adheres to contemporary governance standards, with a Board of Directors entrusted with the oversight of strategic planning and the performance of companies operating within each port and free zone. Furthermore, the ongoing modernization program for port communities, supported by initiatives from World Bank projects, is expected to make a significant contribution to boosting the sector's efficiency.

Figure 33. Djibouti Logistics Performance Index, 2016, 2018, 2023



Source : WB LPI 2023 report

48. **Economic operators have expressed concerns about the high cost associated with transporting goods through Djibouti's ports.** This perception is grounded in several factors, one of which is the slow customs clearance process, posing significant challenges for freight forwarders. The situation has been worsened by the introduction of new documentation controls, such as the HS (Harmonised System) Code and the Zone Code, mandated by customs authorities. These new requirements have resulted in considerable delays in deliveries. Given these challenges, it has become imperative to streamline documentation requirements and implement measures to expedite the customs clearance process. A crucial recommendation is to foster closer collaboration between customs authorities and economic stakeholders to optimize procedures and facilitate the smooth flow of goods. Furthermore, there has been a noticeable increase in port congestion at the SGTD terminal due to the rigorous and detailed inspection process implemented by UNVIM (United Nations Verification and Inspection Mechanism for Yemen) for goods destined for Yemen. The resulting delays in approving loading lists for feeder vessels have caused complications and additional costs. The congestion resulting from the transshipment of goods bound for Yemen has also led to a surge in containerized freight with limited storage capacity. These circumstances have resulted in delays in delivering full containers and receiving empty containers, incurring additional costs for shipping lines and importers/exporters, particularly in terms of container detention and demurrage charges. It is of paramount importance for Djibouti to reduce transit costs to maintain its competitive edge over emerging regional competitor ports. This cost reduction will not only enhance the national productive sector but also boost purchasing power and the overall well-being of the Djiboutian population. Simplifying documentation requirements and strengthening cooperation between customs authorities and economic stakeholders are pivotal steps towards achieving this objective.

49. **Efficient ports are closely linked to efficient logistics in the hinterland, necessitating the effective management of road corridors.** . Port services, including the import of food grains and industrial goods, play a vital role in Djibouti's economy. The majority of the port's cargo is destined for, or originates in, Ethiopia, with Djibouti enjoying a historical competitive advantage in its trade relationship with its neighbor. However, with the emergence of other ports in the region, such as Berbera, Lamu, and Assab, Djibouti's competitive advantage is at risk. To maintain its edge, Djibouti must prioritize the maintenance and rehabilitation of its road network, especially the Djibouti-Addis Ababa corridor. The 2018 report of the United Nations Conference on Trade and Development (UNCTAD) on the Djibouti City-Addis Ababa transit and transport corridor, highlighted critical conditions in several sections of the Djibouti City Road corridor up to the Ethiopia-Djibouti border. These conditions significantly hamper the efficiency of freight transportation between the two countries, leading to increased time costs and posing safety risks to truck drivers. Urgent action is needed to address these issues and ensure seamless and efficient trade between Djibouti and Ethiopia

7.1.4. Labor costs in Djibouti are perceived as high relative to neighboring countries, which has implications for competitiveness.

50. **Labor costs in Djibouti are perceived as high compared to neighboring countries.** Although recent data on the labor market's cost structure is unavailable, previous analyses indicate that in 2012, wages for Djiboutians in the transport sector ranged from USD 300 to USD 500, whereas in Ethiopia, they were around USD 70. The 2015 UNCTAD Diagnostic Trade Integration Study (DTIS) report highlights that in the formal sector, the minimum monthly salary was USD 200, and skilled workers earned an average wage of USD 250. In the tourism sector, wages varied from USD 400 for low-skilled employees to USD 1,200 to USD 1,300 for supervisors or middle managers, reaching USD 3,000 for senior executives. These wage levels were 3 to 6 times higher than those observed in the sub-region, particularly in Ethiopia. While Djibouti's wages may reflect the cost of living, they do not align with productivity, resulting in weakened competitiveness that hinders the promotion of tradable activities.

51. **The high labor costs in Djibouti are influenced by rents generated from port activities and the rental of military bases.** As highlighted in the 2015 UNCTAD DTIS report, these rents, originating from high salaries in the public sector linked to maritime transport activities and the rental of military bases, contribute to higher labor costs permeating the entire economy, undermining its competitiveness. Additionally, the report emphasizes the lack of adequately trained nationals as another factor driving salaries in Djibouti. Difficulties in filling skilled positions with local talent necessitate the payment of attractive, high salaries and additional expenses (such as travel costs to home countries) to qualified foreign workers. Factors such as high dependency costs and support for unemployed adults also contribute to upward pressure on wages.

52. **The 2015 UNCTAD report identifies three options for lowering salaries in Djibouti:** (i) reducing nominal wages to align with productivity levels, (ii) adjusting the nominal exchange rate, and (iii) implementing policy reforms to enhance productivity gains through public institutional reforms. The Government does not envision exchange rate changes, and reducing nominal wages is politically challenging to implement as it could have severe implications for people's welfare. Thus, the remaining viable option is to implement structural reforms aimed at improving labor productivity. This involves increasing accountability, eliminating inefficiency (especially in the public sector), and providing incentives for private sector growth. Chapter 3 provides comprehensive assessment of human capital and labor market developments in Djibouti, offering further details on these recommendations.

7.1.5. The high cost of credit and a discretionary tax system hamper the competitiveness of the domestic private sector.

53. **Despite increased competition in the banking sector, which has led to a decrease in the cost of credit, local banks in Djibouti still offer high lending rates, with an average of approximately 10 percent.** Housing credit ranges from 5 percent to 8 percent, while small and medium-sized enterprises (SMEs) financing rates exceed 10 percent.[24] The share of credit to the private sector remains low, amounting to only 18.1 percent of GDP at the end of 2021.[25] This can be attributed to limited availability of suitable and diversified loan products for entrepreneurs and SMEs, as well as the lack of bankable and investment-ready projects. Access to credit is a significant challenge for the private sector, with less than 10 percent of formal companies having access to loans. Moreover, the majority of loans are concentrated in SOEs or large-scale investments in sectors such as transport, logistics, public works, and real estate. This concentration further hampers access to credit for the private sector, with only 5 percent of formal enterprises receiving financing. Difficulties in collecting guarantees from customers in the event of default also contribute to restricted access to credit, particularly for SMEs. However, recent reforms implemented by the Government, such as the introduction of an SME credit guarantee mechanism, have started to address these obstacles. As a result, over DJF 500 million of investments have been mobilized from six participating financial institutions to support more than 150 SMEs. In addition to challenges in accessing credit, a distortionary tax code undermines the competitiveness of the domestic private sector in Djibouti.

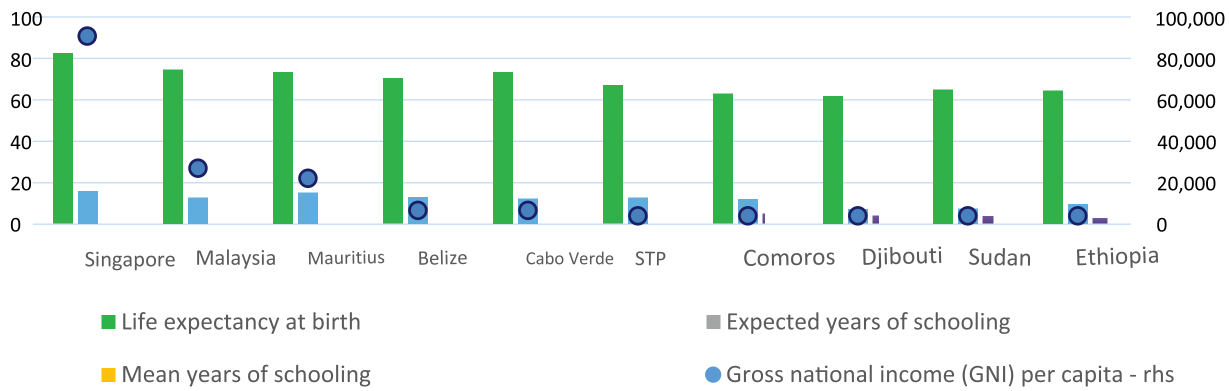
[24] Central Bank statistics on average rates (2021).

[25] WDI (2021).

The presence of a dual system provides preferential treatment for companies operating in free zones and port zones, while imposing excessive bureaucracy and imbalanced fiscal frameworks on external companies. This disproportionately affects smaller businesses and perpetuates incentives for operating informally. The 2013 enterprise survey revealed that high tax rates hindered the growth of 15 percent of SMEs. Djibouti shows weak levels in almost all key dimensions of human capital, despite progress

54. Djibouti exhibits weak performance across various key areas of human capital,[26] comparable to countries with lower GNI per capita, such as Comoros, Sudan, and Ethiopia (Figure 34). The main challenges include extremely low and unequal access to early childhood education, limited access to foundation learning, insufficient opportunities for skills development, poor maternal and child health outcomes, and low coverage of social safety nets. Life expectancy at birth in Djibouti is 63 years, which is lower than that of its structural peers and falls significantly behind aspirational countries like Singapore, with a gap of up to 20 years. Although enrollment rates have been increasing in Djibouti across all educational levels over the past two decades, particularly in primary and lower-secondary levels, the country still lags behind regional averages. The World Bank's Human Capital Review Report highlights the significant challenges in building human capital in Djibouti. While the primary school completion rate improved from 51 percent in 2013 to 65 percent in 2016, high rates of repetition and dropout persist, especially among girls. Gender disparities in school enrollment ratios are more pronounced with each educational level. Djibouti averages 9.2 years of schooling, which is lower than the averages for the MENA region and for LICs according to the World Bank 2023b. The challenges in child and maternal health outcomes, learning, and social safety net coverage persist in Djibouti. However, reform efforts are underway to expand early childhood education, strengthen foundational learning, improve public health, and enhance social protection.

Figure 34: Djibouti shows weak levels in almost all key areas of human development



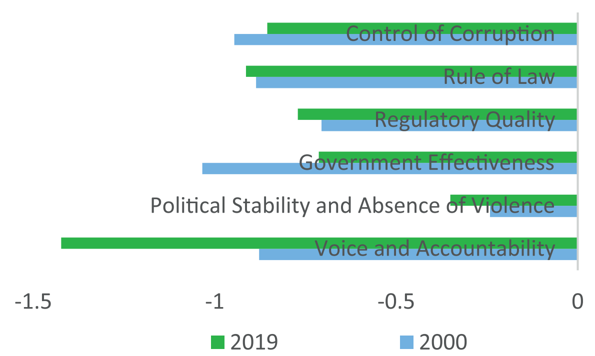
Source : United Nations

[26]Human capital consists of the knowledge, skills, and health that people accumulate throughout their lives, enabling them to realize their potential as productive members of society. Human capital affects economic growth by expanding knowledge and skills. Raising human capital is therefore crucial to sustain economic growth, generate higher earnings for people, higher income for countries, and stronger cohesion in societies. Conversely, human capital depreciates with long periods of unemployment and the inability to keep up with technology and innovation. Without human capital, countries cannot sustain economic growth, will not have a workforce prepared for highly skilled jobs of the future, and will not compete effectively in the global economy.

7.2. Djibouti's performance in governance is weak and still lags behind its peers.

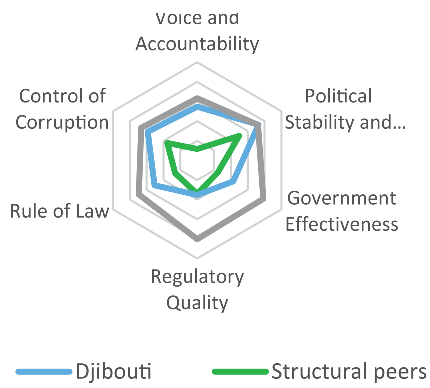
55. Djibouti's performance in governance and institutions still lags behind both its structural and aspirational peers (Figure 35b). Most governance performance indicators, with the exception of control of corruption and governance effectiveness, have worsened over the past decade (Figure 35a). The Worldwide Governance Indicators (WGI) institution of the Rule of Law indicator has been decreasing over the past decade in Djibouti and is below the expected level, based on its GDP per capita [27] LThe WGI Regulatory Quality indicator has witnessed a downward trend since 2012, indicating a decline in the perception of the Government's ability to formulate and implement effective policies and regulations fostering private sector development. The Ibrahim Index confirms this finding, showing that Djibouti faces challenges in the regulation of business and competition. [28] However, there is a positive development in the Government Effectiveness measure, which has improved significantly since 2017. This reflects an enhanced perception of the quality of public services, the civil service's competence and independence from political considerations, the overall quality of policy formulation and implementation, and the Government's commitment to upholding these policies.

Figure 35a: The majority of Djibouti's scores on WGI (-2.5 to +2.5) indicators have worsened in the last decade



Source : WGIs

Figure 35b: Djibouti's average governance performance is still lagging behind that of its peers



Source : WGIs

56. Research conducted by the World Bank and supported by IMF studies underscores the link between poor governance and reduced economic growth, which operates through various channels.[29] These include impaired provision of public goods and services, distorted allocation of resources, erosion of trust, adverse business climate, rent seeking, and state capture. In fact, poor-quality institutions create uncertainty in investment returns, discouraging investment and undermining long-term growth. Furthermore, a weak rule of law increases reliance on personal connections, blunting market signals and leading to the misallocation of human and physical capital within the economy. In summary, improving governance has significant positive implications for economic growth. By addressing governance gaps and promoting effective institutional frameworks, countries can create an environment conducive to investment, resource allocation, and overall economic development.

[27]The Worldwide Governance Indicator (WGI) for the Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime. There are known caveats on using the Worldwide Governance Indicators, but given data scarcity in Djibouti, options are limited. Further research could undertake a broader exploration for additional data sources to triangulate.

[28] Ibrahim Index of African Governance (IIAG). - https://iiag.online/data.html?meas=GOVERNANCE-_1&loc=DJ&view=table&subview=score&range1from=2012&range1to=2021&range2from=2017&range2to=2021&showLowest=true&showHighest=true&showHighlights=true&showFullContext=false&showAAT=false

[29] See for example the World Development Report 2017: https://www.worldbank.org/en/publication/wdr2017

57. Strengthening governance mechanisms can create a more conducive environment for sustainable development and unlock growth potential. The European Bank for Reconstruction and Development (EBRD) emphasizes the governance gap's significance in relation to economic growth in its 2019 report, Better Governance, Better Economies. The report, along with numerous studies preceding it, argues that higher-quality institutions are strongly correlated with faster long-term economic growth and higher per capita . incomes. For instance, the EBRD report finds that closing half of the governance gap between Ukraine and the corresponding G7 average can increase the country's per capita income growth by an average of 1.2 percentage points, annually. Globally, economies that achieve remarkable improvements in governance outperform their peers in terms of economic growth by an average of 1.3 percentage points per year. In the EBRD regions, this figure rises to 1.8 percentage points per year. Conversely, economies that experience significant deteriorations in the quality of economic institutions underperform comparators by an average of 2.7 percentage points per year, in terms of income growth per capital.

C – THE FUTURE: PROTECTING DJIBOUTI'S ECONOMY, UNLOCKING ITS POTENTIAL

8. Going forward, the sustainability of Djibouti's growth is uncertain.

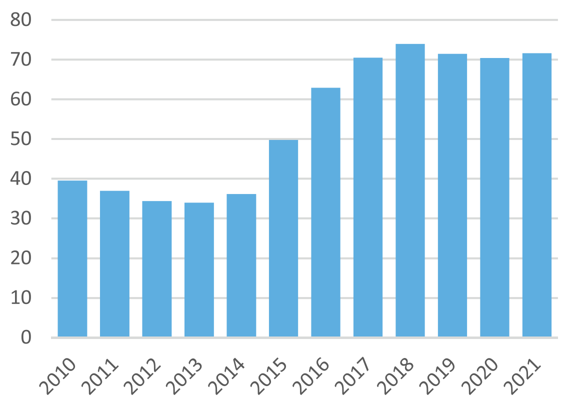
8.1. Djibouti's growth model, centered around a single sector and heavily reliant on one partner, is at a critical juncture.

58. As highlighted in paragraph 17, Djibouti's growth model, which is largely anchored on its port sector and predominantly caters to Ethiopia, presents an unsustainable dependency on a single sector and client. Ethiopia is now seeking to diversify its international trade routes to reduce transportation costs by fostering competition. The port of Berbera in Somaliland, along with the Berbera Corridor connecting to Ethiopia's hinterland, has emerged as a strong potential competitor to Djibouti. In light of this, sustaining and achieving inclusive growth in the medium and long term will hinge on Djibouti's ability to undertake comprehensive structural reforms. These reforms should focus on enhancing the competitiveness of its ports and overall logistics chain, thereby mitigating the potential risk of a significant shift in Ethiopian traffic away from Djibouti. Improving institutions and human capital would also enhance productivity and competitiveness in high-potential growth sectors such as the digital economy and other services

8.2. Djibouti's decade-long reliance on non-concessional, external borrowing for infrastructure projects has significantly increased its debt, threatening macroeconomic stability.

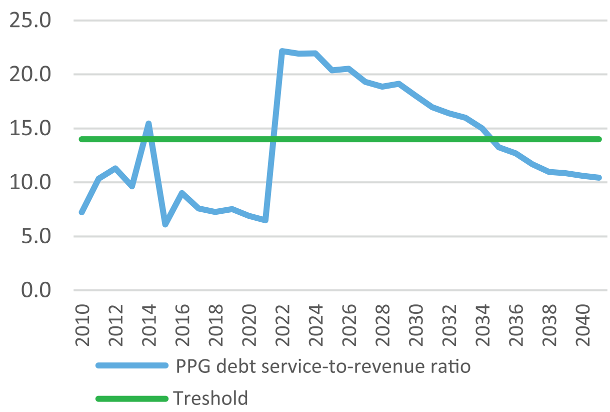
59. Over the past decade, Djibouti has increasingly turned to non-concessional, external borrowing as a means to finance large-scale infrastructure projects. However, this heavy reliance on external borrowing has resulted in significant escalation of its debt burden, posing a threat to macroeconomic stability. The external debt-to-GDP ratio has more than doubled in less than 10 years, from 34.0 percent in 2013 to 71.6 percent in 2021 (Figure 36a). This surge in debt can be attributed to substantial loans obtained by SOEs for three major projects: the Addis Ababa-Djibouti railway, the water pipeline from Ethiopia, and the Doraleh Multipurpose Port. However, this increase in borrowing has resulted in unsustainable debt service, with fiscal revenues declining from 14 percent of GDP in 2015 to 10 percent in 2020. This decline is primarily due to widespread tax exemptions granted to military bases and tax incentives provided by the investment code (Figure 36b). Moreover, Djibouti has faced persistent external arrears, with the stock of external public debt arrears reaching USD 101 million at the end of 2021, equivalent to 3 percent of GDP.

Figure 36a: External debt-to-GDP has doubled



Source : World Bank and IMF staff calculation

Figure 36b: Debt service-to-revenue ratio has soared



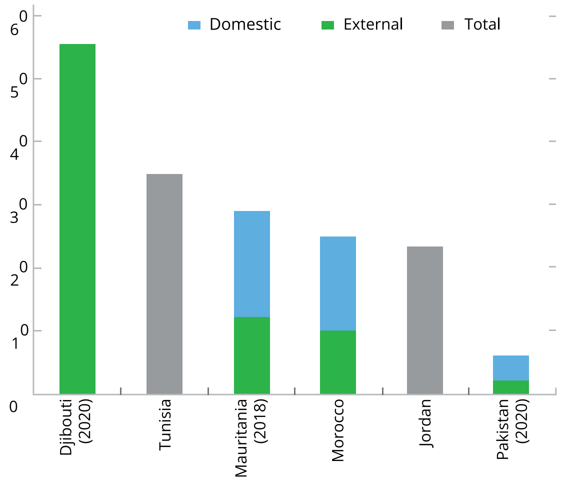
Source : World Bank and IMF staff calculation

60. SOEs have played a significant role in the escalation of Djibouti's debt levels. The state-guaranteed debt of SOEs has surged sharply over the past decade, climbing from approximately USD 200 million in 2013 (10 percent of GDP) to USD 1.9 billion in 2021 (55 percent of GDP) (Figures 37). The Government has assumed responsibility for debt servicing of approximately 25 percent of GDP in SOE borrowing, primarily linked to underperforming railway and water projects. The mounting debt service burden arising from these projects was a major factor in pushing the Government into debt distress in 2022, prompting ongoing negotiations for loan restructuring, while ensuring the continued repayment of other debts. To address the risks associated with state guarantees to SOEs, the Government is in the final stages of enacting a public debt law. This law will mandate government approval of all new SOE borrowing through an interagency debt committee, chaired by the Finance Ministry. Furthermore, broader reforms in SOE governance are underway to strengthen government oversight, including the professionalization of SOE Boards of Directors and the implementation of performance contracts, with firm management. Fiscal risks associated with SOEs are discussed in more detail in the SOE sector diagnosis (Chapter 3).[30]

[30] IMF departmental paper no 2023/005, Managing Fiscal Risks in the Middle East and North Africa, June 2023. https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2023/06/08/Managing-Fiscal-Risks-in-the-Middle-East-and-North-Africa-529220?cid=em-COM-123-46720.

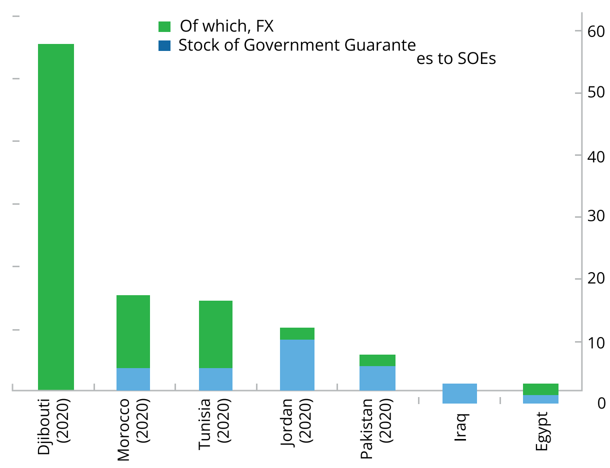
[31] Under a currency board, the supply of domestic currency is fully backed by foreign currency reserves. This implies that the central bank has limited discretion in conducting monetary policy since it must ensure that the domestic currency is fully convertible into the reserve currency at the fixed exchange rate. It cannot independently adjust interest rates or expand the money supply based on domestic economic conditions. In Djibouti, the currency board and currency stability have contributed to macro stability. Yet, given limited monetary policy flexibility, fiscal policy becomes more important in managing the economy; the Government must maintain sound fiscal discipline and implement appropriate fiscal measures to achieve macro stability and address economic imbalances.

Figure 37a: Stock of SOE Debt (% of GDP)



Source : IMF

Figure 37b: Stock of Government Guarantees to SOEs (% of GDP)



Source : IMF

61. The rapidly increasing debt level presents significant challenges both to macroeconomic stability and to the allocation of funds for crucial social expenditures. Urgent and robust policy interventions are necessary to address this pressing issue. The high debt levels and recurrent external arrears necessitate policy actions to rationalize borrowing, prioritize concessional financing, and strengthen debt management. Failure to take appropriate measures may lead to the debt becoming unsustainable, which is a particularly daunting prospect for Djibouti given its limited human and financial resources to withstand such a shock. It is crucial to ensure sound macroeconomic and fiscal management, especially considering Djibouti's currency board system, which limits the Central Bank's discretion in conducting monetary policy[31]. Reducing tax expenditure and enhancing domestic revenue mobilization are key steps to create fiscal space for investment in human capital and to support the new growth model. The escalating costs of debt service have crowded out much needed spending in social sectors, with education and health expenditures accounting for only 15 percent and 8 percent of the Government's budget, respectively, compared to over 30 percent allocated to infrastructure.

8.3. At the same time, climate change poses a significant threat to Djibouti's economic potential.

62. The country is highly vulnerable to extreme climate events, such as floods, droughts, heatwaves, and earthquakes, and it is also one of the most water-scarce nations at the global level. At the same time, Djibouti is missing out on opportunities related to climate change. The impacts of climate change are exacerbating vulnerabilities, with rising sea levels, extreme temperatures, and unpredictable rainfall patterns (Figure 38). Coastal areas have already experienced damage to infrastructure and freshwater contamination due to rising sea levels. The vulnerability is further heightened by population influx and the increasing carbon intensity associated with traditional infrastructure development.

[31] Under a currency board, the supply of domestic currency is fully backed by foreign currency reserves. This implies that the central bank has limited discretion in conducting monetary policy since it must ensure that the domestic currency is fully convertible into the reserve currency at the fixed exchange rate. It cannot independently adjust interest rates or expand the money supply based on domestic economic conditions. In Djibouti, the currency board and currency stability have contributed to macro stability. Yet, given limited monetary policy flexibility, fiscal policy becomes more important in managing the economy; the Government must maintain sound fiscal discipline and implement appropriate fiscal measures to achieve macro stability and address economic imbalances.

This situation disproportionally affects the majority of Djibouti's population, with over 80 percent residing along the coastline. In particular, refugees and low-income residents living in low-lying areas are highly vulnerable to climate risks, which also pose a potential financial burden on the community. Moreover, the country has been grappling with increased aridity and decreased precipitation, leading to the drying out of water bodies throughout the nation. Climate-induced disasters are responsible for a significant portion of the human and economic costs associated with natural disasters in Djibouti. According to the 2019 Notre Dame Global Adaptation Index (ND-GAIN), Djibouti ranks 123rd out of 182 countries, in terms of overall vulnerability to climate change and readiness to enhance resilience.[32] On the other hand, there are significant opportunities for Djibouti to capitalize on sound adaptation, resilience-building, and low-carbon development. These opportunities include attracting climate finance, gaining attention from donors, exploring low-carbon pathways for better trade opportunities, and creating green-climate jobs. Djibouti's endeavors to attract private investment in renewable energy development are beginning to yield results, as demonstrated by the recently developed 60-megawatt Ghoubet Wind Power Farm by independent power producers.

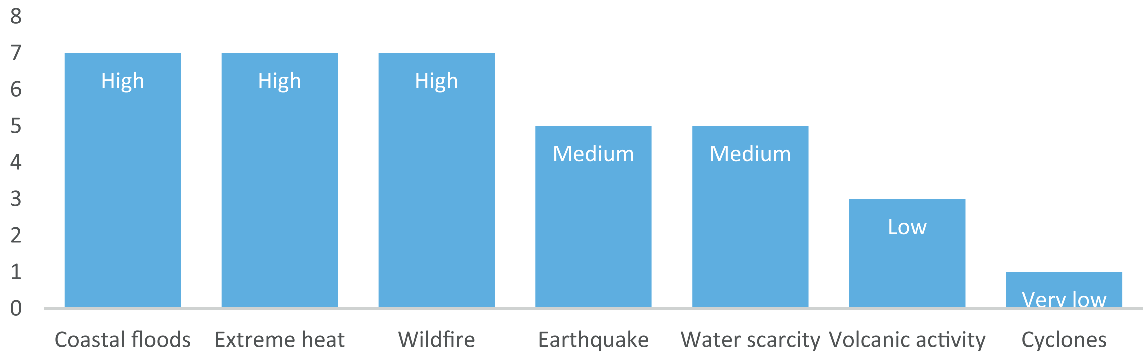
63. **Climate change will have profound socioeconomic and environmental implications. These effects will disproportionately affect the poorest, especially in rural areas.**[33] Djibouti faces unique water challenges as it lacks permanent rivers, streams, and fresh water sources, leading to extreme evaporation rates. Such scarcity not only jeopardizes agricultural productivity, but also poses a significant risk to the availability of safe drinking water, especially in rural areas where financial constraints have hindered infrastructure maintenance, increasing vulnerability to climate change impacts. The rise in sea levels presents a grave threat to Djibouti's coastline, leading to inundation and salinization. This jeopardizes not only the integrity of port infrastructure, but also the viability of the tourism industry. Coastline degradation is closely linked to the rapid expansion of the port and associated economic activities, as well as pollution from wastewater discharges and the constant passage of ships. Projections of continued sea level rise raise serious concerns regarding the well-being of the population, the stability of housing, and the resilience of critical infrastructure. Approximately 33 percent of the population resides in high-risk hazard zones, while 35 percent of the economy remains chronically vulnerable to floods and droughts. Climate change also poses risks to rainfed crops, livestock health, and exacerbates issues related to weeds and diseases. Higher temperatures will further strain energy generation and transmission infrastructure. Public health risks associated with extreme weather events include the resurgence of vector-borne diseases like malaria, the exacerbation of respiratory ailments, and the accelerated spread of water-borne diseases due to water degradation.

64. **Macroeconomic impacts of climate change in Djibouti are expected to be substantial.** Without adaptation, the cost of climate-induced damage is predicted at USD 125 million per year. The 2008–2011 drought decreased the country's GDP by 4 percent, with farmers and livestock herders being the hardest affected. The agriculture sector lost 50 percent of its GDP, directly impacting over 15 percent of the population. The adverse climate events in the region have also exacerbated the influx of regional refugees into Djibouti, placing additional strain on the country's overstretched fiscal space, fragile livelihoods, already-stretched public services, and limited job opportunities.

[32] https://gain.nd.edu/our-work/country-index/rankings/.

[33] Djibouti Climate Risk Country Profile, World Bank, 2021.
https://climateknowledgeportal.worldbank.org/sites/default/files/2021-02/15722-WB_Djibouti%20Country%20Profile-WEB.pdf.

Figure 38: Major climate related risks to Djibouti include floods, droughts, sea level rise, wildfires



Source : The Global Facility for Disaster Reduction and Recovery (GFDRR), 2018.

9.Djibouti possesses the potential for a more robust and inclusive growth trajectory that generates jobs and revenue.

65. Djibouti is now entering a second phase of development, where it needs to capitalize on its investments and extend the benefits to a broader economic base. In recent years, the country has made substantial investments in its trade hub, which encompasses ports, FTZs, railways, electricity interconnection lines, submarine telecommunications cables ,airports, ship repair yards, and roads. These investments aimed to transform the economy and position Djibouti as a regional trade and logistics hub, facilitating connections between Africa and Europe. While these efforts have expanded trade and logistics activities, Djibouti has yet to fully capitalize on these investments, resulting in limited diversification beyond these sectors and sluggish private sector development, which has hindered job creation. As Djibouti enters a new phase of development, it must seize the opportunity to leverage its existing investments, foster greater private sector participation, and promote job creation.

66. Recognizing the challenges encountered on its previous growth path, the Government of Djibouti has recently reoriented its national development strategy known as Vision Djibouti 2035.[34] The SCAPE laid the groundwork for the initial implementation phase of Vision 2035 (2015–2019) and facilitated the establishment of crucial infrastructure. The current National Development Plan (NDP) for 2020–2024 addresses structural challenges in social inclusiveness, sustainable development, infrastructure, and governance, and is guided by three pillars: Inclusion, Connectivity, and Institutions (ICI). The Inclusion pillar aims to adopt an inclusive model that ensures equitable distribution of growth. Connectivity focuses on enhancing national integration and solidifying Djibouti's role as a continental economic hub. Finally, the Institutions pillar aims to consolidate democratic principles, public transparency, the realization of rights and freedoms, and social cohesion.

[34] Vision Djibouti 2035 is the country's long-term development strategy, adopted by the Parliament in 2014. It aims to significantly raise the average standard of living at a 10 percent per year rate of growth in GDP per capita; reduce unemployment to 10 percent and extreme poverty by one-third; and provide access to basic services, such as energy and water, to the entire population by 2035.

67. Djibouti has identified several sectors, beyond the ports, with potential for diversification, including tourism, manufacturing and renewable energy. The Government's Vision 2035 prioritizes the development of high-potential sectors such as tourism, fisheries, ICT, transport and logistics, renewable energy, manufacturing, and agriculture. Tourism holds significant promise for job creation, with the potential to attract up to 500,000 tourists annually by 2030, compared to the current figure of 50,000 predominantly business travelers. Djibouti possesses extraordinary natural assets for tourism development, which remain untapped.[35] The Government is also planning to establish FTZs equipped with advanced facilities to foster processing manufacturing, such as packaging production, light processing of incoming materials, food processing (in conjunction with agricultural, fishing, and livestock farming development), marine products, and auto parts assembly.[36] Additionally, Djibouti has substantial, untapped renewable energy potential, including wind, and solar energy, with ample sunshine and insolation rates (of 5 kWh/m² and 4,000 hours on average per year, respectively). In the digital sector, the Ministry in charge of the Digital Economy and Innovation (MDENI) is introducing a more coordinated, government-wide approach, via the Djibouti Smart Nation digital transformation program and its associated roadmap, based on four pillars (i) digital government, (ii) the digital economy, (iii) the sectors and professions of the future, and (iv) citizen participation in digital culture.

10. Lowering the cost of electricity and telecommunications is crucial for unleashing economic growth, promoting employment, and enhancing household well-being.

68. Currently, the high cost of production acts as a barrier to the development of Djibouti's private sector. As highlighted throughout this chapter, the elevated prices of electricity and historically high prices for telecom services significantly impede economic progress. To stimulate private sector growth and create job opportunities, it is imperative for Djibouti to decrease production costs, particularly in the electricity and adapt Telecoms tariffs , thereby enabling increased private sector participation. By reducing these costs, Djibouti can unlock its economic potential, foster the emergence of new sectors, and diversify the economy beyond the ports.

69. The World Bank conducted an analysis using a CGE model to estimate the effects of reducing electricity and telecommunication prices on growth, employment, and household welfare. The results, outlined below, demonstrate the substantial impact of the combined reforms on Djibouti's economy. Electricity and telecommunication reforms are projected to have a significant, positive effect on GDP growth. Moreover, they will generate favorable outcomes in terms of employment and welfare. The expansion of electricity access and the development of the digital economy will not only boost various sectors, but also reinforce Djibouti's position as a pivotal trade hub, promoting regional integration. These reforms hold the potential to bring about transformative changes and enhance the country's ability to withstand future challenges.

Scenario for reduced electricity and telecommunication prices in Djibouti.

70. Lowering the cost of electricity. To address this concern, in an illustrative scenario, the World Bank has conducted a simulation involving a gradual annual reduction of 15% in the average electricity price in Djibouti over a three-year period, starting in 2024. The aim of this simulation is to demonstrate the potential impact on the country's economic growth. Such adjustments would align electricity tariffs more closely with regional averages in MENA and sub-Saharan Africa. This price reduction would be achieved by improving bill collection rates and reducing other operational inefficiencies. A detailed cost of service and tariff study will be required to ensure that the tariff is set at an affordable and fair level for end users, while guaranteeing the required revenue for EDD and the financial viability for the sector.

[35] https://documents1.worldbank.org/curated/zh/188081468247477610/pdf/PID-Print-P146250-01-29-2014-1391031150375.pdf.

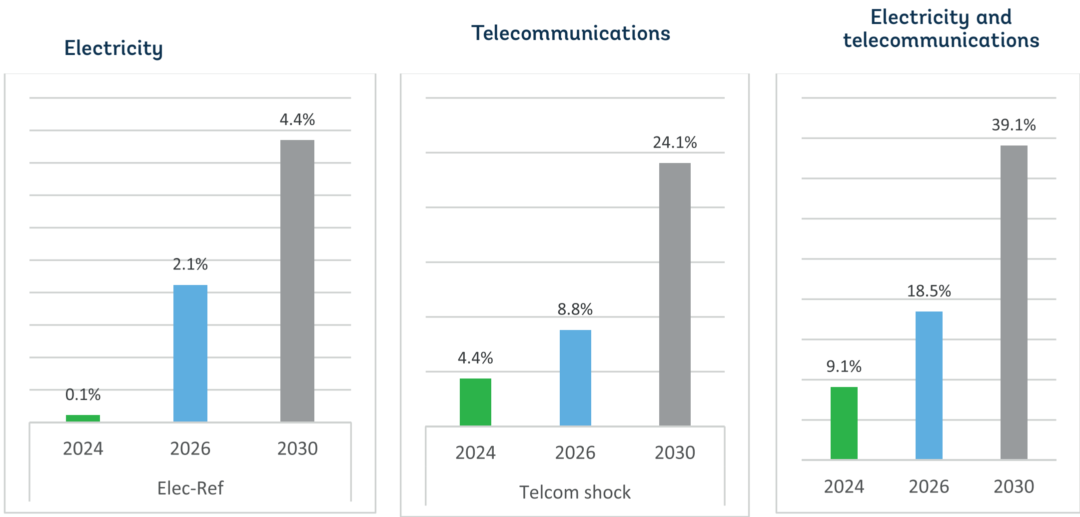
[36] https://dpfza.gov.dj/facilities/Free-trade-area/djibouti-international-free-trade-zone.

71. Reduction in telecommunication services prices. Djibouti currently faces higher average prices for fixed broadband services compared to other countries in the region. At USD 100.86 per month, it is estimated to be more than twice Cape Verde's (USD 44 per month) and three times Ethiopia's (USD 27 per month). Although the average price of mobile broadband services was reduced in 2020 (to USD 1.12 per month), it still remains higher than in Ethiopia (USD 1.0 per month), and the penetration rate is relatively low. When comparing Djibouti to its peers, there is evident potential to decrease telecommunication service prices and improve internet access. To highlight the economic benefits resulting from a telecommunication service price reduction, the proposed telecommunication scenario involves a progressive reduction path for mobile and fixed broadband services, with a 20 percent decrease in 2024, 15 percent decrease in 2027, and 10 percent decrease in 2030, bringing prices closer to those observed in peer countries. According to projected scenario targets, by 2030 the cost of fixed broadband would be approximately USD 62 per month, aligning it with levels seen in Uganda, but still higher than in Cape Verde and Ethiopia. The scenario emphasizes the advantages for the Government of prioritizing reforms aimed at enhancing competition in both the mobile and fixed markets at the national level. This can be achieved, for instance, through the introduction of a second operator, as observed in neighboring countries. A competitive and transparent market generally leads to lower tariffs.

Result #1: The combined electricity and telecommunication reforms are expected to drive GDP growth significantly.

72. The combined electricity and telecommunication reforms are expected to have a significant positive impact on GDP growth, estimated at 39.1% percent by 2030, compared to the baseline scenario (Figure 39). Approximately one third of this increase is attributed to the reduction in electricity costs, while two thirds are attributed to the reduction in telecom prices. Electricity reforms will lead to an additional increase in electricity demand and accessibility, resulting in improved productivity. The availability of electricity for powering machinery and appliances will facilitate easier and faster work processes. Furthermore, expanded electricity access will have positive effects on healthcare, enabling medical equipment operation, and on education, providing lighting for studying and access to digital resources (Banerjee et. al., 2021). These improvements in key sectors will contribute to overall economic growth (with a significant rise in the value added by the services sector anticipated by 2030). Moreover, the development of the ICT sector and the digital economy will further drive economic growth by creating added value (with substantial progress in services sector added value, compared to the baseline), and stimulating productivity and innovation. The growth of the digital economy will have a ripple effect on other sectors, fostering their development. This transformation will enhance Djibouti's position as a crucial trade hub in the rapidly evolving regional context. For instance, the digital economy can catalyze the development of digital platforms for transportation, logistics, and distribution. Djibouti can leverage its international ICT infrastructure to promote activities such as call centers and data hosting and analytics, attracting outsourced operations. The success of these endeavors relies on reliable and widespread access to electricity. Additionally, the development of the country's digital economy can enhance its resilience to economic shocks and climate change-related challenges. By diversifying its economy and embracing digital technologies, Djibouti can create a more robust and adaptable economic framework.

Figure 39: Effects of telecommunications and electricity reforms on growth (deviation from reference scenario)



Source : Simulation results

Result #2: The combined electricity and telecommunication reforms will significantly increase employment and improve household welfare.

73. The electricity and telecom reforms are projected to generate an additional overall increase of 7.2 percent in employment by 2030 (equivalent to 22,822 workers), with particularly notable effect on skilled formal and informal workers (Figure 40). The reforms are estimated to raise the number of skilled formal workers by up to 9.1 percent in 2030. The expansion of telecom access and the subsequent growth in digital services will create a higher demand for skilled workers to develop ICT infrastructure and implement new technologies. Simultaneously, the reforms are expected to increase the number of skilled informal workers by 8.1 percent and unskilled informal workers by 6.4 percent. The rise in informal workers primarily stems from increased electricity access, which will enable SMEs to expand their operations, particularly in the informal sector. This prospect is particularly appealing for youth in Djibouti, who are more proficient in internet usage compared to their counterparts. Many young individuals currently face challenges in finding employment or are trapped in low-wage jobs.

76. Moreover, the electricity and ICT reforms are projected to improve household welfare by 2030 (Figure 41). Adjustments in electricity and telecom prices in Djibouti are estimated to increase household income by 34.5 percent and household consumption by 24.6 percent, compared to the baseline scenario. The increase in electricity access and telecommunication coverage will enhance the availability of goods and services in the economy. This, in turn, will stimulate transactions between consumers and traders, resulting in higher income and consumption levels. Improvements in household welfare will have a significant positive impact on the standard of living for Djiboutian households. Greater access to electricity and telecommunications will facilitate the availability of essential services and enable households to engage more actively in economic activities. This will contribute to poverty reduction and enhance the overall well-being of the population.

Figure 40: Employment by skill and formality for electricity reform (% deviation from baseline)

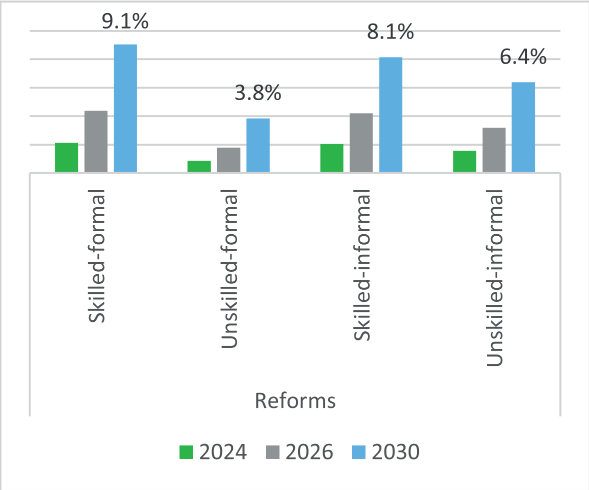
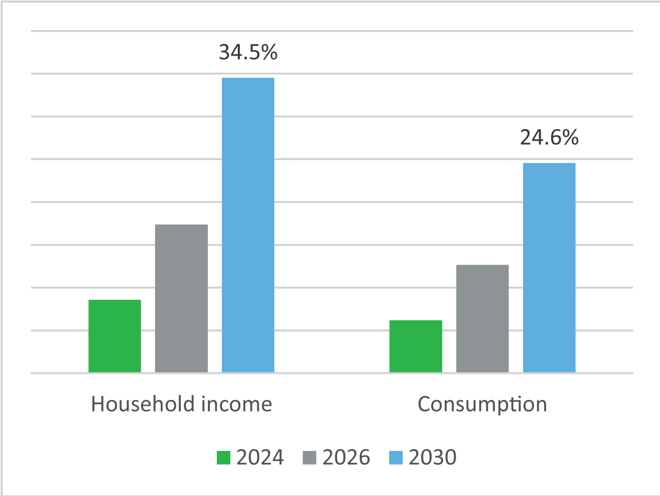


Figure 41: household income and consumption for electricity and telecom reforms (% deviation from baseline)

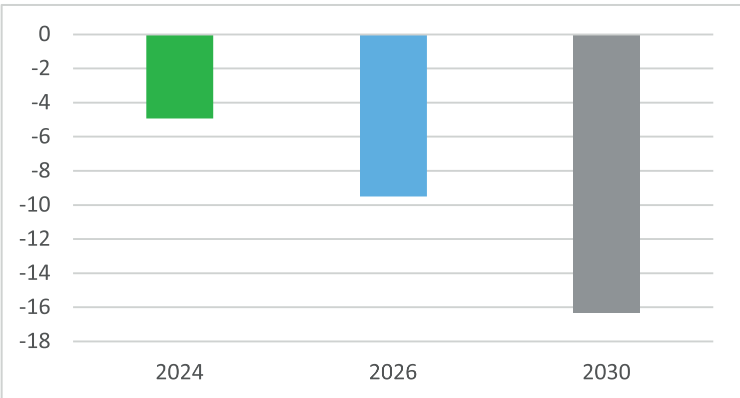


Source : Simulation results

Result #3: These reforms will have a positive impact on public finances if accompanied by increased efficiency and decreased spending.

77. **Under certain conditions, the implementation of electricity and telecom reforms in Djibouti would even have a positive impact on reducing public debt** (Figure 42). This outcome is based on the assumption that the fiscal deficit remains neutral, meaning that the government balance is set at the same value as the baseline. The model also assumes that the state's electricity expenses will primarily be financed through reductions in public spending. The World Bank's 2017 report Shedding Light on Electricity Utilities in the MENA, provides an estimation of the power sector's quasi-fiscal activities (QFA) across the region, aiming to quantify the hidden costs arising from sector inefficiencies. These inefficiencies can create financial strains and contribute to worsened fiscal situations over time. Inefficiencies can manifest in various forms, including financial gaps between average tariffs and cost recovery rates, technical issues such as transmission and distribution losses, commercial challenges related to uncollected bills, and labor-related problems such as overstaffing. The report reveals that approximately half of the 14 MENA economies analyzed exhibit significant inefficiencies in their power sectors, with QFAs equivalent to at least 4 percent of GDP. However, Djibouti stands out with remarkably higher inefficiencies, as its QFA amounts to 8.2 percent of GDP. This places Djibouti with the highest QFA in the region, and second only to Lebanon. These findings indicate that Djibouti has substantial potential for increasing energy efficiency and addressing the prevailing inefficiencies in the power sector.

Figure 42: Debt as % of GDP (deviation in pp from baseline)

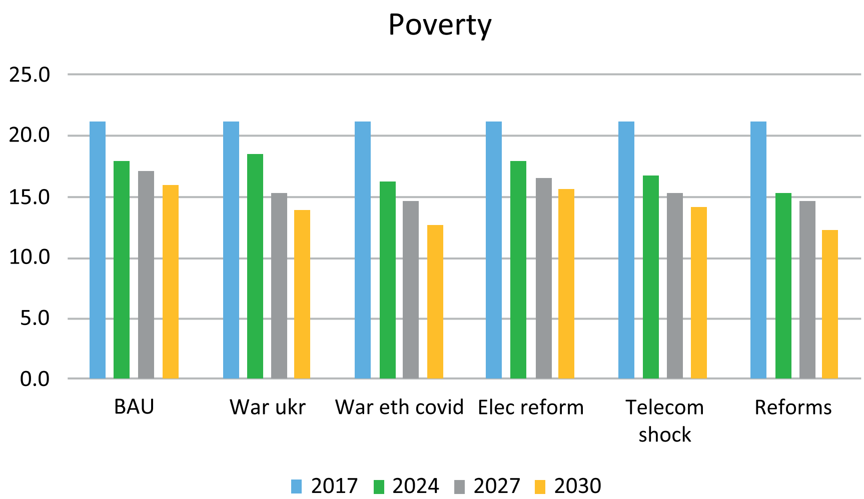


Source : Simulation results

Result #4: These reforms will have a positive impact on poverty reduction, but inequality will remain a major concern.

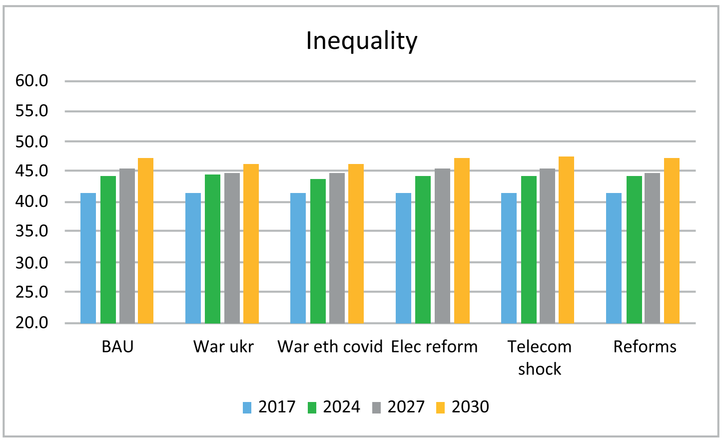
78. The reduction in poverty levels is expected to accelerate significantly if reforms in the electricity and telecommunications sectors are successfully implemented concurrently (Figure 43). This acceleration is attributed to a more substantial increase in household consumption resulting from reduced tariffs. It's worth noting that even in the baseline scenario, the poverty rate tends to decline. In 2017, the national poverty rate stood at 21.1%. According to projections, this rate is expected to decrease to 15.9% by 2030 in the baseline scenario. However, with the joint implementation of reforms in the telecommunications and electricity sectors, this rate could further decline to 12.3%. This represents a one-third reduction compared to the baseline scenario. When analyzed independently, lower electricity prices result in a smaller reduction in the poverty rate by 2030 compared to telecommunications reforms. In a scenario involving reduced telecommunications prices, the poverty rate would be 14.2% in 2030. Conversely, a reduction in electricity prices alone would lower the poverty rate to 15.6%. Despite the decreasing poverty rates, inequality remains a significant concern regardless of the scenario. For instance, Djibouti's Gini coefficient stood at 41 in 2017, one of the highest rates in the MENA region (Figure 44). According to the baseline scenario, this coefficient could rise to 47 by 2030. In each simulation, inequality appears poised to increase, albeit to a slightly lesser extent if joint reforms in the electricity and telecommunications sectors are implemented.

Figure 43: Poverty rates (% of the population)



Source : Simulation results

Figure 44: Inequality (Gini)



Source : Simulation results

11. Policy recommendations to unlock Djibouti's potential.

79. Over the two past decades, Djibouti saw impressive growth, primarily driven by its port sector and strong ties with Ethiopia. This growth, while significant, was largely propelled by an SOE-centered model, hinging on a single sector and one major client. This approach, although initially fruitful, appears to have reached its saturation point. Not only has it imposed challenges to Djibouti's macro framework, but it has also inadvertently suppressed the growth of its private sector.

80. To pursue a forward-looking agenda and unlock new growth opportunities, Djibouti needs to address three key constraints that hinder its progress, as identified in this CEM report: high costs, low human capital, and weak governance. By tackling these challenges, Djibouti can pave the way for a new growth path that capitalizes on its strengths and embraces emerging opportunities.

- First, reducing the high costs associated with electricity and historically with telecommunications services, and an operational ARMD will be instrumental in enabling this to happen is crucial. This step will not only enhance the country's economic competitiveness but also stimulate private sector development and facilitate job creation. By making these essential services more affordable and accessible, Djibouti can attract investment, foster entrepreneurship, and drive sustainable economic growth..

- Second, investing in human capital, particularly in health and education, is of utmost importance. By enhancing the skills and capabilities of its citizens, Djibouti can significantly improve labor productivity, reduce unemployment rates, and promote inclusive economic growth. Through targeted investments in education and healthcare, Djibouti can empower its workforce to meet the demands of the labor market. The fiscal incidence analysis discussed in Chapter 2 on human capital shows that there is room within the fiscal system to bolster social expenditure in a financially neutral manner.

- Third, improving the efficiency of public enterprises and enhancing overall governance are critical steps in creating a conducive business environment. An enhanced business environment would attract more foreign investment and also create greater incentives for the development of local businesses. Several World Bank analytical works, including the 2021 IFC CPSD and the 2018 SCD, have identified key priorities for improving the business environment in Djibouti. These priorities encompass: (a) improving competition regulations and practices, (b) strengthening the protection of property rights, (c) reducing distortion in the tax system, and (d) developing a local financial sector. Fostering healthy competition and ensuring a level playing field, in particular, will encourage innovation, attract investments, and drive sustainable economic development.

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CHAPTER II:
HUMAN CAPITAL AND LABOR MARKET ANALYSIS

Abstract:

Djibouti's economic growth has not led to significant improvements in its labor market, giving rise to concerns about jobless growth. The country faces challenges in creating sufficient job opportunities for its growing labor force, particularly among youth, women, and individuals outside of Djibouti City. The LFP rate in Djibouti is alarmingly low, with 40 percent of individuals aged 15–64 either not employed, or actively seeking employment, or enrolled in education. Unemployment continues to be pervasive, affecting roughly half of the labor force, with 60 percent of those affected being discouraged workers. Djibouti's unemployment rate exceeds three times the MENA region average. Many individuals are employed in inefficient public administration or the informal private sector, which leads to higher poverty rates and limited access to social security for informal sector workers. Numerous constraints contribute to these labor market challenges. On the labor demand side, a robust private sector plays a vital role in absorbing the labor force, enhancing job outcomes and driving overall economic growth. Unfortunately, Djibouti's private sector remains underdeveloped, while capital-intensive sectors dominate the economic landscape, resulting in a shortage of job opportunities within the country. On the labor supply side, Djibouti faces challenges related to its expanding working-age population and human capital. Persistent health issues, including prevalent malaria and low life expectancy, continue to affect Djibouti's population and hinder its economic potential. Although there has been some progress in access to education, low secondary enrollment rate and low education quality hinder filling high-skilled positions. Advanced skills, particularly in STEM fields, remain limited despite increased tertiary enrollment. These factors contribute to significant mismatches in the labor market, with demand for skilled workers and excess supply of low-skilled workers coexisting. A 2020 sector survey revealed that over half of employers in Djibouti face difficulties in finding suitable candidates to fill their job vacancies. In view of these challenges, policy recommendations emphasize equitable investment in human capital, continuing expanding access to quality education, promoting health and adult literacy, and developing job-relevant skills, particularly in labor-intensive sectors like tourism and manufacturing. These efforts will enhance Djibouti's labor market outcomes and support a new growth model that benefits all Djiboutians, especially women and youth. Importantly, these initiatives have the potential to drive higher economic growth, as evidenced by various studies, showing, for example that one percent change in learning can lead to 6.5 percent change in annual growth.

INTRODUCTION

81. Djibouti has experienced strong economic growth, but this growth has been predominantly jobless. While economic growth is generally considered as a positive indicator of a country's economic performance, it does not necessarily translate into more and better jobs. In Djibouti's case, growth has been concentrated in sectors like reexporting, logistics, and transportation, which are not highly labor-intensive. Consequently, job creation has been limited, resulting in high levels of unemployment and underemployment. More broadly, Djibouti's difficulties in creating jobs for its working-age population can be explained by the existence of several constraints weighing both on supply (labor force) and demand (labor demand).

82. This chapter offers a comprehensive analysis of the labor market and human capital landscape in Djibouti, providing insights into alarming features of Djibouti's jobless growth. The chapter is organized as follows: first, it delves into the dynamics of Djibouti's growth and labor market outcomes; second, it explores key constraints related to human capital and labor demand; third, it examines mismatches in skills between the labor market's supply and demand.

A – LABOR MARKET OUTCOMES: DESPITE STRONG GROWTH, DJIBOUTI HAS BEEN FACING CHALLENGES IN CREATING SUFFICIENT JOB OPPORTUNITIES FOR ITS GROWING LABOR FORCE

83. Over the last decade preceding the COVID-19 pandemic, Djibouti experienced a phenomenon of jobless growth, with strong economic output not translating proportionally into employment opportunities "croissance sans emploi", la forte production économique ne se traduisant pas proportionnellement en opportunités d'emploi.[37] Table 1 presents estimated employment elasticity figures for Djibouti and its structural and aspirational peers from 2010 to 2019. [38] The results reveal an employment elasticity of 0.2 for Djibouti, meaning that 1 percent increase in output leads to only 0.2 percent increase in employment. This figure is considerably lower than the employment elasticities of its peers, ranging from 0.3 (Mauritius) to 2.0 (Belize).[39] Notably, Djibouti's output growth has been predominantly driven by rising labor productivity, in contrast to Malaysia and Comoros where employment growth outpaced productivity growth. Singapore achieved a balance between employment and productivity growth, while Belize represents an exception with unproductive employment growth. The combination of low employment elasticity and stagnant labor absorption underscores the existence of jobless growth in Djibouti, at least during the 2010–2019 period. Nevertheless, with a growing working-age population in the country, striking a balance between productivity and employment growth becomes imperative.

[37]The economic literature has coined the phenomenon of GDP growth combined with employment stagnation observed in both developing and developed economies as jobless growth (Verme, et al., 2014; Bhalotra, 1998; Verme, 2006; Wolnicki, 2006).

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Table 3: Employment intensity of output for selected countries, 2010–2019.

Country	Output growth (%)	Employment growth (%)	Labor productivity growth (%)	Employment Elasticities
	(ΔY)	(ΔE)	(ΔP)	(ε)
Belize	1.9	3.9	-1.9	2.0
Cabo Verde	2.6	1.3	1.3	0.5
Comoros	4.6	2.8	1.8	0.6
Sao Tome and Principe	4.2	2.1	2.0	0.5
Djibouti	8.7	2.0	6.7	0.2
Malaysia	5.1	2.8	2.4	0.5
Mauritius	3.7	1.0	2.6	0.3
Singapore	3.8	1.9	1.9	0.5

Source : Penn World Table 10.0; World Bank staff calculations

84. **Employment growth in Djibouti has been insufficient to accommodate the expanding labor force.** Since the period 2010–2019, the annual growth rate of Djibouti's working-age population (2.2 percent) has outpaced the growth rate of the total population (1.7 percent).[40] While this demographic advantage could have had a demographic dividend, the pace of job creation has not matched the growth in labor supply. In fact, although employment elasticity has been positive, albeit low, most of the country's employment growth has been driven by demographic factors.[41] DSimilar patterns are observed among Djibouti's peers, but Djibouti has experienced a decline in LFP, whereas aspirational peers like Malaysia and Singapore have witnessed an increase (Table 2).

Table 4: Decomposition of Employment Growth

Country	Average annual growth (%), 2010-19						
	Employed persons	=	Working-age population	+	Labor force participation rate	+	Share of labor force in employment
Belize	3.85	=	3.15	+	0.43	+	0.25
Cabo Verde	1.27	=	1.83	+	-0.34	+	-0.21
Comoros	2.76	=	2.70	+	0.22	+	-0.16
Sao Tome and Principe	2.12	=	2.18	+	-0.07	+	0.01
Djibouti	2.04	=	2.20	+	-0.28	+	0.13
Malaysia	2.76	=	2.03	+	0.74	+	-0.02
Mauritius	1.04	=	0.77	+	0.11	+	0.16
Singapore	1.88	=	1.49	+	0.33	+	0.05

Source : Penn World Table 10.0; World Bank staff calculations

[40]Population growth estimates are also derived from the Penn World Table 10.0 and are available upon request

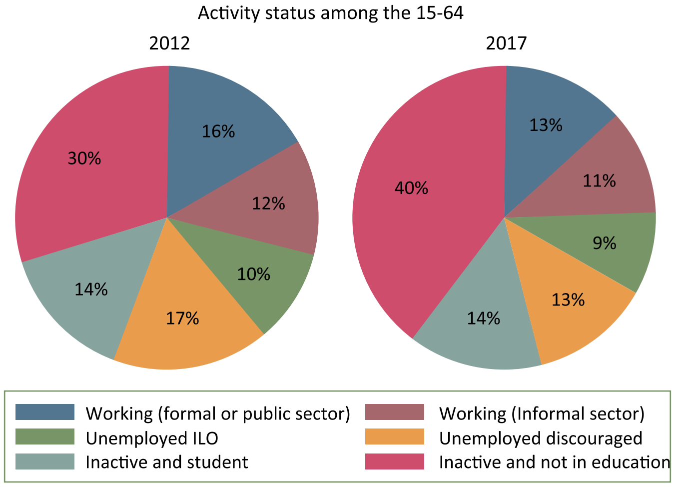
[41]PAssessing the growth of the potential workforce helps to get a full picture of employment growth dynamics. Following Schmid (2002), the growth in employment, ΔlnE, is broken down as the sum of the rate of growth in the working-age population, ΔlnWAP; the rate of growth in the LFP rate, ΔlnLFPR; and the rate of growth in the share of the labor force in employment, Δln(1-U); with U being the unemployment rate. This is expressed in the following equation: $\Delta lnE = \Delta lnWAP + \Delta lnLFPR + \Delta ln(1-U)$.

1. Examining Djibouti's labor force reveals low participation and high unemployment, particularly among women and youth, and a significant share of unproductive employment.

LFP: Djibouti's LFP is remarkably lower than that of its peers and has been declining. This trend is particularly evident among youth, women, and individuals outside Djibouti City.

85. **Djibouti's economy is characterized by a remarkably low LFP rate, which has been declining over time**[42] In 2017, approximately 40 percent of individuals aged 15–64 were either not employed or actively seeking employment, and were not enrolled in education either (Figure 45). Only 25 percent of individuals in the same age group were engaged in the workforce, either in the formal or informal sectors. Additionally, 9 percent were actively searching for employment, 13 percent were discouraged job seekers [43], and 14 percent were inactive due to educational pursuits. Based on recent household surveys (EDAM 2012 and 2017), the number of people outside the labor force increased by 10 percentage points, rising from 30 percent to 40 percent between 2012 and 2017.

Figure 45: Distribution of activity[44] status of population aged 15–64 across time



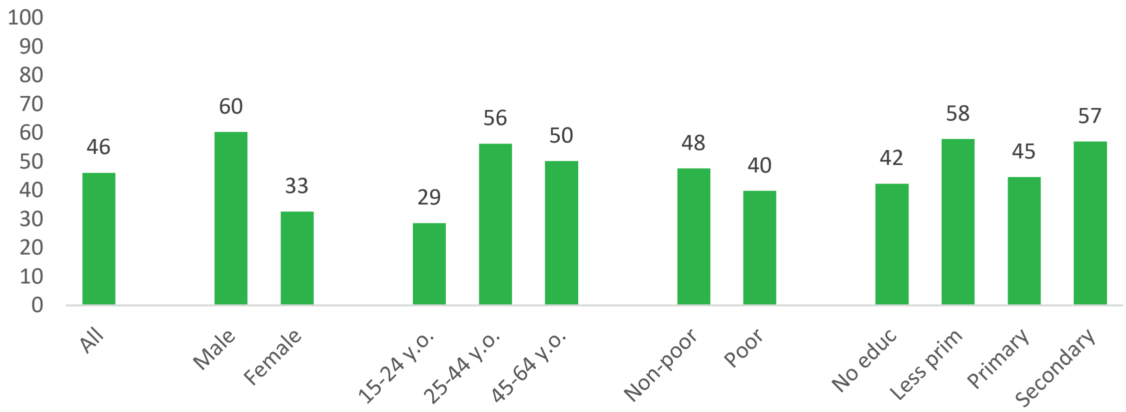
Source : EDAM 2017

[42] The analysis in this chapter is based on the two latest national household surveys (EDAM 2012 and 2017) and comparable data from other countries from the ILOSTAT database. Data for comparable countries is based on national surveys carried out in years nearest to 2017

[43] An unemployed person is considered to be discouraged if they have not taken any steps to find a job or create a productive activity in the last 30 days. In addition to the traditional ANEFIP employment agency, the EDAM2017 questionnaire takes into account the specific context in Djibouti and considers different types of approach such as personal or family relationships, canvassing employers directly, responding to advertisements, taking part in competitions or seeking funding and partners to start a productive activity.

86. LFP varies significantly across demographic groups and geographic regions, with lower rates among youth, women, and individuals residing outside Djibouti City. Data indicates that youth are less likely to participate in the labor force, with less than one third of those aged 15–24 being economically active, compared to more than half of those aged 25–44 and 45–64 (Figure 46). This discrepancy is primarily due to the relatively high proportion of 15–24-year-olds pursuing education (47 percent). According to the Djibouti Ministry of Labour, the international definition of young people (aged 15-24) does not necessarily reflect the reality in Djibouti, where young people finish their studies and enter the labour market later. For example, if we consider the 15-29 age group, the labour force participation rate is 36% instead of 29% for the 15-24 age group. Among women, only one third of those in the working-age bracket participate in the labor force, compared to 60 percent of men. Furthermore, there has been a significant decrease in LFP for both women and men compared to 2012, with a greater decline observed among women, widening the gender gap from 21 percentage points in 2012 to 27 percentage points in 2017. Additionally, individuals residing in urban areas and those who are not classified as poor are more likely to participate in the labor force (47 percent compared to 39 percent for urban/rural areas, respectively; and 48 percent compared to 40 percent for non-poor/poor individuals, respectively). Regional variations in LFP rates are also considerable, with the highest rates observed in Arta and Djibouti City (48 percent) and the lowest rates in Tadjourah and Obock (29 percent and 32 percent, respectively). In these two regions, approximately four out of every five women are not participating in the labor force.

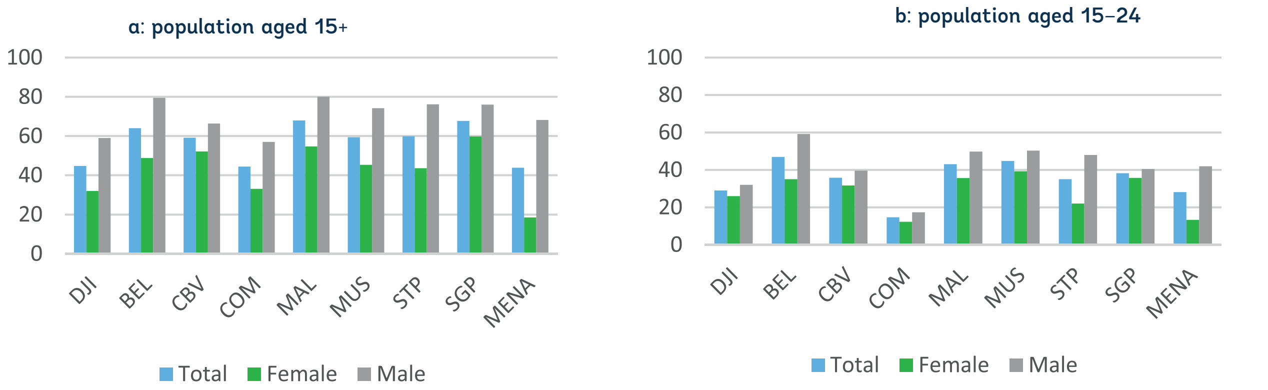
Figure 46: LFP rate of population aged 15-64 across demographic characteristics (%)



Source : EDAM 2017

87. **In comparison to similar countries, Djibouti exhibits one of the lowest LFPs among individuals aged 15+.** While it aligns with Comoros and the MENA regional average, it is significantly lower than other comparator and aspirational countries, where the rate is approximately 60 percent or higher (Figure 47). Furthermore, the LFP among Djibouti youth is one of the lowest among all peer countries, except for Comoros. Only 29 percent of individuals aged 15–24 participate in the labor force in Djibouti, whereas participation rates range from approximately 35 percent in countries like Singapore, Cabo Verde, and Sao Tome and Principe to approximately 45 percent in Belize and Mauritius. This lower LFP can be partly attributed to the proportion of youth pursuing education (47 percent in Djibouti). However, the percentage of individuals between the ages of 15 and 24 attending tertiary education is very low (7 percent), and a majority of individuals discontinue education between age 15 and 18 (70 percent). Additionally, the net enrollment rate for individuals aged 19–24 is only 16 percent. Another group with low LFP are females aged 15 and above, whose participation rates are lower than all comparator countries (although higher than the MENA average, a region characterized by generally low levels of female LFP).

Figure 47: LFP in Djibouti and comparator countries (%)



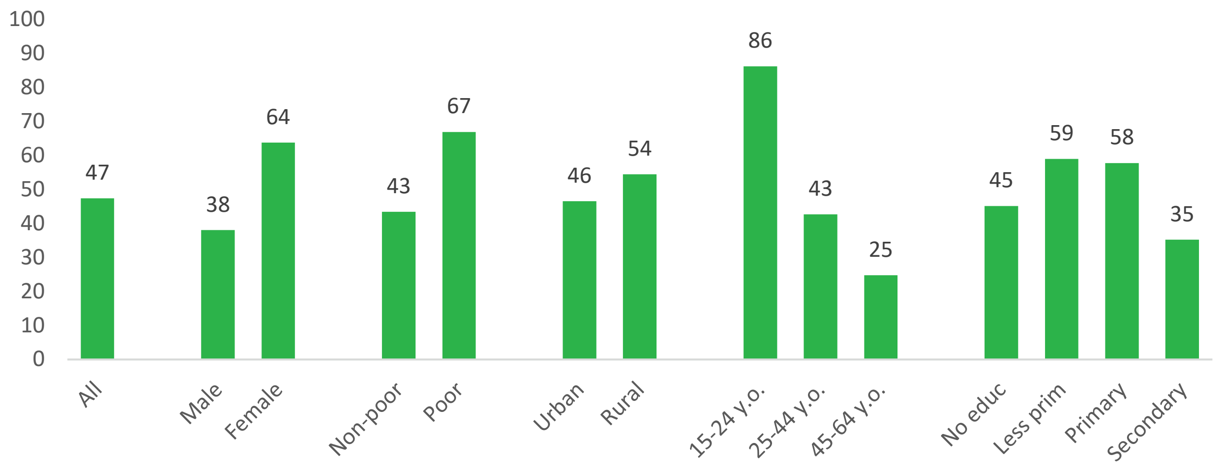
Source: WDI, 2017 except for Comoros (2014). Note: Data are national estimates reported by WDI, except for STP for which there are no national estimates and ILO projections are used. Djibouti estimates comes from EDAM data. The MENA region excludes HICs. BEL = Belize, CBV = Cabo Verde, COM = Comoros, MAL = Malaysia, MUS = Mauritius, STP = Sao Tome and Principe, SGP = Singapore, MENA = Middle East and North Africa

Unemployment: In Djibouti unemployment is persistent and severe, primarily impacting non-educated youth.

88. **Unemployment in Djibouti remains persistent and widespread, impacting approximately half the labor force.**[44] In 2017, the unemployment rate for individuals aged 15–64 was 47 percent, slightly higher than in 1996 (44 percent) but lower than in 2012 (49 percent). This indicates a structural problem, since a significant majority of unemployed have been jobless for over a year. Disparities in unemployment exist based on poverty status, location, gender, and education level (Figure 48). Poverty-stricken individuals are more prone to unemployment, with a rate of 67 percent compared to 43 percent among the non-poor. Unemployment rates are higher in rural areas (54 percent) compared to urban areas (46 percent). Women in rural areas face a wider gap (12 percentage points) compared to men (6 percentage points), potentially due to lower literacy rates, educational attainment, and limited employment opportunities. Additionally, regional variations contribute to the issue, with the lowest unemployment rate in Ali-Sabieh (37 percent) and the highest in Tadjourah (57 percent), potentially attributable to disparities in education levels and limited opportunities in these regions.

[44] Following the national definition of labor market outcomes, the unemployment rate is defined as the proportion of the active population available to work. Thus, this definition includes the discouraged unemployed who are not searching for a job. This definition is different from that of the ILO.

Figure 48: Unemployment rates of active population aged 15–64 across demographic and geographic characteristics (%)



Source : EDAM 2017

89. **Education level plays a crucial role in determining unemployment rates in Djibouti.** The highest unemployment rate is observed among individuals who have not completed primary education (59 percent), while the lowest rate is among the most educated individuals (35 percent for those who completed secondary education). Interestingly, those with no education are less likely to be unemployed compared to those who completed primary education (45 percent versus 58 percent). There is a significant gender gap in unemployment, with a higher rate of 64 percent for females, compared to 38 percent for males.[45] This, coupled with a low LFP rate, resulted in a mere 12 percent of females aged 15–64 being employed in Djibouti in 2017. Although the gender gap has slightly decreased, from 30 percentage points in 2012 to 26 percentage points in 2017, the overall situation has worsened compared to 1996, when the gender gap was just 11 percentage points and 51 percent of females were unemployed (Box 1).

90. **The high rate of youth unemployment in Djibouti is a major concern, with a staggering 86 percent of young people aged 15–24 being unemployed.** As age increases, the unemployment rate gradually declines, with 43 percent among those aged 25–44 and 25 percent among those aged 45–64. Additionally, half of the 15–24-year-olds fall under the category of not in employment, education, or training (NEET), with higher rates among females (54 percent) compared to males (47 percent).[46] This represents an increase compared to 2012, when 52 percent of young women and 39 percent of young men were classified as NEET. Education level strongly correlates with NEET status, since 92 percent of youth with no education fall into this category, compared to approximately 35 percent among those who completed at least primary education. Among peer countries, Djibouti youths are the likeliest to be NEET (Figure 49).

[45] Gender wage gap is not analyzed in this report due to limited availability and poor quality of wage data in the EDAM4 survey and the EDESIC 2015 survey. Specifically, in the EDAM4 (2017) an analysis of the distribution of the hourly wages data showed a large number of outliers. This could be a result of individuals misreporting the unit of time worked (hour, day, week, month) which results in inaccurate calculation of hourly wages.

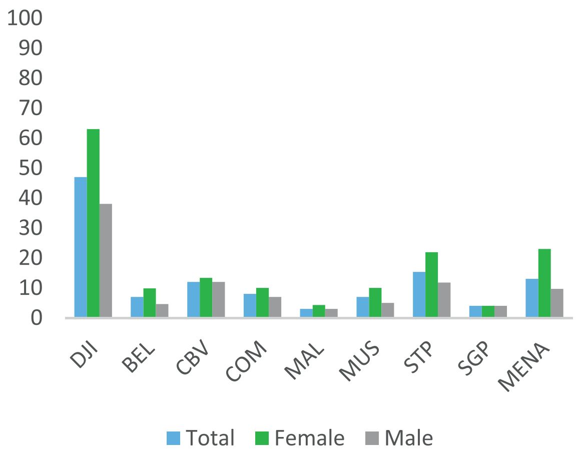
[46] The share of NEET is defined as the percentage of individuals aged 15–24 (the total youth population) who are not in employment, education, or training (ILO and OECD). Those in education include those studying part-time or full-time, but exclude those in non-formal education and those engaged in an educational activity of very short duration. Employment includes all those who have been paid for at least one hour in the week preceding completion of the survey. It also includes all those who have been absent from work on a temporary basis. Therefore, NEET youth are those who are either unemployed or inactive and not in education or training (OECD). Cf ILO's definition: https://data.oecd.org/youthinac/youth-not-in-employment-education-or-training-neet.htm

91. Among unemployed individuals in Djibouti, who comprise half the labor force, 59 percent are considered discouraged and have not actively sought employment, while the remainder continue to actively search for a job.[47] Moreover, a significant 67 percent of unemployed have been searching for work for over a year. Females tend to experience higher levels of discouragement, with 66 percent of unemployed women compared to 52 percent of unemployed men feeling discouraged. The proportion of unemployed females who have been searching for a job for over a year is slightly higher than that of males (69 percent compared to 66 percent). Discouragement in unemployment tends to decrease as education levels rise, with 69 percent of the unemployed without education feeling discouraged compared to 43 percent among the most educated. The risk associated with a high proportion of discouraged unemployed individuals is the acceleration of skill depreciation, loss of competencies, and an increased likelihood of long-term unemployment.

92. Djibouti exhibits the highest unemployment rate among peer countries, surpassing the average in the MENA region. With an unemployment rate of 47 percent, Djibouti's rate is 3 to 3.5 times higher than that of the MENA region (13 percent) and other peer countries (15 percent on average). This trend remains consistent for the active population aged 15–24. In Djibouti, a staggering 86 percent of youth participating in the labor market are unemployed, whereas the youth unemployment rate does not exceed 32 percent in Cabo Verde and averages 29 percent in the MENA region.

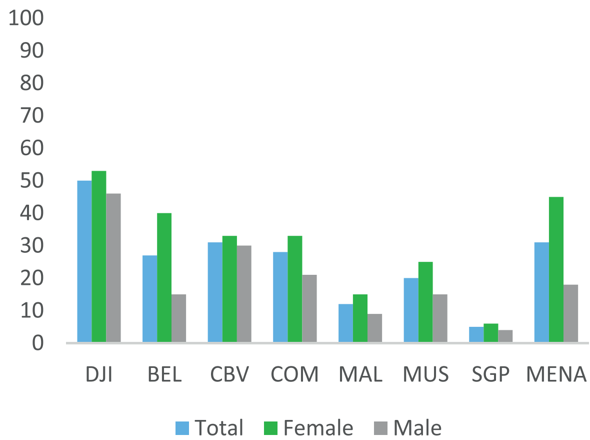
Figure 49: Unemployment and NEET rates in Djibouti and comparator countries (%)

a. Unemployment rates of active population aged 15+



Source : WDI, 2017, except for Comoros (2014) and Malaysia (2018). Data are national estimates reported by WDI, except for Sao Tome and Principe, for which there are no national estimates and ILO projections are used, and for Djibouti for which EDAM is used. Note: The MENA region excludes HICs.

b. Rates of NEET youth aged 15–24



Source: WDI, 2017 except for Comoros (2014). Data are national estimates reported by WDI except for Djibouti, for which EDAM is used. Note: The MENA region excludes HICs. There are no data available for Sao Tome and Principe.

[47] Discouraged unemployed individuals differ from inactive individuals in their willingness and availability to work. Unlike the discouraged unemployed, inactive individuals are not interested in or available to work. The discouraged unemployed differ from other unemployed by not having actively searched for a job in the past 30 days.

Box 2: The Gender Gap

Despite notable progress in women's rights and access to opportunities, Djibouti women continue to face numerous challenges both in developing economic opportunities and acquiring the necessary education to enter the labor force.

In Djibouti, overall LFP is low, but women's participation is particularly limited. Females aged 15–64 have an LFP rate almost half that of males (33 percent compared to 60 percent, respectively). Furthermore, the gender gap in LFP has widened from 21 percentage points in 2012 to 27 percentage points in 2017. The highest levels of women's activity are observed in Djibouti City and Arta, while the lowest participation rates are found in Obock and Tadjourah, where poverty levels are high and educational attainment among women low. Encouragingly, education plays a vital role in improving women's access to opportunities, as the gender gap diminishes with higher levels of education, decreasing from 30 percentage points among the non-educated population to less than 10 percentage points among the most educated.

Half of economically active females are unemployed, and a majority of those who are employed work in the informal sector or are self-employed. In fact, only 11 percent of females aged 15+ are engaged in formal employment. While the gender gap in unemployment decreased between 2012 and 2017, it remains high at 25 percentage points. The highest rates of female unemployment are observed in Tadjourah and Arta, where education and LFP are also lowest. Conversely, the lowest rates of female unemployment are found in Ali Sabieh and Dikhil. Notably, females with no education are less likely to be unemployed than those who completed primary education, indicating a demand for both the uneducated and the more highly educated. Moreover, once unemployed, women are more likely than men to be discouraged and cease active job searching. Unemployed women also tend to search for a job for longer than unemployed men. Even when women have employment, approximately 63 percent work in the informal sector, facing precarious working conditions and lacking access to social security benefits. Women are more likely than men to be freelancers and less likely to be employers or waged workers. However, education serves as a gateway for women to access higher-quality jobs, as increased education levels correlate with higher chances of becoming a waged worker. While Djibouti has made strides in narrowing the gender gap in children's education, girls still have lower school attendance rates than boys, and female illiteracy remains prevalent. Access to and demand for education have improved over time, particularly among younger cohorts.

For instance, 87 percent of girls aged 10–14 have attended school, compared to only 8 percent among women aged 60+. The gender gap in education also narrows across generations, with a 3-percentage point difference between boys and girls in the 10–14 age group, compared to a 26-percentage points difference among men and women in the 25–39 age group. However, significant geographic disparities persist, with rural women and girls having significantly lower school attendance rates than their urban counterparts. While 82 percent of girls aged 6–11 attend school in urban areas, the figure drops to 54 percent for rural areas. Among the 19–24 age group, the rates are 28 percent for urban areas and 5 percent for rural areas. Women also have higher illiteracy rates compared to men (57 percent versus 37 percent), with variations across regions (84 percent of females aged 15+ are illiterate in Tadjourah, compared to 50 percent in Djibouti City). Finally, women's chances of getting a better education than their fathers are not as good as men's (26 percent compared to 46 percent, respectively).

Source : EDAM 2012 and 2017. Djibouti Gender Assessment (2023).

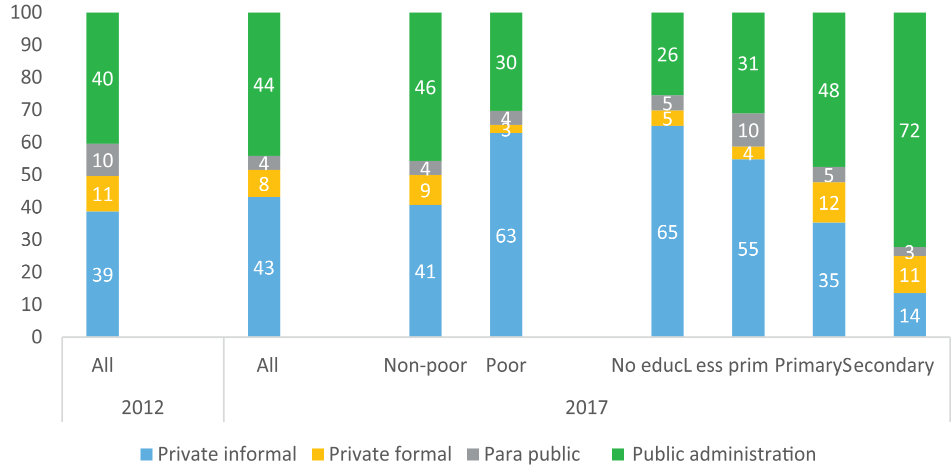
Employment: The majority of the working population in Djibouti is employed in sectors with limited efficiency and productivity.

93. **The majority of the working population in Djibouti is employed in either public administration or the informal private sector.**[48] These sectors have experienced growth over time, with each sector expanding by 4 percentage points between 2012 and 2017 (Figure 50). In contrast, the private formal sector remains small and underdeveloped, employing only 8 percent of the working population, while the parapublic sector accounts for 4 percent of workers. In rural areas, which are home to approximately 20 percent of the population, informality is more prevalent, with 60 percent of the rural working population engaged in informal employment, compared to 41 percent in urban areas. Generally, informal workers face greater vulnerability compared to their counterparts in the formal sector, as they are exposed to higher occupational risks without benefit of occupational safety and health registers and receive limited social protection services. Furthermore, the absence of formal contracts leads to heightened economic uncertainty and instability for informal workers. Djibouti introduced a law in 2019 on the social and solidarity economy (SSE),[49] aiming to alleviate poverty and enhance social protection by promoting job creation and income opportunities in rural areas and formalizing the informal economy. While the impact of this law cannot be assessed with recent data, its effects may have been hindered by the economic shock caused by the COVID-19 pandemic, which may not have been adequately offset by the expansion of social protection programs. Current administrative data do not indicate substantial progress in scaling up social protection initiatives

[48]For those in self-employment, informality is defined as not complying with at least one of these conditions: having (i) accounting records, (ii) a trading license, (iii) a subscription to the chamber of commerce. For those in employment, informality is defined as not complying with at least one of these conditions: (i) having a contract, (ii) being registered for national social security.

[49]https://www.ilo.org/global/topics/cooperatives/sse/WCMS_732087/lang--en/index.htm.

Figure 50: Type of employment of active population aged 15–64 across time, poverty status, And education level (%)



Source :EDAM 2012 and 2017

94. **Workers in the informal sector are generally less educated and poorer than those working in the formal sector.** The majority of informal sector workers (67 percent) have no education, in contrast to 28 percent of workers in the public and private formal sectors. Moreover, less than 10 percent of informal workers have completed secondary education, compared to 42 percent of workers in other sectors. This educational disparity is closely linked to poverty levels, as informal workers are more likely to be classified as poor (15 percent) compared to workers in other sectors (7 percent).

95. **Access to social security is limited, with less than half of the working population covered, and women facing even greater exclusion.** [50]Only 35 percent of employed females are registered for social security, compared to 52 percent for employed males. Additionally, social coverage is lower among rural workers (30 percent) compared to urban workers (49 percent). This discrepancy is strongly related to type of employment, with 91 percent of private formal workers, 76 percent of public administration workers, 42 percent of parapublic sector workers, and only 10 percent of informal sector workers having social coverage. Registration for social security is also influenced by education levels, as 74 percent of individuals who completed secondary school have social coverage, whereas the proportion decreases for workers with lower education levels (27 percent for those with no education). This can be attributed to the availability of formal employment opportunities for individuals with higher education, such as contracts in the formal private or public sectors. However, it is possible that individuals with lower education levels are less aware of the importance of having a contract and being registered for social security. The lack of social security disproportionately affects females, limiting their participation in the labor force, particularly during child-bearing years when access to maternity leave is crucial. A majority of working women (61 percent) are employed in the informal sector without access to social security, compared to 41 percent of men. However, the gender gap in social security registration narrows with higher levels of education, with only a 3 percentage point difference among the most educated individuals, compared to a 22 percentage point difference among those with no education. This suggests that, even when education levels are similar, women may be more likely than men to face precarious employment situations, such as working in the informal sector without a formal contract and lacking social coverage.

[50] Social security in Djibouti includes old age, disability and survivors' benefits, sickness and maternity, work injury, and family allowances. All formal jobs register their workers in the social security system. However, being registered for social security does not necessarily mean belonging to the formal sector, since the formal sector also requires having a formal written contract (in addition to being registered for social security).

96. The public administration and services sector remain the main sources of employment in Djibouti, accounting for a combined 83 percent of the workforce, a figure that has remained unchanged since 2012. In 2017, 44 percent of the working population was employed in public administration, while 40 percent were active in the services sector. The remaining 16 percent of employment is distributed across various sectors, with construction accounting for 4 percent, agriculture and manufacturing each 1 percent, and other sectors representing 9 percent. Among employed women, the majority (58 percent) are engaged in the services sector, while men are primarily employed in the public administration sector (48 percent). The manufacturing sector has the highest proportion of formal workers (24 percent), whereas the construction sector employs the highest percentage of parapublic workers (25 percent). In terms of informality, the majority of workers in all sectors fall into the informal category, ranging from 68 percent to 84 percent, depending on the specific sector. Notably, the agriculture sector has the highest proportion of informal workers, with 84 percent of its workforce classified as informal.

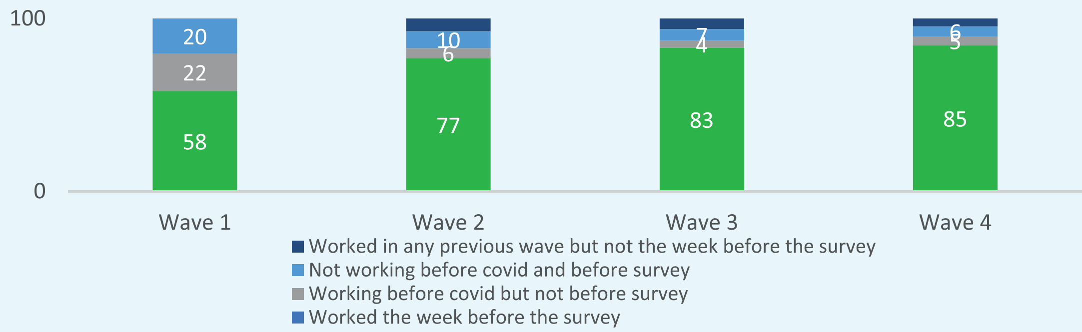
Box 3: The Labor Market in Djibouti during the COVID-19 Pandemic

To monitor the impact of the COVID-19 pandemic on employment outcomes, the World Bank conducted high-frequency phone surveys in four waves from June 2020 to April 2021. While these surveys do not provide comprehensive labor force data, they offer valuable insights into the effects of the pandemic on the labor market.

Following the onset of the pandemic, there was an initial, significant decline in employment. However, by mid-2021, the majority of previously employed individuals had returned to work. Nevertheless, the recovery was not evenly distributed among different demographic groups. In June 2020, approximately one-third of pre-pandemic workers were unemployed; however, by December 2020, nearly all had regained their employment, a trend that continued until the last wave of the survey in April 2021. While Djibouti demonstrates signs of recovery, certain population segments may still be facing challenges. For instance, informal workers experience greater precarity, with a higher likelihood of reduced working hours or of no pay. Among female breadwinners who reported working less than usual or not at all, 66 percent did not receive any pay. In comparison, public sector employees were more likely to report working as usual and receiving full pay. Among households with breadwinners in the public sector, 56 percent reported having sufficient resources for the next 30 days, compared to 32 percent among households with breadwinners in the private sector. Additionally, households identified as poor in the social registry were more likely to report inadequate resources to meet their needs, with 41 percent reporting such challenges compared to 30 percent among non-poor households.

By April 2021, the majority of breadwinners (83 percent) had returned to work and reported working similar hours to pre-pandemic levels, an increase from 53 percent in June 2020. Gender differences were minimal, with female breadwinners slightly more likely to work as usual compared to males (85 percent and 83 percent, respectively), and slightly less likely to be completely out of work (7 percent and 10 percent, respectively). There were variations based on employment sectors, with breadwinners in the public sector more likely to work as usual (88 percent) compared to those in the private formal sector (84 percent) and private informal sector (80 percent). The primary reason for not working as usual was reduced working hours due to limited opportunities, cited by 40 percent of those who reported working less than usual or not at all.

Figure 51: Working Status of Breadwinners (%)



Source: Authors' calculation based on Djibouti COVID-19 phone survey, 1st, 2nd, 3rd and 4th waves. Notes: Statistics are based on cross-sectional proportions and not only a longitudinal sample. Breadwinners are divided into four categories: 1) those working in the week before the survey; 2) those working before COVID-19 but not working in the week before the survey; 3) those who were neither working before COVID-19 nor in the week before the survey; and 4) those who worked during any previous wave but not working the week before the survey.

Source: Monitoring the socio-economic impacts of COVID-19 on Djiboutian households in Djibouti, World Bank (2021

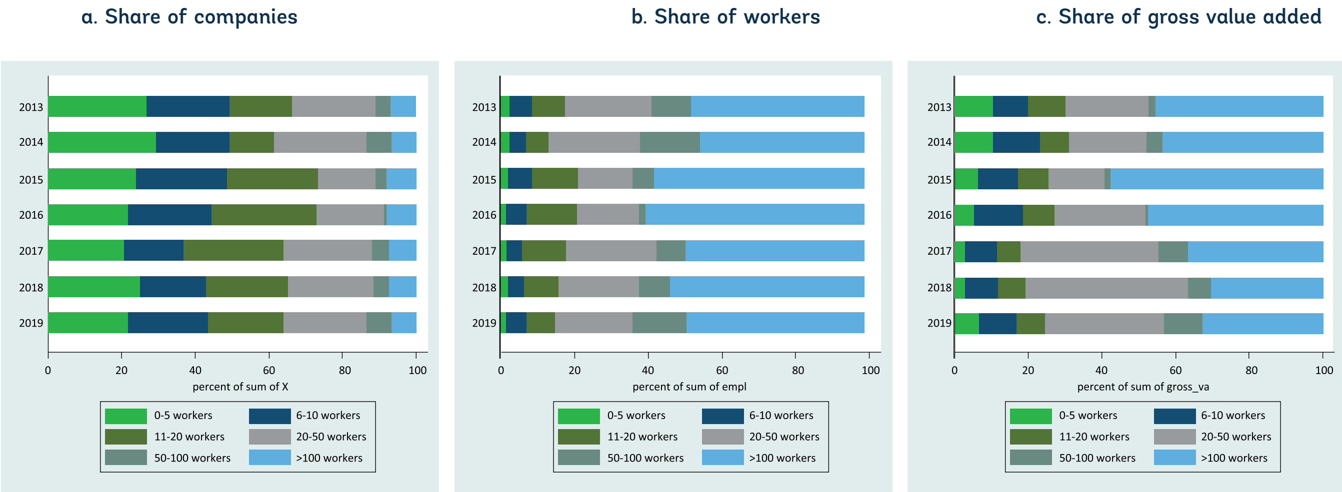
2. Low growth of large companies in Djibouti limits the potential for high-quality, productive jobs.[51]

97. **A well-performing private sector has the potential to drive positive jobs outcomes and contribute to overall economic growth.** While developed countries rely on formal private businesses to enhance productivity and create employment opportunities, developing nations often have a higher proportion of informal sector employment. In Djibouti, waged, formal private sector employment in established companies represents a small fraction of total employment. Moreover, the share of formal contracted employment within these companies is even smaller. Formal private enterprises typically exhibit higher labor productivity due to increased capital and value added, making them capable of offering better jobs. Consequently, addressing critical labor market challenges revolves around generating more high-productivity, formal, private waged jobs and facilitating worker access to them. It also involves establishing connections between informal companies, self-employed individuals, and the value chains or capital associated with formal private enterprises.

98. **In Djibouti, the majority of formal private companies are small, but the majority of jobs are found in medium and large companies (Figures 52). The commerce and transport sectors dominate the formal private sector, together accounting for over half of formal employment.** Approximately 60 percent of formal private companies in Djibouti have between 1 and 19 employees. Interestingly, despite the prevalence of small companies, half the workers in formal establishments are employed by large companies with over 100 employees, which constitute only 7 percent of all companies. Overall, the average size of companies has remained relatively constant between 2013 and 2019. Commerce and transport have the largest presence in terms of both company count and employment share. Commerce represents 16 percent of companies and 31 percent of the workforce in 2019, while transportation accounts for 35 percent of companies and 22 percent of workers. Conversely, the manufacturing sector remains relatively small, primarily comprising food manufacturing companies. Although food manufacturing companies had the highest average size in 2013, this figure has declined over time.

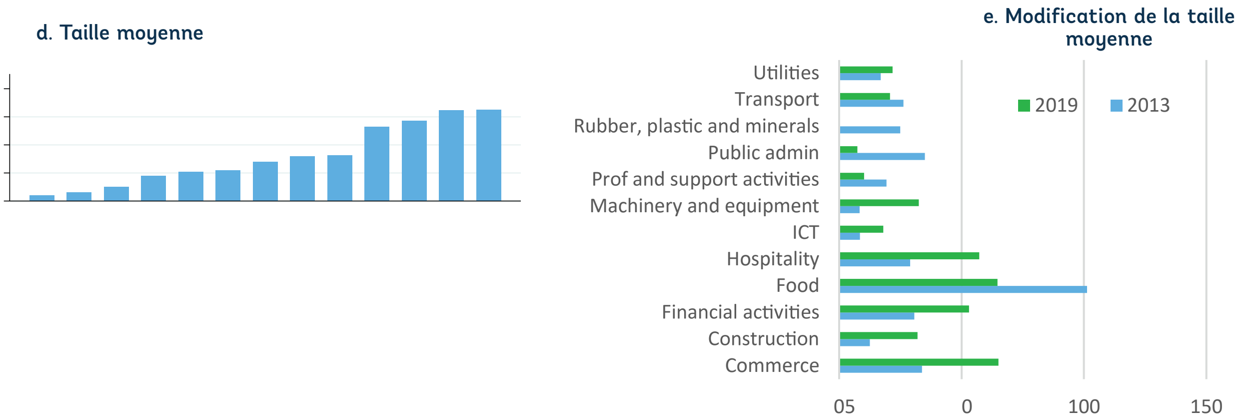
[51] This section analyzes the formal private sector in Djibouti using the ESE. The dataset consists of data for 230 companies in panel form over the period 2013–2019. While this dataset represents only about 2.2 percent of total employment in Djibouti, it accounts for approximately 9 percent of total gross value added. See data coverage details and more graphs in the Annex.

Figure 52: Company Analysis By size of company (formal private sector)



Source : Djibouti ESE database for manufacturing companies

Par secteur (secteur formel)

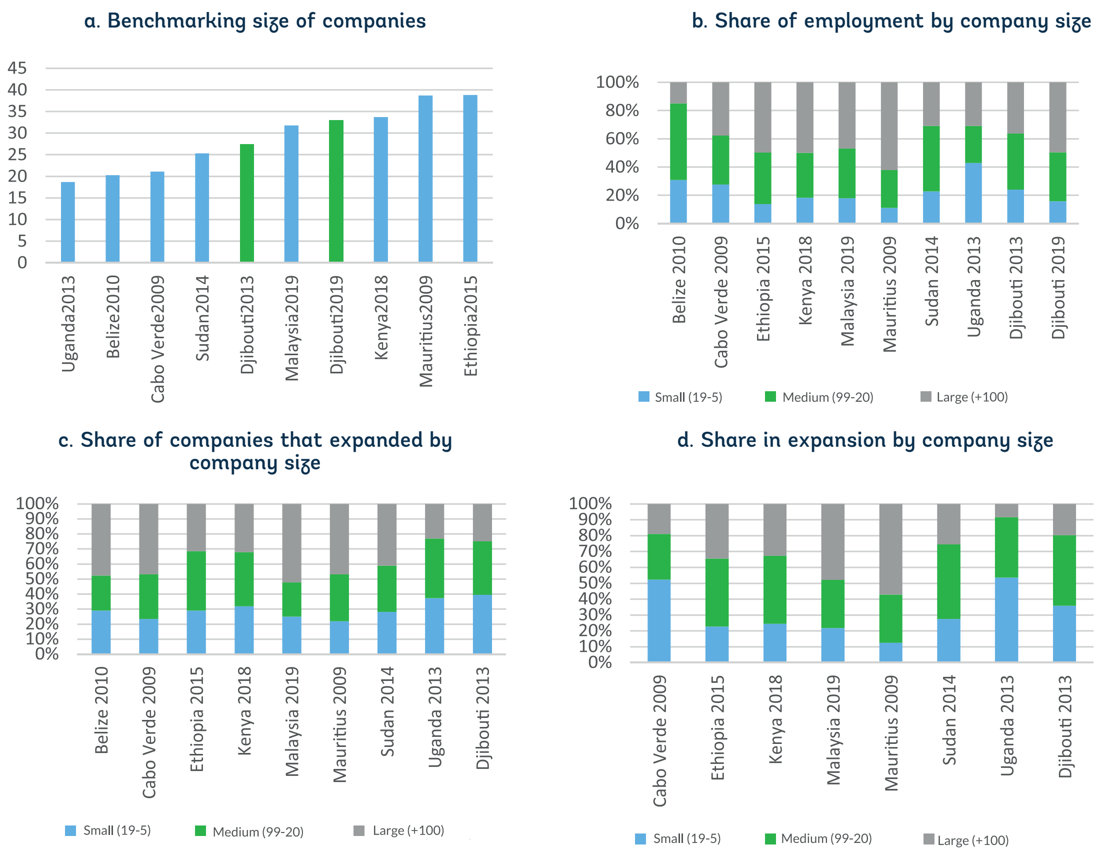


Source : Djibouti ESE database for manufacturing companies

99. Djibouti's company distribution aligns broadly with that of its peers, but the growth of large companies and their contribution to overall company expansion has been comparatively lower. This trend may have implications for the quality of jobs available in the country. While Djibouti's company distribution in terms of average company size and employment share is similar to that of its peers (Figures 53), the proportion of large companies that have expanded and their overall contribution to company growth has been relatively modest. This is significant because large companies have the potential to create more productive and higher-quality jobs. Household and labor surveys indicate that workers in large companies earn hourly wages on average 22 percent higher than those in smaller companies. This wage premium becomes even more substantial in lower-income contexts. It is worth noting that this premium is not solely due to large companies attracting better workers. Research suggests that, even after accounting for worker characteristics and nonpecuniary benefits, large company wage premiums remain close to 15 percent.[52]

[52] Ciani et al., 2020

Figure 53: Characteristics of companies by size in Djibouti and comparator countries



Source: WBES & Djibouti ESE database

B - KEY CONSTRAINTS TO ACHIEVING BETTER LABOR OUTCOMES

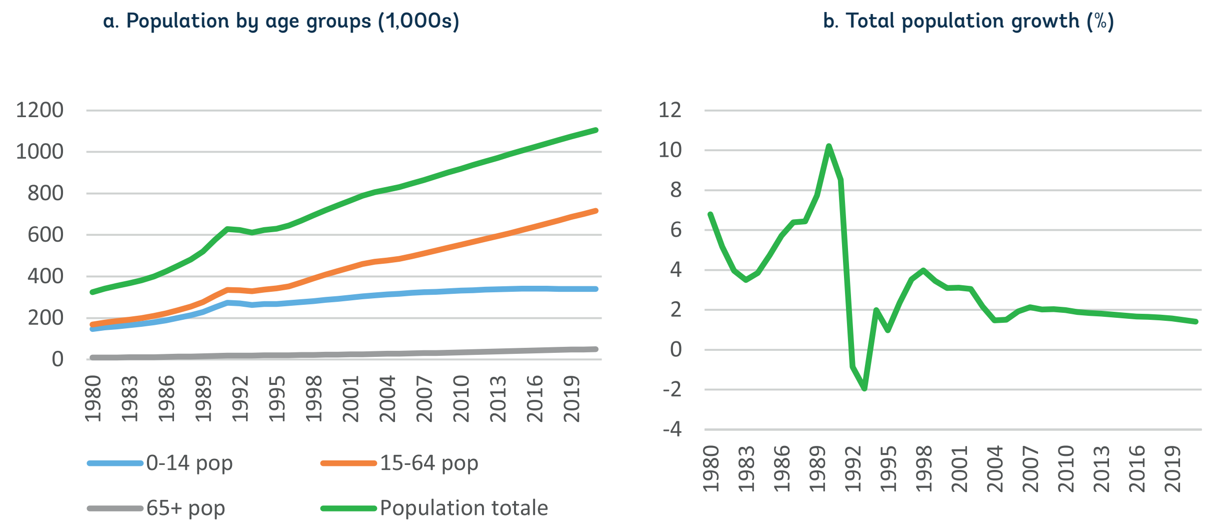
3. Djibouti faces the dual challenge of a growing population and a weak human capital base

Under certain conditions, the expanding population in Djibouti has the potential to be an asset. However, when coupled with the growth of the workforce, this also emphasizes the pressing need to generate new employment opportunities.

100. The relationship between population growth and the labor market in developing countries is intricate and multifaceted. Rapid population growth can have significant implications for the labor market, affecting labor supply and demand, skill levels, and job opportunities. In many developing countries, high population growth rates result in a larger working-age population, leading to a larger labor force. This can strain the labor market, resulting in higher unemployment or underemployment, as job opportunities may not keep up with the growing workforce. Additionally, limited access to education and skills development in countries with high population growth can lead to a less skilled workforce, compromising the quality of employment and hindering ability of workers to secure decent work with fair wages, social protection, and other benefits. However, under favorable conditions, population growth can also create opportunities for economic growth and development by expanding the domestic market, increasing demand for goods and services, and potentially generating more jobs.

101. Djibouti's population has more than tripled over the past four decades, but its growth has slowed since the 2000s. From 324,000 people in 1980, the total population reached 1,105,000 in 2021. However, the growth rate has declined in recent years. While population growth was 6.8 percent in 1980, it stood at 1.4 percent in 2021 (Figure 54). This growth was primarily driven by the 15–64 age group, which saw the steepest increase, compared to the younger and older age groups, which have reached a plateau. Consequently, the composition of Djibouti's population has changed over time. In 1980, children aged 0–14 accounted for 45 percent of the total population, whereas they now represent 31 percent. Meanwhile, the proportion of the oldest age group (65+) has risen from 3 percent to 4.5 percent. The 15–64 age group has increased from 52 percent to 65 percent. Overall, the country's population is aging, and the birth rate has declined compared to previous years.

Figure 54: Evolution of the population



Source : WDI data

102. Djibouti is facing a growing working-age population, which presents both potential for economic growth and challenges in job creation. The ratio of working-age population (15–64 years) to total population has increased over time, from 0.5 in 1950 to 0.65 in 2022 (Figure 55). It is also projected to continue rising in the future, according to population projections from the UN medium-variant method. By 2040, the working-age population is expected to account for 69 percent of the total population, up from 56 percent in 2000 (Figure 56). In comparison, among aspirational peers, the projected proportion for Singapore is expected to reach 60 percent, while Mauritius is projected to reach 65 percent. As for comparators, the range is between 61 percent (STP) and 69 percent (for Malaysia, Cabo Verde, and Belize). The expansion of the workforce in Djibouti requires careful consideration to address the need for job opportunities.

Figure 55: Evolution of population ratios by age group (in % of the total population)

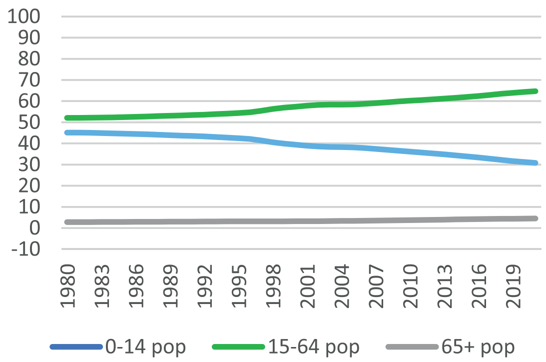
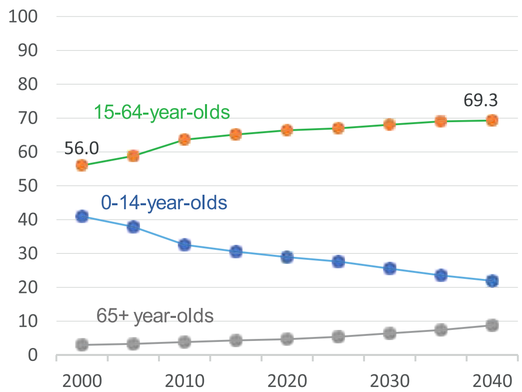


Figure 56: Population projections in % of the whole population (by age group), 2000–2040



Source : WDI data and UN, Population Division, 2019 Revision

103. The country has the potential to benefit from its demographic dividend, but certain conditions need to be met. As fertility rates continue to decline,[53] the proportion of the population aged 0–14 years will also decrease, allowing the country to capitalize on its demographic dividend.[54] It is important to note that a common misconception regarding the demographic dividend is that it relies solely on having a large youth population. In reality, this dividend is only realized with a transition from high birth and death rates to low birth and death rates. Several conditions must be fulfilled for this productive labor supply-based dividend to materialize (Canning et al., 2015). First, there needs to be an improvement in health status, particularly in child health. Second, investments in health and education should be prioritized for the cohorts following the demographic bulge. Last, an enabling economic environment must be fostered to ensure that this bulge cohort can secure well-paying jobs instead of facing unemployment or being forced into low-productivity work. The fulfillment of these conditions is closely tied to the participation of the working-age population in the labor market and to the overall economic conditions that facilitate the translation of growth into job creation.

104. Djibouti experiences migration flows that are a resource but exert additional pressure on job creations. It is estimated that approximately 10–20 percent of Djibouti's population consists of migrants, many of whom have resided in the country for extended periods, or were born there.[55] Although this migrant population lacks official documentation, including permanent residency or refugee status, qualitative evidence indicates their active contribution and participation in the country's economic activities.[56] Sectors such as domestic work and construction, in particular, rely on this population. Considering Djibouti's peace and prosperity, which act as significant pull factors for migration, it is likely that this population will continue to reside in the country and potentially increase in size. While this presents challenges in terms of service delivery and human capital development, it also offers opportunities for cultivating a more dynamic and vibrant labor market.

Health is a pivotal component of human capital and has far-reaching implications for productivity. Persistent health challenges, including rising malaria and low life expectancy, need to be addressed.

105. Health plays a crucial role in human capital and has significant implications for productivity in thelabor market. Poor health outcomes, such as illness, disability, and malnutrition, can have a detrimental impact on labor productivity. For instance, workers suffering from chronic health conditions, such as malaria and malnutrition, may struggle to perform at full capacity, resulting in decreased productivity and lower wages. This not only leads to reduced earnings for individuals, but also lowers the country's overall economic output. Although there is limited data on health in Djibouti, this section utilizes available information to draw conclusions regarding the health conditions of the population that may influence labor market outcomes.

[53] United Nations (2019) projections suggest total fertility (live births per woman) will reach 1.92 in the 2045–2050 period, compared to 4.21 in the 2000–2005 period.

[54] Canning et al. (2015) discuss the fact that the first demographic dividend focuses on labor supply effects of changes in age structure.

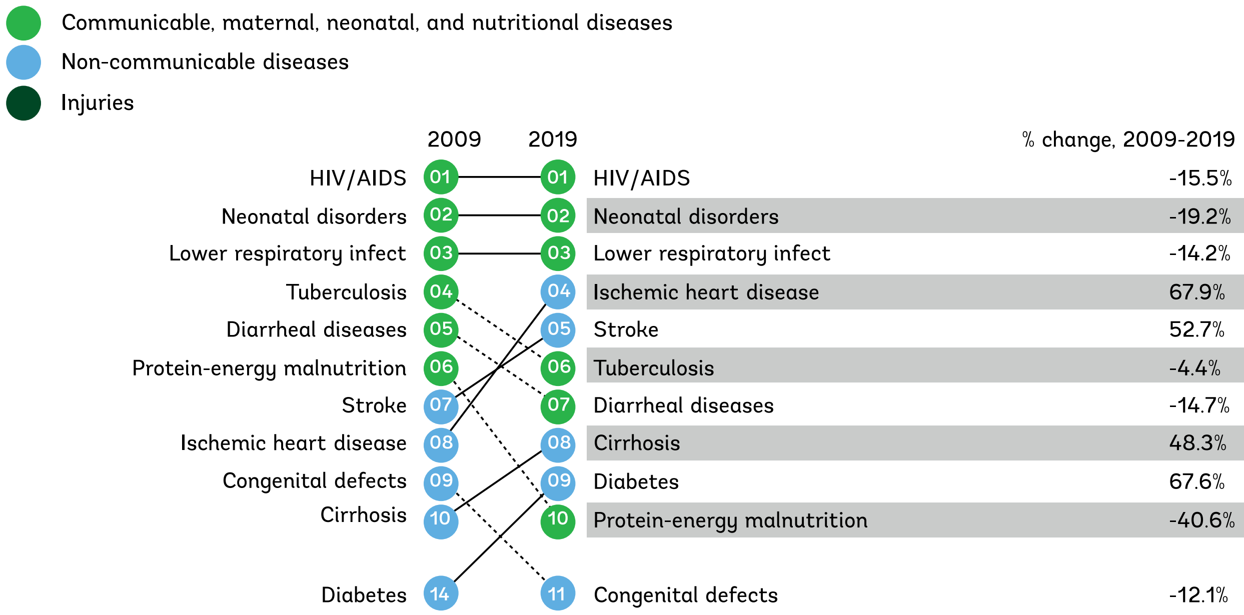
[55] Accurate population figures for the migrant population in Djibouti do not currently exist, but anecdotal evidence and policy reports indicate this population is approximately 200,000 people.

[56] Carried out by the World Bank team [please have a more specific reference behind that important number].

106. Despite increased life expectancy over the past 20 years, Djibouti still lags behind the MENA region and its peer countries by 10 years. While Djibouti's life expectancy at birth rose from 59 years in 2007 to 62.7 years in 2020, it remains lower than the MENA region (73 years) and LMICs (68.6 years). Furthermore, the rate of increase has been slower compared to similar economies, such as Cabo Verde and Belize (World Bank, 2018). Djibouti also faces higher infant and adult mortality rates, indicating a higher incidence of disease and morbidity. A longer life expectancy is generally associated with better economic outcomes, as it signifies the population's improved health, productivity, and overall well-being. It allows individuals to contribute to the labor force for an extended period, leading to increased economic contributions. Additionally, longer life expectancy reduces the burden of disease and disability, resulting in lower healthcare costs and improved productivity. It can also have intergenerational benefits as healthier individuals invest in the education and well-being of future generations. In contrast, lower life expectancy is often linked to higher mortality rates, increased healthcare expenses, and reduced LFP, as seen in Djibouti.

107. Communicable diseases and childhood health conditions, including malnutrition, continue to be dominant health challenges in Djibouti. Although in decline, HIV/AIDS remains a key cause of mortality, contributing to the double burden of disease prevalent in the country. Neonatal disorders and lower respiratory disease are the second and third leading causes of mortality for all age groups, after HIV/AIDS (Figure 57). Furthermore, deaths due to non-communicable diseases (NCDs) such as ischemic heart disease, stroke, cirrhosis, and diabetes increased significantly between 2009 and 2019. Obesity rates are also on the rise, with 18.3 percent among women, 8.6 percent among men, and approximately 5 percent among children. Poor adult health outcomes, including the high burden of NCDs, are in part driven by nutrition and health deficiencies accumulated in early childhood. Water-borne diarrheal diseases exacerbated by climate change, including unpredictable rainfall and rising temperatures, account for 8 percent of deaths among children under the age of 5.

Figure 57: Top 10 causes of total number of deaths in 2019 and % change 2009–2019, all ages combined

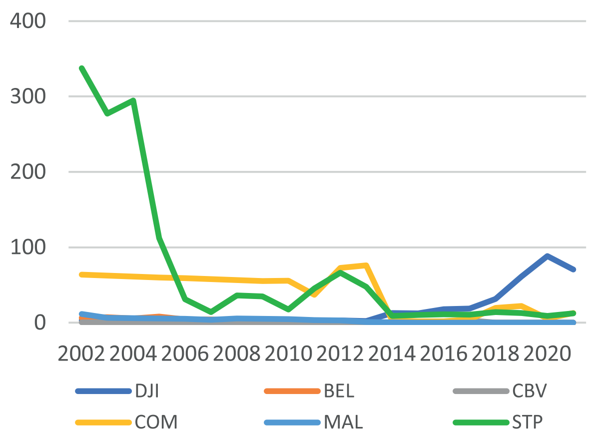


Source : https://www.healthdata.org/djibouti

108. **Malaria has been on the rise in Djibouti over the past few decades, with a prevalence of 88.5 cases per 1,000 population in 2020. Although it has been falling since 2021, it remains the highest among comparator countries** (Figure 58). Malaria, a widespread disease in many developing nations, can have significant negative effects on labor market outcomes. It leads to recurrent illness and absenteeism, resulting in reduced productivity and earnings for affected workers. The physical and cognitive impacts of malaria can also cause long-term health complications, affecting the ability of workers to perform physically-demanding tasks and acquire the necessary skills for higher-paying jobs. Furthermore, the economic burden of malaria treatment and prevention measures can strain household finances, limiting investments in education and productive activities. Overall, malaria contributes to decreased labor market participation, lower productivity, and increased poverty, thereby hindering economic development in affected areas. Implementing effective prevention strategies, such as insecticide-treated bed nets and public health awareness, along with appropriate treatment measures, could have significant impact for improving labor market outcomes in Djibouti.

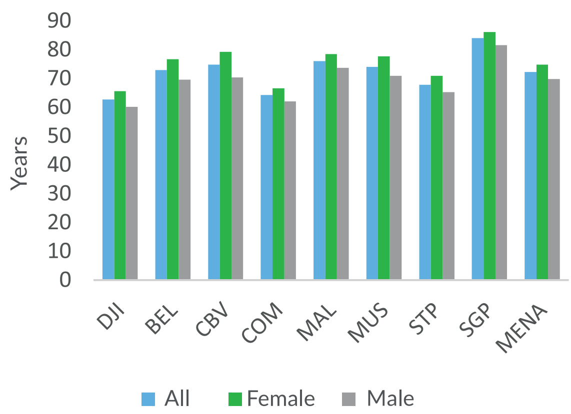
Figure 58: Malaria incidence and life expectancy in Djibouti and comparator countries

a. Malaria incidence over time (2002–2021)



Source : WDI for comparator countries with available data.

b. Life expectancy at birth (2020)



Source : WDI data, year 2020
Note: The MENA region excludes HICs.

109. **The incidence of HIV in Djibouti has fallen from 0.55 per 1,000 uninfected population in 2007 to 0.13 in 2021.** However, for the population aged 15–49, the incidence rate increases slightly to 0.19. Djibouti's HIV incidence is higher than that of Sao Tome and Principe (0.05) and Comoros (0.01), but lower than the rates in Belize (0.42) and Cabo Verde (0.24). There has been significant progress in closing the gender gap in HIV incidence over the past two decades, reducing it from a difference of 1 point to 0.01 point. However, according to the World Food Program (2019), the infection rate remains higher for females, at 1.5 percent, compared to 1.1 percent for males. Among youth aged 15–24, the prevalence of HIV is higher for females (0.2 percent) than males (0.1 percent), which is similar to the situation in Belize (according to 2021 WDI figures). In contrast, other peer countries, particularly those in the MENA region, show no gender difference in terms of HIV prevalence.

110. In Djibouti, the national prevalence of disability rate stood at 8.5 percent in 2019. [57] The prevalence is slightly higher in women than in men, with rates of 9 percent and 8 percent, respectively. Among the different regions, Ali Sabieh has the highest prevalence of disability rate, at 13 percent, followed by Obock at 11 percent. Dikhil has the lowest rate, at 3.5 percent. The data also reveals a significant disparity in the prevalence of disability based on education levels. Individuals who have never attended school exhibit a prevalence of disability rate of 13 percent, which is twice those who have received some form of education (ranging from 5 percent to 6 percent, depending on the level of schooling). This suggests that disability acts as a barrier to accessing education. Furthermore, the prevalence of disability among inactive individuals is 16 percent, compared to 3 percent among the unemployed and 5 percent among the employed population. These findings indicate that disability may hinder the inclusion of individuals with disabilities in the labor market. Overall, the evidence suggests that disability poses obstacles to both education and labor market participation in Djibouti.

111. Across the county, poor nutrition outcomes for children are pervasive and often linked to the incidence of diarrheal diseases in childhood and an increased risk of NCDs in adulthood. Undernutrition accounts for 57 percent of deaths among children under the age of 5; it is widespread with no gender differentials, with 17 percent underweight and 25 percent stunted. The stunting rate is higher among rural children (34 percent) than urban children (19 percent). Some lagging regions experience a higher burden of stunting: 40.2 percent, 33.3 percent, and 32.6 percent in Obock, Dikhil and Tadjourah, respectively. UNICEF-WHO-WB Joint Child Malnutrition Estimates indicate a substantially higher rate of stunting (34 percent) than found by the Djibouti 2019 SMART survey (20.9 percent). The rate of stunting in Djibouti has been above 20 percent for the past 20 years and is significantly higher than in the MENA region (16 percent), even excluding HICs (17 percent), and consistent with other countries in the Horn of Africa (36 percent).

112. Access to and quality of care are concerns in Djibouti, as reflected in the low Healthcare Access and Quality Index of 35. High-functioning health facilities are few and there are significant urban-rural disparities in service coverage. Only 44 percent of health facilities are equipped for Basic Emergency Obstetric and Newborn Care (BEmONC), and just 5 percent have Comprehensive Emergency Obstetric and Newborn Care (CEmONC) capabilities. This is linked to high levels of maternal mortality (248 maternal deaths per 100,000 live births – five times higher than in other MENA countries, with 53 per 100,000 live births). Djibouti's under-5 mortality rate of 58 deaths per 1,000 live births is almost three times higher than the MENA average of 20. Meanwhile access to high-performing services at community and primary care levels is limited. Quality of care is a particular concern: the maternal mortality rate remains high despite high, skilled birth attendance, and the timeliness of patient-centered care is a pervasive problem.

113. Significant disparities exist in access to healthcare between rural and urban areas. Only 32 percent of the rural population mentioned using health services when needed, in contrast to 58 percent among their urban counterparts. Regional variations further highlight these discrepancies. The utilization of health services when needed was reported by at least 50 percent of individuals residing in wealthier regions, such as Djibouti City, Ali Sabieh, and Arta, whereas this figure dropped to 23 percent in Dikhil and 36 percent in Tadjourah, the two poorest regions of the country. Moreover, there is a notable disparity in healthcare access between poor and non-poor populations, with 43 percent of individuals classified as poor reporting use of health services when needed, compared to 56 percent among the non-poor segment. On average, women were slightly more likely than men to utilize health services when needed, with rates of 55 percent and 52 percent, respectively. These variations in healthcare utilization highlight the importance of addressing disparities in access to ensure equitable healthcare delivery for all individuals in Djibouti.

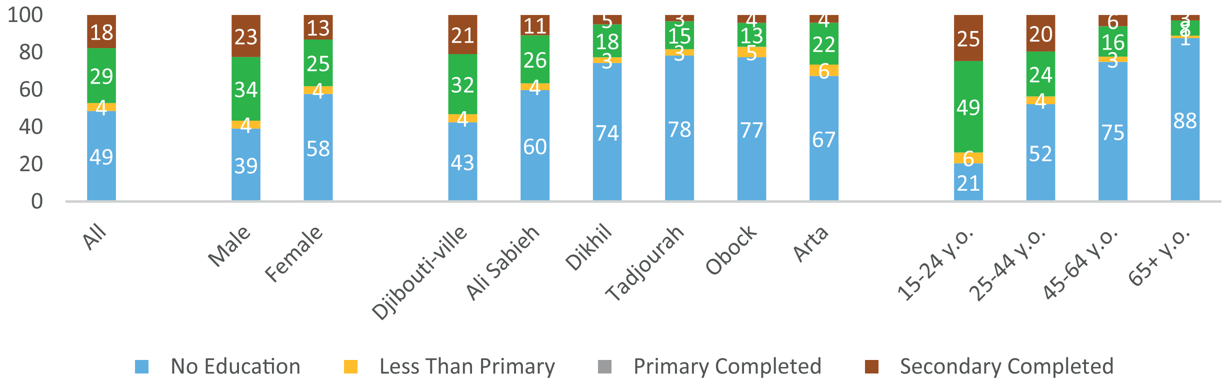
[57] According to l'Enquête Nationale de Prévalence des Handicaps (ENPH) carried out in 2019 by the National Agency for Persons with Disabilities and the Institute of National Statistics (INSD).

114. The prevalence of female genital mutilation (FGM), despite being illegal, remains one of the highest in Africa (93 percent) and is a strong impediment to women's human and economic development opportunities.[58] One of the five priorities set out in the Government's Djibouti Vision 2035 is improving access to and quality of health care, including sexual and reproductive health, and ensuring that everyone can exercise their reproductive rights. However, despite the adoption of a special law criminalizing FGM and the Government's efforts to fulfill its national, regional, and international commitments to eradicate the crime, the prevalence of FGM remains one of the highest in Africa, and in the world, and poses serious threats to this national priority. Moreover, the medicalization of FGM remains an issue, with 20 percent of FGM performed by health professionals, and health care costs directly attributed to FGM are approximately USD 1.13 million per year.

Djibouti has made progress in enhancing educational opportunities; however significant hurdles remain, including low enrollment rates and low education quality

115. Djibouti faces a significant shortage of human capital in education, which directly affects the country's ability to meet the demand for high-skilled jobs. Approximately 50 percent of the population aged 15+ have received no formal education. This percentage rises to 60 to 78 percent in the outer regions of the country, excluding Djibouti City, where the rate stands at 43 percent (Figure 59). Furthermore, 29 percent of the population aged 15+ have only completed primary education, while 18 percent have completed secondary education. According to EDAM 2017, there is notable gender disparity in educational attainment, with 23 percent of men having completed at least a secondary education, compared to just 13 percent of women. However, these has not captured ongoing reforms to improve access, retention and quality Moreover, individuals living below the poverty line are much more likely to have never attended school, with 63 percent in this category, compared to 40 percent among the non-poor population. This limited stock of human capital directly impacts the supply side of the labor market, making it challenging to meet the demand for high-skilled positions. The shortage of education and skills in Djibouti highlights the need for concerted efforts to improve access to education and enhance the quality of educational opportunities. By addressing these issues, Djibouti can strengthen its human capital base and better equip its workforce to meet the demands of high-skilled jobs.

Figure 59: Educational attainment among the 15+ population by demographic and geographic characteristics (%)

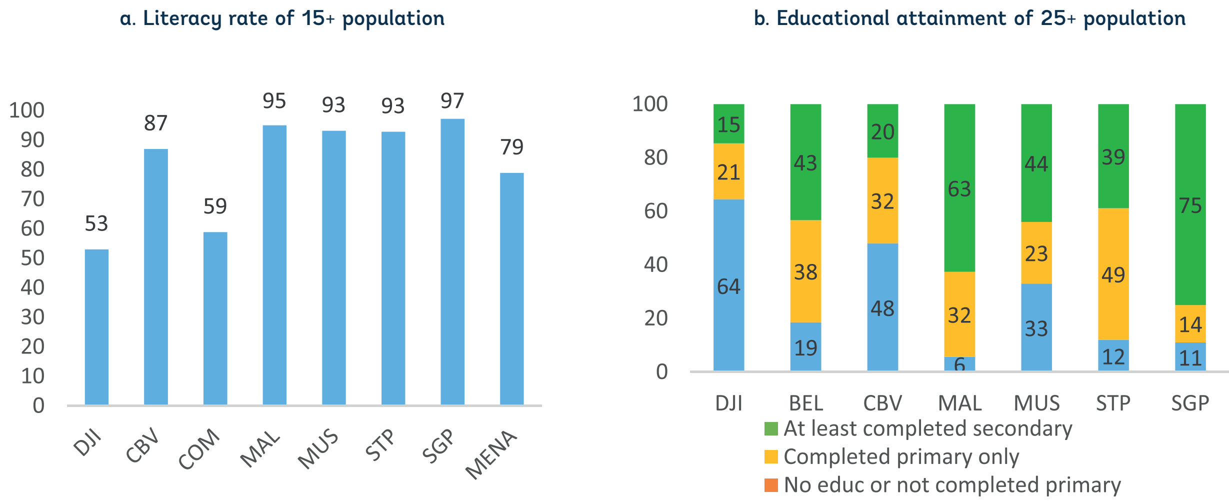


Source : EDAM 2017

[58] Djibouti prohibits the practice of FGM in Article 333 of the Penal Code, which criminalizes and punishes its performance. Subsequent amendments to the law have included criminalizing failure to report FGM and aiding and abetting the practice. .

116. Djibouti's literacy rates are significantly lower than its peer countries, posing limitations on accessing jobs that require medium- or higher-level skills and hindering the growth of sectors that rely on basic literacy. In 2017, the literacy rate in Djibouti was 53 percent of the population.. In comparison, peer countries such as Cabo Verde had literacy rate of 87 percent, while Malaysia had rates as high as 95 percent. Model peers countries like Singapore had achieved remarkable literacy rates of up to 97 percent (Figure 60). Only Comoros had a comparable literacy rate with Djibouti. Notably, there is a significant gender gap in literacy, with female literacy rates in Djibouti falling well below those of all comparators and the MENA average. According to 2020 INSTAD statistical yearbook, Female literacy was at 53 percent, whereas male literacy was 67 percent, representing the widest gender gap in literacy among comparators. This highlights the urgent need for Djibouti to prioritize investment in adult literacy programs and strive to achieve universal basic literacy. Improving literacy rates is crucial for Djibouti to enhance the employability of its population, especially in sectors that require foundational literacy skills. By investing in comprehensive adult literacy initiatives, Djibouti can bridge the gender gap and empower individuals with the necessary skills to participate fully in the economy and society.

Figure 60: Literacy rate and educational attainment in Djibouti and comparator countries (%)



Source : WDI data, year 2017, except for Cabo Verde (2015), Comoros (2018), Mauritius (2016), and Sao Tome and Principe (2018).
Note: The MENA region excludes HICs. No data is available for Belize.

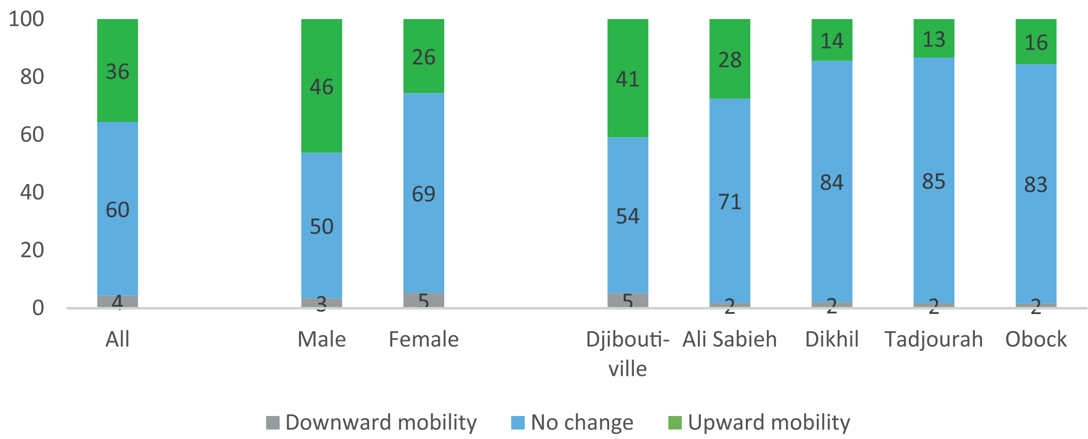
Source : WDI data, year 2017 for Belize and Singapore, 2015 for Cabo Verde, 2019 for Malaysia, 2011 for Mauritius and 2012 for Sao Tome and Principe. Data for Djibouti comes from the EDAM database. Note: No data are available for Comoros and the MENA region.

117. There has been a positive trend in improving access to and demand for education in Djibouti, particularly among younger cohorts, who are more likely to attend school than older generations. Among the 10–14 age group, 88 percent have had some schooling. However, this proportion gradually decreases with age: 80 percent for the 15–24 age group, 48 percent for the 25–44 age group, 25 percent for the 40–64 age group, and only 12 percent for those aged 65+. Furthermore, the gender gap in education has shown signs of narrowing across generations. Among the 10–14 age group, the difference in educational attainment between men and women is only 3 percentage points, while it widens to 25 percentage points among the 25–44 age group. This indicates an improvement in educational outcomes for younger cohorts, suggesting that Djibouti is gradually building a stronger human capital stock for the future. This positive trend is further supported by the fact that 36 percent of the population aged 25+ have experienced upward educational mobility compared to their fathers.[59] This demonstrates the potential for further improvement in workforce skills and human capital development. However, targeted education and training programs are necessary to accelerate the pace of skills improvement in the current workforce. These initiatives should focus on strengthening foundational skills and providing specific skills required to meet labor demand in Djibouti's priority sectors. By continuing to invest in education and skills development, Djibouti can foster a more educated and skilled workforce, leading to improved labor market outcomes and sustainable economic growth.

118. Djibouti's development approach has been primarily centered around the capital, resulting in limited increase of human capital in other regions of the country. While it is true that most of the population resides in the capital (approximately 80 percent), the regions outside the capital face significant challenges in terms of educational outcomes. For instance, Djibouti City is the only region where more than half the population is literate, with a literacy rate of 59 percent. In contrast, only 21 percent and 23 percent, respectively, of the population in Tadjourah and Obock, have basic literacy skills. The educational disparities between urban and rural areas are stark, with around 83 percent of the rural population aged 15+ having no education, compared to 43 percent among the urban population. Moreover, only 11 percent of individuals in rural areas have completed primary education, while the rate is 32 percent in urban areas. The gap widens further when it comes to secondary education, as urban individuals are ten times more likely to have completed secondary education (20 percent) compared to their rural counterparts (2 percent). The rural-urban educational divide is exacerbated by higher poverty rates in rural areas, and limited access to educational services due to geographical distance. For instance, secondary schools in Djibouti are predominantly located in cities, making it more challenging for rural residents to access education. Similarly, intergenerational mobility in education is considerably lower in the regions compared to Djibouti City. While 41 percent of individuals in Djibouti City have experienced upward educational mobility compared to their fathers, the proportion ranges from 15 percent in Tadjourah and Dikhil to 28 percent in Ali-Sabieh (Figure 61). However, there is some positive indication of improvement in educational mobility across generations, particularly among younger individuals (aged 25–39). They are much more likely than older individuals (aged 60+) to experience upward educational mobility, with 46 percent achieving such progress compared to 16 percent, respectively. This suggests a positive trend in educational advancement among younger cohorts. To address regional disparities and ensure equal access to quality education, Djibouti must invest in education infrastructure, expand opportunities, reduce poverty, and improve access to educational services. This will foster educational mobility and enhance human capital development nationwide.

[59] Intergenerational mobility in education is the educational attainment of a child compared to that of their parents. Educational mobility is downward if the educational level of the child is lower than that of the parent, upward if it is higher, and no change if it is the same. Educational mobility in comparison to fathers is presented here in the knowledge that educational mobility compared to mothers is quite similar. However, educational mobility compared to mothers is naturally greater, given the low educational levels amongst women in older cohorts.

Figure 61: Educational mobility compared to fathers by gender and location



Source : EDAM 2017

119. Strengthening Djibouti's social protection systems to make them more, adaptive, effective, and efficient in protecting the poor and most vulnerable is imperative. Currently, the country's social protection system is fragmented, consisting of 14 programs that target different groups. Among the key programs in place are the universal health care program Programme d'assistance sociale de santé (PASS); social housing provision; microfinance initiatives; access to electricity; the national cash transfer program Programme National de Solidarité Famille (PNSF); programs for children from rural areas and other vulnerable households; and the program for children with special needs. As of the end of 2022, the social protection system covered about 102,591 households, representing a significant increase from 73,000 households in 2020 and 17,444 in 2021.

120. The social protection system has evolved in recent years with the establishment of a social registry that facilitates expansion of the national safety net program. This expansion aims to increase coverage and support for the poor and vulnerable populations. The social registry integrates different government programs, such as the National Program for Solidarity and Family cash transfer program (Programme Nationale de Solidarité Famille – PNSF), subsidized healthcare, and social housing. In addition, the social registry includes biometric information on enrolled beneficiaries, who are issued national ID cards. The coverage of the social registry is estimated to encompass approximately 50 percent of the population, approximately 200,000 households, including many of the poorest and most vulnerable households. Coordination through the social registry enables the Government to reduce duplication of benefits, progressively improve the quality of targeting, and develop a holistic view of the interaction of programs at the beneficiary level.

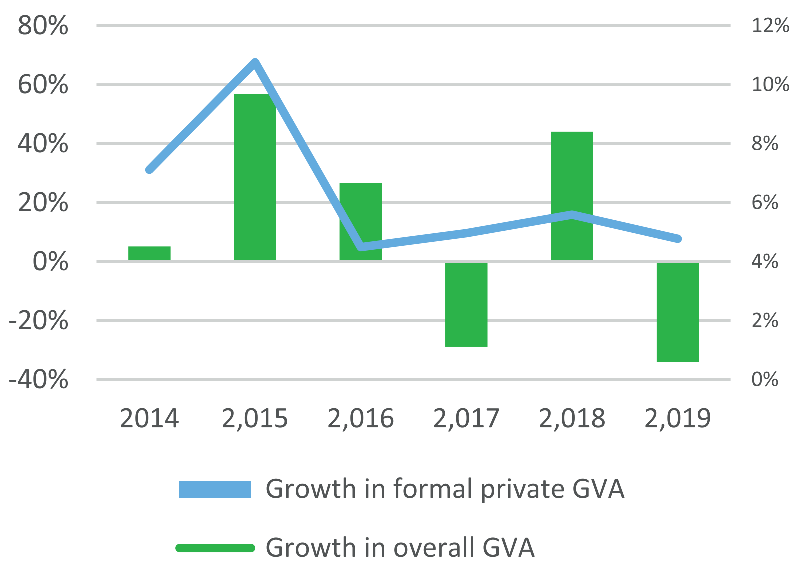
4. Djibouti's public sector and poor business environment have led to an underdeveloped private sector with low quality jobs.

Trends in economic transformation and employment in the formal private sector

121. Djibouti's underdeveloped private sector and challenging business environment have hindered the creation of quality jobs. The public sector, which is already oversized, has not been able to generate enough new employment opportunities or sustain existing private sector companies. From 2014 to 2018, approximately 59 percent of jobs were provided by the public sector, primarily through SOEs.[60] Economic growth has been driven by capital-intensive investments in ports and related activities, resulting in limited spillover effects. Moreover, the scarcity of domestic skills has led to expatriates filling many of the positions created. It is essential to update both soft and hard skills to promote diversification and enhance productivity. The competitiveness of the private sector is further impeded by high costs, inadequate quality, and limited availability of public services. Utilities coverage in some urban areas remains insufficient, while access to credit is constrained despite a relatively liquid banking sector, resulting in high borrowing costs. Starting a business is primarily funded through private savings (96 percent), and the process is hindered by lengthy procedures for obtaining building permits, registering goods, and engaging in cross-border trade. [61]

122. In Djibouti, the increase in employment within the formal private sector has been minimal (Figure 62). In a robust and expanding economy, the growth of output, value added, and employment within the formal sector should outpace the growth of the wider economy. Yet, in Djibouti, the growth of the formal private sector has mirrored the trends observed in the overall economy.

Figure 62: Real GVA growth in the overall economy vs the formal private sector



Source : Djibouti ESE database and UN data

[60] https://documents1.worldbank.org/curated/en/099032923063017240/pdf/P17669000fb226060be7b00b7ab35d0149.pdf.

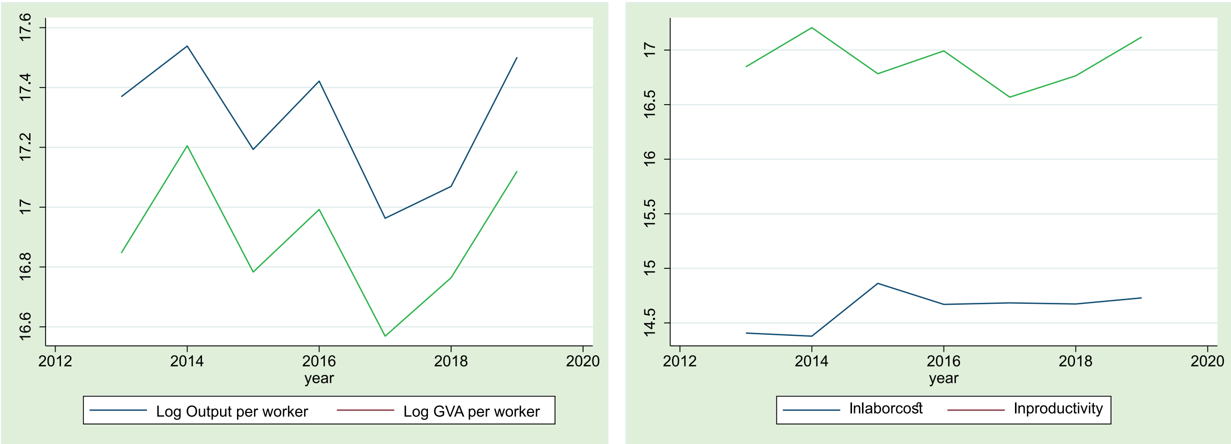
[61] IFC Private sector Diagnostic Figure 11 Sources of initial and last funding for MSMEs.

123. **Additionally, a noticeable gap can be observed between labor productivity and formal unit labor costs** (Figure 63). In a healthy economy, with a majority of jobs in highly productive companies offering higher wages, labor productivity should align with unit labor costs. However, this alignment has not been observed in Djibouti.

Figure 63: Labor productivity and growth over time

a. Labor productivity over time

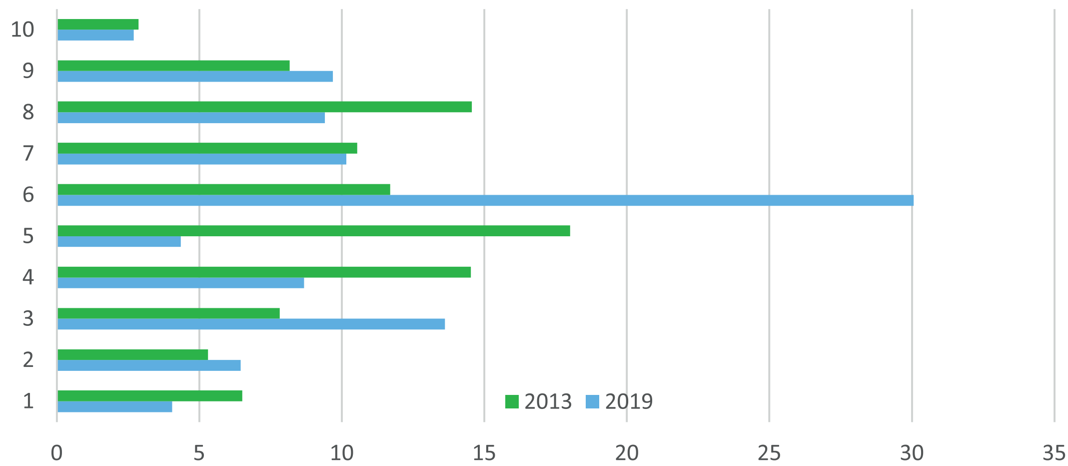
b. Average labor productivity growth and growth in unit labor costs (wages/employment)



Source : Djibouti ESE database

124. **Despite a slight increase in the share of formal employment, there has been no significant shift towards more productive companies in Djibouti.** The concentration of economic activity and employment remains in low productivity sectors such as commerce and transport. There has been a lack of output and input reallocation from less productive to more productive businesses, which typically drives total factor productivity and labor productivity growth (Figure 64). This weak structural transformation has hindered Djibouti's ability to improve its productivity levels and achieve sustainable economic development.

Figure 64: Employment share by productivity deciles over time



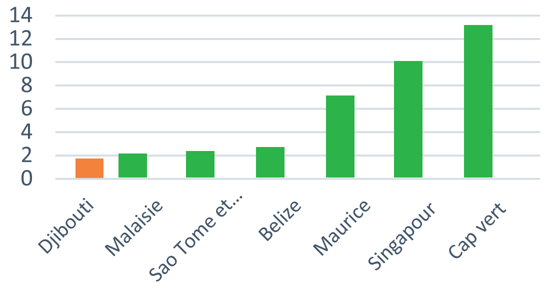
Source : : Djibouti ESE database

Company level growth dynamics and job outcomes

125. **The evidence indicates that Djibouti's formal private sector is experiencing stagnation. Comparatively, company entry density in Djibouti in 2019 was significantly lower than that of its peers** peers (Figure 65). Moreover, company level data suggest that, in Djibouti, companies, regardless of size, do not grow over time. Approximately a quarter of medium-sized companies with 6–50 workers have remained the same size over a period of 6 years.

Figure 65: Entry density and transition matrix

a. New business density in 2019 (new registrations per 1,000 people aged 15–64)



Source: WDI (2019)

b. Transition matrix 2013–2019 (number of workers)

	Sorti	0-5	6-10	11-20	20-50	50-100	>100
0-5	88	13	-	-	-	-	-
6-10	70	-	20	10	-	-	-
11-20	29	-	21	29	21	-	-
20-50	55	-	-	10	25	10	-
50-100	100	-	-	-	-	-	-
>100	33	-	-	-	-	-	67

Source : Djibouti ESE database

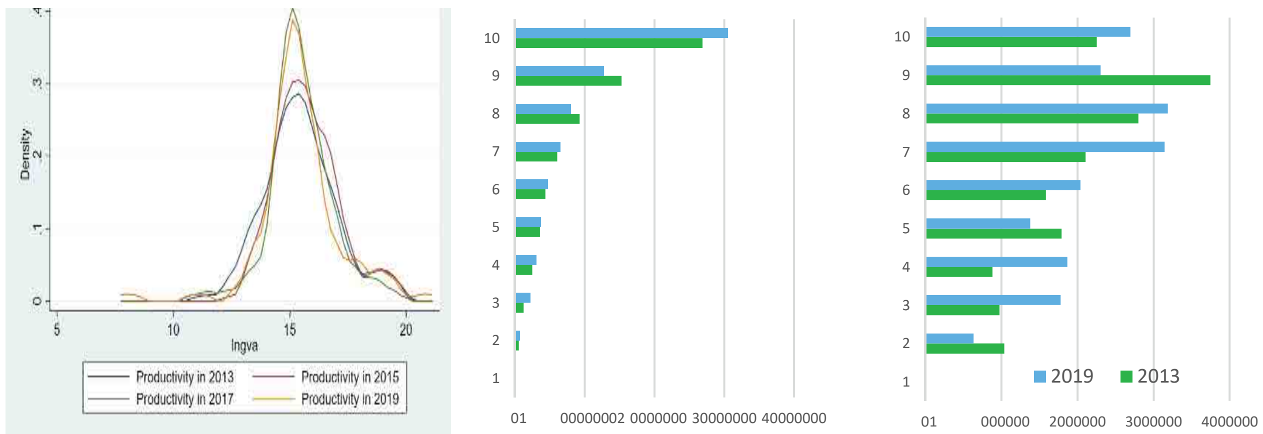
126. **At company level, the distribution of labor productivity has remained stagnant over the observed period. Curiously, lower productivity companies tend to offer higher wages, indicating a misallocation of resources** peers (Figure 66). Moreover, company level data suggest that, in Djibouti, companies, regardless of size, do not grow over time. Approximately a quarter of medium-sized companies with 6–50 workers have remained the same size over a period of 6 years.

Figure 66: Productivity, wages, and value added over time and by deciles

a. Distribution of productivity by year

b. Mean value added per worker by deciles

c. Average wages per worker by GVA deciles

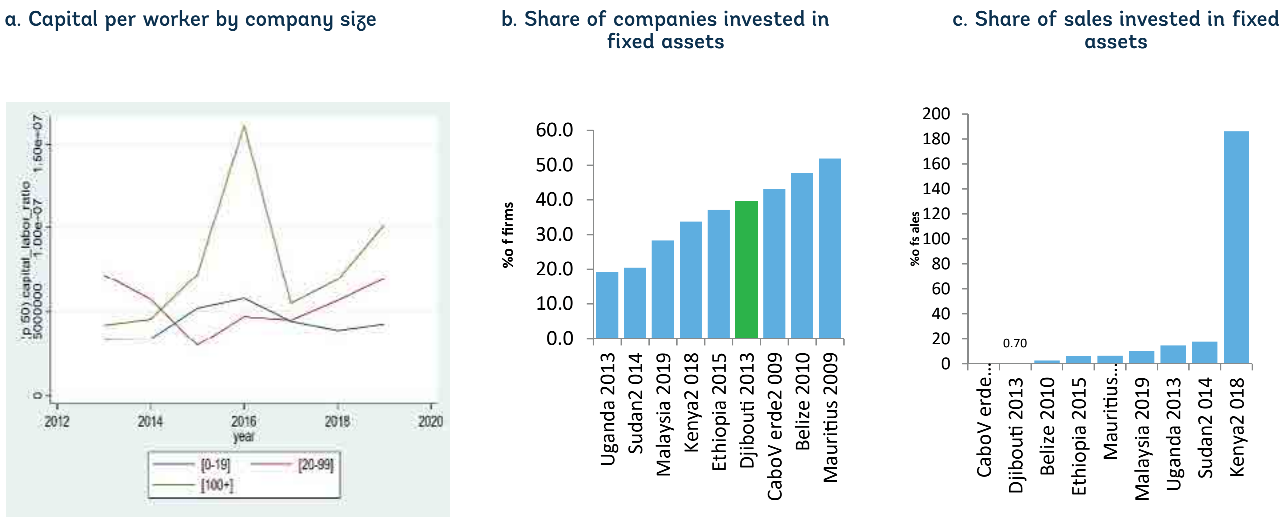


Source : Base de données ESE de Djibouti

[62] De Mel et al., 2007; Fafchamps et al. 2014; Blatmann et al., 2015..

127. According to the evidence, larger companies in Djibouti are better capitalized and actively investing in fixed assets. However, when compared to their peers, the capital-to-labor ratio remains relatively low (Figure 67). Companies that make tangible capital investments are likely to enhance productivity, ultimately benefiting their workforce. In developing nations, the removal of capital constraints, particularly for small companies, has been linked to improved company performance and increased profitability.[62] When companies augment their capital stock per worker, such investments demonstrate strong correlation with changes in labor productivity. Consequently, as average formal companies in Djibouti have a higher capital-to-worker ratio, overall single-factor labor productivity increases positively. This, in turn, stimulates the expansion of labor demand and the creation of better job opportunities.

Figure 67: Capital and investments in fixed assets



Source : Djibouti ESE database, World Bank Enterprise Surveys

128. Surprisingly, in Djibouti, there is a decline in productivity of companies as their size increases, indicating that smaller companies tend to be more productive. This contradicts the global evidence on the structural transformation process, suggesting that Djiboutian companies are encountering growth constraints. However, this trend is particularly pronounced among companies with less than 50 workers (Table 3). Conversely, for larger companies with more than 50 workers, there is an observed increase in company productivity with size. To account for the level of competition within sectors, the Herfindahl index is utilized as a control variable. The findings reveal that productivity levels and company size are higher in sectors with less competition, potentially indicating distortions within Djibouti's regulatory and competition framework. création de meilleures opportunités d'emploi.

Tableau 5 : Determinants of employment level & productivity

	Dependent variable: Labour Productivity (All firms)		Dependent variable: Labour Productivity (Firms <50 workers)		Dependent variable: Labour Productivity (Firms >50 workers)		Dependent variable: Employment (All firms)		Dependent variable: Employment (Firms <50 workers)		Dependent variable: Employment (Firms <50 workers)	
	coef	se	coef	se	coef	se	coef	se	coef	se	coef	se
Log (age)	-0.355***	0.116	0.291***	0.119	-1.28 ^ ***	0.258	- 0.347 ^ ****	0.122	-0.014	0.087	0.317	0.190
Log (size)	-0.346***	0.039	- 0.476***	0.059	0.406 ^ *	0.213						
Log (Avg. prod in sector)	0.693***	0.041	0.862***	0.042	-0.019	0.130	0.044	0.053	-0.047	0.042	0.040	0.081
Log (Avg. empl in sector)	0.559***	0.070	0.427***	0.064	0.454*	0.250	0.972 ^ ***	0.066	0.382 ^ ***	0.046	0.369 ^ **	0.153
Log (Avg. age in sector)	0.241	0.167	0.005	0.156	1.544**	0.671	1.049 ***	0.169	0.575 ^ ***	0.112	0.274	0.437
Log (Herfindahl Index)	0.320***	0.037	0.12***	0.037	-0.102	0.155	0.133***	0.041	0.063 ***	0.027	0.208 ^ **	0.093
Log (firm labour productivity)							-0.378**	0.042	- 0.256 ^ ***	0.032	0.158 ^ *	0.083
_cons	5.335***	0.677	2.190***	0.736	12.277 ^ ***	1.906	5.043***	0.715	5.849 ^ ***	0.474	0.114	1.587
R2	0.51		0.66		0.46		0.41		0.35		0.50	
Number of obser-vations note: 01-***; 05-** 1-	542		482		60		542		482		60	

129. **When examining the impact on job creation of changes in within-company productivity, the connection between the two appears relatively weak.** The findings from several panel regressions of job creation rates are presented in Table 4. If companies with higher labor productivity demonstrate subsequent job growth, it could serve as partial evidence of creative destruction. While Table 3 does indicate a significant positive coefficient in one of the regressions, using value added per worker, the presence of insignificant coefficients in the other regressions suggests that the result may lack robustness, or that the correlation is weak. This implies that companies may be either shifting toward more capital-intensive operations or achieving higher productivity levels by reducing their workforce.

Table 5 : Testing the link between productivity and job creation

	Dependent variable: Haltiwanger job growth rate			
	Base year regression		Period average regression	
	coef	se	coef	se
Labor productivity measure 1: Average of log GVA per worker	0.059**	0.030	-0.031	0.029
Labor productivity measure 2: Average of log output per worker	0.044	0.031	-0.006	0.028

130. The concentration of net job creation does not primarily occur in labor-intensive activities. On average, SMEs exhibit the highest rates of net job creation over the observed period. Furthermore, job creation and destruction resulting from firm turnover play a more significant role than that of incumbent companies. While this dynamic private sector characteristic is noteworthy in view of the limited entry of new companies and the lack of growth among existing companies, it implies that the jobs generated may not be sustainable or of the high quality typically associated with larger companies. In 2019, most newly created jobs were concentrated in the manufacturing sector, specifically in machinery and equipment, real estate, and mining/oil sectors. While increased job creation in manufacturing could signify a structural transformation, it is important to note that the net job creation is primarily capital or resource-intensive rather than labor-intensive (Figure 68).

Figure 68: Capital and investments in fixed assets

Source : Djibouti ESE database

C - SKILLS MISMATCHES: DJIBOUTI FACES SIGNIFICANT MISMATCHES BETWEEN SUPPLY AND DEMAND IN LABOR MARKETS

5. Skills mismatches are a reality in many countries.

131. **In a perfect labor market, the supply and demand for labor are always balanced; and employers can easily find suitable workers to fill their vacancies, while workers are employed based on their skills and qualifications. However, this equilibrium is rarely observed across countries.** In many countries, particularly low- to middle-income ones, a significant proportion of employers report difficulty in finding workers with the required skills for their businesses (ILO, 2019). At the same time, many young individuals, including graduates, face challenges in accessing job opportunities that align with their qualifications (OECD, 2017). Extensive research has been conducted on these imbalances between labor supply and demand (Box 3). Drawing upon these frameworks, the following section analyzes the nature and extent of mismatches in Djibouti.

Box 4: Skills mismatches, shortages, and surpluses in the labor market

Skills mismatches, shortages, and surpluses are forms of imbalances in the labor market. These arise whenever there is no adequate match between labor supply and demand. The OECD describes skills mismatch as cases in which workers' skills exceed or fall short of those required for their job under current market conditions; further, that there are cases of qualification mismatch as well as field-of-study mismatch. Field-of-study mismatch exists when workers are employed in a different field from the one they have specialized in. Qualification mismatch exists when workers have an educational attainment that exceeds or falls short of job requirements. According to the OECD, skills shortages arise when employers are unable to find the skills sought among the pool of potential recruits, whereas skills surpluses occur when the supply of certain skills is higher than the demand for them. Meanwhile, shortages can induce mismatches as employers, unable to find the skills needed, recruit mismatched workers.

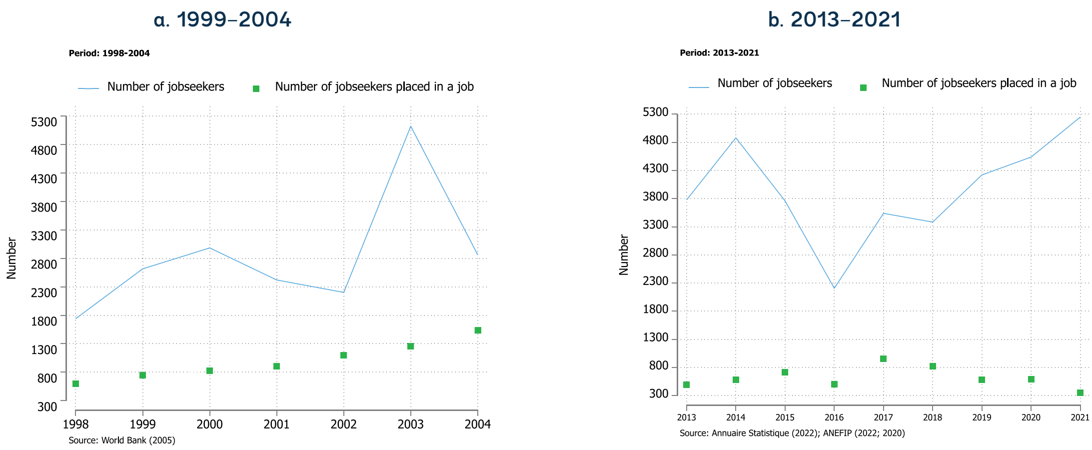
Various studies have documented the type and the extent of these skills constraints in selected countries and regions, mostly in developed economies due to data availability. For instance, McGuinness et al. (2018) provide a thorough review of the concepts, measurement, and policy approaches of skills mismatches. Equally, Brunello and Wruuck (2021) review the demand side of skills mismatches. The ILO (2019) unpacks the issue of skills mismatches along with new data on the phenomenon in LICs and MICs. Another earlier study for LICs and MICs includes Handel et al. (2016). Here, Handel and co-authors, using the World Bank's STEP (Skill Toward Employability and Productivity) data for 12 countries, report that the incidence of overqualification across these countries ranges from 22.3 percent in North Macedonia to 70 percent in Vietnam, with an average incidence of 36 percent across all countries. On Africa, Morsy and Mukasa (2021) analyze the incidence, drivers, and persistence of skills and educational mismatches among employed youths from 10 African countries (Benin, Congo, Egypt, Liberia, Madagascar, Malawi, Tanzania, Togo, Uganda, and Zambia). They document that underskilling (29 percent) and undereducation (57.1 percent) are much more prevalent among youth than overskilling (17.5 percent) and overeducation (8.4 percent). In addition, their results show that the levels of education of youth and their parents, the field of study, the quality of job, and company size are found to be key predictors of job mismatches.

These imbalances in the labor market have various negative effects. For instance, skills constraints have adverse effects on labor productivity and even hinder the ability to innovate and adopt technological changes (Brunello and Wruuck, 2021). More specifically, the authors argue that, for individuals, not having the right skills impedes employability prospects and access to quality. Equally, for companies, skills shortages mean longer times to fill vacancies. For national economies, persistent skills gaps and mismatches come at economic and social costs. If anything, these imbalances remain one of the major concerns for policy and decision makers alike across countries.

6. Djibouti's labor market is marked by persistent oversupply of labor and scarcity of job opportunities.

132. Persistent oversupply of labor and dearth of job offers characterize Djibouti's labor market. Official data on registered jobseekers and job offers reveal a consistently low and declining number of job offers, accompanied by a rising number of jobseekers, particularly from 2013 to 2021.[63] This stands in contrast to the slight upward trend observed in both job offers and jobseekers between 1998 and 2004 (Figure 69). During the period from 2013 to 2021, the job offers ratio stood at 16.9 percent, significantly lower than its level of 36.6 percent between 1998 and 2004.[64]

Figure 69: Trends in number of registered jobseekers and those placed in a job by ANEFIP



Source :World Bank (2005), Annuaire Statistique and ANEFIP (2022, 2020

133. A recent survey in sectors with high growth potentials highlights the hiring challenges faced by employers in Djibouti. According to the findings from a 2020 USAID sector survey, over 50 percent of employers surveyed reported difficulty in hiring.[65] The survey revealed that the proportion of companies experiencing hiring difficulty ranged from 51.4 percent in the construction sector to 86 percent in the tourism

[63] These official data are provided by the government agency ANEFIP.

[64] Results from the Mann-Whitney U-test indicate a significant difference between job offers (recruitment) shares between the two periods – 1998–2004 (n1) and 2013–2021 (n2): (U = 3, n1= 7, n2 = 9, p < 0.01). Results hold even when the COVID-19 years are excluded

[65] Country CPF identifies these sectors as the most promising sectors for growth (World Bank, 2021).

sector.[66] These challenges were observed across various sectors (Table 5). In sectors where hiring difficulties were particularly pronounced, there was reliance on foreign workers as the initial solution. For example, in the transport and logistics sector, the shipping business predominantly relies on Ethiopian truckers as a means to address these challenges.

134. In various sectors, companies consistently struggle to find candidates to fill jobs that require specialized technical skills. When surveyed, a majority of employers cited the lack of suitable skills among candidates and a shortage of preferred skilled candidates as their primary hiring constraints (Figure71). In the tourism sector, the scarcity of preferred skilled candidates emerges as the most critical constraint in the hiring process, while it ranks as the second most significant constraint in the construction sector. The shortage of these desired profiles may encompass attributes beyond technical skills, such as socio-emotional skills and higher cognitive abilities

Table 6: Severity of hiring difficulty by sector

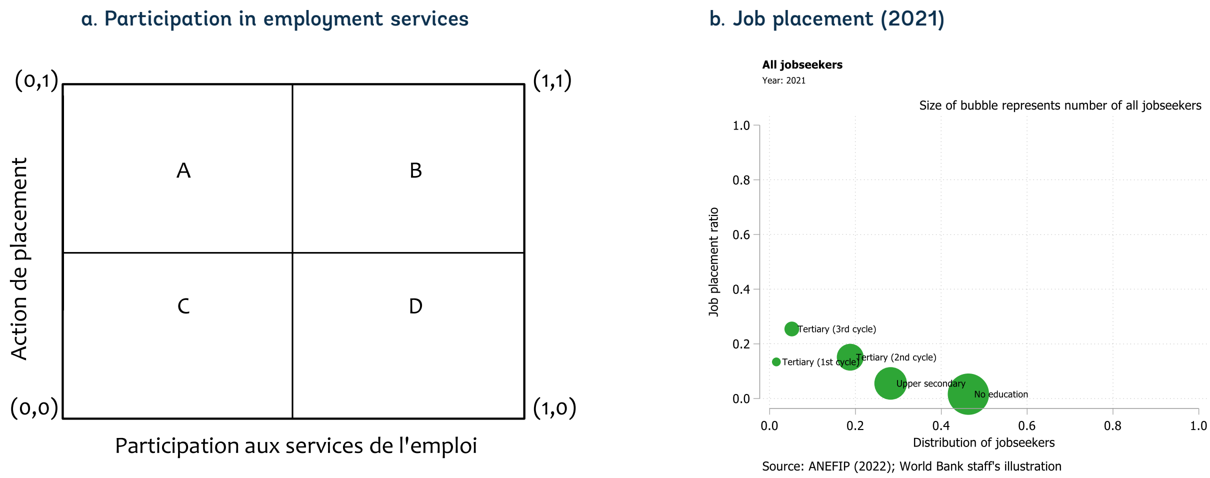
Level of difficulty‡	Construction	Tourism	Transport & Logistics
High (≥2.5 & ≤3.0)	· Carpenter metal structures (3.0) · Crane operator (2.7)	· Bartender (3.0)	- Chauffeur de camion avec permis CE (3.0) - Chauffeur de camion avec permis C (2.8)
Moderate (≥2.0 & <2.5)	· Maçon, électricien, métallurgiste, installateur sanitaire, conducteur de travaux, carreleur (2.0)	· Reservation agent (2.4) · Cook (2.3)	· Chief mechanic, mechanic (2.4)· Gestionnaire d'entrepôt, · Warehouse manager, driver with B license, liaison agent (2.3) · Customs officer (2.2) · Reach stacker, driver with D license (2.1) ·Supervisor, garage manager, customs declarant assistant/helper (2.0)
Low (≥1.0 & <2.0)	· Concrete worker (1.8) · Solar panel installer, home automation, lift operator, multi-purpose building worker (1.7) · House painter (1.6) · Telecom network installer, public works laborer, construction machinery mechanic, aluminum wood carpenter (1.5) · Wood carpenter, site manager, air conditioning fitter, drywaller (1.4) · Scaffolder (1.0)	· Clerk (1.8) · Waiter, diver, restaurant cashiers (1.5) · Restaurant manager (1.0)	· Field supervisor (1.6) · Transit agent, forklift/driver, document managers (1.5) · Sydonia office agent, head of operations (1.4) · Delivery agent, customs agent, customs declarant, export employee, manifesto manager (1.3) · Goods controller, order picker, receiving/shipping manager · Controller, Ethiopian or other representatives (1.1) · Pointer (1.0)

Note :‡) Level of hiring difficulty ranges from 1 (lowest) to 3 (highest)
Source: Sector survey 2021; World Bank staff calculations

[66]The sector surveys are representative within each sector.

135. The job-seeking process through employment services in Djibouti highlights a clear polarization in the labor market based on the educational attainment of jobseekers.[67] This phenomenon is illustrated through the framework below (Figure 70)[68]**.** The data reveal that individuals with no formal education up to the upper secondary education level fall within plane D, characterized by high utilization of employment services but low likelihood of being successfully placed in employment. However, individuals with tertiary education level are represented in plane A, indicating the highest likelihood of receiving job offers, albeit with lower utilization of employment services.

Figure 70: Participation in employment services and job placement outcomes nexus



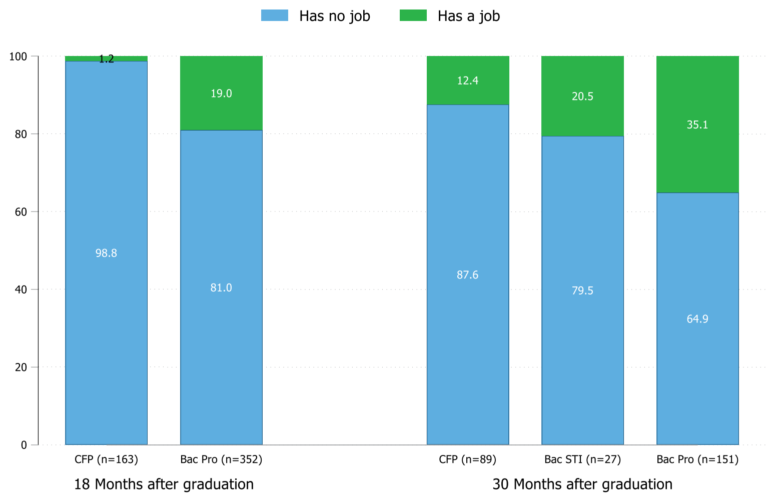
Source : ANEFIP; World Bank staff illustration

136. There is variation among technical and vocational education and training (TVET) graduates when it comes to employment prospects. Some TVET graduates face a lower probability of finding employment compared to others. Notably, TVET graduates with a CFP (Certificat de Formation Professionnelle) experience longer job searches and higher unemployment rates, compared to their counterparts with a Bac Pro (Baccalauréat Professionnel) qualification (Figure 71). One potential factor contributing to lower employment probability is the lack of practical job experience. For instance, according to ANEFIP (2022), in 2021, more than 99 percent of the 5,247 jobseekers surveyed lacked any previous job experience.

[67] For job search constraints, evidence shows that employment services are proven to be viable ways to address these challenges (World Bank, 2018). In addition, on the merits of employment services, recent studies indicate there is no empirical evidence that contracting out to private providers is more effective or more efficient than public employment services (Stephan, 2016).

[68] An individual seeking work moves along a plane formed by two positive vectors ranging from 0 to 1, with 1 being the maximum achievable outcome. The horizontal axis measures the degree of an individual's engagement in using employment services, and the vertical axis the probability of being placed in a job. Plane C (the origin of the Cartesian coordinates (0,0)) shows that a jobseeker making low use of existing employment services has low odds of being placed in a job. Plane A, point (0,1), indicates maximum likelihood of being offered a job albeit low use of employment services. In contrast, plane D, or point (1,0), exhibits highest use of employment services and low likelihood of being placed in employment. Lastly, plane B, or point (1,1), is the most desirable. Here, an individual exhibits highest use of employment and has the highest probability of being placed in a job.

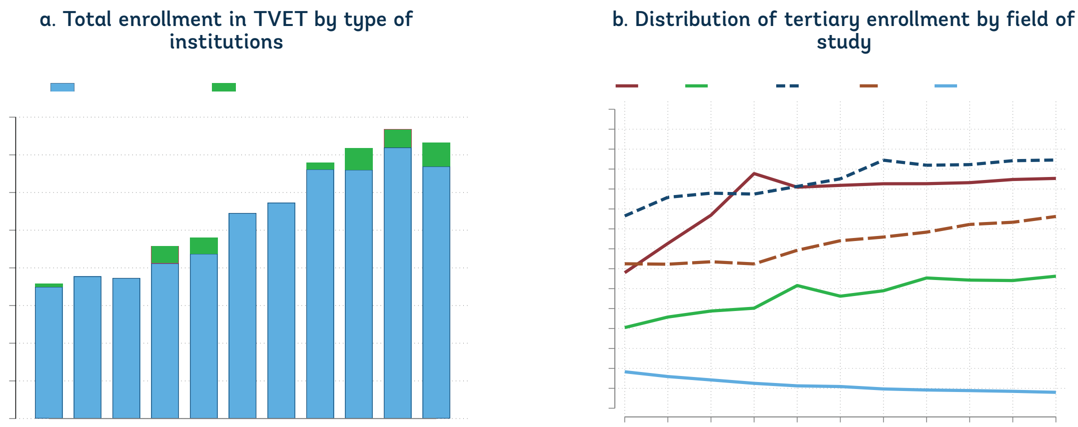
Figure 71: Job outcomes for TVET graduates, since graduation, by type of degree, in 2017



Source : UNICEF (2020); World Bank staff display

137. The enrollment rates in TVET and tertiary education have been increasing in the country, albeit with distinct patterns. However, private TVET institutions have had limited involvement in providing technical and higher-level skills in Djibouti. In 2009, out of a total of 1,791 TVET enrollments, only 42 students were enrolled in private institutions. Over the course of 10 years, 2009–2019, the number of enrolled students increased to 3,664, but private institutions accounted for just 342 of these enrollments. In other words, the majority of TVET enrollment has been concentrated in public institutions (Figure 72).

Figure 72: Supply of higher and advanced skills over time (2009–2019)

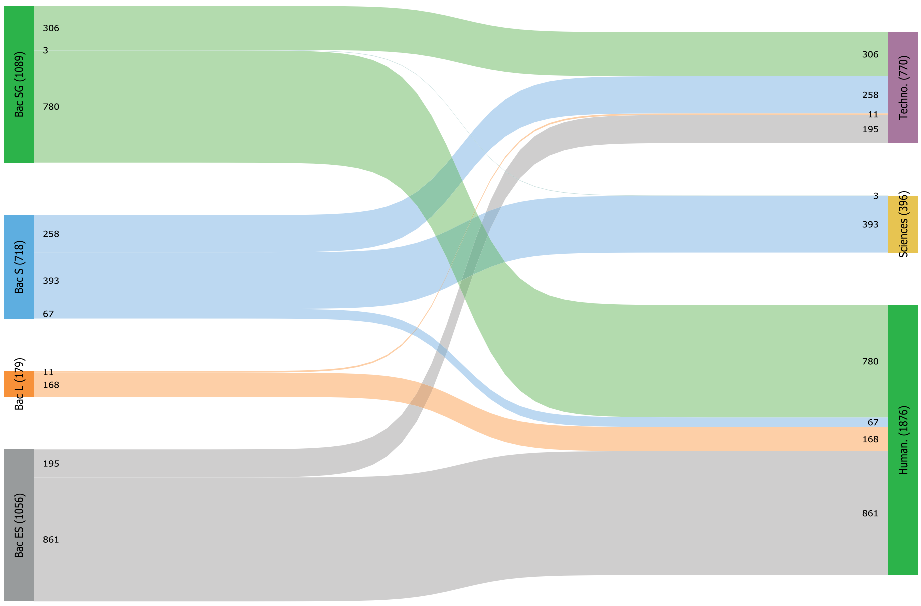


Source : UNICEF (2020); World Bank staff display

138. **Despite the increasing flow of tertiary enrollment in the country, the availability of advanced skills, particularly in STEM fields, remains severely limited.** Enrollments in STEM disciplines have consistently lagged behind enrollments in non-STEM fields such as law, literature, and related subjects. For example, the proportion of students enrolled in sciences has consistently remained below 15 percent among all students between 2009 and 2019. Additionally, the persistently low enrollment in STEM fields can be attributed, among other factors, to the low percentage of high school students graduating in science (less than 25 percent in 2018) (Figure 73). The enduring issue of unemployment among tertiary graduates suggests a possible mismatch between fields of study and available job opportunities.

Figure 73: Enrollment in tertiary education by field of study, in academic year 2018–2019

Freshmen Enrollment at the University of Djibouti by Type of Baccalauréat and Field of Study
Academic Year: 2018-2019



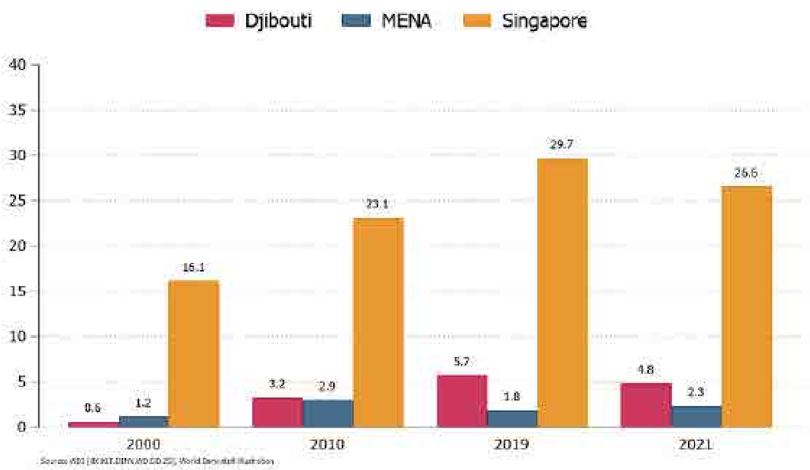
Fields of study: Technologies (IUTI, IUTI); Humanities (FDEG, FLLSH); Sciences (FS, FM, FI)
Source:University of Djibouti (2018); Bank staff display

139. **Djibouti did not manage to use FDI to gear up a skilled workforce.** FDI inflows have the potential to create employment opportunities, provided that the country strengthens its skills base beforehand to attract more FDI, or uses FDI as a catalyst for human capital development (UNCTAD, 2011). Singapore provides a successful example of having achieved this over the years (see Box 4). In Djibouti, net FDI inflows have been increasing over time and have even surpassed the MENA average in recent years (Figure 74). The Government has actively pursued strategies to attract foreign investment, considering FDI inflows a crucial driver of economic growth and job creation.[69] However, most foreign investments in Djibouti have been capital-intensive, particularly in port infrastructure, which intensifies the demand for skilled labor.[70] Unfortunately, the required pool of skilled labor is not readily available, leading to significant reliance on expatriates to fill jobs in this sector.

[69] https://www.state.gov/reports/2020-investment-climate-statements/djibouti/.

[70] In general, investors in more capital-intensive and skill-intensive industries require specific technical skills (UNCTAD, 2011).

Figure 74: FDI for selected years and countries (net inflow, % of GDP)



Box 5: Overcoming skills and employability imbalances: the case of Singapore

In a recent review on workforce development in Asia-Pacific countries, Waring et al. (2021) mentioned that out of all countries in that review, “none is perhaps so obviously dependent upon the skills, talents and knowledge of its people than Singapore. [...] Indeed, the state’s focus on education can be seen on one side of the Singapore USD 2 note, which features a classroom setting with the single word ‘Education’.”

Today, Singapore has achieved remarkable economic outcomes stemming from a very successful model of FDI-related skill development (UNCTAD, 2011). Initially, however, nothing was settled. For instance, at its independence in 1959, measures of human capital – literacy and morbidity rates – in Singapore were similar to those of other LMICs (World Bank, 2020).

Steps and strategies to overcome these barriers evolved over time. In the period from 1959 to the mid-1980s, four main stages were observed. Kuruvilla et al. (2002) note that the first period, 1959–1965, was marked by import substitution industrialization, with a focus on developing basic primary and secondary education to complement the country’s labor-intensive economy, and with bilingualism as key part of the curriculum. In the end of that period, primary and secondary school enrollment increased by 33 percent and 93 percent, respectively, while college enrollment increased by 69 percent. In the second phase, 1966–1973, the country moved into an export-oriented industrialization phase. Here, the emphasis was on attracting foreign investment, such investment bringing not only capital, but also technology and access to foreign markets. In the third period, 1973–1984, Singapore moved into higher value added and more technologically advanced products that required both general skills (vocational and technical training) and specialized skills. The specialized skills were linked to growing industries because of foreign investment. Another notable point in that period was the establishment of the Economic Development Board (EDB) in 1979 and its efforts to induce foreign companies to take the initiative in training, with training subsidies and grants (Kuruvilla et al., 2002). Finally, since the 1980s, the technical and vocational training system was deepened and the university system was reformed and expanded. In targeting and leveraging the knowledge and technology of foreign investors to enhance domestic education and training efforts, Singapore has developed one of the most highly qualified workforces in the world (UNCTAD, 2011).

Nevertheless, as Waring et al. (2021) indicate, Singapore continues to shape its education and training system, by borrowing and tailoring best practices from around the world, to support the country's national developmental and economic goals. For instance, in the education system, according to Waring et al., in addition to existing national universities and polytechnics, there are a variety of foreign universities with branch campuses or partnership in Singapore. Likewise, Singapore's Continuing Education and Training (CET) system has been designed to ensure there is adequate supply of skilled labor to meet industry needs. Within the CET, the Singapore Workforce Development Agency (WDA) coordinates and regulates training providers and administers the Workforce Skills and Qualifications (WSQ) system (Waring et al., 2021). Within each qualification framework, there are representatives from employers, unions, industry associations and training organizations. These representatives are responsible for developing an industry competency map, which lists the employability skills, occupational skills, and industry knowledge required for that industry. In addition to the industry-specific skills and knowledge mapped, there are also common foundational skills designed to support individuals to improve their employability. These foundational skills also include workplace numeracy and literacy competencies and are fungible across industries. Employability skills are defined at three occupational levels – PME (Professional, Manager, Engineer), Operations, and Supervisory Levels. Employability skills cover five broad categories which include: (a) Analytical, Conceptual & Evaluation Skills; (b) Informational & Communication Technology Skills; (c) Interpersonal Skills; (d) Personal Management and Development Skills; and (e) Manage Job Safety Skills. Without a doubt, the strong demand for skilled labor in the country, combined with a comprehensive and first-class education and training system, has yielded high levels of graduate employability in Singapore (Waring et al., 2021).

In a nutshell, as indicated by the World Bank (2020), Singapore's experience illustrates the whole-of-government approach to overcoming human capital challenges. Three factors of that approach are continuity (sustaining effort across political cycles), coordination (ensuring that sector programs and agencies work together), and evidence (expanding and using the evidence base to improve and update human capital strategies).

Source: Various sources; World Bank staff presentation.

8. Recommendations and policy priorities.

140. The evidence presented in this chapter highlights the crucial role of human capital constraints in Djibouti's labor market challenges. Il est indéniable que Djibouti a fait des progrès en investissant dans l'éducation et la santé au cours des deux dernières décennies. Par exemple, l'espérance de vie s'est améliorée, ce qui indique que la population est en meilleure santé et que les soins de santé sont de meilleure qualité. En outre, les jeunes de 15 à 24 ans sont plus susceptibles d'avoir accès à l'éducation que les personnes de 40 à 64 ans, et encore plus que les 25-39 ans. Toutefois, la population actuelle en âge de travailler, sans éducation et avec de faibles taux d'alphabétisation, continuera d'entraver le développement dans les années et les décennies à venir. Ce défi contribue à une inadéquation significative des compétences. En outre, les résultats en matière de capital humain sont inégaux entre les différents groupes démographiques, tels que les femmes et les hommes, et les zones géographiques, y compris la ville de Djibouti et les régions périphériques.

141. Recent experience also suggests that Djibouti's human capital development can be adversely affected by the impacts of crises and shocks. From the COVID-19 pandemic to food insecurity crises and the subsequent price increases of basic commodities, events have disproportionately affected the poor and the vulnerable, particularly those working in the informal sector, the chronically ill, the severely disabled, the elderly, youth, children, and women. Recognizing these challenges, Djibouti has been investing in developing social protection systems aimed at providing a safety net for the poor and vulnerable, helping to save lives and protect livelihoods during times of crisis. These systems play a crucial role in mitigating the erosion of human capital gains. The evolution of these systems has demonstrated their flexibility in facilitating responsive measures. However, there is still room to further strengthen social protection systems to make them more adaptive, effective, and efficient in protecting the poor and vulnerable in Djibouti, in both normal periods and times of crises.

142. Priority areas for improvement include enhancing adult literacy rates, ensuring equitable investment in human capital, and expanding the skills of the labor force. Singapore, as an aspirational peer, provides a noteworthy example where significant investments in high-quality education and health services were made to build human capital alongside physical capital, leading to higher development outcomes.

- **Expand access to quality general education, increase adult literacy and promote health.** While significant progress has been made in increasing access to education for children and achieving intergenerational mobility, a significant portion of the current labor force remains illiterate. Therefore, investing in adult literacy programs, especially for women, should be a priority. This will create opportunities for the labor force to participate in new or emerging sectors that require basic literacy skills. Additionally, it is important to continue expanding access to quality general education, particularly for underserved groups such as the rural population, women, and the poor. To sustain recent improvements in health outcomes, such as longer life expectancy, and to enhance labor force productivity, Djibouti must invest in high-quality health services that focus on disease prevention (e.g., malaria) and treatment (including chronic conditions and morbidities

• **Ensure equitable investment in human capital across demographic groups and geographic areas.** Djibouti's development model has been concentrated in the capital city, resulting in better human capital outcomes compared to the regions. As Djibouti enters a new phase of development, it is crucial to make education and health investment more equitable across the country, promoting equality of opportunity. Addressing the gender gap in education, particularly among younger cohorts, is essential. Given the poor economic outcomes for women and girls in Djibouti and recognizing the intrinsic value of investing in female education for development, greater emphasis should be placed on widening access to education and increasing women's participation in economic activities. This has positive spillover effects on intergenerational mobility, gender-based violence reduction, and harnessing the economic potential of a crucial segment of Djibouti's population.

• **Develop skills.** Employers consistently report a lack of technical and professional skills among job seekers. While technical skills training addresses some of the underqualification issues, educational programs should also incorporate cognitive and socioemotional skills to improve work readiness. Providing practical and occupation-specific technical skills early on can help address these imbalances. This can be achieved by expanding opportunities for internships and career guidance at secondary and tertiary levels. Improving the foundational knowledge of the current labor force through adult training programs targeting literacy, numeracy, and work-specific technical skills would be beneficial. Additionally, focusing formal TVET on a few economically justified sectors and investing in complementary interventions to promote livelihoods in the informal sector are essential. As emphasized in the World Bank's report Skills Balancing Act, countries in early stages of economic transformation should prioritize catalytic sectors with private sector partnerships, while supporting TVET for low-skill occupations and the informal sector, where a significant portion of youth employment is expected in the coming decades.

143. **Enhancing human capital will lead to higher economic growth.** Numerous studies have highlighted the strong link between human capital and growth, emphasizing the positive impact of investments in education and health on a country's economic performance. Estimates by the World Bank (2019) show that a 1 percent change in learning is associated with a 6.5 percent change in annual growth. A study by Barro (2013) found that an additional year of schooling raises the growth rate on impact by 0.44 percent per year. Similarly, Collin and Weil (2019), using the Human Capital Index (HCI) of the World Bank, propose a first scenario, in which each country experiences a rate of growth in human capital investment in line with what was observed in the decade ending in 2015; and a second, in which each country raises human capital investment at a rate corresponding to the 75th percentile of what was observed in the data. In the former, world GDP per capita is 5 percent higher than baseline in the year 2050, while the global rate of USD 1.90 poverty is 0.7 percentage points lower in that year. In the latter, world GDP per capita is 12 percent higher than baseline in 2050, while the rate of USD 1.90 poverty drops by 1.4 percentage points. These findings underscore the significant role of human capital in shaping economic outcomes and highlight the substantial potential for enhancing growth and reducing poverty through investments in education and skills development.

144. **However, the improvement of human capital requires substantial resources. According to a recent World Bank analysis, based on the CEQ methodology (see Appendix 3), Djibouti appears to have the fiscal space to support social spending without worsening its fiscal position.** This can be achieved by gradual reduction of non-targeted subsidies. Specifically, analysis of kerosene subsidies stemming from the Government's fuel price stabilization mechanism highlights their minimal impact on diminishing inequality or poverty. Thus, this subsidy might not represent the most effective resource allocation. While the subsidy does offer a safeguard for the most vulnerable strata of society against price fluctuations, more substantial strides in poverty alleviation could be achieved through more precisely aimed transfers. Evidently, this fiscal tool lacks a pro-poor orientation. Conversely, sustained investments in social protection and the facilitation of services that amplify human capital emerge as pivotal in the drive towards reducing poverty and fostering shared prosperity. A central finding of the analysis pertains to the progressive and pro-poor attributes of this expenditure. The expansion of the cash transfer program (PNSF) from its 2017 scope to encompass 2022 yielded considerable outcomes in diminishing poverty. Similarly, increased expenditure on healthcare and education manifested positive effects in mitigating inequality. These outcomes underscore the importance of continuing efforts to invest in human capital and social protection to promote inclusive growth. Yet, expanding pro-poor social programs, both direct and in-kind transfers, requires significant resource mobilization. Given Djibouti's heavy reliance on non-tax revenue sources, exploring avenues to augment tax proceeds and mobilize internal resources progressively emerges as a prudent course of action, along with reducing non-targeted subsidies.

CHAPTER III:
STATE-OWNED ENTERPRISE SECTOR DIAGNOSIS

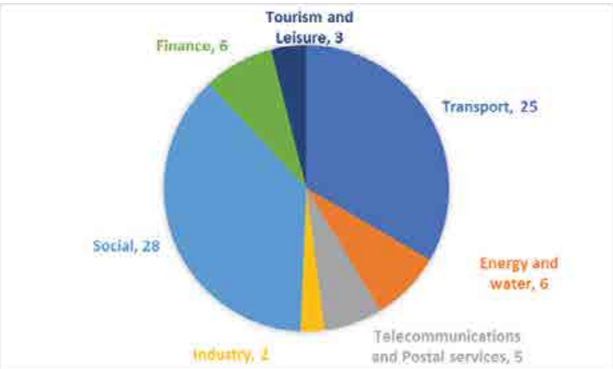
Abstract:
SOEs play a crucial role in Djibouti's economy, contributing significantly to economic growth, employment, and the provision of essential services to the population. Controlling vital sectors such as ports, shipping companies, railways, the national airline, telecommunications, water, and electricity distribution, the performance of Djibouti's SOEs directly impacts the country's development and the daily lives of its people. While they make a significant contribution to the economy, with a GDP share twice as high as the MENA region average, and employ approximately 20 percent of the formal workforce, Djibouti's SOEs also face several challenges that can hinder their role as an engine of growth. First, although the SOE sector as a whole remains profitable, its contribution to the central government budget is relatively low, accounting for less than 2 percent of government revenues in 2022. Second, the high level of indebtedness of SOEs poses significant fiscal risks, with external debt payments arrears reaching 3 percent of GDP in 2022. This is particularly problematic as Djibouti is already grappling with important debt challenges due to years of rapid borrowing to finance infrastructure projects. Third, the poor quality and high cost of services provided by some SOEs, which are critical for productive activities and daily life, affect the competitiveness of the private sector and the welfare of households. For instance, Djibouti's domestic broadband speed performance ranks among the slowest, globally, and power outages continue to disrupt business operations, resulting in reduced efficiency and increased operational costs. Compounding the issue, many of these SOEs hold monopolistic positions, preventing private companies from entering the market. Encouraging competition could enhance efficiency, lower costs, enhance competitiveness, and promote stronger economic growth in Djibouti. . Fourth, despite recent reforms, SOEs still face challenges related to poor corporate governance, including weak compliance with reporting requirements and lack of transparency. These issues increase fiscal risks and hinder effective monitoring and decision-making. Out of the 75 SOEs identified in this study, aggregate data is only available for 23 commercial entities, creating a significant data gap. Urgent action is needed to address these issues and strengthen Djibouti's economy. It is crucial to enhance the regulatory framework and improve SOE corporate governance. Strengthening financial oversight will help mitigate fiscal risks associated with SOEs. Opening up infrastructure markets to private participation and promoting competition will enhance efficiency, reduce costs, increase competitiveness, and drive stronger overall economic growth in Djibouti

Introduction

145. Public enterprises play a central role in Djibouti's development model, given their dominant presence in key economic sectors. As part of this study, the World Bank team identified a total of 75 public enterprises and establishments (EEPs), many of which control critical sectors such as transportation, telecommunications, and the distribution of water and electricity (Figure 75). These EEPs are crucial or the country's economy, employing approximately 20% of the formal workforce (Figure 76). Some EEPs also participate in wholesale markets for essential goods at regulated prices. While state-owned enterprises provide essential services to the economy, operational inefficiencies within many of these entities hinder Djibouti's economic development objectives. Additionally, the financial performance and indebtedness of state-owned enterprises pose substantial fiscal risks.

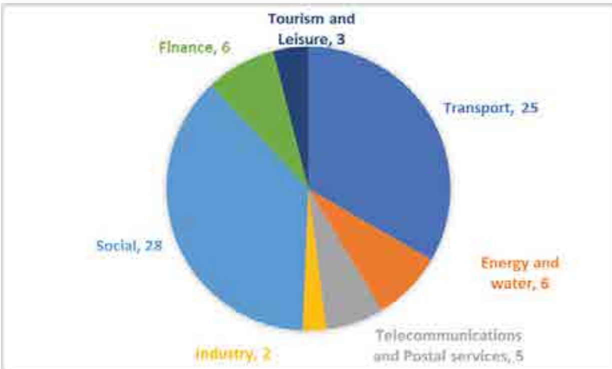
146. This chapter consists of four sections[71] This chapter comprises four sections: (i) an overview of the SOE sector, including an assessment of its performance and associated fiscal risks; (ii) a detailed examination of SOEs in the port sector; (iii) an analysis of the impact of SOEs on the private sector; and (iv) a set of recommendations aimed at addressing the challenges confronting the sector. Due to data accessibility limitations, this chapter cannot provide a comprehensive overview of Djibouti's overall SOE sector performance and its impact on public finances. However, we have managed to gather relatively recent data on the primary public enterprises that hold a predominant role in the port sector, which serves as the main source of activity for public enterprises.

Figure 75: Number of SOEs by sector



Source: World Bank staff calculation based on data from national authorities

Figure 76: SOE Employment by sector (in % total formal employment)



Source: World Bank staff calculation based on data from national authorities

[71] This chapter was derived from an Excel-based SOE performance monitoring tool. This tool uses data from available SOE financial statements to create and present SOE financial performance indicators. The section on the impact of SOEs on the private sector summarizes inputs provided by the World Bank's FCI team, supplemented by the results of interviews carried out by the CEM SOE team and of key findings from a recent review of SOE governance practices in Djibouti, completed by the World Bank's Governance Team.

A - OVERVIEW OF THE SOE SECTOR: VITALITY IN DJIBOUTI'S ECONOMY WITH FISCAL RISKS.

SOEs hold a crucial position in Djibouti's economy, making significant contributions. However, their economic and financial situation remains only partially known. The landscape of the SOE sector in Djibouti is characterized by a large number of entities; however, their overall contribution to government revenues remains relatively small.

1. Estimates suggest that Djibouti has a substantial number of SOEs, although there is no official data or comprehensive overview of their economic and financial situation.

147. **While an official list of SOEs in Djibouti is not yet available[72], the World Bank estimates their total number at 75, divided into commercial and non-commercial entities.** Commercial SOES, approximately 35 in number, generate revenue or incur debts autonomously, qualifying them as SOEs. This category includes EPICs (Établissement Public à Caractère Industriel et Commercial), which engage in commercial activities without private funding, as well as EEPs (Entreprises et Etablissements Publics), public limited or simplified stock companies with exclusive or partial state ownership. Additionally, Djibouti Free Zones house SOEs operating as limited liability companies (LLCs) with both multiple (FZCOs) and sole proprietorships (FZEs). The majority of SOEs in Djibouti, with few exceptions, are established through separate laws or decrees. In 2019, new legislation consolidated the legal framework governing state-owned entities in the country. The second category comprises around 40 entities known as EPAs (Établissements Publics Administratifs). These entities primarily serve administrative functions and are extensions of the central government rather than commercial entities.

148. **The Government of Djibouti currently faces challenges in obtaining a comprehensive understanding of the economic and financial status of the SOE sector.** Out of the total 75 SOEs identified for this study, aggregate data are only available for 23 key entities, leaving a significant data gap. This chapter primarily focuses on these 23 key entities for which the availability of data allows a more comprehensive analysis. Djibouti lacks an official list of active SOEs, further complicating the assessment of the sector's overall performance. Despite legal requirements mandating audits and board approval of financial accounts, there is no centralized database consolidating SOE data. Consequently, these financial statements and activity reports are not publicly accessible. Large SOEs like the railway company and the airport operator do not make their financial statements available, while the latest financial statements from the electricity utility and the telecom sector are dated 2017 and 2016, respectively. Moreover, while some data on transfers to SOEs from the budget are published on the presidential website, the authorities responsible for supervising and monitoring SOEs do not consistently receive financial statements or activity reports. Additionally, data on debts between the Government and SOEs, as well as among SOEs themselves, are not accessible. This lack of transparency and weak oversight in SOE operations is not unique to Djibouti and is common to many countries in the MENA and Central Asia Region.[73] To address these challenges, Djibouti should enhance oversight, promote accountability, and establish a comprehensive database for monitoring the financial performance and activities of public enterprises. These measures are essential for improving governance and public sector management.

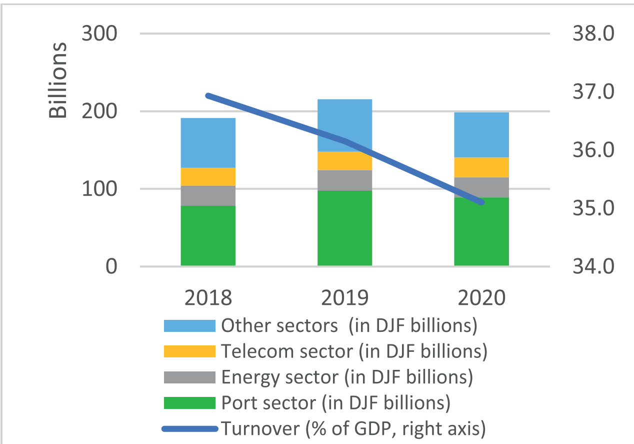
[72] The Secrétariat Exécutif chargé du Portefeuille de l'État (SEPE) is in the process of drawing up an official list of EEPs, after cross-checking with all the Ministries to which they belong.

[73] State-Owned-Enterprises in Middle East, North Africa and Central Asia. IMF, 2019.

2. Despite being larger than the MENA average and generating substantial revenues, Djibouti's public enterprise sector's contribution to the government's budget remains relatively low.

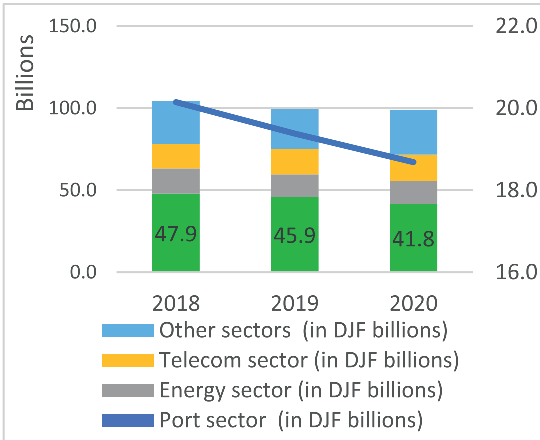
149. Over the 2018–2020 period, the 23 key SOEs for which data are available collectively generated revenues equivalent to an average of 37 percent of GDP (Figure 77). Their value added, a measure of their contribution to the economy, accounted for around 20 percent of GDP, significantly surpassing the MENA region's average of approximately 10 percent of revenue over GDP (Figure 78).). Among these SOEs, transport-related entities, predominantly port companies, emerged as the largest contributors to total revenue, representing over 40 percent of the revenue generated by the 23 key SOEs between 2018 and 2020. The energy and telecom sectors also made significant contributions, accounting for around 17 percent of revenues each.

Figure 77: Djibouti SOE sector - aggregated turnover of the 23 key SOEs, 2018–2020



Source: World Bank staff calculation based on data from national authorities

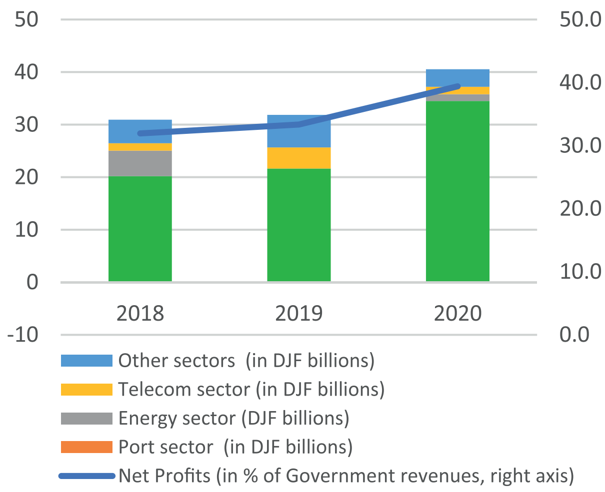
Figure 78: Djibouti SOE sector - aggregated value added of the 23 key SOEs, 2018–2020



Source: World Bank staff calculation based on data from national authorities

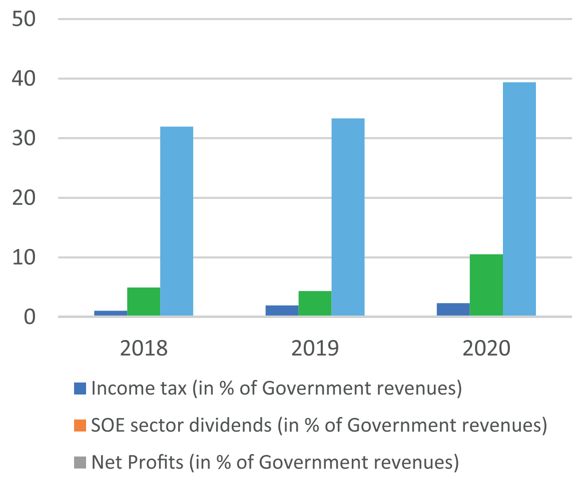
150. Despite the substantial revenues and profits generated by the 23 key SOEs, their contribution to the central government budget remains relatively low. Among the key 23 SOEs, the average profits recorded in 2019–2020 amounted to DJF 38.6 billion, which is equivalent to 7.1 percent of GDP and 35 percent of government revenues (Figure79). Notably, 77 percent of combined SOE profits were generated by port companies, with the container terminal operator (Société de Gestion du Terminal à Conteneurs de Doraleh-SGTD) alone contributing approximately 40 percent of total profits. Despite the substantial revenue levels, the aggregated income tax payments from the 23 key SOEs represented less than 2 percent of government revenues, and their combined dividends accounted for less than 7 percent of government revenues in 2018–2020 (Figure 80). This relatively low contribution to central government is primarily attributed to significant exemptions, including exemptions from customs duties, value-added tax (VAT), and income tax. Moreover, Djibouti's regulations grant SOEs the autonomy to reinvest their profits. While this practice is beneficial in ensuring necessary investments in their respective businesses, it also opens the door to potential abuse. Many countries have recognized the need to establish formal SOE dividend policies to prevent misuse of retained earnings and ensure adequate contributions to the Government's budget. However, Djibouti currently lacks such a dividend policy. It is crucial to strike a balance between allowing SOEs to reinvest for growth and development and ensuring that they make fair and appropriate contributions to the Government's finances. Developing a comprehensive dividend policy can help achieve this objective and promote transparency and accountability in SOE operations.

Figure 79: Overall, commercial SOEs are profitable



Source: World Bank staff calculation based on data from national authorities

Figure 80: but only contribute marginally to the government budget



Source: World Bank staff calculation based on data from national authorities

3. The operations of the SOE sector pose significant fiscal risks, highlighting the need for effective governance and oversight. Yet, the existing legal framework governing SOEs remains incomplete.[74]

3.1. Operations of the SOE sector present substantial fiscal risks, which materialized in 2022.

151. Although the SOE sector is generally profitable, it carries substantial fiscal risks that cannot be overlooked. These risks may materialize in various forms, including reduced dividends and tax receipts, unforeseen onlending, budget transfers, increased debt guarantees, equity injections, and potential government bailouts. Several factors contribute to these risks, such as the limited contributions of SOEs to the budget through taxes and dividends, uncertainty regarding future revenue generated by SOE sales turnover, existing high levels of guaranteed SOE debt, and growing reliance on commercial credit for SOE financing. These risks are further compounded by underlying weaknesses in the SOE corporate governance framework, as elaborated in the following paragraphs.

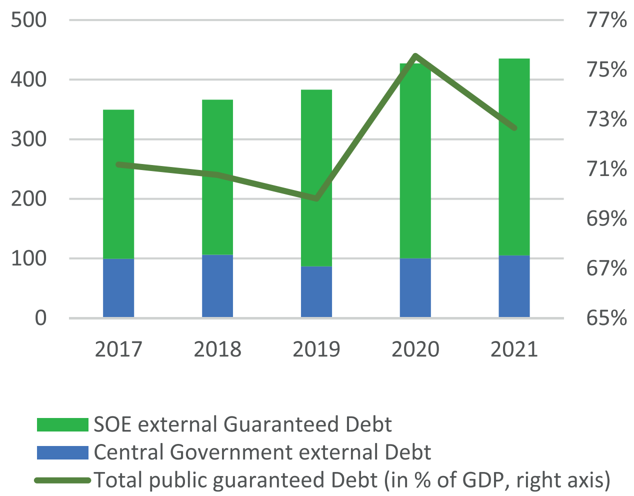
152. The external guaranteed debt of SOEs has seen a significant surge over the past decade, posing significant threats to macroeconomic stability discussed in Chapter 2 on Growth. External guaranteed debt of SOEs almost tripled from 2015 to 2021, reaching DJF 330 billion (equivalent to USD 1.86 billion - Figure 81). This substantial increase contributed to the overall rise in the country's external public debt, which now stands at 72 percent of GDP. The majority of this SOE-related debt consists of non-concessional loans, secured to finance extensive infrastructure projects, including the Addis Ababa railway, the water pipeline from Ethiopia, the construction of the Doraleh multi-purpose port and the Port of Ghoubet, and the development of the Djibouti Damerjog Industrial Development (DDID) FTZ. In terms of Djibouti's public debt composition, bilateral public debt constitutes the largest portion, accounting for 72 percent of total outstanding public debt, while multilateral debt represents 26 percent.

153. The fiscal risks associated with SOEs became a reality in 2022. Djibouti faced a decline in revenue due to a series of external shocks, including the impacts of COVID-19, conflict in Ethiopia, and the war in Ukraine. The country's debt service burden significantly increased. As a result, Djibouti was unable to fulfill its obligations on three loans: the Addis Ababa railway, the water pipeline from Ethiopia, and the cement factory. Accumulated arrears in debt payments reached approximately 3 percent of GDP, pushing the country into a state of debt distress. To address the situation, the Government of Djibouti has entered into bilateral discussions with China to explore the possibility of restructuring the loans related to the railway and the water pipeline. While the port, electricity, and telecom sectors appear to be profitable and have managed to meet their external debt service requirements, they will require close monitoring. Their ambitious investment plans rely on external financing and will lead to an increase in contingent liabilities. Furthermore, the lack of available information regarding the level of cross arrears in domestic debt repayments between the Government and SOEs, as well as among SOEs themselves, adds to the challenges faced by Djibouti in managing fiscal risks effectively.

[74] This section discusses all non-commercial SOEs

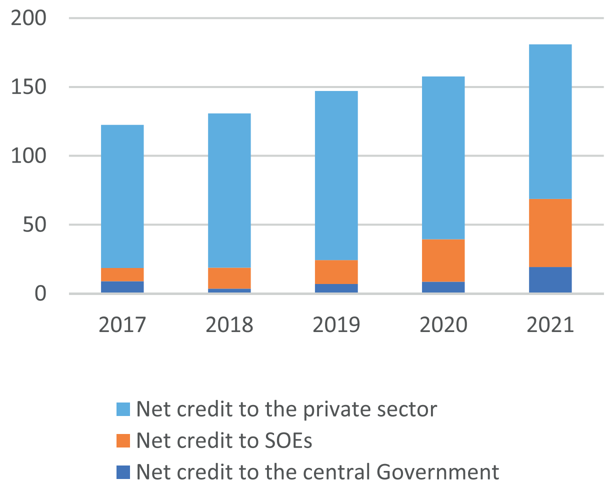
154. Given the increasing reliance of the SOE sector on the local banking sector, there is a need for enhanced state supervision and control. ol. Between 2020 and 2021, net domestic credit to the entire SOE sector saw a significant, 61 percent increase, accounting for 36 percent of the banking sector's net domestic assets and 73 percent of total credit to the nonfinancial public sector in 2021 (Figure 82). The growing exposure of banks to SOEs can be attributed to their role as key investors in infrastructure projects aligned with the Government's 2035 vision. Commercial banks are actively supporting these initiatives, as encouraged by the Government, which seeks to channel excess liquidity toward financing the national economy rather than keeping assets abroad. However, the substantial exposure of the banking sector to the SOE sector highlights the importance of strong oversight and control by the central government, the primary shareholder of SOEs. To ensure the establishment of sound governance practices for SOEs and prevent them from becoming a burden on public resources, it is crucial for the central government to enhance its monitoring and control mechanisms. This will help mitigate potential risks associated with the banking sector's high exposure to SOEs and will safeguard public resources from undue strains.

Figure 81: The increasing level of SOE guarantees pose significant fiscal risk (external debt, DJF billions) …



Source: World Bank staff calculation based on data from national authorities

Figure 82: as well as ballooning exposure to the domestic banking sector (net credit, DJF billions)



Source: World Bank staff calculation based on data from national authorities

3.2. Despite the risks involved in SOE guarantees, the legal framework governing sovereign guarantees in Djibouti is incomplete. Efforts to improve governance are ongoing, but compliance is weak.

155. Djibouti strengthened its legal framework governing sovereign guarantees in 2023. According to the organic Law No. 107/AN/00/4th related to the finance law, the provision of guarantees and cautions is subject to Presidential decree, following the approval of the Minister of Finance (MoF). The law also specifies that the annual limit for guarantees, and cautions granted by the Government, is determined by the finance law. However, the existing legal and institutional framework lacks specific guidance on important aspects, such as the timeframe for considering guarantees, eligibility criteria for decision-making processes, and acceptance or rejection of guarantee proposals. This gap undermines the effectiveness of the guarantee system. To address this issue, on May 16, 2023, the Council of Ministers took a significant step, adopting a decree that outlines the conditions and procedures for granting guarantees to SOEs. Under the new decree, beneficiaries are required to provide comprehensive information regarding guarantees and associated transactions to the MoF. This will enhance transparency and facilitate informed decision-making. Furthermore, the establishment of the Executive Secretariat in charge of the state portfolio (SEPE) in 2021 represents significant progress in addressing these challenges. . SEPE is entrusted with the responsibility of implementing an information and documentation system, as well as preparing annual performance reports for SOEs. These measures aim to strengthen oversight and monitoring of SOEs and improve the overall governance framework.

156. The new decree regulating government guarantees to SOEs is part of a comprehensive set of reforms aimed at improving SOE governance in Djibouti. In 2016, the Government approved a Code of Good Governance for SOEs, which sought to enhance their performance. The primary objective of the Code was to establish professional management of state interests in SOEs, with the MoF taking the lead in policy coordination and introducing an effective audit function. The Code grants the MoF a clear mandate to exercise control over SOEs, hold SOE management accountable through performance contracts, and subject SOEs to ex-post public sector audits. These measures were designed to improve the governance framework of SOEs and enhance their overall performance. As part of these reforms, it is crucial to publish audited financial statements that cover the entire SOE sector, including overseas assets. This transparency will provide insights into the overall fiscal position of the public sector and contribute to debt sustainability. In accordance with the provisions of the Code of Good Governance, management of public companies is now required, after consultation with the Board of Directors, to enter into a three-year performance contract with the parent Ministry and the Ministry of Economy and Finance, further strengthening accountability and performance management. . In 2019, Laws No. 55 and 56 were enacted to establish a new legal framework for SOEs, while Decree 176 outlined criteria for the independence of SOE administrators and introduced conflict-of-interest procedures for their adherence. Furthermore, in early 2023, the Government of Djibouti joined the World Bank MENA SOE Compact, demonstrating its commitment to further improving the governance and performance of its SOE sector. These reforms, including the recent decree, the Code of Good Governance, the establishment of the Executive Secretariat, and adherence to the World Bank MENA SOE Compact, signify Djibouti's dedication to enhancing the governance and efficiency of its SOEs. Continued implementation of these measures will contribute to a more transparent, accountable, and sustainable SOE sector in the country.

157. Despite the above measures, a recent report on SOE governance practices in Djibouti concludes that SOE compliance is still insufficient. [74] The report confirms that efforts by the SOE Secretariat to systematically collect information from and about SOEs have not yet been successful.

This can be partly attributed to the recent creation of the SEPE and the fact that its role has not yet been fully assimilated by public companies. In addition, no full and updated picture of SOE economic and financial performance, including indebtedness and governance arrangements, is currently available. Lack of transparency in the SOE sector is an important contributor to the fiscal risk in any country. This problem appears to be particularly acute in Djibouti. An important way of reducing fiscal risks is to improve the quality of reporting, disclosure, and transparency with respect to SOE finances. Such improvements should be a high priority for Djibouti.

158. Important steps that still need to be taken to improve SOE governance in Djibouti include (i) further strengthening of the legal and institutional environment by clarifying the role of SOE boards and ensuring that the Executive Secretariat is given the resources it needs to do an effective job of SOE oversight; (ii) developing and publicly clarifying the Government's SOE policy with respect to ownership of SOEs; (iii) establishing a performance management system that sets, and reports on the achievement of, performance targets for SOEs and includes these targets in performance contracts to be signed between the SOE oversight agency and SOE boards; (v) professionalizing the composition of SOE boards by increasing the numbers of private sector and other independent members, establishing clear board selection criteria and processes, and requiring regular board member performance evaluations; and (vi) strengthening the quality and enforcement of financial reporting by imposing sanctions on SOEs not complying with reporting requirements, establishing a website on which SOE performance reports are required to be published, and empowering and requiring the SOE Executive Secretariat to publish aggregate SOE performance data. Singapore's Temasek provides a great example of a state-owned investment company that prioritizes good corporate governance (Box 5).

Box 5: Singapore's Temasek - a state-owned investment company that prioritizes good corporate governance (www.temasek.com.sg)

Temasek was created in 1974 as a company fully owned by the Singapore MoF. It started by taking ownership of SOEs formerly reporting to ministries or other agencies, thereby separating regulation from ownership. There are safeguards against expropriation of Temasek's assets by government. The President approves board members. The MoF is not a board member. Temasek raises capital on the world markets and has a AAA rating from Standard and Poors. It voluntarily follows the Santiago Principles for Sovereign Wealth Funds. Temasek owns stakes in many companies. Its investments amount to the equivalent of approximately 20 percent of the Singaporean economy. These include market leaders in air transport, banking, telecoms, and real estate development, all of which are group parent companies. Temasek also has an 18 percent shareholding in Standard Chartered Bank and in two telecom companies in competition with the Temasek-owned Singtel. Temasek encourages competition within its portfolio. The Temasek Charter approved in 2004 is aimed at enabling Temasek to be an active investor and shareholder and to deliver value over the long term. The main features of the Charter are employment of commercial principles in asset management; frequent rebalancing of the portfolio to maximize long term risk adjusted returns; promotion of corporate governance in portfolio companies; granting full autonomy to portfolio boards; and acting with complete autonomy without political interference in its own business decisions. The Charter therefore gives Temasek full autonomy to take risks of concentration by owning up to 100 percent of a portfolio company, or deploying its investments into a particular country or sector.

[75] World Bank: State-Owned Enterprises in Djibouti, Review of SOEs Governance Practices, 2022 [add hyperlink as well].

Previously, Temasek's board had many civil servants. The current Temasek board has 10 members, most of whom are non-executive, independent, private sector leaders. There is no ministerial representative. The MoF's right to appoint or remove board members is subject to the approval of the President, as is the appointment or removal of the CEO by the Board. Temasek has approximately 450 employees from more than 20 countries. Temasek's portfolio has grown and become increasingly globalized since 2004. The current portfolio is valued at approximately USD 300 billion, with the portfolio share of Singapore companies having fallen from more than 50 percent to 27 percent. Over the same period China's share rose from 6 percent to 22 percent. In 2022 the Group generated net of tax profits of USD 7.9 billion, i.e., USD 3.1 billion after payment of corporate taxes.

Sources: OECD, Temasek

B - FOCUS ON THE PORTS: DETERIORATION IN FINANCIAL PERFORMANCE AND HEIGHTENED FISCAL RISKS.

The port sector plays a central role in both Djibouti's economy and its SOE sector, holding a dominant position. However, recent shocks have had a significant impact on Djibouti's port activities, leading to a decline in financial performance and an increase in fiscal risks

4. While Djibouti's port sector is of strategic importance to the economy, its financial performance has deteriorated recently.

159. The ports in Djibouti hold immense strategic significance for the country's economy and are pivotal to its overall development strategy. Djibouti's strategic advantage lies in its location on the Red Sea and the Gulf of Aden. The services sector, centered on being a major seaport for Ethiopia's international trade and a transshipment hub and refueling center for ships, drives the economy. Significant investments, including foreign funding from China and Europe, have been made in developing and upgrading ports and infrastructure. The success of the ports sector is crucial for Djibouti's aspirations of becoming a prominent regional trade and logistics hub, ensuring long-term growth and prosperity for the country.

160. The port sector holds a dominant position within Djibouti's SOE sector. Among the 35 nonfinancial commercial SOEs, 20 are in the transport sector, with 14 being port companies. These port SOEs contributed 45 percent of value added generated by the 23 key noncommercial SOEs between 2018 and 2020. These port companies are subsidiaries of Great Horn Investment Holding S.A.S (GHIH), with 60 percent of shares held by the Ports and Free Zones Authority (APZFD) and 40 percent by the Sovereign Wealth Fund (FSD) of Djibouti.

161. However, the global decline in transshipment and logistics services due to the COVID-19 pandemic and conflicts in neighboring Ethiopia have significantly impacted Djibouti's port activities. Container terminal volume declined by 25 percent in 2021 compared to 2019, and bulk cargo volume declined by 20 percent over the same period. This trend continued in 2022, with an 8 percent decline in container terminal volume and a 10 percent decline in bulk cargo volume. These challenges highlight the economy's reliance on trade with Ethiopia and the need for diversification. Djibouti's port activities heavily depend on Ethiopia's import and export transactions, making it vulnerable to adverse economic events and any slowdown in Ethiopia's trade with its main partners.

However, as of April 2023, there has been a 20 percent rebound in container terminal volumes; bulk cargo has continued to decline by 10 percent . [76]

162. Despite currently surpassing neighboring countries in terms of port logistics management, as indicated by the World Bank's Logistics Performance Index (LPI), Djibouti will increasingly face heightened competition in the future. The Berbera container terminal in Somaliland is expected to increase its market share, posing a challenge to Djibouti's Société de Gestion du Terminal à Conteneurs de Doraleh (SGTD). Recognizing this competitive landscape, the Government of Djibouti, through GHIH, has embarked on an economic diversification strategy. This strategy aims to capture more value added in international trade by implementing new infrastructure projects, such as a ship repair yard, a Liquid Bulk Port (Oil Jetty), a new oil terminal, and the development of a new business district in the old port. The successful execution of these projects will be critical to the long-term sustainability and viability of GHIH.

Box 7. Financial performance four of its five largest public port companies, 2017-2021 [77]

Financial information is presented in table 1 for four of its five largest public port companies: Port de Djibouti (PDSA), Société de Gestion du Terminal à Conteneurs de Doraleh (SGTD), Doraleh Multipurpose Port (DMP) and the Port of Tadjourah.

PDSA, has a long history of facilitating Ethiopia's international maritime trade. In 2021, its total assets amounted to 1.1 billion USD, while its liabilities stood at 619 million USD. Revenues declined steadily between 2017 and 2021, resulting in operating losses of USD 4 billion in 2020 and USD 4.6 billion in 2021, attributed to the COVID-19 pandemic and the Ethiopian war. PDSA showed net profitability in 2020 and 2021 due to the reversal of depreciation. Although its debt-to-equity ratio improved to 1.16 in 2020, the company faced payment arrears exceeding four years in 2021.

Société de Gestion du Terminal à Conteneurs de Doraleh (SGTD): A container port inaugurated in 2009, boasting an annual capacity of 1.2 million TEUs and an 18-meter draught to accommodate large post-Panamax container ships. It is directly linked to the Djibouti-Addis railroad line. Despite facing negative revenue impacts from factors like COVID-19, SGTD maintained profitability. In 2021, it achieved a net return on equity of 20% and a return on assets of 18%, demonstrating strong liquidity and low debt. It maintained a conservative debt-to-equity ratio of 9% in 2021. SGTD's total assets in 2021 amounted to FDJ 92.1 billion, or 15.4% of GDP, while total liabilities were just FDJ 7.3 billion, or 1.5% of GDP. SGTD received no subsidies, indicating very low fiscal risk due to its financial stability and prudent management.

Doraleh Multipurpose Port (DMP): Established in 2018 to alleviate congestion at Doraleh's primary port, offering bulk, breakbulk, container, and RORO (roll-on/roll-off) handling capabilities. It features a 1,200-meter quay and 15-meter draught, accommodating vessels of up to 100,000 DWT (deadweight tons). Expansion plans involve extending the quay's length to over 4,000 meters. While maintaining stable annual revenues of approximately FDJ 15 billion since its inception, DMP faced financial challenges with net losses amounting to FDJ 2.4 billion in 2019, FDJ 2.9 billion in 2020, and FDJ 1.5 billion in 2021. In 2021, total assets were valued at FDJ 91.4 billion (USD 523 million), or 15% of GDP, while total liabilities amounted to FDJ 98.8 billion (USD 555 million), or 16% of GDP. DMP's financial statements indicated no subsidies, dividend payments, or significant taxes paid during the period, and uncertainty regarding future profitability represents a major source of fiscal risk for the port. The Port of Tadjourah was established in June 2017 by the Djibouti government as part of its regional infrastructure expansion plan. Originally intended for potash exports, it also serves as a

[76] https://www.cmport.com.hk/EN/investor/Operation.aspx?p=6 spx?p=6

multi-purpose port. Developed alongside major infrastructure projects such as the Tadjourah-Bahlo Northern Corridor highway, the port consists of two berths, each 435 meters long and 12 meters deep, along with a 30-hectare area equipped with advanced potash handling facilities and a 190-meter RoRo (roll-on/roll-off) quay. Originally designed for potash exports, its focus shifted to the import of Ethiopian coal due to instability in Ethiopia. Despite this adjustment, the port's activity volume remains low, justifying its poor financial performance.

Table 7. Financial ratios of Djibouti's main ports (PDSA, SGTD, DMP and PAT)

			2017	2018	2019	2020	2021
Profitability	Return on equity (ROE	PDSA	0.3	0.2	0.0	0.3	0.2
		SGTD	0.3	0.2	0.2	0.2	0.2
		DMP		0.7	na	na	na
		PAT		na	-0.1	-0.1	-0.2
	Return on assets (ROA)	PDSA	0.1	0.0	0.0	0.1	0.1
		SGTD	0.3	0.2	0.2	0.2	0.2
		DMP		0.0	0.0	0.0	0.0
		PAT		na	-0.1	-0.1	-0.2
Liquidity	Current ratio	PDSA	9.3	6.0	6.1	7.5	1.4
		SGTD	4.4	7.0	7.3	3.7	4.7
		DMP		0.1	0.1	0.1	0.0
		PAT		1.0	0.6	3.3	0.2
	Quick ratio	PDSA	9.3	6.0	6.1	7.5	1.4
		SGTD	4.2	6.8	7.1	3.6	4.5
		DMP		0.1	0.1	0.1	0.0
		PAT		1.0	0.6	3.3	0.2
Solvency	Debt-to-equity ratio	PDSA	3.2	3.1	3.0	2.4	na
		SGTD	0.1	0.1	0.1	0.1	0.1
		DMP		64.2	na	na	na
		PAT		1.0	1.0	1.0	1.0
Size	Assets relative to GDP	PDSA	0.4	0.3	0.3	0.3	na
		SGTD	0.2	0.2	0.2	0.2	0.2
		DMP		0.2	0.2	0.2	0.2
		PAT		0.0	0.0	0.0	0.0
	Liabilities in relation to GDP	PDSA	0.2	0.2	0,20	0.2	na
		SGTD	0.1	0.0	0.0	0.0	0.0
		DMP		0.2	0.2	0.2	0.2
		PAT		0.0	0.0	0.0	0.0

Source: WB team calculations based on GHIH audited financial statements

5. Fiscal risks stemming from the port sector are significant.

163. Fiscal risks stemming from port sector SOEs are an important component of the risks facing the Djibouti SOE sector more broadly. These fiscal risks result from vulnerability to external and macroeconomic shocks, and weaknesses and constraints in the governance framework, and are evidenced by a deteriorating financial performance, heavy debt and contingent liabilities, and extensive exemptions from taxes, customs duties, dividends, and other contributions to the Budget.

- **External and macroeconomic risks.** The volume of activity in Djibouti's ports is highly vulnerable to fluctuations in international trade, particularly in Ethiopia's external trade, and to the volume of shipping using the Red Sea routes. Performance figures for the four ports covered in this section show the negative impacts of the war in Ethiopia and the COVID-19 pandemic on port finances. The war in Ukraine has added to these problems. Djibouti's dependence on external fuel supplies also poses a risk of unforeseen increases inoperating costs from the cost of fuel.
- **Governance Constraints.** The port SOEs operate under the same governance framework as that of other SOEs. The weaknesses and constraints of this framework are outlined in Box 6. They include slow and only partial implementation of the recently approved Code of Good Governance for SOEs; inadequate composition, functioning and accountability of the Boards of Directors; inadequate central oversight, performance monitoring and performance management; lack of a clear and consistent state ownership policy; and inadequate reporting and disclosure on financial performance.
- **Declining Financial performance. Based on their audited financial statements, the four primary port companies** showed deteriorating financial performance over the period 2017–2021. PDSA and SGTD profitability indicated low risk levels over most of the period, as did their liquidity and solvency levels. But DMP's, PAG's and PDT's losses over 2019–2021, combined with poor liquidity and insolvency, put all three in the high-risk range.
- **Accumulating Indebtedness.** PDSA, DMP and PDT debt has remained stable or grown only slowly.
- **Indirect subsidies through tax and other payments concessions.** While the four ports did not receive direct subsidies during the mentioned period, they were major beneficiaries of implicit subsidies such as tax incentives, other advantageous perks, and the exemption from dividend payments. Additionally, it is probable that none of them incurred import duties on imported equipment. Unfortunately, there is no available data to quantify the value of these implicit subsidies.

C - IMPACT OF SOES ON THE PRIVATE SECTOR: REDUCED COMPETITION, LOWER QUALITY OF SERVICES, AND INCREASED COSTS.

This section examines three key aspects related to the role of SOEs in Djibouti's competitive landscape and their impact on the private sector: (a) the impact of competition between SOEs and private businesses, and the extent to which SOEs in Djibouti are limiting the competitive landscape for private sector businesses; (b) how the provision of essential services by SOEs, characterized by lower quality and higher costs, is affecting the effectiveness of the private sector; and (c) the logistics sector in Djibouti as an example of how monopolistic SOE service providers can improve the cost and quality of services by outsourcing segments of the value chain to the private sector, while acknowledging the need for further improvement in this regard in Djibouti. To substantiate this analysis, a qualitative survey was conducted by the World Bank team, involving a dozen significant private companies operating in Djibouti. [78] The questionnaire used for this survey can be located in Appendix 4 of this report [79]

[78] This section is a summary of key findings of the World Bank's FCI team's various diagnostics, supplemented by the results of interviews carried out by the CEM Task Team with private sector respondents in Djibouti

[79] This section is a summary of the main findings of the Bank's FCI team's various diagnostics, supplemented by the results of interviews conducted by the CEM working team with private sector respondents in Djibouti.

6. The telecommunication and electricity sectors are dominated by monopolistic SOEs, and this directly contributes to the high cost and low quality of services.

DT and EDD, as monopolistic SOEs in the telecommunications and electricity sectors, impede the entry of private companies and hinder market-driven efficiency, innovation, and quality service delivery.

6.1. Djibouti's telecom sector is constrained by the absence of competition, mainly due to DT's long-standing monopoly. This limits digital development and restricts access to innovative services.

164. **Djibouti's telecommunications sector is dominated by a state-owned company that is a monopoly provider and, in some market segments, a direct competitor to private companies.** Although Djibouti has made significant progress in establishing itself in regional connectivity and data markets, the potential of its domestic ICT sector remains largely untapped due to high prices. This is partly due to the persistent delay in liberalizing the telecommunications market and the resulting lack of competition. The telecommunications sector in Djibouti was one of the last monopolistic sectors in the world (along with Eritrea), with service provision until recently limited to the state-owned monopoly operator, Djibouti Telecom (DT). Created in September 1999 by the merger of the Office des Postes et Télécommunications (OPT) and the Société Internationale des Télécommunications de Djibouti (STID), DT is the country's monopoly provider of fixed and mobile services. The government's recent announcement of its desire to open up DT's capital to private shareholders, as well as the recent award of two Internet service provider licenses and a license to operate a submarine cable landing station, bear witness to the government's strong desire to open up the sector to the private sector and modernize the economy.

165. **DT is the only mobile network operator (MNO) but the country has had two licensed Internet Service Providers (ISPs) since 2019.** The first ISP license was awarded to Afrifiber in July 2019 and the second to TO7 Network. The government has expressed no intention of awarding a second MNO license in the short term. DT has significantly improved its mobile coverage in recent years to reach 90% of the population covered by 2G/3G/4G by the end of 2022[80]. Further deployments of mobile sites are planned as part of the East African Regional Digital Integration Project (EARDIP), which is expected to come into effect in 2024, and will further extend mobile coverage of the population. Residential users in Djibouti do not yet benefit from full competition, as the new ISPs are still in the process of rolling out their networks and only partially cover Djibouti city. TO7 Network also holds a license to operate a submarine cable landing station, which is currently under construction and is due to open in March 2024 with the arrival of Google's Blue-Raman cable in Djibouti. However, significant market restrictions exist, such as: 1) the risk of price squeeze due to the lack of harmonization of ISP licenses for access to international connectivity; 2) the cost of power supply by Electricité de Djibouti; and 3) potential regulatory risks related to data protection/security and cybersecurity due to emerging regulatory frameworks in Djibouti.

[80] SOEs and particularly DT have preferential treatment in terms of power supply and cost from EDD, and also provides them an advantage in terms of investments in (costly) back-up solutions.

A technologically advanced, open, and competitive digital infrastructure is needed to enable Djibouti's economic transformation. Djibouti Telecom now offers mobile data services on 4G technology at more competitive rates (Table 2). Promoting competition in the ICT sector is vital to leveraging the potential of Djibouti's digital infrastructure and unique geographic endowments. Several options are available to the Government to accelerate national broadband deployment, including enabling competition in both the fixed and mobile sectors. Fast, high-quality, universal, and affordable broadband internet is a key foundational building block for any digital economy and is central to accelerating the performance and efficiency of companies. Such a transformation could foster the growth of key sectors such as finance, commerce, logistics, and energy, and would also support the much-needed development of micro, small, and medium enterprises (MSMEs). The potential for increased development of digital networks applications has important potential for the creation of economic opportunities for Djibouti's digital MSMEs.

Table 8 : Key ICT indicators (latest available comparable data)

	Djibouti	Ethiopia	Sudan	Cabo Verde
Access: Unique mobile-broadband subscriptions (2022) (%) [81]	24.19 %	33.43 %	26.99 %	55.2 %
Quality: Average broadband download speed (2021) (Mbps) [82]	4.6	3.5	5.24	7.94
Affordability: Price of a minimum 2GB mobile internet subscription(2021) (% of monthly GNI per capital [83]	6.1 %	3.4 %	4.5 %	3.1 %

6.2. Djibouti's electricity sector is traditionally dominated by EDD, a vertically integrated utility, covering generation, transmission, and distribution of electricity in the country.

166. Djibouti's electricity sector is traditionally dominated by EDD. Since the introduction of the Independent Power Producer (IPP) Law, in 2015, sector dynamics have evolved, with two IPPs contracted on a single-source basis. EDD remains the cornerstone of the sector, with monopoly in transmission and distribution, and is a single buyer. Therefore, EDD assumes the responsibility for developing and maintaining the power transmission and distribution infrastructure necessary to carry electricity from RE production sites to end users. Expansion and upgrading of transmission infrastructure to accommodate the growing capacity of IPPs' power generation and meet electricity demand remains a critical strategic endeavor that will increase investment pressure over the next decade. On the distribution side, only 55 percent of the population has access to electricity services in addition to the growing industrial and small to medium commercial businesses.industrielles et des petites et moyennes entreprises commerciales en pleine croissance.

[81] GSMA Mobile Broadband Capable Connections (January 2023) / GSMA SIMs Per Unique Subscriber (January 2023) / United Nations Population (January 2023).

[82] https://www.cable.co.uk/broadband/speed/worldwide-speed-league/.

[83] UIT.2022

167. **Therefore, increasing the operational and financial efficiency of EDD remains of strategic importance to sector development and private sector investment.** The operational efficiency of EDD has been identified as one of the main contributors to electricity distribution costs, with factors such as lower billing recovery, higher transmission and distribution losses, aging infrastructure, and higher labor costs per connection contributing to overall costs. The current financial situation is considered balanced. However, increasing the billing recovery rate, aligning it with MENA peers, would provide EDD with additional investment capacity to focus on key infrastructure development. At the same time, the role of the private sector in generation could be reinforced with conducive regulation, fostering competition for new renewable energy (RE) capacity procurement, based on a least cost, power generation plan, relying on private investors to develop power generation infrastructure from renewable sources.

168. **Going forward, there are significant opportunities for implementing reforms enabling private-to-private supply of RE by granting third-party access to the grid and establishing wheeling charges.** Such measures would allow the sector to reduce the pressure of the power supply gap stimulated by rapid, energy-intensive economic growth and, alleviate the investment needs associated with expanding electricity infrastructure, while ensuring additional revenues to the grid infrastructure owner. Furthermore, such reforms would promote competition, encourage private sector participation, and foster a more diverse and sustainable energy market, while paving the way for a more dynamic and resilient energy sector in Djibouti, ensuring a reliable and affordable power supply for both businesses and other consumers.

7. The low quality and high cost of services provided by the electricity and telecom SOEs to the private sector adversely impact the sector's development.

7.1. The quality and cost of EDD's services significantly weigh on businesses operating in the country.

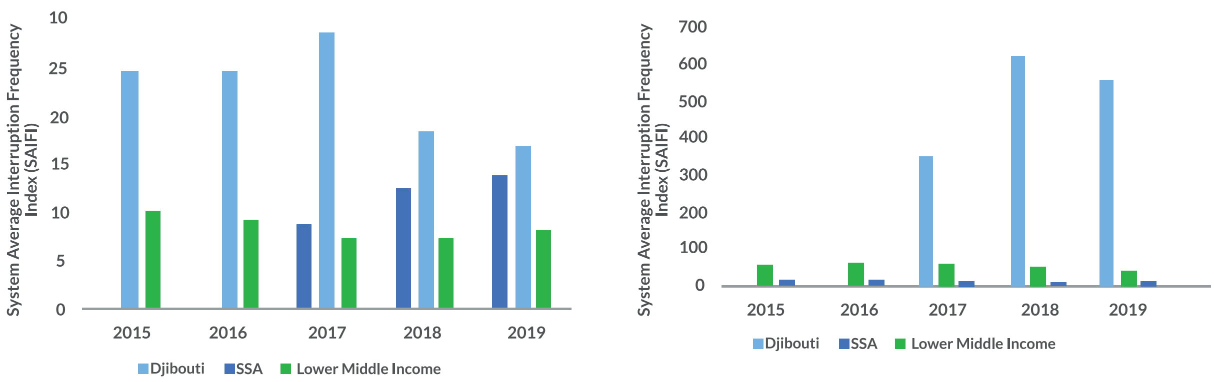
169. **Key issues faced by businesses in terms of EDD's quality of services include power outages and unreliable supply, inadequate infrastructure and maintenance leading to inefficiencies, greater likelihood of power surges and drops, and poor customer service and responsiveness** (Figure 83).

• **Inadequate infrastructure and maintenance.** EDD's electricity infrastructure is outdated or poorly maintained in some areas, leading to inefficiencies and a higher likelihood of power surges and drops, which can damage sensitive equipment and disrupt business operations.

• **Poor customer service and responsiveness.** Businesses face challenges in terms of customer service and responsiveness from EDD. In a monopolistic environment, there is limited incentive for EDD to prioritize customer satisfaction, which can result in slow response times to service requests, billing issues, or other customer concerns. One of the main issues reported by businesses is on the compensation and claims process in the event of significant damages to sensitive and costly equipment resulting from power outages, drops, or surges.

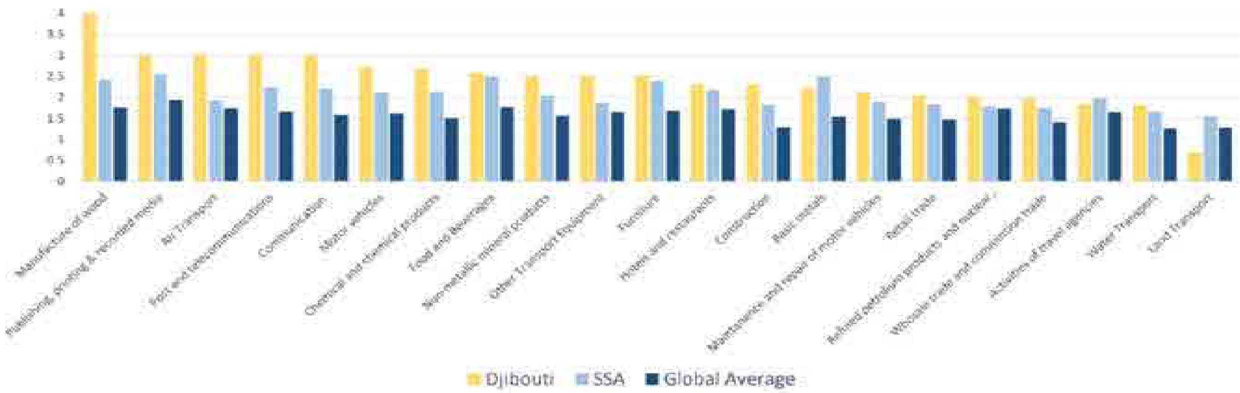
170. **Furthermore, the high cost of electricity in Djibouti is perceived as a significant constraint by the majority of businesses.** It constitutes a considerable portion of production expenses across various sectors, surpassing regional and global benchmarks (Figure 84). Industrial electricity tariffs in Djibouti stand at an exorbitant rate of USD 0.31/kWh, while commercial tariffs are set at USD 0.25/kWh. As highlighted in Chapter 2, electricity prices are higher than in relevant peer countries (see Chapter 2, Figure 26).

Figure 83: SAIDI/SAIFI benchmark



Source: InfraSAP, 2022

Figure 84: Electricity as an obstacle to operations



Source: World Band Enterprise Survey, 2013

171. The limited quality and lack of a fair and comprehensive electricity-pricing mechanism directly impacts the competitiveness of Djibouti's private sector. This has several consequences, including higher operational expenses, decreased efficiency and productivity, limited innovation and technological advancement, and barriers hindering entry and expansion into the market.

- **Increased Operational Expenses.** Costly energy services leads to higher operational expenses for businesses. They must spend more on energy to maintain the required level of production or service delivery. This increase in operational costs affects profitability and potentially forces businesses to increase the prices of their products and services, making them less competitive in the market.

- **Reduced Efficiency and Productivity.** Limited power quality disrupts business operations and reduces overall efficiency and productivity. Downtime caused by power outages results in delays, missed business opportunities, and lower output, negatively affecting a company's ability to compete effectively.

- **Hindered Innovation and Technological Advancement.** Bad and costly energy services also hinder innovation and technological advancement. Businesses may be reluctant to invest in energy-intensive technologies or processes due to the high costs and risks associated with unreliable energy services. This can result in slower adoption of new technologies, reduced innovation, and a lower competitive advantage.

7.2. Businesses in Djibouti continue to encounter challenges related to the quality of telecommunication services offered by DT, and the historically high costs associated with these services.

• **Companies operating in the country report various problems with the quality of services provided. These include performance, reliability, coverage, customer care, security concerns and a lack of advanced services. While these areas are receiving attention from Djibouti Telecom, users' perceptions remain on the following points Performance:** although Djibouti is connected to nine submarine cables, the performance of the national broadband service has not historically been ranked among the fastest countries. The Speed test Global index report for November 2023[84] measures 20.53 Mbps on fixed Internet, ranking Djibouti 137 out of 181 countries. The report does not provide a measure of mobile service performance.

• Although Djibouti is connected to nine submarine cables, the performance of the domestic broadband service often ranks poorly compared with industry benchmarks and has been regularly reported as poor by stakeholders. For example, although neighboring Somalia is indirectly connected to only one submarine cable, Ookla data for February 2023 shows a higher median fixed broadband speed at 9.32 Mbit/s, compared to 7.67 Mbit/s for Djibouti. Ookla data over the past 12 months shows modest improvements in Djibouti's fixed broadband speed, increasing from 5.75 Mbit/s to 7.67 Mbit/s, rating the country 165 out of 182 countries. Overall, there is limited transparency on the quality of the broadband service provided by DT.

• **Lack of reliability :** Internet performance, dropped calls or degraded voice quality impact the productivity of businesses that rely heavily on data-intensive applications or real-time communication.

• **Coverage :** despite Djibouti Telecom's efforts to extend its network coverage, some rural or isolated areas still seem to experience weak signals or unreliable connectivity, impacting businesses operating in these areas.

• **Limited scalability.** Businesses face difficulties in scaling their telecommunications infrastructure to meet their growing needs due to the limited service provided by Djibouti Telecom. The lack of customizable and flexible solutions creates bottlenecks for businesses looking to expand and adapt to changing market conditions.

• **Customer support:** Companies are sometimes faced with prolonged service downtime, which disrupts their business. Improve response times, technical expertise and support channels to resolve problems quickly and efficiently.

• **Security concerns.** Perceptions of a lack of robust security measures or previous data breach incidents have a negative impact on business confidence in the company's services , With increasing dependence on digital communication and data storage, businesses have concerns about the security and privacy of their information when using Djibouti Telecom's services. A perceived lack of robust security measures and past incidents of data breaches negatively impacts business trust in company's services.

172. **Lower broadband costs in Djibouti are an important competitive aspect for the majority of businesses, whether they operate in the digital sector or use digital tools to boost productivity and innovation.** As highlighted in Chapter 2, broadband prices in Djibouti remain comparatively high when compared to similar countries (see Chapter 2, Figures 28 and 29). In addition: i) DT's limited range of service plans results in businesses having a narrow set of options that may not align with their specific needs or budgets; ii) limited availability of advanced telecommunication services like dedicated leased lines, cloud-based solutions, and advanced VoIP results in businesses facing higher costs for these services compared to markets with more competitive offerings; iii) DT charges businesses for the installation and setup of telecommunication services, such as fixed-line telephony and internet services. These one-time fees can add to the overall cost of accessing these services and may be particularly burdensome for SMEs with limited budgets.

[84] https://www.speedtest.net/global-index/djibouti#fixed.

173. The negative effects of companies' perceptions of the quality and cost of telecommunications services in Djibouti have an impact on the competitiveness of Djibouti's private sector, resulting in a lack of efficiency and productivity, higher operating costs, a slowdown in technology adoption and innovation, and the loss of customers and business prospects.

- **Reduced efficiency and productivity.** Poor communication between employees, clients, and partners leads to lack of access to information, missed deadlines and opportunities, and inefficient operations. Service disruptions cause businesses to lose valuable time, reducing overall productivity and efficiency.

- **Increased operating expenses.** Businesses struggle to afford even basic services, such as internet access, fixed-line telephony, and mobile services, which are essential for day-to-day operations. In addition, high telecommunication costs force businesses to allocate a larger portion of their budgets to these services, leaving fewer resources available for other essential investments, such as research and development, marketing, and employee training.

- **Slow technology adoption and hindered innovation .** Businesses are prevented from adopting high-speed internet, cloud-based solutions, and management applications, which can drive innovation and improve operations. Businesses that cannot access advanced telecommunication services struggle to adapt quickly to changing market conditions, making it difficult for them to stay competitive and seize new opportunities by digitalizing operations and services.

- **Loss of customers and business opportunities.** Poor telecommunication services lead to dissatisfied customers due to limited digital services, slow response times, and difficulty in reaching a business, which can result in lost sales and damage to the company's reputation. Costly international bandwidth also prevents businesses from effectively communicating with or reaching clients, partners, and suppliers in other countries, potentially limiting their ability to expand into new markets and form strategic partnerships.

8. The logistics sector: a success story with even greater potential.

174. **Investments in port facilities and modernization have enhanced the capacity and efficiency of Djibouti's logistics sector, providing private sector companies with improved infrastructure and boosting their competitiveness.** DPFZA SOEs have played a pivotal role in optimizing port operations, resulting in smoother cargo handling and reduced turnaround times (LPI Scores 2018–2023). Through strategic partnerships with countries like China and Ethiopia, DPFZA SOEs have also contributed to the development of Djibouti's regional and international connectivity. This has led to substantial investments in rail and road infrastructure, creating seamless links between Djibouti's ports and neighboring nations and facilitating cross-border trade. Improved connectivity has benefited private sector logistics companies by expanding their market reach and enabling the provision of more efficient services. Additionally, establishment of FTZs and provision of fiscal incentives have attracted private sector investments in the logistics industry. This has granted companies tax exemptions, streamlined customs procedures, and access to modern infrastructure, thereby fostering their growth and expansion in the region.

175. **Successful technology transfer and knowledge sharing, as well as job creation and skills development, have been achieved through collaborations between port SOEs and international partners in the logistics sector.** These partnerships have facilitated transfer of technology and knowledge, enabling private sector companies to adopt best practices and enhance operational efficiency. Consequently, they can provide improved services to their customers. DPFZA SOEs have played a pivotal role in generating employment opportunities and fostering skills development in the logistics sector. They have made significant investments in training and development programs for their workforce, resulting in higher levels of expertise within the industry. This has had a positive impact on the private sector, as they can leverage a skilled workforce, which is crucial for their growth and competitiveness.

176. **However, there is still potential for further improvement.** DPFZA SOEs should prioritize ongoing enhancements in the quality and efficiency of their services. This could be accomplished by increasing investments in cutting-edge technologies, optimizing operations, and adopting best practices in port management. By setting a standard for service quality, they could stimulate competition and motivate private sector companies to enhance their own services. To facilitate these improvements, it is essential to support key reforms, including

- **Foster collaboration and partnerships** Encouraging collaboration between SOEs and private sector companies could lead to knowledge-sharing, technology transfer, and joint innovation. This could be facilitated through PPPs, joint ventures, or other collaborative initiatives. By working together, both SOEs and private companies could enhance their competitiveness and contribute to the development of the logistics sector. DPFZA SOEs should actively participate in and support the development of innovative solutions for the logistics sector. This could be achieved by investing in research and development, partnering with private sector companies, and establishing innovation hubs to facilitate exchange of ideas and development of new technologies and solutions.
- **Reinforce independent regulatory oversight.** Expediting the operationalization of the independent regulatory body, SEPE, to oversee the operations of SOEs and private sector companies could help ensure fair competition and maintain a level playing field in the logistics sector. This regulatory body should have the authority to enforce compliance with established standards, promote transparency, and address anti-competitive practices. SEPE should also adopt transparent pricing and service terms to ensure a level playing field for private sector companies. This includes clear and consistent fee structures and service-level agreements enabling fair competition.

- **Open up specific subsectors to private competition.** The Government can consider liberalizing specific subsectors within the logistics industry, allowing private sector companies to compete directly with SOEs or sub-contract these specific market segments. This would create a more competitive market environment and encourage both SOEs and private companies to improve their services and efficiency. International experience in the case of South Africa demonstrates how opening up a traditionally state-monopolized sector to competition can stimulate innovation, improve service, and attract investment. The South African logistics sector, particularly the port and railway subsectors, was traditionally monopolized by state-owned Transnet; however, the Government has recently started to allow private operators to run their own services on some rail routes and to operate terminals at some ports.

9. Policy Recommendations

177. Encourage competition. Promoting competition is essential for private sector development. Measures to improve competition include: (i) implementing pro-competition regulations and policies that encourage the entry of private companies in sectors dominated by SOEs; (ii) gradually reducing market barriers and exclusive rights held by SOEs, creating a level playing field for private enterprises; (iii) encouraging PPPs and joint ventures between SOEs and private companies to foster knowledge transfer and enhance efficiency.

178. Strengthen the institutional framework for financial oversight to limit SOEs fiscal risk. Efficient information systems and availability of data on the whole SOE sector would improve the assessment of SOE fiscal risks. Measures to achieve this include: (i) issuing instructions that all SOE accounts be published, and that SEPE be required and empowered to publish aggregate SOE performance data; (ii) establishing systems and procedures for oversight and monitoring of SOEs; (iii) institutionalizing the production by SEPE of a consolidated analysis of trends and risks associated with SOEs.

179. Strengthen the regulatory framework. A robust regulatory framework is necessary to ensure fair competition and promote private sector development, including: (i) strengthening the legal and regulatory framework for SOEs, notably by clarifying the role of boards, their accountability, and reporting requirements; (ii) strengthening the independent regulatory bodies responsible for overseeing key sectors dominated by SOEs, such as energy, transport, and telecommunications; (iii) implementing and enforcing competition laws to prevent anti-competitive practices and ensure a level playing field; (iv) enhancing the capacity of regulatory bodies through training and technical assistance, ensuring their ability to effectively enforce regulations.

Annex 1: Benchmarking Djibouti's growth performance

To support the analysis of the most binding growth constraints and opportunities, the CEM will use selected country-benchmarking groups. The first group of regional peers includes MENA region countries excluding high income countries and IGAD member countries. These have been frequently used as comparators in recent World Bank studies. Structural peers are selected using a data-driven approach. Structural peers share similar economic characteristics as Djibouti in 2000-2019 in terms of: income per capita, ports' key role in the economy, economies tied strongly to a big neighbor and small states. They include Comoros, Cabo Verde, Sao Tome and Principe and, Belize. Aspirational peers include Singapore, which generally stands out as an example, and Mauritius for its successful development experience.

What is the period of analysis?

--> 2000-2021 (last 2 decades)

-> 2000-2009 and 2010-2019 (structural break in 2009)

Who are the Regional peers?

-MENA region countries excluding high income countries

-IGAD member countries: Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda

Who are the structural peers?

Comoros, Cabo Verde, Sao Tomé and Principe and BelizeSelection Criteria (2000-2019):

income per capita, ports key role in the economy, economies tied strongly to a big neighbor, small states

Who are the aspirational peers?

Singapore, Mauritius

Annex 2: Estimating the impact of recent shocks and policy reforms in Djibouti, CGE modelling methodology

To evaluate the overall economic effects of various shocks that have affected Djibouti's economy in recent times (such as the COVID-19 pandemic, Ethiopia conflict, and Ukraine War), as well as the potential impact of growth-stimulating reforms (specifically the reduction in electricity and telecommunication prices), the World Bank team employed a Computable General Equilibrium (CGE) model based on an updated Social Accounting Matrix (SAM) for the year 2018. This analysis aims to capture the impacts on economic growth, employment, and household welfare

Methodology:

Calibrating the SAM: the model was calibrated using the social accounting matrix (SAM) for the year 2018, which was updated from the original SAM for 2014. The initial SAM encompassed 54 production activities (both formal and informal), 28 commodities, 12 types of factors of production, and 19 institutional sectors (including 10 household categories). The labor factors were determined based on income, and households were differentiated according to their overall level of final consumption. The updating process involved constructing various macro-SAMs, applying the cross-entropy method under constraints, and resegregating the macro-SAM to obtain different sectors. This resulted in a SAM that distinguished production activities, factors of production, commodities, and households. The final SAM consisted of 38 production activities, 28 commodities, and 3 types of factors of production (capital, land, and labor). The labor market was regionally segmented, with four labor categories differentiated by skill and formality. Production was modeled using a nested Constant Elasticity of Substitution (CES) structure within each region. The labor supply was determined by real wages for each labor category, assuming partially flexible wages and labor supply. There were 10 household categories distinguished by income/consumption decile. Other institutions included enterprises, the Government, and the rest of the world. The model accounted for various tax types, such as factor taxes, production taxes, import taxes, VAT, and direct income taxes. Investment was differentiated between public and private sectors. The model was run for 18 periods, covering the years 2018–2035.

CGE Model:

The Djibouti CGE model is a single-country, recursive dynamic model. It is an adapted version of the World Bank CGE model known as Mitigation, Adaptation and New Technologies Applied General Equilibrium (MANAGE) model. In addition to the standard features of a single-country CGE model, the MANAGE model incorporates a detailed energy specification, enabling capital/labor/energy substitution in production, intra-fuel energy substitution across all demand agents, and a multi-output, multi-input production structure. The specifics of the MANAGE model are extensively described in Van der Mensbrugghe (2017). The Djibouti MANAGE model was expanded to analyze the economic effects of different shocks and reforms. While the shocks included the COVID-19 outbreak and the Ethiopia and Ukraine conflicts, the model also examined the impacts of electricity and telecommunication reforms. In terms of model closure, the budget balance is endogenous, while tax rates are fixed. Government consumption and investment are fixed in real terms and calibrated to reflect past performance in the baseline scenario. Any surplus is used to repay debt, and any deficit is financed through borrowing. Investment is driven by savings. Foreign savings are exogenous and calibrated to match historical data. The nominal exchange rate is fixed.

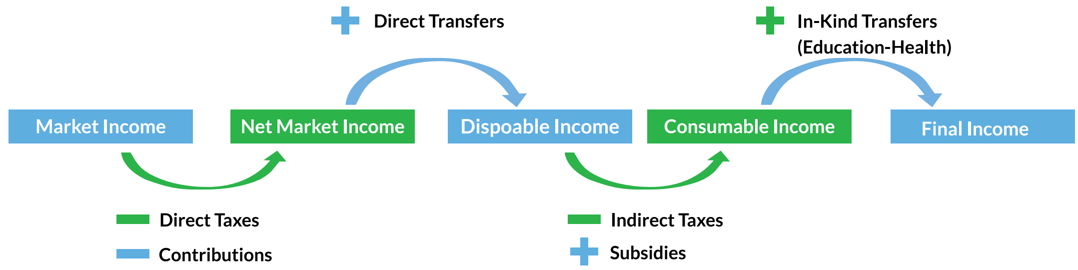
Note: The MANAGE model adapted for Djibouti is a variant of the World Bank's CGE model, customized to suit the country's specific context and analysis requirements.

Annex 3: The Role of Fiscal Policy in the Fight Against Poverty and Inequality in Djibouti

Methodology and Data

The CEQ methodology[85] elaborates different income concepts, resulting from various tax interventions, and analyzes their profiles in terms of poverty and inequality. his method includes five income concepts, as detailed in Figure 1: i) market income,[86], which refers to the income an individual earns in the market; ii) net market income, the result of deduction of tax and social security contributions from market income; iii) disposable income, adding direct transfers (e.g. cash transfers) to net market income; iv) consumable income, adding subsidies and subtracting indirect taxes (such as VAT); and (v) final income, adding transfers in kind (such as public expenditure on education and health) to consumable income. Poverty and inequality are calculated at each income concept level, using the rate of population living below the national poverty line and the Gini coefficient, respectively. The attribution method for each tax intervention is defined either by (i) direct identification when the survey indicates the advantage beneficiary, or the taxpayer, as well as the amount received; or by (ii) imputation, when the survey indicates the benefits beneficiary, but not the amount received; or by (iii) simulation, i.e., when none of the methods above can be used, beneficiaries and amounts received must then be calculated according to the rules of the program, in coherence with the administrative data. The results obtained for specific tax items are described by quintile of consumption distribution. The analysis is based on the 2017 EDAM, as well as on administrative data.

Figure 85: Defining Income



Source: Developed by the authors based on Higgins & Lustig (2018)

[85] Lustig, N. (2018). Note: While this analysis is instructive for assessing the effects of the tax system in Djibouti on poverty and inequality, there are several caveats and limitations worth mentioning: 1) The assessment excludes some tax and expenditure items that may to have an effect on the well-being of households, in particular excise taxes due to the lack of data availability, 2) The CEQ analysis is based on an accounting framework, so it does not include the behavioral, intertemporal, and second-order effects, 3) The analysis of in-kind benefits (e.g. education and health) measures the transfer at its average cost of provision and does not take into account the quality of the services, 4) The fiscal policy is analyzed solely from the distributional angle. Indeed, while redistribution is a key objective of fiscal policy and an important tool for poverty reduction, fiscal policy has broader objectives that would not be captured in this type of analysis, 4) The availability and quality of data in Djibouti posed a significant challenge in the analysis.

[86] It is worth noting that contributory pensions can be treated either as a government transfer, or as deferred income – this is a matter on which there is no agreement in the fiscal literature. Indeed, the CEQ methodology takes a neutral stance on such treatment by carrying out the fiscal incidence analysis for both scenarios. This would mean that the reference income would be market income whenever the pensions are treated as deferred income, and market income plus pensions whenever they are treated as deferred income. For this fiscal analysis, pensions are treated as deferred income, which means that the reference income is market income plus pensions. However, for simplicity, we refer to market income plus pensions as market income..

Scenario simulations, complementing the main results of the fiscal impact analysis as observed from the 2017 EDAM data, were conducted to assess the effects of expanding PNSFs and increases in kerosene subsidy. The first simulation (S1) shows the results of a larger cash transfer program similar in size to the PNSF in 2022, a larger number of PASS beneficiaries similar to the number of PASS beneficiaries in 2022, and a larger subsidy amount for kerosene price stabilization as in 2022. In fact, Djibouti's kerosene price stabilization mechanism has been in place for many years and, with higher international energy prices in 2022, the subsidy amount is estimated to have increased from DJF 24.4 to DJF 94.84 per liter of kerosene consumed. The second simulation (S2) shows the effects of redirecting the total (estimated) budget envelope devoted to stabilizing kerosene prices (using 2022 prices, i.e., DJF 94.84) to targeted cash transfers to poor households in Djibouti City and outlying regions. S1 reflects an expansion that happened in 2022 by increased expenditure, financed in part by contracted debt, and in part by expansion in response to COVID-19. Combined with macroeconomic shocks resulting from the Ukraine war and the conflict in Ethiopia, this expansion may have contributed to the fiscal deficit (1.4 percent of GDP in 2022). However, S2 is intended as a fiscally neutral simulation scenario by reallocating estimated expenditure in subsidy of kerosene toward an expanded cash transfer program. Specifically, the simulation divides the estimated budgetary envelope on kerosene subsidies by the household cash transfer amount to obtain the increased number of beneficiary households. Table 1 shows the total number of beneficiaries of the PNSF and PASS programs as well as the price of the kerosene subsidy per liter in the baseline scenario and simulations S1 and S2. As can be seen, total public expenditures on these components are approximately the same in S1 and S2, but higher in both cases than the baseline.

Table 9 - Number of beneficiaries and public expenditure under different scenarios

	Baseline	S1	S2
PNSF household beneficiaries	3 362		14 361
PASS household beneficiaries	9 270	32 000	32 000
Total household beneficiaries	12 632	46 361	53 195
Kerosene subsidy (per liter)	24.4	94.84	0

Source: Authors' calculations based on EDAM (2017) and administrative data

Annex 4: Qualitative survey on the Impact of the SOEs on the Private Sector

Questionnaire

1. Extent to which the quality, quantity, capacity, and costs of essential services provided by SOEs, such as electricity, water, telecommunications, infrastructure, transport, and other logistics meet the needs of the economy, including the needs of private companies and individuals.

2. Is preferential treatment given to SOEs with respect to access to finance, subsidized interest rates and other forms of concessional finance, tax and duty waivers, preferential access to government contracts and other procurement opportunities, monopolistic rights, or other forms of protection against open competition with the private sector?

3. Do SOEs have preferential access, or pay less than market prices, for land and infrastructure, utilities or any other services or goods provided by government or other SOEs?

4. Are SOEs subject to the same bankruptcy measures as private companies?

5. Is competition law applied to the SOEs and have there been any anti-trust actions? Have there been instances of anti-competitive behavior by SOEs for example in price collusion or predatory pricing?

6. Are there distortions to the market through the role of SOEs in providing subsidized public services? Is there a lack of clear separation in the SOE accounts between non-commercial public services and commercial activities? Is there a lack of pressure by Government on SOEs operating in competitive sectors to generate a commercial rate of return?

7. Do SOE employees receive better benefits than employees of private companies??

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30. Photo credits: Yacin, Red Sea.

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