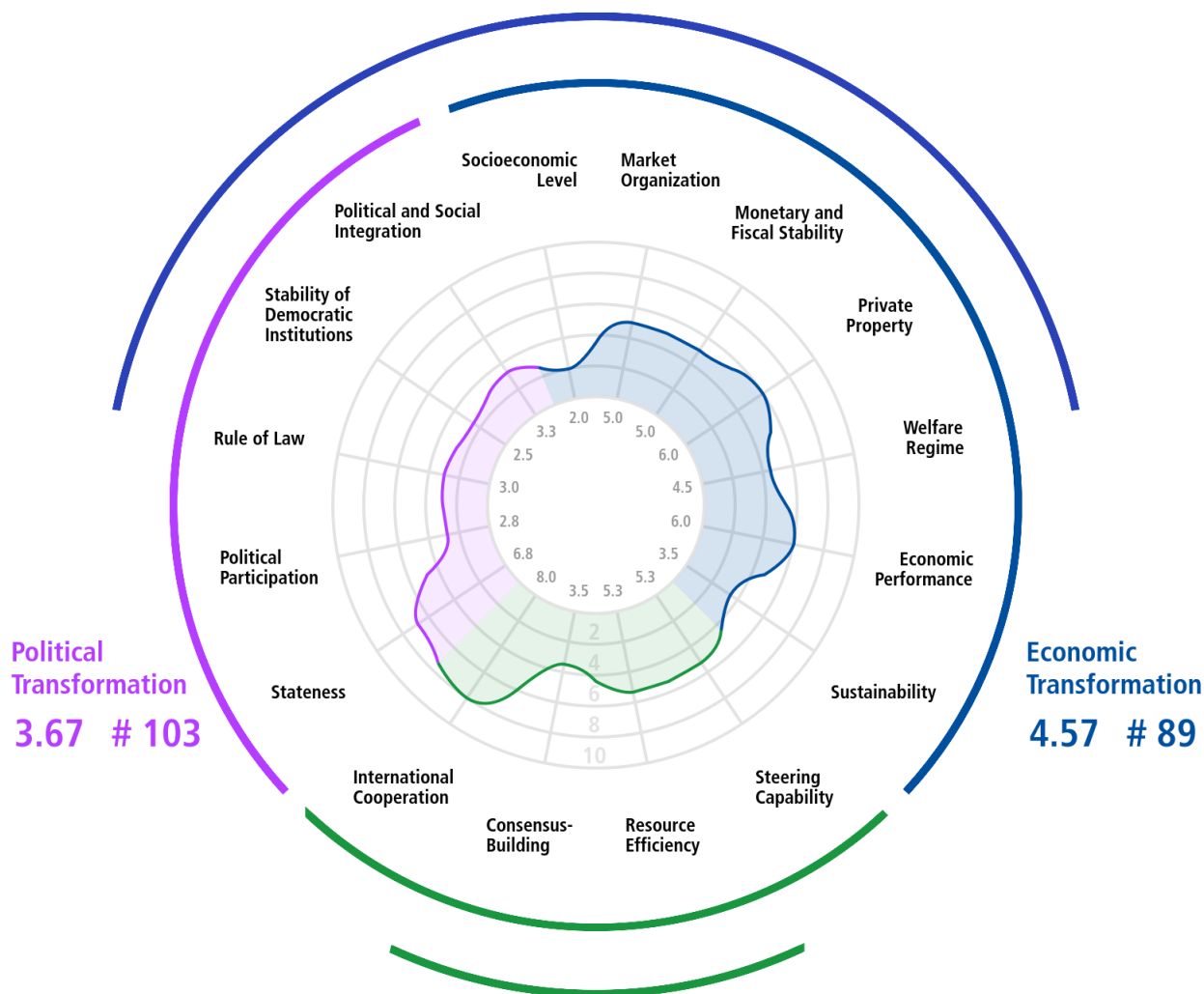


Djibouti

Status Index

4.12 # 104

on 1-10 scale out of 137



Political Transformation
3.67 # 103

Economic Transformation
4.57 # 89

Governance Index

5.17 # 52

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Claudia Härterich

Phone +49 5241 81 81263
claudia.haerterich@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	1.0	HDI	0.524	GDP p.c., PPP \$	5782
Pop. growth ¹	% p.a.	1.5	HDI rank of 189	166	Gini Index	41.6
Life expectancy	years	67.1	UN Education Index	0.325	Poverty ³	% 39.8
Urban population	%	78.1	Gender inequality ²	-	Aid per capita \$	279.9

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Djibouti is a stable state in the Horn of Africa with an authoritarian government under President Ismaïl Omar Guelleh (IOG), who entered office in 1999. The ruling coalition, the Union pour la Majorité Présidentielle (UMP), is dominated by the Rassemblement Populaire pour le Progrès (RPP). President Guelleh announced that he would run in the upcoming presidential election, which was postponed to 2021 due to the COVID-19 pandemic. IOG was officially nominated by his party in January as a candidate for his fifth run for office in the 2021 presidential elections.

During the 2019 – 2020 review period, the government made no significant changes in its political agenda. The first case of COVID-19 was confirmed in March 2020 and Djibouti experienced two peaks before the end of June. The government imposed a country-wide lockdown on 23 March 2020. The lockdown and the closure of borders to neighboring countries created considerable challenges for poverty reduction. The country’s level of socioeconomic development remains low. The government implemented a wide range of social measures to support the population. However, these social measures mainly targeted the population of the capital. Fatality rates remained comparatively low and approximately 6,000 cases were confirmed at the end of the review period. While the short-term economic effects of the pandemic are clearly reflected in the report, mid- and long-term socioeconomic and cultural impacts will be determined by government policies and long-term recovery plans.

Reports on the detention of opposition politicians and journalists dovetail with the latest ranking on the Freedom House Index (“not free”), which rates Djibouti at five out of 40 for political rights and 19 out of 60 for civil liberties.

Djibouti’s growth has continued, fueled mainly by debt-financed investments into largescale infrastructure. The World Bank estimated GDP growth at 7.5% in 2019. Disruptions to global trade flows affect growth considerably, which declined to 1.3% in 2020. Over the same period, foreign debt remained relatively stable, and the current account deficit was estimated at 12.5% of

GDP in 2019. Debt distress poses a considerable risk for future growth trajectories and decreasing revenues due to reduced global trade will have a lasting effect. Reforms to strengthen and support private sector development have not yet produced the desired outcomes. State-owned companies and business conglomerates closely associated with the president and his family dominate the economy. Corruption remains high and the lack of transparency in policymaking and licensing continues to deter private sector investment.

Unemployment and underemployment remain high. The UN Human Development Index ranks Djibouti very low at 172 out of 189 countries. Djibouti is a net-importer of food and hence extremely vulnerable to global food price volatilities. Flash floods destroyed roads and other infrastructure repeatedly in 2019 and 2020. Especially prolonged droughts affected pastoralist production systems and rural livelihoods. Climate-changed related weather extremes and water scarcity in most parts of the country augment existing socioeconomic challenges.

History and Characteristics of Transformation

Djibouti is a maritime nation of significant importance as a transshipment point on the Gulf of Aden, the crossroads of the Indian Ocean and the Red Sea. Bordering Somali and the Afar Regional State of Ethiopia in the west and south, bilateral trade relations with landlocked Ethiopia are a central pillar of Djibouti's economy.

To challenge the monopoly of the British Port of Aden as a supply point for French ships in the region, France purchased the port of Obock on the Gulf of Tadjourah in 1862 and developed the Port of Djibouti in 1888 to respond to its growing commercial activities and political interests in the Horn of Africa. Today's state territory of Djibouti was never a coherent political entity, but rather a mosaic of local and regional Issa Somali and Afar sultanates until France officially established the colony of French Somaliland (Côte Française des Somalis) in 1896 with Djibouti City as its administrative center. The commissioning of the Djibouti-Addis Ababa train line in 1917 was a significant milestone that turned the Port of Djibouti into a major commercial hub and transshipment point for neighboring Ethiopia.

French Somaliland became an oversee territory of France (Territoire d'outre-mer) in 1946, with a territorial government created in 1956, and was renamed Territoire Français des Afar et des Issa (TFAI). While its population blackballed independence from France in two separate referenda in 1958 and 1967, TFAI gained independence as the last colony on the African continent in 1977.

Pivotal to the independence efforts in the early 1970s was the Ligue Populaire Africain pour l'Indépendance (LPAI), which emerged from the merger of the Union Populaire Africaine, led by Hassan Gouled Adptidon, who would become the founding president of Djibouti, and the Ligue pour l'Avenir et l'Ordre (LAO), predominantly Afar, headed by Ahmed Dini. By banning newly founded Afar opposition parties, such as the Front Démocratique pour la Libération de Djibouti (FDLD) and Parti Populaire Djiboutien (PPD), Gouled established a one-party state and

consolidated the power of the Issa-dominated RPP. Despite cabinet appointments of Afar politicians (Gourad Hamadou was reappointed as prime minister in 1987), interethnic tensions increased across the country leading to the formation of the Front pour la Restauration de l'Unité et de la Démocratie (FRUD) in April 1991. In response to the success of this Afar insurgent movement, Djibouti adopted a new constitution in September 1992, paving the way for a multiparty system. Ismaïl Omar Guelleh, who had been head of cabinet in 1977, took the reins from Hassan Gouled Aptidon as president of Djibouti in 1999, successfully seeking re-election in 2005, 2011 and 2016. This was made possible through a constitutional amendment on presidential term limits that allowed him to run for office more than twice.

Since the early presence of the French, Djibouti City and its port became the lynchpin of the country as a commercial and administrative center that grew steadily over the course of the 20th century, and now hosts more than three-quarters of Djibouti's population. Djibouti's geostrategic location made for the creation of the country and the present government follows the early intention of the French colonizers. Djibouti pursues a growth model based on infrastructure development through the expansion of ports and regional transportation links to capitalize on the country's strategic location at the Bab-el-Mandeb Strait, which is a central maritime corridor controlling access to the Red Sea. While the Bab-el-Mandeb Strait separates Djibouti from conflict-ridden Yemen, looming instability and open crises in Somalia to the south, tensions with its northern neighbor, Eritrea, contribute to regional instability that affects the country. Moreover, the development of new port facilities in Berbera and Somaliland, as well as security challenges in Ethiopia are likely to affect Djibouti both directly and indirectly.

Across rural areas of the country, characterized by water scarcity affecting traditional pastoralist livelihoods, high levels of food insecurity pose a major threat to socioeconomic development. The focus on the service sector combined with rising foreign debt to finance infrastructure expansion makes the economy increasingly fragile. In 2014, Djibouti launched its long-term development strategy, Vision 2035, which is based on five core pillars: peace and national unity, good governance, the diversification of the economy, increased investment in human capital, and the promotion of regional integration to increase trade and commerce.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The economic and political center of Djibouti is Djibouti City (or Djibouti Ville), home to more than two-thirds of the population. The other five regions of the country (Arta, Ali Sabieh, Dkihil, Tadjourah, Obock) are sparsely populated compared to the capital. Since the Port of Tadjourah became operational in 2017, the city gradually expanded and slightly more economic activity has been recorded. Most of the country is sparsely populated and characterized by semi-nomadic pastoralist production systems. The state territory of Djibouti is small compared to its neighbors and with roughly 23,300 square kilometers corresponds to less than one-fifth of Eritrea, the next largest state in the Horn of Africa.

Djibouti is a stable state under the authoritarian leadership of President Ismaïl Omar Guelleh, who assumed power in 1999. The ruling coalition, the Union for a Presidential Majority (Union pour la majorité présidentielle, UMP) is dominated by the People's Rally for Progress (Rassemblement populaire pour le Progrès, RPP), under the strong and thus far uncontested leadership of Guelleh.

The government's rule remained uncontested during the review period and the monopoly of the state on the use of force covers the entire territory of Djibouti without noteworthy exceptions. The armed insurgency of the Front for the Restoration of Unity and Democracy (Front pour la Restauration de l'Unité et de la Démocratie, FRUD) during the 1990s ceased in 2001 with all FRUD factions joining the UMP. While the FRUD-insurgency aimed at challenging the Issa-dominated government under President Guelleh, it mainly affected the Afar-dominated northern regions of the country. Ahmed Dini Ahmed, who led the FRUD until its dissolution, is a founding member of the opposition party Republican Alliance for Democracy (Alliance Républicaine pour la Démocratie, ARD) that ran in the 2003 parliamentary elections – the country's first multiparty elections. Like other opposition parties and resistance groups, ARD regularly accuses the government of arbitrary arrests and harassment. For instance, in 2018 it was reported that the party headquarters of the Rally for Democratic Action and Ecological Development (Rassemblement pour l'action, la démocratie et le développement écologique, RADDE) were raided by police forces. ARD ultimately lost its recognition as a political party.

Question
Score

Monopoly on the
use of force

10

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10

1

Djibouti's population, estimated at slightly less than one million in 2020, according to UN data, consists of Somali (60%) and Afar (35%). Afar traditionally inhabit the tri-border region of Ethiopia, Eritrea, and Djibouti, and hence live on both sides of the Djiboutian border with Eritrea and Ethiopia. Similarly, the Somali Issa, a subclan of the large Somali Dir clan, can be found not only in Djibouti but also in Somaliland. The population of Djibouti City is mainly Issa, who also live in large numbers in the southeastern part of the country.

Clan affiliation determines economic and political opportunities. Key positions in the economy (i.e., parastatals) are mainly controlled by Issa Somali and its sub-clans with links to the president's family.

Given Djibouti's colonial history, the question as to who qualifies as Djiboutian has been a contested issue in the post-1977 period. While the Loi No 200 AN/81. Art. 8 (République de Djibouti) states that if both parents are Djiboutian, a child is automatically granted citizenship, there is little data available on recent citizenship disputes. Overall, there is fundamental consensus among all groups in society as to who qualifies as a Djiboutian citizen, according to the constitution. Moreover, the concept of the nation-state is not challenged, and no secessionist movements threaten the political or territorial integrity of the state.

UNHCR data estimated the refugee population at approximately 30,000 in 2019, most of which resided in camps in Ali Sabieh. Children born in the camps of Markazi, Ali Addeh and Holl-Holl received birth certificates. The 2017 refugee law grants refugees access to health care and education. Significantly, the new National Refugee Law advances the rights of individuals with refugee status and facilitates their integration into the national labor force. One clear indication for this is the economic integration of refugees from Yemen, who have established small businesses, mainly restaurants and pensions, in Djibouti. In relation to its population, Djibouti received around 2.7% of refugees between 2010 and 2019, according to the Norwegian Refugee Council. Overall, Djibouti introduced very progressive legislation with regards to refugee rights, which fosters the process of assimilation of a refugee population that overwhelmingly shares religious and cultural features with the general population.

Article 1 of Djibouti's constitution identifies Islam as the sole state religion, and Article 11 provides for the equality of citizens of all faiths and freedom of religious practice. The majority of the population is Sunni, the largest branch of the global Muslim community. The constitution does not discriminate against religious beliefs and no laws are in place that prosecute individuals for not observing traditional Islamic teachings and traditions. Although Islam is the state religion, the constitution does not allow for religious-based political parties.

The legal system combines both Islamic law and civil law in matters relating to family and civil courts. Citizens are left with a choice as to which court to address in inheritance, divorce, or marriage cases; noteworthy is that decisions do not depend on their faith.

State identity

7

'06 _____ '22 10

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No interference of religious dogmas

6

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The public school system is secular. Yet the government introduced a new Civic and Moral Education curriculum, which is based on Islam and mandatory in public schools. No noteworthy developments with regards to the numbers and influence of Islamic schools (i.e., madrasahs) can be reported for the review period.

The activities of Turkish charities and foundations in Djibouti have increased considerably. The Abdülhamid Han II Mosque, partly funded by the Türkiye Diyanet Foundation (TDV), illustrates the role of Islam in the bilateral links between Ankara and Djibouti. Another example is the donation of 30,000 copies of the Holy Quran by Turkey in 2020.

The expansion and improvement of basic infrastructure services is largely limited to urban areas. While the level and quality of public services is better in Djibouti City, compared to most other urban and especially the rural parts of the country, notable differences exist within the capital. Informal settlements and slums continue to grow at its outskirts. Access to basic infrastructure is particularly limited in these areas, including to electricity, water and sanitation. Access to these services is also considerably limited in rural areas outside main urban centers such as Djibouti City, Ali Sabieh, and Dikhil, but also Tadjourah and Obock, where improvements of the port infrastructure led to an increase in economic activities.

No recent data is available on the proportion of the population with access to improved sanitation facilities. An ambitious plan to transition from 100% fossil energy to 100% renewable sources by 2020 was laid out in the 2014 long-term development plan Vision 2035. Despite significant potential of wind, solar, and geothermal energy sources and major investments, this objective is not yet achieved. The country's energy supply relies increasingly on imports from neighboring Ethiopia.

Corruption and misappropriation of funds are generally seen as a main factor in limited investments and hence low levels of basic infrastructure. Most improvements are visible in the capital, especially with regards to the provision of public goods (i.e., health care, higher education). The peripheral regions of the country are largely neglected in favor of “visible” development in the capital, where more than two-thirds of Djibouti's population lives.

Weather extremes regularly affect major parts of the country, especially the coastal regions. Floods caused by unusual amounts of rainfall and periodic droughts permanently affect rural livelihood strategies and frequently damage basic infrastructure.

The main refugee settlements, Holl-Holl and Ali Addeh, suffer from inadequate basic services, despite efforts undertaken by the government and UN agencies. Diesel generators were replaced with solar systems in the camps. Djibouti hosts refugees mainly from Somalia and Yemen, the former for nearly 20 years in camps overwhelmingly lacking adequate water and sanitation.

Basic
administration

4

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The country continues to be a net-importer of food with most vegetables being imported from Ethiopia and processed goods from the United Arab Emirates, Europe, and other regions.

Noteworthy is the Djibouti-Transport-Corridor (Project Phase I) linking Adama to Awash and the southern export-import route (Dewele/Galile border point), which will improve transportation links and facilitate trade flows. The 120-kilometer Tadjourah-Balho-Mekele road, inaugurated in late 2019, connects Djibouti with Ethiopia and could have a catalyzing effect on the expansion of basic services along this new corridor.

The first reported case of COVID-19 in March 2020 caused the government new challenges. A country-wide lockdown was imposed between March and July, however, the rate of compliance was low, given the living situation of most citizens in the capital. Djibouti ranked 175 out of 195 countries on the 2019 Global Health Security Index with major deficits in infrastructure and human resources.

Multiple sites for isolation and quarantine were established by the Ministry of Health. A largescale testing campaign launched on 1 May 2020 targeting 45.000 people. The government implemented a wide range of social measures to support the population, including cash transfers and food distribution schemes. However, these social measures mainly targeted the population in the capital.

The government closed the borders again between October and November following an increase in COVID-19 cases.

2 | Political Participation

Presidential elections are scheduled for April 2021 despite the COVID-19 pandemic that led other African nations to postpone national polls. At the end of the review period, President Guelleh had not officially confirmed that he would run a fifth time for president. However, at the end of 2020, there was little doubt that his party, the Rassemblement Populaire pour le Progrès (RPP), would nominate him. The RPP celebrated its 40th birthday in March 2019. There was little indication of a leadership change within the party. For a long time, there has been speculation that power would be transferred already before the election to a close confidant of the president. Likely successors were, other than the finance minister, Ilyas Moussa Dawaleh, a former prime minister, Dileita Mohamed Dileita, and Naguib Abdallah Kamil. The latter is a senior adviser to the president. The son of first lady Kadra Mahmoud Haid serves as the secretary-general at the prime minister's office. Djama Elmi Okieh, who was for a long time considered the president's favorite, reportedly fell out with the powerful first lady. The list of possible successors, albeit shorter than in previous years, continues to raise many questions as to who of the powerful Guelleh clan will follow in the president's footsteps.

Free and fair elections

4

'06 '22 10

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In 2010, lawmakers removed presidential term limits and shortened mandates by one year to five. Born in 1947, the president will not have reached the age limit for candidates of 75 years by the time of the 2021 elections.

Elections, both parliament and presidency, are regularly held, but usually hold little surprise. The ruling UMP dominated in all regions of the country in the 2018 legislative elections and the next regular polls for members of parliament who serve five-year terms are due in 2023. Electoral reforms, announced in 2014, are overdue, which led most opposition parties to boycott the 2018 legislative elections. While the UMP won 57 out of 65 seats, two opposition parties, the Center of Unified Democrats (CDU) and Union for Democracy and Justice – Djiboutian Democratic Party (UDJ-PDD) secured one and seven seats, respectively. The polls were marked by irregularities.

The assessments of the African Union (AU) on the conduct of past elections are surprisingly positive, describing the last polls as “sufficiently transparent” and “free.” The detention of journalists, combined with limited space granted to the opposition, indicates that political campaigning, and likely the elections as well, are less free than the AU estimates. Opposition parties claimed that the conduct during the elections was not fair, which was denied by the prime minister, who described the elections as calm and transparent.

The announced reform of the Independent National Electoral Commission (Commission Électorale Nationale Indépendante, CENI) following the contested 2013 legislature elections has thus far not been completed. A major point of criticism is that members of CENI are appointed by the executive branch, affecting the electoral process to the detriment of parties contesting the ruling coalition.

The ruling coalition UMP led by the president’s RPP dominates the legislative and executive branches. Members of parliament are (democratically) elected and assume their mandate with a clear popular majority. There is no actual distinction between the different branches of government, as the president effectively centralizes all decision-making in his own person.

When former President Gouled Aptidon withdrew from the leadership of the RPP in 1999, Ismaïl Omar Guelleh became its uncontested leader and he now rules without notable intraparty opposition. A small group of advisers, mainly from the president’s family and a few close allies, control key positions in government (mainly Issa), public administration, and the economy. Noteworthy is the role of Kadra Mahamoud Haid, who reportedly acts as one of the closest advisers to the president with far-reaching influence over key-strategic decisions. Large-business conglomerates are directly and indirectly controlled by the president and his family. No new domestic actors entered the scene during the review period and the political landscape remained largely unchanged.

Effective power to govern

3

'06 '22 10

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Although the Issa Somali control the country's political economy, the opposition is by no means exclusively Afar. Significantly, Afar have been regularly appointed to central cabinet positions. This strategy of including other ethnicities in the government apparatus has helped neutralize major parts of the opposition. A combination of slush payments and personal prosecution of leading opposition politicians proved successful and created a weakened and divided party landscape, unable to challenge the rule of the UMP. Parastatal companies play an important role in this strategy, as most of these (e.g., telecommunications, construction, logistics and transportation) are controlled by confidants of the president and his extended family.

Betrayal or defrauding the ruling elite can have dire consequences, as the infamous case of Abdourahman Boreh clearly illustrated. The French-Djiboutian businessmen, a formerly close associate of the president and key figure in the concession agreement for the Doraleh Port with Dubai-based port operator DP World, was accused by the government of Djibouti of misappropriation of funds, bribery and corruption. The case was dismissed by a London court in 2016. Significantly, there have been several reports since the end of 2019 to the effect that Boreh and the president's relationship improved, with some sources suggesting that Boreh might soon return to Djibouti for business investment.

No freedom of information laws exist. Budgetary decisions are made in an opaque manner. Revenues collected from the lease of military bases to foreign nations, including China and the United States, are not accounted for in the official state budget.

The constitution protects assembly rights. However, in practice, permits required for public gatherings are used to deem protests unauthorized and result in the arrest of participants. There have been no noteworthy changes with regards to civil liberties and political rights, based on the ranking of the Freedom in the World Report. Djibouti received a score of 5 out of 40 for political rights and 19 out of 60 for Civil Liberties (24 out of 100) in 2020, which represents a drop of 2 points compared to 2019. Opposition sources reported that approximately 30% of Djibouti's manpower works directly or as informants for security and intelligence forces under the government's control. Although the constitution guarantees the right to freely assemble and form associations, the security apparatus closely monitors organizations and individuals of all colors.

Foreign media, such as Agency France Press, and opposition outlets regularly reported on demonstrations and protests violently disrupted by police. Opposition protests in late October and November 2019 were met with disproportionate force. The police allegedly used live ammunition and teargas, which left nearly 50 people injured. The protests that started in Djibouti City spread to Tadjourah and Randa were in response to the arrest of Kako Houmed Kako (Republican Alliance for Development, ARD), whom the police reportedly kidnapped in full daylight.

Association /
assembly rights

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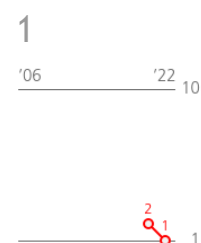
A nationwide lockdown was imposed in the second half of March 2020. Strict measures to control the spread of COVID-19 were in place until the end of May, when these restrictions were incrementally lifted. Overall, the measures to restrict the movement of people and decrease community transmission by closing places of worship, restaurants and schools in Djibouti Ville were deemed proportionate during the general lockdown. Police were deployed and acted to enforce these measures, which forced residents to stay at home. None of these restrictions remained in place in January 2021. Public life returned to normal soon after the lockdown was lifted.

The constitution guarantees the right to freedom of expression. However, reports on the persecution of journalists and censorship paint a completely different picture. In the 2020 World Press Freedom Index, Djibouti ranks 176th, down three ranks compared to 2019 (173rd out of 180 countries). This downward trend began in 2013, when the country ranked 167th out of 180, and clearly illustrates growing restrictions of press freedom. The domestic media landscape is state-controlled. The state news agency, Agence Djiboutienne d'Information, acts as the government's main mouthpiece feeding the three main print outlets, La Nation (French), Djibouti Post (English), and Al-Qarn (Arabic); all are government owned. Radio Djibouti and Tele Djibouti 1 are operated by the national broadcaster Radiodiffusion-Television de Djibouti (RTD). There are no privately owned, independent media outlets since La Renouveau Djiboutien was shut down in 2009. Linked to the Movement for Democratic Renewal and Development (Mouvement pour le renouveau démocratique et le développement, MRD), the newspaper was the only non-government-controlled print outlet in the country.

The online media sphere is thus far largely out of reach of the government. Pro-opposition outlets such as La Voix de Djibouti broadcast online from Belgium (in French), while Djibnet, an NGO-run online news outlet, regularly publishes news articles in English and French.

By mid-2020 approximately 55.5% of the population used the internet regularly, according to InternetWorldStats.com. Noteworthy is that more than 20% of the population had Facebook accounts, which became an important medium for the diaspora and opposition. While some opposition websites are reportedly blocked inside Djibouti, the widespread use of VPNs (virtual private networks) suggests that this form of online media censorship has little impact. By contrast, government-critical radio stations (e.g., La Voix de Djibouti) are regularly jammed, a phenomenon especially observable in the run-up to past elections. Reporters and correspondents continue to report experiencing repressions at the hands of government authorities, including deportation and judicial harassment. This includes contributors to and informants for La Voix de Djibouti and reporters for foreign media outlets, such as Voice of America (VOA) and the British Broadcasting Corporation (BBC). A concerning number of journalists were arrested and faced repercussions from the security apparatus during the review period, such as Charmarke Saïd Darar, who was

Freedom of
expression



arrested on May 3, 2019, Kassim Nour Abar and Mohamed Ibrahim Waiss, both reporters for La Voix de Djibouti, arrested between June 5th and 7th. Other journalists reportedly went into hiding after covering protests, such as Osman Yonis Bogoreh in June 2020, according to the Committee for the Protection of Journalists. Bogoreh had been arrested in October 2019 and physically abused by the police, according to a report by the International Federation for Human Rights. While such arrests are usually only temporary and journalists rarely officially prosecuted, these actions prevent independent coverage and create an atmosphere of intimidation, which makes journalism a dangerous profession. Significantly, the president openly described La Voix de Djibouti as being run by “opposition illiterates” and claimed that no journalists for the outlet had been arrested.

3 | Rule of Law

There is no visible separation of powers among the different branches of the government and no effective system of checks and balances in place. According to the constitution, legislative power is shared between the government and National Assembly (Assemblée Nationale), whereas executive power is vested solely in the government. The president has a central role in Djibouti’s semi-presidential system and represents the executive branch of the government, which is made up of the respective ministries. While the president is the chief of state, the head of government is the prime minister, since 2013, Abdoukader Kamil Mohamed. The National Assembly is unicameral and its 65 members are directly elected by party-list proportional representation vote for five-year terms. De facto, the power of the president also extends to the judicial branch, despite the separation of powers formally enshrined in the constitution. The decision-making power of ministers is limited and government appointments characterized by personal alliances and family ties. Moreover, the police and military, including the powerful security apparatus, are under the firm control of the president. Individual officials seldomly take decisions without the approval of the president’s office. Advisers to the president attend ministerial meetings, which illustrates their limited decision-making power.

The government did not declare a formal state of emergency when the pandemic reached Djibouti. A country-wide lockdown was imposed and implemented by security forces, especially in the capital. The U.S. declared a health emergency for troops stationed in Djibouti, which was unrelated to the measures taken by the government. Due to the highest infection rate per capita, the lockdown was extended until May 17 and sea, land, and air borders remained closed for non-necessary travels.

Separation of
powers

3

'06 '22 10

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1

The legal system of Djibouti is based on the Napoleonic French Code. A written commercial code exists and traditional Islamic Laws are practiced alongside civil law. Three main courts exist: the Court of First Instance, the Court of Appeals, and the Supreme Court. Moreover, Djibouti has different specialized courts including criminal court, administrative court, and civilian court. Judicial power is exercised by the Supreme Court and other courts. The judiciary is independent from the executive and the legislative branches of the government.

The selection and appointment of judges and magistrates is largely in the hands of the president. For instance, Supreme Court magistrates are directly appointed by the president. The Superior Council of the Magistracy (CSM) advises the president in his decisions, while the 10-member body is appointed by the president (four judges and three additional members) and the president or speaker of the National Assembly (three appointees). The independence of the judiciary (the Supreme Court, the Court of Account, and other courts and tribunals) is heavily impaired and the independence of judges not guaranteed. Both the legislative branch and the executive branch wield far-reaching influence over the judiciary. Reports of corruption, especially at the highest levels of business and politics, are widespread and indicate severe deficits in the administration of justice. For instance, the London Court of International Arbitration ruled in favor of DP World and decided that the government should pay more than \$500 million in compensation in April 2019. Djibouti's high court later nullified the judgment, reportedly pressured by the government, which has acted similarly with regard to past unfavorable international rulings.

Corruption and the misappropriation of funds is a major problem in Djibouti. Neither the state budget nor Inspector General reports are made public. Public officials are rarely held accountable for abusing their office, being involved with the diversion of funds or breaking the law. Officeholders who break the law are occasionally prosecuted, but there are rarely any prominent cases and politically motivated slush payments are a widespread phenomenon.

Corruption, which includes direct payments being made to government officials or law enforcement officers, is present at all levels of public administration. And while there are several laws on the books that aim to combat (public sector) corruption, there are no regulations preventing conflicts of interest from arising in public procurement and government tender processes. Government entities tasked with investigating corruption, the State General Inspection and the Court of Auditors, have a mixed record.

Independent
judiciary

3

'06 _____ '22 10

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Prosecution of
office abuse

3

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Conditions in state prisons remain harsh. Reports regarding the central prison in Gabode, as well as temporary holding facilities, indicate that infrastructure and the basic services provided are not up to standards. Prison reforms have not been implemented. Planning for training and rehabilitation programs is at an early stage with little progress visible so far. Inmates could not protect themselves adequately during the COVID-19 pandemic due to a lack of sanitation.

While no particular discrimination against ethnic groups or religions can be reported, political opposition parties and vocal activists suffer from direct discrimination and freedom of speech and assembly rights are limited. Monitoring Friday prayers is justified by the government as a counter to religious extremism. However, this stands in stark contrast to the freedom of religion as stipulated in the constitution. Furthermore, significant human rights issues include: unlawful or arbitrary killings by government agents; arbitrary detention by government agents; harsh and life-threatening prison conditions; arbitrary or unlawful interference with privacy; unjustified arrests or prosecutions of journalists; criminal libel; substantial interference with the rights of peaceful assembly and freedom of association; significant acts of corruption; and violence against women and girls with inadequate government action in terms of prosecution and accountability, including female genital mutilation/cutting (FGM/C). Impunity has been a problem. The government seldom takes steps to identify, investigate, prosecute, or punish officials who commit abuses, whether in the security services or elsewhere in the government. A 1995 law prohibits the practice of female genital mutilation (FGM). However, the law is not enforced and FGM is widespread, which illustrates a prevailing lack of gender equality.

Non-Muslim religious groups, both domestic and foreign, are required to officially register with the Ministry of Interior. Religious tolerance is generally accepted. No acts of violence or discrimination against the non-Muslim population (ca. 6%) can be reported, including the small Jewish and Christian communities. However, there are isolated cases of intimidation against converts to Christianity. Since government employees, including the president, officially pledge to respect not only the constitution, but also explicitly Islamic law (Shariah law), reports of discrimination against non-Muslims in public administration are therefore not unusual. A law passed in 2014 gave the Ministry of Islamic Affairs, Culture & Charitable Assets direct authority over matters related to Islam. This included designating imams as civil service employees who are thus paid by the state. In addition and in an effort to mitigate Islamic fundamentalism, the ministry has the authority to regulate and control all sermons, which includes prohibiting imams from changing the wording. In an interview with The Africa Report, published in November 2020, President Guelleh justified this measure by saying that mosques cannot be left to extremists using Friday prayers as a platform to glorify violence. Religion as a mobilizing (political) factor is hence strictly controlled by the government. No disciplinary

Civil rights

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actions against imams were taken in 2019, according to the International Religious Freedom Report published by the U.S. State Department, and there are no known cases for 2020.

On April 9, 2020, a Djiboutian air force pilot was arrested, who reportedly attempted to defect to Eritrea after hijacking an airplane. The pilot, Fouad Youssuf Ali, was arrested in Ethiopia for treason and transferred to Djibouti. In a video published online, Fouad Youssuf Ali claimed that he had been tortured while in prison, which sparked several days of anti-government protests in Djibouti. The government denied the allegations of arbitrary detention and inhuman treatment of the prisoner. Djibouti has been a party to the International Covenant on Civil & Political Rights (ICCPR) since 2002.

4 | Stability of Democratic Institutions

The amended Electoral Law (1992) and constitution define the electoral process for the legislative and executive branches. Regular elections and the formal division of power between the executive, legislative and judiciary meet the definition of basic democratic standards. However, the electoral process, the role of opposition parties in the political system and the authoritarian character of the ruling UMP coalition affect the performance of existing democratic institutions.

While Djibouti technically has a multiparty political system, the ruling Union for a Presidential Majority (UMP) uses authoritarian means to maintain its dominant position. The opposition's ability to operate is severely constrained, and journalists and activists who air criticism of Guelleh or the UMP are regularly harassed or arrested. The National Assembly, the country's only legislative body, consists of 65 members directly elected for five-year terms. The 2018 legislative election was boycotted by most opposition parties, resulting in a majority for the ruling coalition of 57 out of 65 members. The Center of Unified Democrats (CDU) won one seat and the Union for Democracy & Justice-Djiboutian Democratic Party (UDJ-PDD) won seven seats.

The legislative branch does not fulfill its mandate but serves the interests of the president. Political competition and participation are limited. Regular elections provide a semblance of democracy; yet the function of democratic institutions is void due to the powerful position of the president and his dominance in the RPP-led UMP. Strategic policy decisions, including bilateral agreements, are made exclusively by the president. A case in point is the presence of foreign military bases in Djibouti and the fact that annual rent payments are not listed in the official state budget.

Performance of
democratic
institutions

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Djibouti conducts regular elections and the president has been de jure democratically legitimate since 1999. Presidential elections, which are rarely contested events in Djibouti, are scheduled for 2021. Contrary to other countries, the COVID-19 pandemic did not affect the electoral schedule. The elections serve as a crucial tool to legitimate the continuing rule of the president and his UMP.

The adherence to democratic norms and principles is important for the government to maintain its position as a legitimate partner in international cooperation, most notably in foreign military missions. Despite allegations of voter fraud and unfair elections conduct, all relevant actors accept the role of elected institutions and their legitimacy. Given the president's strong position in the executive branch and the disproportionately weak position of the legislative branch (i.e., the National Assembly) compared to the office of the president, elected lawmakers hold a subordinate position in Djibouti's democratic institutions.

5 | Political and Social Integration

Djibouti gained independence from France in 1977 while struggling with deep rifts between its two main ethnic groups, the Issa Somali and Afar. While Djibouti's first president, Hassen Gouled, declared tribal elitism as the major threat to the young nation, the existing linguistic and cultural divide characterized the post-colonial period and resulted in an ongoing power struggle along ethnic lines. The 1990s were characterized by armed conflict between the FRUD (Afar) and the Issa-dominated government under Gouled.

The ruling coalition UMP is dominated by the president's People's Rally for Progress (Rassemblement populaire pour le Progrès, RPP) and four smaller parties (National Democratic Party or PND; Peoples Social Democratic Party or PPSD with little influence in the coalition, including the former opposition force, Front for the Restoration of Unity and Democracy (Front pour la Restauration de l'Unité et de la Démocratie, FRUD)). Significantly, Djibouti has a 25% gender quota for the 65 seats of the National Assembly introduced in 2018.

The number of political parties in Djibouti is impressive for its population size. However, the large number of political parties is misleading, as the president's party and indirectly the ruling UMP coalition dominates the political sphere without any meaningful competition.

The opposition is deeply divided and generally falls into three categories. The first are opposition coalitions, such as the Union pour the salut national (USN), which consists of four individual parties. The second are parties that were part of the ruling UMP but left the coalition. The third category consists of individual opposition movements not affiliated to others, as for instance, the Centre des Démocrates Unifiés (CDU).

Commitment to democratic institutions

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Party system

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While Djibouti technically has a multiparty system, the process for the registration of political parties is not transparent. Certain parties are banned from competing in elections, such as Rassemblement pour l’Action de Développement et la Démocratie (RADDE), Mouvement pour le Renouveau Démocratique (MRD), and Movement for development and Liberty (MODEL).

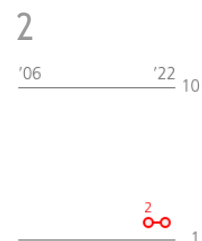
The government of Djibouti dominates public affairs and interest groups that could mediate between the existing politico-economic structures. Segments of society remain structurally weak and overall under-represented. The extent to which interest groups can operate freely is subject to their main field of activity. While organizations focusing on issues related to socioeconomic development can operate relatively freely, groups advocating for politically sensitive topics (e.g., human rights) usually face difficulties registering and are reportedly subject to unexpected audits by the government. Reports of arrests and harassment of activists are frequent, such as the case of Degmo Ali Abdi, who was arrested in July 2019 for accusing in a public speech senior government officials of corruption.

Overall, the impact and effectiveness of civil society organizations in Djibouti is limited by weak technical capacities, combined with a lack of institutional structures and financial constraints. Since 2018, the United States Agency for International Development (USAID) has co-funded the Civil Society Organization Strengthening Project (CSOSP), aimed at strengthening civil society organizations in Djibouti.

There are no public opinion surveys in Djibouti. Social media platforms provide hints but not a full picture of the status quo. Overall, trust in the system and the adherence to democratic norms is low with individuals voicing their disapproval mainly online or in private.

No data is available on the extent to which the population is organized in cultural, environmental or social organizations. Clan alliances play a seemingly small role in politics, while the level of social trust among the major ethnic groups is rooted in common lineage and traditional socio-cultural linkages. There are various ethnic and other groups and associations, but they do not seem to interact with each other. Given the high unemployment rates in Djibouti, support to extended families is widespread. Within ethnic groups, especially in the areas, social trust is high. Lacking data for the period under review renders meaningful comparisons on the effect of social capital and cultural and ethnic patterns impossible.

Interest groups



Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty is widespread in Djibouti. A considerable proportion of the population lives in poverty (ca. 40% in 2017) and ca. 20% in extreme poverty (World Bank 2019). Djibouti is in the low human development category with a Human Development Index (HDI) value of 0.524 in 2019. Inequality results in an average loss of more than 30% for low HDI countries, according to UNDP, showing that inequality increases directly affects human development.

Djibouti ranked 166 out of 189 countries in the latest UN Human Development Report (2019) and the distribution of family income (Gini Index) was 41.6, according to the latest World Bank data available, dating back to 2017. While the continuous influx of refugees from neighboring Yemen and the COVID-19 pandemic pose considerable challenges to poverty reduction, overall, the level of socioeconomic development is very low. No data is available for measuring gender equality with regard to reproductive health. Data on the empowerment of women and the labor market provide a mixed picture. Nearly half of all judges in the country are female and a few ministries are headed by women.

Approximately 57% of urban households had access to electricity in 2017, according to the 4th Djibouti Household Survey of social indicators, with only 1% in rural areas. Chronic and periodic food insecurity poses a considerable problem and affects nearly 30% of the population. The Famine Early Warning Systems Network (FEWS) stated that nearly 50,000 rural (including refugee) households experienced acute food insecurity in May 2019 due to high livestock losses and drought-related impacts on agricultural livelihoods. In April 2019, the UN World Food Program (WFP) provided food assistance supported by the USAID's Office of Food for Peace (FFP) to approximately 43,000 people, targeting especially poor households in Dikhil, Obock and Ali Sabieh.

A phone survey conducted by the World Bank in collaboration with the National Institute of Statistics of Djibouti (INSD) found that the majority of respondents who were forced to stop working when the first country-wide lockdown was imposed in March 2020 were unable to resume their previous occupations. Moreover, prices for basic food stuff increased.

Question
Score

Socioeconomic
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	2751.5	3012.8	3324.6	3384.4
GDP growth	%	5.4	8.4	7.8	0.5
Inflation (CPI)	%	0.6	0.1	3.3	-
Unemployment	%	11.2	11.1	11.0	11.6
Foreign direct investment	% of GDP	6.0	5.6	5.3	-
Export growth	%	-	-	12.9	7.5
Import growth	%	-	-	13.9	-0.5
Current account balance	\$ M	-132.5	428.6	448.3	-
Public debt	% of GDP	47.9	46.5	39.0	40.9
External debt	\$ M	2267.0	2321.4	2552.6	2678.7
Total debt service	\$ M	71.9	73.2	79.6	62.4
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	21.9	20.6	18.6	18.0
Public education spending	% of GDP	3.7	3.6	-	-
Public health spending	% of GDP	1.1	1.2	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

In World Bank's Doing Business 2021 report, Djibouti ranked 99 out of 190 countries, 112 out of 190 in the 2019 and 2020 reports. This assessment provides hints but no full-scale picture of the level of market-based competition. Starting a business became less costly due to reduced licensing fees for investors. There are no significant entry barriers for investors. Obtaining the necessary permits to start business operations took 14 days in 2021, unchanged from 2019 and 2020. An important factor for investors is the costs involved in registering a business, which was more than 130% of gross national income per capita in 2016 and decreased to 39.7% in 2019. Over the review period, Djibouti maintained a favorable position for investors with the overall risk of doing business lower compared to the sub-Saharan African average. Also in the categories protection of investor's rights and access to capital, Djibouti ranked above average. Djibouti successfully refined its one-stop-shop approach with online registration and IT-driven systems to facilitate administrative processes for the business community. The Djibouti Port Community System is a noteworthy step in the business climate reforms introduced in 2020 and allows for easy online access to different services.

The improvements on the World Bank's Doing Business Index since 2014 reflect Djibouti's desire to become a competitive investment destination. However, globally Djibouti still remains below average. The state-controlled media landscape serves as another instrument to promote and encourage foreign investment. There is regularly very favorable media coverage of foreign investment projects, which is likely to improve Djibouti's image to the outside world as a stable, secure and promising investment destination. Yet, Djibouti still has a long way to go. There are several factors affecting investment success and overall economic development such as high electricity costs and a disproportionately high unskilled workforce. Moreover, compliance risks combined with opaque business practices continue to deter potential investors. Foreign investors enjoy the same privileges as domestic actors, and no mechanisms or laws are in place that discriminate against foreign business operations. Few sectors of the economy are closed to foreign investment. Public utilities are the most notable sector that is closed to foreign investment. The government and other donors contributed \$5.6 million to an Emergency & Solidarity Fund in March 2020 to support businesses whose operations were affected by the COVID-19 pandemic. The general lockdown imposed by the government on March 23, 2020, and restriction of traffic lastingly affected the tourism and catering sectors. Approximately \$11.2 million was made available to support small businesses through micro-credits. Significantly, companies that continued to pay their employees in full during the lockdown received direct support from the government in the area of employers' social security contributions.



The informal sector, including day laborers and small traders, plays an important role in the economy and illustrates the existing dual economic structure of Djibouti. On the one hand, there are revenues from trade and maritime transportation, as well as income from foreign military bases. On the other hand, informal enterprises comprise a considerable percentage of business activities both in the urban and rural areas of the country.

Djibouti's economy is still dominated by the presence of state-owned enterprises, chiefly in agro-industries, mining, the hotel industry, financial services, telecommunications, and transport and storage services.

The media sector is exclusively owned by the government. Several other sectors of the economy are state monopolies, such as telecommunications (Djibouti Télécom), water (Office National de l'Eau et de l'Assainissement de Djibouti, ONEAD), electricity (Electricité de Djibouti, EDD), and the postal service (Office des Postes et des Télécommunications, OPT). No conclusive list of state-owned companies (SoE) or reliable numbers on the performance of known companies is publicly available. SoEs are required to publish annual reports. However, the official budget does not include revenue figures for all SoEs.

The licensing process for new investment is not entirely transparent. Several operations were able to negotiate a very favorable tax status. Regulatory authorities exist, although policies and rule-making are not always transparent. There are reports of unexplained punitive taxes being levied on firms. Specific terms, including lease agreements for land or the cost of electricity, are often negotiated with senior government officials directly, which provides breeding ground for corruption.

Since April 2019, Djibouti has been a member state of the International Centre for Settlement of Investment Disputes (ICSID). The dispute between the government and Dubai-based DP World over the Doraleh Container Terminal went into a further round in January 2020. The London Court of International Arbitration ruled that the government should adhere to the initial deal signed in 2006 for the operation of the Terminal for 30 years, hence, granting DP World the rights to operate Doraleh Container Terminal. Djibouti nationalized the port infrastructure and all shares in 2018, following the introduction of a law in November 2017 that permits the unilateral termination or alteration of contracts by the government. Since 2018, five court rulings decided in favor of DP World, which were all officially rejected by the government. DP World also sued China Merchants Port Holding in the Hong Kong High Court for breaching concession agreements between DP World and the government of Djibouti.

As a member of the Common Market for Eastern and Southern Africa (COMESA), Djibouti is formally obliged to abide by the antitrust rules of the COMESA Treaty, including merger regulations. Consumer protection and competition law does not pertain to services and products provided by state-owned enterprises, such as

Competition policy

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electricity, water, postal services and telecommunications (all monopolies). Yet the government regulates prices. Prices for products that receive state subsidies (e.g., bread, flour, kerosene) are regulated by the government.

As the central port for East Africa, with efficient logistic and transportation facilities, the ports of Djibouti are of outmost importance for import and export flows in the Horn of Africa. Djibouti is a member of Common Market for Eastern and Southern Africa (COMESA) and the WTO and a party to, inter alia, the League of Arab States Investment, the Arab League Investment Agreement, and the Arab Economic Unity Agreement, Protection and Guarantee of Investment among Member States of the Organization of Islamic Conference, the Cotonou Agreement, and the ESA (Eastern and South Eastern Africa)-EU Interim Economic Partnership Agreement.

The COMESA foreign common tariff applies no tax on capital goods and raw materials, 25% on finished goods and 10% on intermediary products.

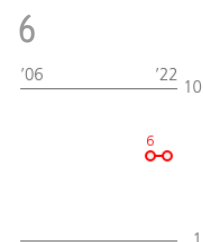
The African Continental Free Trade Area (AfCFTA) entered into force in March 2019 and could mark a turning point for intra-African trade relations. The Djibouti International Free Trade Zone (DIFTZ), inaugurated in July 2018, is expected to play a major role in elevating Djibouti's status from a mere trade and logistics hub to a manufacturing and processing location in East Africa. The operational phase of the AfCFTA (trading under the agreement) officially began on January 1, 2021. However, negotiations are still ongoing and the African continent still has a long way to go to create a single market for goods and services.

The banking sector is growing steadily with both local and international banks operating in Djibouti.

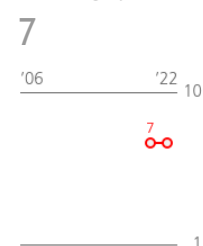
Banking is entirely under the supervision of Djibouti's central bank, while the capital of local banks is majority-owned by foreign groups. The insurance sector, regulated by the Ministry of Finance, consists of two large corporations. The central bank issues licenses to banks. Since 2016, the World Bank has provided technical assistance in the ongoing digitalization and modernization of Djibouti's financial sector. A number of banks started offering e-banking and mobile-banking services. No stock market exists. Djibouti is home to the only Bitcoin ATM in the Horn of Africa and the implementation of blockchain technologies is promoted by several private companies.

The Djiboutian Franc is backed by the U.S. dollar and there are no exchange restrictions, which makes Djibouti an attractive marketplace, especially for Ethiopian corporate customers who suffer from a lack of foreign capital. At least 12 banks operate in Djibouti, including Islamic banks and corporate banks. The Banque pour le Commerce et l'Industrie – Mer Rouge (BCIMR), Bank of Africa (BoA), and CAC Bank account for the majority share of deposits in the country. Ethiopia's Commercial Bank (CEB) maintains a branch in Djibouti. However, given forex

Liberalization of
foreign trade



Banking system



restrictions and limited inter-bank connectivity in Ethiopia, the bank's operations lag behind expectations. In 2019, the Bank of China officially began operations in Djibouti. The share of non-performing loans increased from 16.5% in 2017 to 18.06% in 2018 and decreased again to 16.26% in 2019. The central bank estimated the total assets of the five largest banks at approximately \$2.15 billion in 2019. Bank capital to assets ratio stood at 6.5 in 2019 while non-performing loans were 16%. The percentage of non-performing loans is likely to increase in 2020 and 2021, due to decreasing activities by businesses that cannot meet repayment commitments.

The newly established International Investment Bank (IIB), owned by Bahrain-based IIB Group Holdings, was awarded a license for the construction of a data center in Djibouti in 2019 and the operation of an information and communication technology park. IIB seeks to promote Fintech solutions in the country.

8 | Monetary and fiscal stability

The official currency of the country is the Djiboutian franc. A central bank was established in 1979 following independence. The Djiboutian franc is pegged to the U.S. dollar and trades at a fixed exchange rate. Hence, no currency devaluation due to a pandemic-driven withdrawal of funds can be reported. Adequate foreign exchange reserves, notably U.S. dollar and euro, as well as stable exchange rates, protect from high levels of inflation, which is expected to be between 2.7% and 3.5% in 2020 and was 3.3% in 2019. While economic output decreased in 2020, Djibouti is in a fortunate position compared to other countries in the region, given its consistent revenues from renting land for foreign military bases and consistent port activities.

The central bank controls the money supply and supervises the financial services provided by the banking sector. In addition to its traditional role in the area of monetary regulation, the central bank developed a strategy in 2020 to introduce novel fintech solutions to the country and it regulates digital banking services.

Djibouti's fiscal deficit declined in recent years. High growth figures were the result of a conventional debt-driven growth model that focused on largescale infrastructure development. The IMF's Article IV consultation with Djibouti in September 2019 concluded that Djibouti needs to increase its domestic tax base in order to foster poverty-reducing spending while reducing outstanding debt. Tax exemptions and special regimes affect domestic resource mobilization.

The development of port facilities, including the construction of the Addis-Djibouti railway and a transboundary freshwater pipeline, resulted in high external public and publicly guaranteed debt. Gross public debt stood at 38.5% of GDP in 2019 and the total external debt at \$2,552.4 million in 2019. Debt service will be affected by decreasing revenues and additional public expenditures for the health sector and subsidies to business affected by the pandemic. The IMF approved loans and

Monetary stability

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Fiscal stability

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disbursements under the Rapid Credit Facility (RFC) to Djibouti. The government assured its commitment to use a \$43.4 million loan cost effectively and in a well-targeted manner in response to the COVID-19 crisis. Relief on debt services under the IMF's Catastrophe Containment & Relief Trust (CCRT) will reportedly amount to approximately \$8.2 million. In 2019, Djibouti's fiscal deficit was estimated at 14.2% of GDP, which is likely to grow in 2020, according to the IMF.

9 | Private Property

Property rights are well defined. The constitution safeguards the right to private property. A 1991 law governs land ownership, and registration of buildings and title deeds. Information on the quality of the land register is not available. All property in Djibouti is part of the public domain, whether assigned to public use or not. However, legal and regulatory procedures are often unevenly enforced and complex in themselves, especially in the case of strategic properties (i.e., land).

Djibouti seeks to attract foreign investments through its National Investment Promotion Agency (NIPA). Since the early 2000s, the government has undertaken important steps to modernize regulatory frameworks to facilitate inward investment and operations. Private sector activities continue to face difficulties due to the dominant position of parastatal companies and business conglomerates affiliated directly or indirectly with the president and leading political elites. Contrary to reports of a partial privatization of Djibouti Telecom, a second provider is likely to enter the market and Djibouti Telecom will remain under state ownership.

A joint venture between foreign and local investors is not required. However, several actors active in the Djiboutian market describe the formation of strategic joint ventures as a desirable and most effective way to establish a business in Djibouti. High levels of corruption and invisible market entry barriers affect the ease of doing business in the country. In accordance with the current regulations, there is no expropriation of private investments without equitable compensation.

10 | Welfare Regime

The gap between poor and rich in Djibouti is considerable among the urban population and even more pronounced between urban and rural areas. In May 2019, the World Bank approved another social safety net program for Djibouti. It mainly targets nutrition, the establishment of a national social registry and better integration of refugees in their host communities. The 2020 pandemic created urgent spending needs in an effort to absorb its economic impact on the most vulnerable sections of the population. Aimed at bolstering the national budget and mitigating socioeconomic effects stemming from the COVID-19 pandemic, the African

Property rights

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Private enterprise

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Social safety nets

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Development Bank (AfDB) approved a grant of \$41.16 million. The government's response programs launched in 2020 target three main areas: first, strengthening the health system and access to health care; second, safeguarding livelihoods, and third, supporting economic activities. Life expectancy at birth was 66.6 years in 2018. The National Assembly adopted a law promulgating the National Strategy for Social Protection (SNPS) 2018 – 2022, which focuses on four priorities, including (1) the right to food security for households below the national poverty line, (2) an income guarantee for children living in households in extreme poverty, (3) an income guarantee for elderly without family support and persons with disabilities, and (4) income support for those who are not able to work due to life accidents. The International Labor Organization (ILO) described the law as the first of its kind to bring together various social protection schemes under one framework in the country. However, implementation is yet to occur.

All citizens without distinction to race, origin, sex, or religion are equal before the law. However, equality of opportunities between men and women is far from being achieved. Women remain under-represented in senior government positions and the economy is largely dominated by men. No data on the adult literacy rate is available.

World Bank data for 2020 shows that 72% of girls and 75.3% of boys are enrolled in primary education. Gross primary school enrollment declined from 75.3% to 73.8% between 2019 and 2020. Approximately 40% of the total labor force was female in 2019.

Protection of the rights of women falls under the Ministry for the Advancement of Women, Family Welfare and Social Affairs (MPF). Noteworthy is also the work of the National Union of Djiboutian Women (UNFD), established in 1977. In 1986, 40 years after women were allowed to vote in political elections, female candidates were allowed to run for office for the first time and the first female member of parliament were elected in the 2003 elections.

The National Agency of Disabled People (Agence Nationale des Personnes Handicapées, ANPH), created in 2018, is a public body funded by the presidency. In 2020, the ANPH introduced ID cards for disabled individuals to foster inclusion and facilitate their integration into the labor market.

Equal opportunity

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11 | Economic Performance

Growth is expected to slow considerably in 2020 due to the economic impacts of the COVID-19 pandemic. Decreasing global trade volumes hit Djibouti's port and logistics industry particularly hard. The IMF estimates that growth will plunge from 7.5% in 2019 to 1% in 2020 before returning to pre-pandemic figures around 8.5% in 2021. Recovery, however, will be largely determined by global trade volumes, increased investment and construction projects. The macroeconomic outlook for Djibouti is mixed. Trade volumes with Ethiopia, accounting for 80% of port activities, and global trade trajectories are a major determinant on the supply side, while GDP growth will also be subject to infrastructure investment. Unemployment rates remain unchanged, compared to the previous review period, and are estimated to be as high as 45% (official estimates claim 10%). The informal labor market is sizable and no notable employment market measures were introduced by the government.

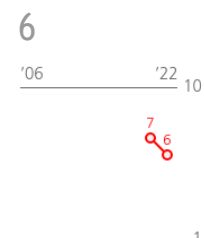
The overall current account balance fluctuated considerably in recent years, according to the 2019 IMF Article IV consultations, with a reserve coverage of 3.2 months of imports in 2018 and official reserves at \$112 million. Public and publicly guaranteed debt more than doubled since 2013, reaching 71% in 2018. This is mainly the result of largescale debt-financed investment in infrastructure projects, notably the Addis Ababa-Djibouti Railway and a water pipeline delivering fresh water from Ethiopia.

12 | Sustainability

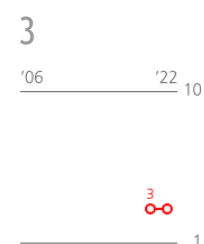
Djibouti's ambitious development strategy entails harmful environmental impacts that are amplified by changing climate patterns and increasing pressure on its marine and terrestrial ecosystems. Climate extremes such as floods, prolonged droughts and rising sea levels require a rethinking on the part of the government. Flash floods in 2019 and 2020 affected large parts of the population and destroyed houses and transportation infrastructure. Thus far, economic development ambitions clearly outweigh environmental concerns. However, there is a growing awareness of corporate social responsibility and responsible business conduct (RBC). RBC is thus far neither promoted by the government nor taken into consideration in procurement decisions.

Djibouti signed a memorandum of understanding (MoU) with the African Risk Capacity in 2019 to strengthen natural risk management capacities. As a coastal nation, Djibouti is one of 50 countries globally most vulnerable to extreme climate risks, according to the Global Climate Risk Index.

Output strength



Environmental policy



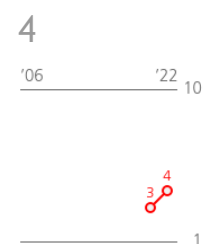
Djibouti's long-term development strategy, Vision 2035, also stipulates the development of measures to mitigate the effects of climate change through anti-desertification measures and sustainable water management practices as a strategic goal over the next decade. The biggest mangrove forest in the country, Khor Angar in northern Djibouti, decreased by 50% to merely 60 hectares as a result of deforestation and decreasing inflow of fresh water. The Global Environment Facility contributed \$2 million to the restoration of the fragile ecosystem that used to be a getaway destination from Djibouti City and a source of local income for fishermen.

In January 2021, the World Bank announced it would invest over \$5 billion to link the African continent's east coast in Djibouti with the west coast in Senegal through projects promoting livelihoods and the restoration of degraded landscapes. Aimed at improving livelihoods affected by the COVID-19 pandemic, the investment will focus on the mitigation of climate change.

The latest available data on public expenditure on education and research dates back to 2010. The effect of shifting educational policies as outlined in the country's long-term development strategy, Vision 2035, can therefore not be evaluated fully. The establishment of the University of Djibouti in 2006 marked a milestone for tertiary education. Previously, post-secondary education and an international level was only available outside Djibouti. The university quickly evolved into a catalyst for knowledge transfer, which also helps to counter brain drain. As of now, teaching and research partnerships exist with more than 40 universities and Djibouti participates in the Erasmus Mundus Program of the European Union. The Salaam Center has operated in Djibouti since 2016, providing theoretical and practical training programs in the fields of business administration, human resources, publishing, and other fields. The center collaborates with international partners, including ICDL Africa, the Arab Academy for Banking and Financial Sciences, and Grenoble's Ecole de Management. The International Organization for Migration (IOM), together with the international children's rights organization, Terre des Hommes, and the University of Djibouti launched a digital training center (Espace Créatif) in 2019. Aimed at promoting computer literacy and digital skills, the center is equipped with 3D printers and laser cutters and targets young migrants. The digital training center manufactured personal protective equipment (PPE), including face shields, for Djiboutian health workers.

Schools and the university were forced to close in March 2020. The general lockdown imposed by the government illustrated the unpreparedness of the educational sector for effective distance-learning measures. The Ministry of Education received support from UNICEF to improve available e-learning platforms during the COVID-19 pandemic. The World Bank allocated \$3.5 million to the Ministry of Education's COVID-19 response plan (2020 – 2021), which focuses on improving access to remote learning, planning a safe re-opening of schools, and strengthening the education sector's resilience to emergencies. Djibouti spent 3.6% of its GDP on

Education policy /
R&D



education (latest numbers from 2018). On the UN Education Index, Djibouti slightly increased its educational level to 0.325 in 2019.

In 2019, the National Institute of Statistics made past Household Consumption Surveys digitally available for researchers and international organizations, which is a particularly notable move toward open data, given the limited access to public data in the country.

Governance

I. Level of Difficulty

Djibouti's population grew by 40% from 700,000 in 1999 to approximately 974,000 in 2019 (World Bank 2020), of which more than two-thirds live in Djibouti City. Given the lack of manufacturing and processing industries, employment opportunities are limited, and the growing population of working age are left with few economic opportunities. Qat (or Khat) defines daily lives in most parts of the country, given the high rates of addiction to this narcotic leaf among all segments of the populations. The main source of Qat is Ethiopia, as it cannot be grown in the semi-arid environment of Djibouti. The proportion of available funds spent on Qat is considerable. The main structural constraints to domestic food production in Djibouti are water scarcity and the arid climate. Extensive livestock production is the predominant form of rural subsistence, as less than 4% of land can be farmed.

Weather extremes affect domestic food and livestock production. The high degree of salinity in most surface water sources makes irrigation development unfeasible. Heavy rains triggered flash floods at the end of November 2019 and resulted in the destruction of infrastructure, property, and agricultural livelihoods. Similar conditions were recorded in December 2020, affecting Djibouti City and several regions (Arta, Damerjog, Tadjourah, and Goubetto).

Road infrastructure outside the main transportation corridors linking Djibouti's urban centers and neighboring Ethiopia is limited or in poor condition. Road construction projects as part of the African Union's Program for Infrastructure Development in Africa (PIDA) will improve logistics and transportation time in the near future. The Djibouti-Dire Dawa-Addis Ababa train line has not yet lived up to expectations due to technical difficulties and irregular travel schedules on the 752-kilometer electric rail line. The road linking Djibouti via Semera in Afar Regional State and Addis Ababa continues to be a central bottleneck, vulnerable to human and natural disruptions. Clashes between ethnic Afar and Issa Somali, involving multiple casualties on both sides along the border, disrupted traffic in late December 2019.

The economic effects of the COVID-19 pandemic affected GDP, which declined from 7.5% in 2019 to 1%, according to an updated IMF forecast in April 2020. However, the expected post-pandemic recovery of the global economy will likely trigger dynamic growth in 2021, especially due to increased trade. Trade disruptions with neighboring Ethiopia were a major factor strongly affecting Djibouti's economy in 2020.

Poverty remains a major threat, exacerbated by the economic impact of the COVID-19 pandemic on household income, employment and commodity prices.

Structural
constraints

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The constitution guarantees freedom of association and does not restrict the formation of civil society organizations. However, in practice, several obstacles prevent public and civic engagement. State offices closely monitor public activities, and the Ministry of Interior is responsible for granting permits to groups. Movements and individuals critical of the government are likely to suffer direct repercussions, which prevents political participation of groups not affiliated with the ruling coalition. Religious institutions can be considered the main civil society actors in the country.

A noteworthy development is the Civil Society Organization Strengthening Project (2018 – 2020), aimed at instigating a constructive dialogue between civil society organizations and the government. Co-funded by USAID, the project focuses on strengthening the capacity of 12 civil society organizations, improving governance in the education and health sector, and promoting more effective advocacy for gender equality, equitable service delivery and protection of vulnerable populations.

The risk of domestic conflict in Djibouti is low. No noteworthy violent incidents based on ethnic or religious differences can be reported. The formerly armed wing of FRUD was effectively neutralized by the Djiboutian army, which largely quelled the risk of ethnically motivated insurgencies. There's no middle class in Djibouti, and the divide between rich and poor has grown considerably over the past 20 years. Cleavages within the Muslim community and the influence of religious fundamentalism represents an immanent and, according to government sources, serious threat to security. Al-Shabab successfully attacked a restaurant frequented by foreigners in the city center of Djibouti. Following this incident, the intelligence and security apparatus dedicated considerable financial and human resources to prevent future attacks. Reports of thwarted terrorist attacks in the country are proof of the success of this strategy. The main branches of the security apparatus, the National Police, the National Gendarmerie and the National Service of Documentation and Security (SDS) collaborate closely. SDS in particular takes a leading role in anti-terrorism measures.

The presence of foreign military contingents and deployment of Djiboutian troops to the African Union Mission in Somalia (AMISOM) makes Djibouti a desirable target for terrorist groups operating in neighboring Somalia. Looming instability in Somalia and the increasing presence of the Islamic State (IS) group in the region has increased the threat of terrorist attacks in Djibouti over the review period, according to government sources. Socioeconomic imbalances, combined with high youth unemployment rates, provide a potential breeding ground for radicalization. The government clearly recognizes the risk of growing religious fundamentalism.

Civil society traditions

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Conflict intensity

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II. Governance Performance

14 | Steering Capability

The formulation of the Vision 2035 or Djibouti 2035 was a milestone for the country and is the country's first-ever long-term strategic development plan. Its overall objectives fall into three categories and include targeted investment in infrastructure, diversification of the economy toward manufacturing and processing, and economic reforms to promote private sector involvement. The COVID-19 pandemic affected economic growth and limited the government's ability to implement its short-term strategic objectives. However, despite this, the government successfully launched various projects in line with the country's long-term development plan.

As a central port facility for East Africa, Djibouti faces novel and rather unexpected competition due to the rapprochement between Ethiopia and Eritrea and major investments in Somaliland. While the country still has a major advantage, due to its proven operational facilities, and continues to invest, the future Port of Berbera constructed by Dubai-based DP World could challenge Djibouti's monopoly on Ethiopian import and export flows. Somaliland reportedly aims to absorb 50% of Ethiopia's trade traffic, which is thus far monopolized by Djibouti. Estimates are that Ethiopian cargo flows could decline by up to 10% annually once Berbera's port is operational.

Central aspects of the Vision 2035 plan have been implemented without delay. Besides the construction of the Djibouti-Addis Ababa railway, other success stories include the creation of the free trade zone and major road construction projects. Djibouti is aiming to position itself as the "Singapore of Africa" or the "next Dubai," betting heavily on foreign-backed financing for largescale development projects. Investments into the port and related logistic infrastructure enjoy priority. Djibouti implemented several reforms to improve its investment climate. However, high levels of corruption and the long-term rule of President Guelleh, as well as many unknowns regarding a peaceful transition of power at some point, deter many potential international investors. The president's decision-making abilities with regard to the implementation of development and reform projects are not challenged openly. In the executive branch, no factions or powerful individuals can be identified with sufficient influence and leverage to affect the president's strategic agenda.

Despite the effects of the COVID-19 pandemic, several noteworthy developments, which illustrate the government's determination to policy implementation, occurred in 2020. The government launched the East Africa International Business Zone, which goes hand in hand with the regeneration of the Historical Port of Djibouti. Construction in Damerjog advanced on a petro-chemical complex and new port facilities. In November, President Guelleh launched the construction of a new ship maintenance yard, one of the largest in East Africa, which will create up to 300 jobs.

Question
Score

Prioritization

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Implementation

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The Djiboutian government has positioned itself as a reliable partner in the Horn of Africa for foreign military missions. The U.S. military in Camp Lemonnier outnumbers the presence of French troops in the country. Djibouti has traditionally maintained close ties to France as its former colonial power. However, over the course of the past two decades, this strategic partnership gradually changed and no clear pattern can be identified at present. The country hosts several foreign military bases, including facilities leased by Italy, France, Japan and China. The latter is the first Chinese military base on the African continent and is located near the town of Obock. Security and economic ties with Beijing are particularly strong. The Trump administration openly warned of the presence of Chinese troops and the gradual expansion of the Chinese military infrastructure in Djibouti. The geostrategic location of Djibouti is an invaluable asset for the country and forms the basis for international alliances that go beyond mere security partnerships. China's presence in one of the world's busiest shipping lanes could alter the balance of power in the Horn of Africa.

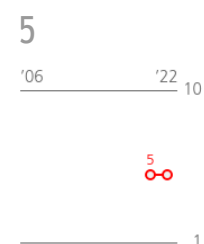
These strategic partnerships provide the government with a steady flow of income in the form of rent. Under President Guelleh, Djibouti's strategic alliances shifted from France to the United States. Recently, China has become a major partner of the government in infrastructure development and financing. President Guelleh has demonstrated an ability to diversify partnerships based on his rational calculation that the geostrategic location of Djibouti is an invaluable asset when forming alliances with foreign governments. The policymaking process and strategic decision-making are in the hands of the president and a selected group of advisers, including family members.

The government's policy learning is not intended to promote a transformation toward a democracy based on the rule of law.

15 | Resource Efficiency

Djibouti is a country with few natural resources. Its major economic asset is its existing infrastructure at one of the busiest shipping and trading routes in the world. Economic development is subject to the influx of funds. Thus far, the country has used its strategic geo-economic location, security environment, and stable currency to attract investors and develop other sources of income. Annual rent payments from the various military bases, especially the large leases to U.S. forces and the Chinese military, reportedly generate annual revenues of several million U.S. dollars. Rent income and fees for port services constitute the central source of foreign currency for the country. Djibouti effectively utilizes its main resource base, which is its geostrategic and geo-economic location on the Red Sea, combined with the existing port, trade and logistics infrastructure. This is further evidenced by largescale investments in maritime transportation and the service sector, including the expansion and construction of the free zone and industrial parks.

Policy learning



Efficient use of assets



There is little public information available on budget efficiency and the actual efficiency of administrative structures. Annual budgets are only accessible to members of parliament and ministries. Significantly, information on rental revenue from foreign military bases is not publicly available and can only be estimated based on news reports. Several opposition figures, however, claim that there is a diversion of funds from the state budget to the president, mainly from rents paid for military bases. They state that this provides the foundation for his political power by enabling him to provide direct payments to individuals in exchange for loyalty. This affects the country's capacity to invest in health, education and improvement of other public services.

Investments in health and education services and countrywide improvement of basic infrastructure lags, despite considerable and largely stable annual revenues. In June 2020, the government announced the creation of a \$1.5 billion Sovereign Wealth Fund by 2030. Djiboutian officials stated that the fund aims to finance both domestic and regional projects, including infrastructure development and telecom services. The source of the initial investment has not been disclosed. However, official statements refer to recurring resources dedicated to raising the necessary endowment.

Djibouti successfully completed financing agreements to advance development projects as part of Vision 2035. For instance, in 2020, a consortium of international private and public financiers approved funding for a 60 MW wind farm project near Lake Assal. As part of the Vision 2035 strategy, Djibouti aims to transition energy consumption toward 100% renewables by 2030. Following a preliminary agreement signed in June 2019, the government approved the construction of a solar photovoltaic project in Grand Bara in early 2020. The project will reportedly be a private-public partnership between the French company Engie and the Djiboutian government.

Major strategic policy decisions are mainly made by the president himself, who makes use of a small circle of advisers and confidants. The executive branch defined clear objectives for the country. Policies are geared to maintaining the position of Djibouti as the central transportation, trade and logistics hub of East Africa.

Policy
coordination

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Corruption is an ambivalent issue in Djibouti. On the one hand, it affects business operations, especially for foreign actors entering the market. On the other hand, networks of patronage have evolved into a relatively effective security mechanism for investors. Djibouti improved its ranking steadily on the World Bank's Doing Business Report. However, corruption continues to be a central obstacle. Laws are not enforced properly to prosecute illicit money flows and the institutions established to combat public sector corruption do not fulfill their mandate effectively.

The newly established National Anti-Corruption Commission and that Djibouti is a signatory of the United Nations Convention against Corruption would suggest that transparency and accountability are central government priorities and that legal sanctions are enforced regularly. A 2013 law supplements existing regulations related to the prevention of and fight against corruption, as stipulated in the Criminal Code. While several steps to fight corruption have been implemented in recent years, public sector corruption and related offenses continue to prevail. The National Anti-Corruption Commission aimed to create a safe environment for whistleblowers. A program launched in 2018 urged public officials to declare their assets. However, no independent watchdog organization exists in Djibouti and the effectiveness of the National Anti-Corruption Commission remains to be proven. Nevertheless, there are cases of prosecution of corruption. Noteworthy is the infamous case surrounding the UAE-based DP World's Doraleh Container Terminal and the involvement of Djiboutian businessman Abdourahman Boreh. Anti-corruption audits of public officials are regularly used to silence opponents critical of the president's rule.

16 | Consensus-Building

Vision 2035 was launched as a long-term development strategy by the government. There is strong consensus among political actors on economic objectives promoted by the road map toward a market economy.

Democratic reforms are, without doubt, secondary long-term objectives. The focus is clearly on economic factors to sustain Djibouti's growth momentum. The upcoming 2021 presidential election is a case in point for the limited democratic reforms undertaken by the government. At the end of the review period, it remained uncertain if the Franco-Djiboutian businessman Zakaria Ismaël Farah would stand in the April 9 polls contesting the sitting president.

Anti-corruption
policy

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Consensus on goals

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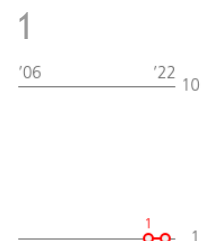
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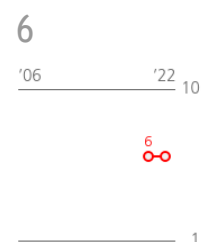
No notable reformist forces exist within the government, which is itself to be considered the most significant anti-democratic actor due to its authoritarian characteristics. The divided opposition is incapable of challenging the rule of the president by democratic means and influencing policymaking. Within the ruling coalition or the RPP, no serious reformist elements existed at the end of the review period. The group of formal and informal advisers to the president is made up of business executives and former government officials. Since 2018, a generational shift among these advisers became visible, such that the new generation are more progressive and technology savvy than the old generation. However, reform policies focus on the business environment and Djibouti's links with the global economy and not on the democratization of the existing system. Several commentators point to the looming danger stemming from Al-Shabaab. Djibouti is, despite heretofore effective countermeasures, not immune to the threat of religious extremism.

Anti-democratic actors



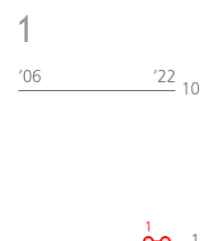
Interethnic conflict in Djibouti is limited and no separatist movements threaten the stability of the nation. Djibouti is often described as an anchor of stability in a volatile region, surrounded by conflict-ridden Somalia and Eritrea and Ethiopia to the west, which only in 2018 put an end to two decades of hostilities. The country's capital city is considered very safe, compared to other African metropolises, and violent conflicts are rare exceptions. Conflicts over power and resources exist in Djibouti. However, cleavages rarely manifest as ethnic, religious, or territorial conflicts. There is also no 100% clear ethnic divide between those in power and excluded groups, although key positions in politics and the economy are held overwhelmingly by Issa Somali. Certain individuals assume a mediating role, such as the prime minister, Abdoukader Kamil Mohamed, who is Afar.

Cleavage / conflict management



The capacity of the civil society to actively contribute to the policy process and advocate for improved governance and inclusive service delivery is limited. The media is not free. Independent coverage of sensitive issues is obstructed by the government and the security apparatus which uses intimidation to prevent journalistic investigations. Opposition parties are publicly defamed by senior government figures and take no active role in political debates. Despite the limited space granted to civil society actors, a number of interest associations exist, such as the Fédération Nationale des PME-PMI de Djibouti, Association des Transitaires de Djibouti (GIE), Alliance Djiboutienne contre le le SIDA and the Confédération Nationale des Employeur de Djibouti. Student movements exist as well, although these associations are largely politicized and deemed mouthpieces of the ruling coalition. The National Association of Women in Djibouti (Union Nationale des Femmes Djiboutiennes) is represented across the country with approximately 4,000 members. Although headed by the first lady, the organization is not directly government controlled, but acts as a bridge between international donors and non-governmental organizations to support and fund causes promoting female education and health.

Civil society participation



(n/a) There have been no major historical injustices committed by the government. FRUD, which challenged the Issa-dominated rule of President Guelleh, joined the government coalition in 2001.

Reconciliation

n/a

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n/a

17 | International Cooperation

The government of Djibouti maintains close relationships with international partners and politicians in the region. Over the past several years, more than 50 additional embassies and foreign representations have been established. Similar to other African nations, Djibouti has forged a strong strategic partnership with China, which extends to a unique security cooperation. China is also the major financier of Djibouti's debt-driven development model and maintains a large commercial and military presence in the country. Beijing provided medical support to local health centers during the first wave of the COVID-19 pandemic. In recognition of their service, Chinese nurses and medical doctors were honored with awards by the prime minister.

Effective use of support

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No updated data on gross official development assistance (ODA) is available for the review period. OECD-DAC lists net ODA inflows of \$134.1 million in 2017.

Bilateral links between Turkey and Djibouti are growing strong. The Turkish Cooperation & Coordination Agency (TIKA) supports the government in various fields, including the provision of food aid during the COVID-19 lockdowns. Pakistan opened its first diplomatic mission in Djibouti in 2020 as part of its Engage Africa policy and seeks to deepen economic and diplomatic ties. Relations with the former colonial power, France, remain frosty. French President Emmanuel Macron visited Djibouti in 2019 – the first visit of a French president in 10 years – to discuss the consolidation of economic and security links. France reportedly fears losing ground with the growing presence of China in Djibouti and the Horn of Africa.

The unchallenged rule of President Ismaïl Omar Guelleh suggests a high degree of stability and continuity. While this partly influenced Djibouti's rise as a reliable partner to foreign militaries and investors, its strategic location on the northeast coast of the Horn and the Bab-el-Mandeb Strait is of central importance. The ports of Djibouti are of strategic importance to the global economy, linking maritime transportation between the Gulf of Aden and the Red Sea. Over the past two decades, Djibouti has successfully emerged as an anchor of stability, open to international business, and a strategic base for foreign militaries in the fight against Islamic fundamentalism in East Africa. This image received a serious damper with the court cases between Djibouti and DP World.

Credibility

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Djibouti is a member of the WTO. European norms and standards are applied in the shipping and logistics sector. However, the regulatory frameworks of the regional communities, IGAD (Intergovernmental Authority on Development) and COMESA (Commons Market for Eastern and Southern Africa, are not harmonized. No international sanctions are in force against Djibouti and the Financial Action Task Force does not list Djibouti as a country with considerable deficiencies in anti-money laundering policies.

Djibouti's response to the COVID-19 pandemic was generally regarded as effective, measured and forward looking, especially compared to other states in the region.

In January 2020, Ethiopian Prime Minister Abiy Ahmed advocated for the creation of the so-called Horn of Africa Cooperation involving Eritrea, Ethiopia and Somalia, a new regional bloc that would, should it come to fruition, challenge the role of the Intergovernmental Authority on Development (IGAD) – which Djibouti is already a host and member of – as the region's powerbroker. At the time of this writing, the initiative shows little sign of succeeding, and Djibouti remains Ethiopia's key logistics and trading partner. Regional economic integration is crucial for Djibouti's development model, which is based on its geo-economic location and existing infrastructure links.

Relations between Djibouti's president and Prime Minister Abiy Ahmed of Ethiopia seem to be less cordial than with former administrations. Ethiopia's business relations with DP World in the Port of Berbera are a thorn in the side of Djibouti, whose court battle with the port operator is still ongoing. Moreover, reports of arms trafficking via Djibouti into Ethiopia and clashes between Somali Issa and Afar in the northeastern border region of Ethiopia have fueled growing disagreement between the neighbors. No progress can be reported on the border dispute between Eritrea and Djibouti.

An extraordinary IGAD Summit held in Djibouti at the end of 2020 focused on the law enforcement operation conducted by the Ethiopian Defense Forces in the northern regional state of Tigray and the growing tensions between Kenya and Somalia. The fight between Djibouti and Kenya over the seat in the UN Security Council affected regional cooperation during the review period. While the African Union (AU) member states endorsed Kenya's candidacy in 2019, Djibouti challenged the AU's decision and did not withdraw from the race. China and Russia reportedly backed Djibouti while the other permanent members (the United States, the United Kingdom, France) supported Kenya.

Significantly, relations between Djibouti and Somaliland have improved. After six years of near-complete closure, the border post in Loyada between the two countries has been re-opened to allow free transit of people and goods.

Regional
cooperation

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Djibouti contributes approximately 960 troops to the African Union Mission in Somalia (AMISOM). Djibouti collaborates with foreign troops based in the country in peacekeeping and anti-terrorism and anti-piracy operations. Several naval units support the EU mission Operation ATALANTA (e.g., China, India, South Korea) and cooperate closely with EU forces operating from Djibouti. The presence of the U.S. forces in Camp Lemonnier, which serves as a central base for anti-terrorist operations, is growing. The Combined Joint Task Force-Horn of Africa (CJTF-HOA) of the United States Africa Command (USAFRICOM) is based in Djibouti.

Strategic Outlook

Since 2018 a wind of change has blown across the Horn of Africa, leaving no nation unaffected. With the rise of Ethiopia's reformist Prime Minister Abiy Ahmed, bilateral and regional relations were reconfigured. The rapprochement between Addis Ababa and Asmara, as well as the rapid development of sea port facilities in Berbera, Somaliland, are likely to challenge in the future Djibouti's position as the gateway to the East African market and lynchpin of maritime logistics and transportation in the Horn of Africa. However, the ambitious expansion of port capacities in Berbera (Somaliland) and the construction of new regional infrastructure links forces the Djiboutian government to further consolidate the country's position as a major trade hub in Eastern Africa and most notably neighboring Ethiopia. While Djibouti can still count on its lead in logistics and port facilities, including the biggest free trade zone on the continent, Ethiopia's minority share in the DP World-operated Port of Berbera is likely to affect trade dynamics at some point. Political stability and operational security will therefore be crucial factors determining Djibouti's economic position. Thus far, the government has been successful in preserving peace and stability in a volatile region. Strategic and security partnerships with an array of international actors are a unique feature of the tiny Horn of Africa nation.

Similar to other countries in the region, Djibouti is likely to benefit from electricity exports from Ethiopia once the Grand Ethiopian Renaissance Dam at the headwaters of the Blue Nile is operational. The ongoing conflict in Ethiopia's northern regional state, Tigray, the border dispute between Ethiopia and Sudan, as well as the stalled negotiations between Egypt, Sudan and Ethiopia are likely to further destabilize the Horn of Africa. Hence, Ethiopia's security situation and especially its economic performance directly affect Djibouti as its main trading and logistics partner. While Djibouti has called for a peaceful resolution of the conflict in Tigray in an official statement, it is unlikely that the government will seek further involvement into internal affairs of its neighbor. Following the dispute over the Doraleh Container Terminal with the Djiboutian government, DP World (51%) entered a joint venture with Ethiopia (19%) and Somaliland (30%) in 2018. The expansion project of the old Port of Berbera is expected to be inaugurated in 2021. The Ethiopia-Djibouti gas pipeline planned to run from the Hilala gas fields in Ethiopia's Somali regional state to Damerjog in Djibouti has made progress and both governments approved the project implemented by Chinese Poly-GCL in 2019.

However, threats to the future trajectories of development and change in Djibouti are manifold and range from growing vulnerability to climate change, the success of debt restructuring, and containment of the looming threat from IS and al-Shabaab. Decades of economic growth were the result of an authoritarian approach to development and came at the expense of political freedoms. Growing discontent is simmering under the surface, emerging in the form of social media campaigns against the president. The generational change that would effectively make the voices of the small number of young, innovative, technophile advisers to decision-makers heard is not yet in sight. Their ideas resonate with a more diversified and market-oriented economy than Djibouti's.

It is unlikely that President Guelleh will run again in 2026, given his age. The reintroduction of presidential term limits could serve as an important signal to citizens and opposition groups. There is little doubt that President Guelleh will win the 2021 polls. The UMP remains the strongest and a largely uncontested force. Yet, what comes after Guelleh is unsure. An orderly transfer of power during his fifth presidential term is a likely scenario. Hence, the next two years will set the course for a post-Guelleh era, which will be heavily influenced by policy decisions made by the UMP (i.e., President Guelleh) and the long-term development ambitions defined in the Vision 2035 strategy.

The chances of a democratic revolution led by the people are small. Nevertheless, a growing young population with little hope for employment and social advancement provides a breeding ground for extremism, correctly recognized by key government officials. Whether Djibouti's Sovereign Wealth Fund can help alter the distribution of growth dividends is questionable.

GDP growth will be mainly driven by the transport and service sectors with no changes to the economic structure of the country, compared to pre-COVID-19 times. The overall speed of recovery will be subject to social and business support during the pandemic.