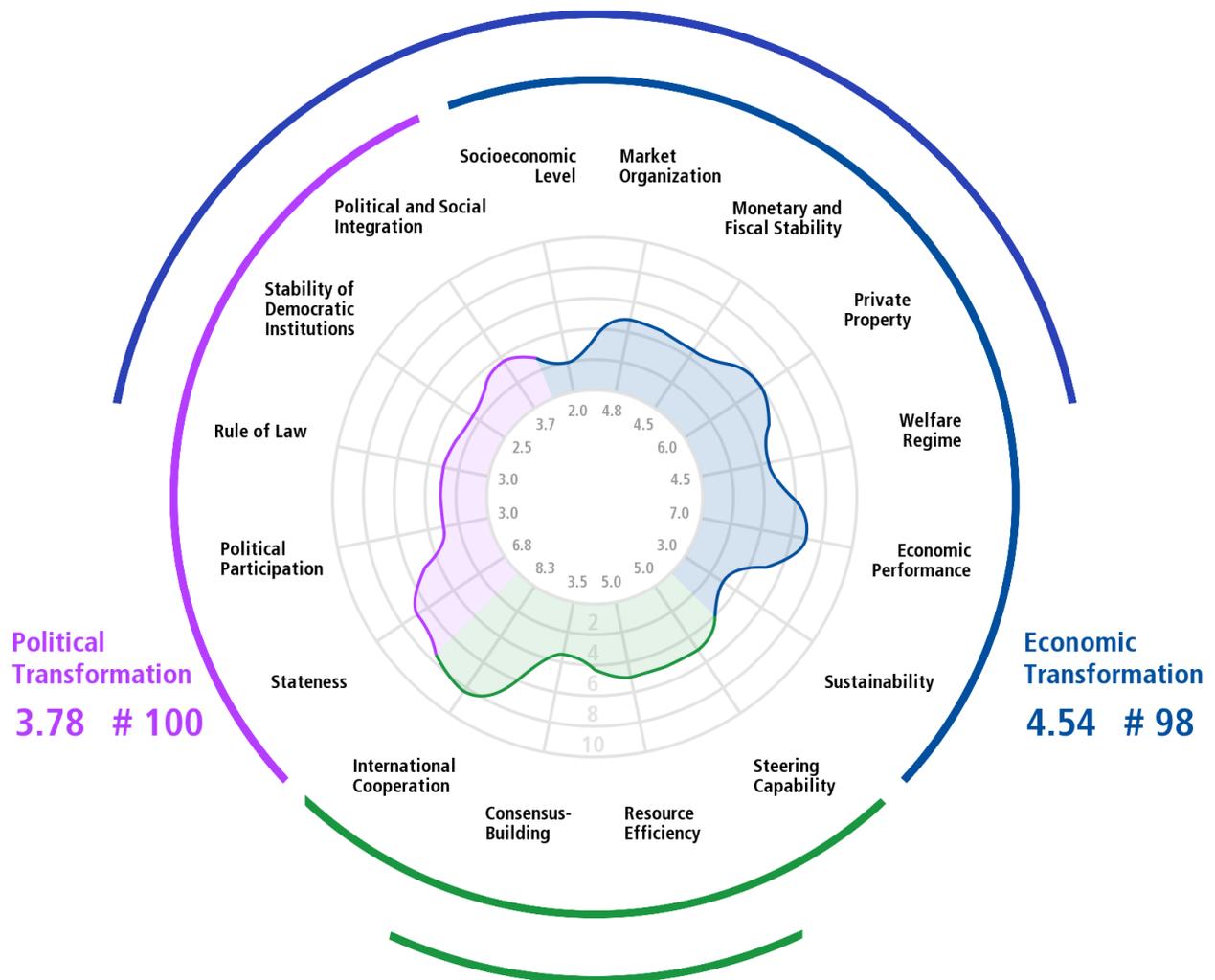


Djibouti

Status Index

4.16 # 105

on 1-10 scale out of 137



Political Transformation
3.78 # 100

Economic Transformation
4.54 # 98

Governance Index

5.14 # 63

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – Djibouti. Gütersloh: Bertelsmann Stiftung, 2020.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

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

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

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

Key Indicators

Population	M	1.0	HDI	0.495	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	1.6	HDI rank of 189	171	Gini Index	41.6
Life expectancy	years	65.9	UN Education Index	0.313	Poverty ³	% 40.2
Urban population	%	77.8	Gender inequality ²	-	Aid per capita \$	142.0

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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 strong and stable state with an authoritarian government under President Ismael Omar Guelleh, who took office in 1999. The country is ruled by a coalition, the Union for a Presidential Majority (Union pour la Majorité Présidentielle, UMP), which is dominated by the People's Rally for Progress (Rassemblement Populaire pour le Progrès, RPP) occupying 57 of 65 seats in parliament. During the period under review, the government made no significant changes to its political agenda, granting limited space to opposition parties and restrictions on free speech. Detentions of journalists and opposition candidates were reported in the run-up to the legislative elections in February 2018. The latest Freedom House Index, for 2018, rates Djibouti at five and six for civil liberties and political rights, respectively, on a scale of seven.

Djibouti sustained growth with an estimated 6.7% in 2018 according to the World Bank, whereas foreign debt has more than doubled since 2014, reaching nearly 103% of GDP in 2018. Foreign-funded investments in large-scale infrastructure, aimed at strengthening Djibouti's position as a commercial and logistics hub at the Horn of Africa, increased the level of debt distress, appearing to pose significant risks. Reforms to strengthen the private sector and reduce the dominant position of state-owned companies are not consistently implemented and corruption levels remain high. Growth and structural change are extremely uneven across the country, unemployment rates are high (measured at 11.1% in 2018 according to the World Bank). The overall level of socioeconomic development is very low, with Djibouti ranking 172 (out of 189) on the Human Development Index. As a net importer of foodstuffs that is vulnerable to drought-related supply shortages and food price volatility, Djibouti's need for food imports put additional pressure on the budget. Construction of a water pipeline, involving a \$322 million loan from EXIM Bank of China, is not completed; a planned liquefied natural gas (LNG) and oil pipeline from Ethiopia's Somali regional state (Somali West) to Djibouti is being supervised by Somaliland;

Djibouti's Tadjourah port, which is closer to Ethiopia and is designed for Ethiopian potash exports, may be supplanted by a similar port being planned in Eritrea. Djibouti is seeking to restructure the

terms of its repayments to EXIM for a railway built to Ethiopia, and a six-year dispute over the Doraleh Container Terminal is pending with Dubai Ports World at the London Court of International Arbitration. All of this creates distress in the country.

The People's Republic of China opened its first foreign permanent military base on the continent and in the world in Djibouti in August 2017. The country continues to host several foreign military contingents involved in anti-terrorism missions along the Horn of Africa. Djibouti has been affected by the changing diplomatic relations of the Saudi-led coalition with Qatar and the government in Doha withdrew its peacekeeping troops from Eritrean-Djibouti border missions in June 2017 after Djibouti decided to "downgrade" its diplomatic ties with Doha.

Relations with neighboring countries remained stable and the peace accord between Ethiopia and Eritrea in September 2018 set the scene for normalization of ties with Asmara. The operationalization of the Djibouti-Ethiopia train line in January 2018 increased the historically strong trade links between the two countries. Ethiopia's new prime minister, Abiy Ahmed, made his first foreign trip to Djibouti to discuss strategies for deepening economic integration, namely through pledges for hypothetical share swaps in state-owned enterprises, including ports, aviation and telecommunications. Djibouti, which provides Ethiopia's main import-export outlet to the Red Sea, joined the African Continental Free Trade Area (AfCFTA) in March 2018. The \$3.5-billion Djibouti International Free Trade Zone (DIFTZ) was officially launched in July 2018. The free trade zone, the largest of its kind on the continent, is jointly operated by Chinese partners and the Djibouti Ports and Free Zones Authority (DPFZA), and forms part of China's Belt and Road Initiative (B&RI).

Instability in Yemen led to an increased influx of refugees, who are living in several camps outside the capital, Djibouti City. Islamist terrorism and the spread of Harakat al-Shabaab al-Mujahideen (al-Shabaab), the Islamic State (IS) group and Salafists in Somaliland and the Puntland State of Somalia, both of which share borders with Djibouti, pose a potential threat to Djibouti's security and stability.

History and Characteristics of Transformation

Djibouti borders Eritrea to the north, Somalia's self-declared Republic of Somaliland to the southeast, and shares a border with Afar and Ethiopia's Somali Regional State in the west and south. Located on the Gulf of Aden, the crossroads of the Indian Ocean and the Red Sea, Djibouti is of significant strategic importance as a transshipment hub between Europe and the Middle East.

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, the TFAI gained independence as the last colony on the continent in 1977.

Pivotal in independence efforts since the early 1970s was the African People's League for Independence (Ligue Populaire Africaine pour l'Indépendance, LPAI), which emerged from the merger of the African People's Union (Union Populaire Africaine), led by Hassan Gouled Aptidon, who would become the founding president of Djibouti, and the League for the Future and Order (Ligue pour l'Avenir et l'Ordre, LAO), predominantly Afar and headed by Ahmed Dini. The multiethnic composition of the LPAI was reflected in the first cabinet, with Ahmed Dini appointed as prime minister and Abdullah Mohamed Kamil as minister of foreign affairs. The Rassemblement Populaire pour le Progrès (RPP) was created in March 1979 and replaced the LPAI under the uncontested leadership of Gouled, who was re-elected president in 1981. By banning newly founded Afar opposition parties, such as the Democratic Front for the Liberation of Djibouti (Front Democratique pour la Liberation de Djibouti, FDL) and the Djibouti People's Party (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, interethnic tensions increased across the country leading to the formation of the Front for Restoration of Unity and Democracy (Front pour la Restauration de l'Unité et de la Démocratie, FRUD) in early 1991. FRUD captured most of the northern districts of Djibouti, which led to the involvement of the French government as a mediator between the government and FRUD at the beginning of 1992. In response to the success of the Afar insurgent movement, Djibouti adopted a new constitution in September 1992, paving the way for a multiparty system. Following prolonged peace negotiations, FRUD and RPP formed a joint list for the 1997 legislative elections. This allowed RPP-FRUD to

capture all the seats in the National Assembly. Ismael Omar Guelleh who had been head of the cabinet in 1977 took over the reins from Hassan Gouled Aptidon as president of Djibouti in 1999. Guelleh then successfully sought re-election in 2005, 2011 and 2016, with a constitutional amendment on presidential term limits allowing 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, with more than three-quarters of Djibouti's population residing there. 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 maritime corridor controlling access to the Red Sea. While the Bab-el-Mandeb separates Djibouti from conflict-ridden Yemen, instability and open crises in Somalia to the south and tensions and territorial disputes with its northern neighbor, Eritrea, have contributed to regional instability that affects the country.

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 Republic of Djibouti is one of the smallest states on the African continent. Its territory corresponds in size to less than 20% of its next larger neighbor, Eritrea. The capital, Djibouti City (or Djibouti Ville) is the major urban and economic center and home to more than two-thirds of the population while the other five regions (Ali Sabieh, Arta, Dikhil, Tadjourah, Obock) are sparsely populated and characterized by mainly seminomadic pastoralist production systems with minor urban centers.

Djibouti is also home to the greatest number of foreign military bases in Africa – the U.S., France, Great Britain, Japan, and recently Saudi Arabia and China.

Djibouti is a strong and stable state with an authoritarian government under President Ismael Omar Guelleh (widely dubbed IOG) who took office in 1999 and has served for two decades. The country is ruled by a coalition, the Union for the Presidential Majority (Union pour la Majorité Présidentielle, UMP), which is dominated by the Rassemblement Populaire pour le Progrès (RPP). The state's monopoly on the use of force is established nationwide.

From the early 1990s until 2001, the Front for Restoration of Unity and Democracy (FRUD) led an armed insurgency in the Afar-dominated northern regions of the country. FRUD challenged the monopoly of the Issa-dominated government, until its moderate wing, led by Ali Mohamed Daoud, formed a joint list with RPP for the 1997 legislative elections and all the FRUD factions joined the ruling UMP up until 2001.

The state retains its solid monopoly on the use of force and no regional separatist movements exist, though upheaval in Ethiopia with Afar opposition movements may change this.

Question
Score

Monopoly on the
use of force

10

'06 '20 10
10

1

The Somali (60%), mainly Issa, followed by the Afar (35%) represent the largest percentages of the population estimated at 950,000 (2017). Afar live on both sides of the Djiboutian border with Ethiopia and Eritrea, whereas the Issa branch of the Somalis make up the majority of the population of Djibouti City and the southeastern part of the country bordering Somaliland.

Although degrees of identification with the present state authorities vary, there seems to be a fundamental consensus among the population as to who qualifies as a Djiboutian citizen and no group is formally denied access to citizenship due to language, sex, race or religion, as stipulated in the constitution. The concept of the nation-state is accepted in full. The gradual decline of pan-Somali nationalism over the second half of the 20th century has thwarted secessionist movements in Djibouti.

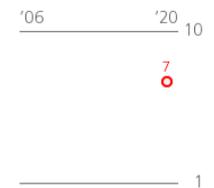
The looming crisis in Yemen led to an increased influx of refugees and a large number of Somalis immigrated to Djibouti. Both groups have been granted refugee status. Even though accurate data for the period under review is lacking, the government's attempt to expel around 100,000 people (ca. 15% of the total population) labeled as "illegal migrants" in 2003, indicates that a considerable number of people in Djibouti were neither considered citizens nor had refugee status.

Children born in the refugee camps of Ali Addeh, Holl-Holl and Markazi receive birth certificates issued by the government and thus are citizens of Djibouti, according to the UNHCR. In 2017, new comprehensive refugee laws were passed providing, among other things, for the right to work and better access to health care and education. According to the UNHCR, as of 30 November 2018, Djibouti hosts over 28,296 refugees, most of whom come from Somalia, Ethiopia, Eritrea and Yemen. One visible outcome of this is the emergence of several Yemeni-run businesses in the country (the largest group of refugees in Djibouti), especially restaurants and guesthouses. Familial relationships, Arabic and Somali as common languages, as well as shared religious and cultural features, seem to facilitate a general process of assimilation.

Djibouti is a Muslim country and the overwhelming majority of the population is Sunni. The proportion of non-Muslim citizens is very low (6%) and comprises mainly foreign-born residents, such as Ethiopian immigrants or members of foreign military contingents based in the country. No anti-Semitic acts have been reported against the small number of Jews living in the capital and religious tolerance is generally accepted. The largest Catholic Church in the country is the cathedral of Notre-Dame du Bon-Pasteur located in Djibouti City, which is the seat of the Roman Catholic Diocese of Djibouti. Although Islam is the official state religion, the constitution prohibits political parties based on faith. Moreover, there are no laws in place that prosecute individuals who do not observe traditional Islamic teachings and traditions. The constitution grants freedom of religion to all citizens. Both factors allow secular society to grow stronger.

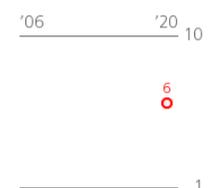
State identity

7



No interference of religious dogmas

6



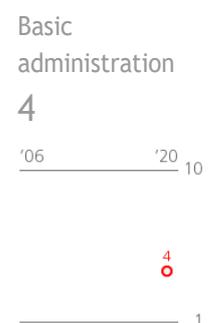
Despite the freedom of religion, there are recurring incidents of intimidation against converts from Islam to Christianity. Isolated cases of discrimination in employment against non-Muslims in public administration can be witnessed. Government employees take a religious oath and the president pledges to respect the constitution and Islamic law (Shariah law) when taking office. Significantly, civil courts and family courts, the latter combining both Islamic law and civil law derived from the French code civil, exist. Citizens can decide in which court to address regarding matters related to inheritance, divorce or marriage, irrespective of their faith. The government equally recognizes religious marriages, including non-Islamic marriages given that documentation can be provided, and civil marriages of interfaith and non-Muslim couples.

Djibouti Muslims do not widely practice the custom of purdah, the seclusion of women from public observation. Women's dress and employment are not restricted in Djibouti.

The Ministry of Islamic Affairs, Culture and Charitable Assets, headed by Aden Ali Aden, oversees all matters related to Islam. While the public school system is secular, a few Islamic schools (i.e., madrassas) exist, especially outside the capital. The Ministry of Islamic Affairs has the authority over all Islamic institutions in the country, including mosques. In order to prevent the rising influence of organizations linked to Islamic fundamentalism, to prevent political mobilization through imams, and inhibit foreign influence through donations to mosques, the government implemented a decree to tighten state control of mosques. The law passed in 2014 provides a legal basis for seizing the assets of mosques and made imams civil service employees. By 2017, the status of all imams in the country had been successfully converted; this also includes refugee imams, according to the latest International Religious Freedom Report of the U.S. Department of State.

The level and quality of public services, especially in terms of access to water and sanitation facilities, differs considerably between rural and urban areas. Pastoralist groups have less access to these services than the inhabitants of urban centers. High population growth in Djibouti City is the result of increasing rural-urban migration of people in search of employment, which has led to the emergence of informal settlements on the outskirts of town. According to Livelihoods Strategic Plan UNHCR Djibouti 2018 to 2022, the total number of formal jobs in the country is 50,000, half of which are in the public sector. However, the informal economy is estimated to comprise two-thirds of all enterprises and is a larger employer of women and youth.

The World Bank refers to a total of 13 slums, which host nearly one-third (approximately 200,000 people) of the capital's total population. The influx of people is also reinforced by frequent droughts affecting rural livelihoods.



The provision of public goods, particularly health care and higher education, is largely limited to Djibouti City. The strength of basic public services decreases considerably outside the capital and is generally deficient in peripheral areas such as Obock. Access to basic services is inadequate in the Ali Addeh refugee camp and slightly better in Holl-Holl, according to the UNHCR. The regions of Obock and Tadjourah experienced an outbreak of Acute Watery Diarrhea between September and October 2017. In a joint response operation, the Ministry of Health and the International Organization for Migration (IOM) treated over 100 migrants in the northern regions of Obock and Tadjourah.

Approximately half (47%) of the population had access to improved sanitation facilities in 2015, whereas this number decreased by seven percentage points since 2005. Access to improved water sources for human consumption was 90% in 2015, which is due to the increasing population of the capital city.

In spite of rising revenues derived from military rents and the commercial activities of ports, the delivery and quality of services across the country did not improve over the review period. President Guelleh has been repeatedly accused by the opposition of pocketing funds for personal gain and making slush payments to cronies and politicians to prevent the rise of opposition parties. Notably, Djibouti's budget excludes the revenues from the state-controlled ports, telecommunications and electricity utilities, fueling similar accusations, though involving significantly larger sums. Djibouti is a net importer of food and purchases most of its electricity from neighboring Ethiopia. The number of privately operated and foreign-funded Islamic schools has been rising in recent years.

2 | Political Participation

General elections on the national level are regularly held and the ruling UMP won the majority of seats (57 of 65) in the last legislative elections in February 2018, dominating in all regions of the country. Members of parliament are elected by universal suffrage and the next regular elections are due in 2023.

The government did not register the opposition party, the Assembly for Action, Democracy and Ecological Development (Rassemblement pour l'action, la démocratie et le développement écologique, RADDE). Only three parties ran in the 2018 elections due to a boycott by the major opposition parties. Some in the opposition believe that there is a serious bias in the electoral system that favors the ruling party and has marginalized the opposition. They believe that the lack of an independent commission on elections has created some sense of distrust in the whole process. The Movement for Democratic Renewal and Development party (DRD) for instance made a statement saying that, without an autonomous body to oversee voting, it is impossible to ensure the integrity of the process.

Free and fair elections

4

'06 '20 10

4

1

The election turnout was 63.83% of the approximately 194,000 registered voters. The deputies in the National Assembly are directly elected in multi-seat constituencies, either with a simple majority vote (for 52) or by proportional representation vote (for 13) for terms of five years. No term limits exist.

Following a constitutional amendment in 2010 on presidential term limits, President Guelleh was re-elected on 8 April 2016 for the fourth consecutive time and won the election with 87% of the votes. The African Union considered the election “free” and “sufficiently transparent.” However, restrictions on free speech and the detention of journalists and candidates, as well as prominent opposition figures such as Daher Ahmed Farah, who leads the opposition Movement for Democratic Renewal and Development (Mouvement pour le renouveau démocratique et le développement, MRD) and has been arrested 20 times, paint a different picture. Abdoukader Kamil Mohamed, who is a central ally of the president and influential within the UMP, was reappointed prime minister in May 2016. Noteworthy cabinet changes include Ali Hassan Bahdo, who took over the Ministry of Defense from Hassan Dara Houffaneh and headed the Ministry of Communication and Culture. There were no changes in the Ministry of Foreign Affairs (Mahamoud Ali Youssof), the Ministry of Economy, Finance and Planning (Ilyas Moussa Dawaleh) or the Ministry of Interior (Hassan Omar Bourhan). Given the continuity in the key portfolios and the largely unchallenged position of Guelleh in the ruling coalition, no major changes in terms of policy orientation or the authoritarian approach toward government were observed during the review period.

Djibouti is scheduled to vote in 2021. It remains uncertain if Guelleh will stand a fifth time as a presidential candidate. The list of potential successors includes family members, such as the president’s nephew Alexis Mohamed, and the first lady’s son from her first marriage Naguib Abdallah Kamil, who is a senior adviser to the president, as well as the finance minister, Ilyas Moussa Dawaleh, and possibly even former Prime Minister Dileita Mohamed Dileita, according to government sources.

The UMP, which was elected by a clear popular majority, is dominated by the RPP under the strong and largely uncontested leadership of President Guelleh. While there are democratically elected representatives in the legislative branch of the government, all political decision-making power seems to be concentrated in the hands of the president, who maintains the effective power to govern without intra-party opposition to his personal rule. The family of the president and its close allies dominate both politics and the country’s economy through cabinet positions and business conglomerates controlled mainly by Issa. In particular, the wife of the president, Kadra Mahamoud Haid, maintains a key position in the economy and exercises significant influence as an adviser to her husband, which reportedly also includes appointments to government positions.

Opposition parties have been successively weakened by a combination of imprisonments and slush payments from the vast financial resources controlled by

Effective power to govern

3

'06 '20 10

3

1

the president. The potential consequence of having allegedly attempted to defraud the president is illustrated by the removal of Abdourahman Boreh, a former head of the port authority, who was accused of closing a deal on behalf of Djibouti with Dubai's DP World, in which he was accorded secret commission payments.

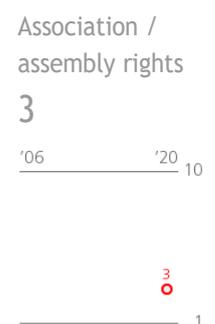
It seems that clan alliances, which are often considered to play a major role among Somalis, play a slightly subordinate role with regards to who benefits from the system in Djibouti. Issa-Somali and Afar alike hold central cabinet positions and opposition parties are neither exclusively Afar but also include Issa-dominated parties. It is worth mentioning, however, that the cabinet is mixed with the chef of the cabinet being Afar, Abdoukader Kamil Mohammed.

The Djibouti Armed Forces, led by General Zakaria Cheikh Ibrahim, are regarded even by trenchant critics of the administration as well organized, trained, ethnically balanced, and, most importantly, loyal to the administration of Ismael Omar Guelleh. Agents from the intelligence services maintain close observation on all aspects of life, directly reporting to Guelleh with regular assessments.

Djibouti received a score of five and six (seven being the lowest ranking) for civil liberties and political rights, respectively, in the Freedom in the World 2018 Report. Article 15 of the constitution guarantees the right to freely constitute associations to all citizens of Djibouti. While in principle the freedoms of assembly and association are constitutionally guaranteed, in practice, individuals and organizations that openly express opinions critical of the government remain under close observation by the security apparatus. An estimated one-third of Djibouti's manpower works directly or indirectly for the public security forces, according to opposition figures.

Demonstrations in the city of Tadjourah erupted in October 2017 with protestors demanding employment opportunities in the construction of a new port. The rights group, the Djibouti League for Human Rights (Ligue djiboutienne des droits humains) reported that security forces attacked protestors and several people were injured in Tadjourah. During the 2018 legislative elections, no large demonstrations were reported. These are generally rare in Djibouti due to the factionalized and divided opposition that had proved fairly ineffective in coordinating large anti-government protests. Qat or Khat (a narcotic leaf consumed by a major part of the population) supplies are said to be kept buoyant with a goal of helping to subdue opposition, though periods involving unrest and conflict between subclans of Issa and Oromia in key Ethiopian centers for Qat production have led to temporary shortages.

The Human Rights Council (HRC) has also noted violations of the human rights of detainees, journalists and human rights defenders, a lack of cooperation with U.N. human rights mechanisms, as well as the severe repression of members of the opposition.



Djibouti ranks 173 worldwide (down from 172 out of 180 in 2017) in 2018 on the World Press Freedom Index (Reporters Without Borders). Although the constitution guarantees the right to freely express and disseminate opinions in written and oral form, the ranking clearly illustrates the degree of restrictions on press freedom, censorship and the persecution of journalists. However, Djibouti's ranking on the Press Freedom Index fluctuated substantially in recent years; it tended to increase between 2004 and 2017 with a 70.54 score (0=complete freedom, 100=no freedom at all) in 2017.

The 1992 Freedom of Communication Law governs the creation of media outlets and defines media offenses. The state owns the weekly, *La Nation de Djibouti*, which is the only national newspaper, and *La Radio Télévision de Djibouti* (RDT). There are no privately owned, independent media outlets in the country. *Al-Qaran*, published in Arabic, appears irregularly in print, but maintains a website (www.alqarn.dj). *La Renouveau Djiboutien*, the only opposition newspaper linked to the MRD, was shut down following accusations of publishing false information and libel. Reporters for Somali-speaking foreign media outlets, such as the BBC, Voice of America (VOA) and Reuters maintain irregular stringer reporters in Djibouti. While it is possible to receive BBC and VOA digitally and on FM radio, the government-critical radio station, *The Voice of Djibouti* (*La Voix de Djibouti*), (mainly in French) only broadcasts from France. Foreign journalists report that media visas are difficult to obtain, with a screening process that passes through foreign public relations firms.

Tolerating the presence of correspondents purports a significant degree of media pluralism. However, both foreign and local reporters regularly face repression, including judicial harassment and deportation. In April 2018, several journalists covering the presidential elections, both foreigners and nationals, were detained and deported. Contributors to and informants for *La Voix de Djibouti* regularly face arbitrary arrests.

3 | Rule of Law

The Republic of Djibouti is a semi-presidential system in which legislative power is shared between the executive branch and parliament, the National Assembly (*l'Assemblée Nationale*). The executive branch of the government comprises the president, who is directly elected by the electorate for five-year terms by an absolute majority vote, if required, in two rounds. The president appoints the prime minister, who is head of government, and other members of the cabinet. Members of the National Assembly are elected for five years by a direct ballot. In 2010, an amendment to Djibouti's 1992 constitution abolished term limits for the president and also provided for the creation of a Senate (yet to be established).

The separation of powers is formally enshrined in the constitution, but in practice, the president controls all branches of the government and the decision-making power

Freedom of expression

2

'06 _____ '20 10

_____ 2
1

Separation of powers

3

'06 _____ '20 10

_____ 3
1

of ministers is limited. The legislative branch, the National Assembly, is also institutionally weak, as it lacks critical opposition representation and thus remains dependent on the executive. The president handpicks members of the cabinet and, as described in earlier sections, the first lady exerts significant influence on government appointments. The president also controls the security apparatus, including the police and military.

The judiciary branch is also administratively subservient to the executive branch and does not operate independently of it.

Although Article 71 of the constitution stipulates that the judiciary (Supreme Court, Court of Account, and other courts and tribunals) is independent of the legislative and the executive, there are no checks and balances between the three branches of government and a separation of power only exists de jure. The executive branch, in the person of President Guelleh, and the legislative branch, the National Assembly with its majority of UMP lawmakers, largely impair the independence of judges. The Superior Council of the Magistracy (Conseil Supérieur de la Magistrature, CSM) advises the president in the nomination of Supreme Court judges, who are appointed by the president for life (retirement age 65). The president also appoints two of the six magistrates of the Constitutional Council for one eight-year term and the National Assembly and CSM each appoint two.

High-level corruption is said to be widespread and affects the administration of justice across the country. Djibouti's legal code is based on the coexistence of customary law applicable in traditional court rulings, Islamic law (Shariah), and civil law inspired by the French Code Napoléon.

Corruption and politically motivated slush payments remain widespread in Djibouti and public officials are rarely held accountable for abuses of authority. Corruption is immanent in the political system at all levels, and includes direct payments to law enforcement officers, as reported particularly by an increasing number of refugees. There are only a few cases of high-level public office holders or civil servants who have been prosecuted for corruption. These mainly include individuals deemed disloyal, acting against the president's political and economic interests, as happened in relation to the DP World case. Political motives seem to prevent legislation on office abuse and corruption from functioning properly. A law passed in 2012 to monitor government spending through the rotation of accountants and auditors was not implemented, and reports from the Inspector General are not publicly available.

Independent
judiciary

3

'06 '20 10

3
1

Prosecution of
office abuse

3

'06 '20 10

3
1

The constitution of Djibouti guarantees a number of civil rights based on the African Charter on Human and People's Rights (known as the Banjul Charter of the Organization of African Unity, now the African Union) and the United Nations Universal Declaration of Human Rights. These include freedom from inhuman, cruel, degrading or humiliating treatment, the right to liberty and security and the right to property and equality before the law.

However, in practice, the rights to freedom of opinion and expression are limited. Djiboutian civil society still suffers from a lack of visibility and recognition, mainly due to legal and administrative obstacles to the creation of associations. Friday prayers are reportedly monitored and security forces have detained journalists, opposition politicians and activists who criticize the government.

Prison conditions remain harsh, especially in Gabode (the main prison) and temporary holding facilities, such as Nagad Detention Facility. Permit requirements by the Ministry of Interior restrict freedom of assembly, although it should be noted that despite the government's restrictive handling of the political opposition, parties are granted the right to host rallies. Even though the constitution and law prohibit torture or other inhuman and cruel punishments, according to credible local sources, security forces have assaulted detainees. Security forces have also arrested and abused journalists, demonstrators and opposition members.

The constitution and law provide for an independent judiciary, but the judiciary lacks independence and is inefficient. There were reports of judicial corruption. Authorities often did not respect the constitutional provisions for a fair trial.

No particular discrimination against specific religious or ethnic groups can be reported.

4 | Stability of Democratic Institutions

Democratic institutions exist and elections are regularly held, which creates the appearance of a functioning democratic system. The electoral process for the offices of the president and the National Assembly is governed by the constitution and the amended Electoral Law of 1992. Although opposition parties are not banned from the political scene and compete in the legislative elections, the ruling UMP is authoritarian in its character. Existing elected bodies, as well as limited political competition and participation provide a semblance of democracy, but in fact constitute a core tool to serve the interests of President Guelleh and a loyal clique of businesspeople.

The functioning of these institutions is primarily undermined by the personal rule of the president and his dominance within the RPP-led UMP. Policy decisions with regard to the selection of strategic partners in large-scale investment projects provide

Civil rights

3

'06 _____ '20 10

3

1

Performance of democratic institutions

3

'06 _____ '20 10

3

1

an excellent example of this, as shall be detailed in the remainder of the report. Political decision-making processes, as well as checks and balances between the three branches of government, do not function as stipulated in the constitution. While democratic institutions exist, it can be stated that they are ineffective and largely subordinate to the president's sole decision.

In general, it is fair to say that all relevant actors in the country accept the role of elected institutions as indispensable. However, the legislature of the republic is weak and influenced by a strong president. The function of democratic institutions could be described as twofold. They serve as tools to legitimate the long-term rule of the president, whose personal influence on the legislative and judicative bodies remains unchallenged. Moreover, Djibouti has successfully positioned itself as a crucial partner for foreign military missions on the continent and seeks to capitalize on its unique geostrategic location as an infrastructure gateway to East Africa. The facade of democratic norms and principles, which makes the government a legitimate partner, is therefore important.

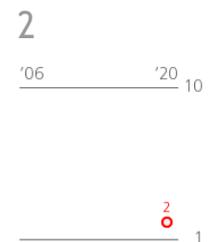
5 | Political and Social Integration

The National Assembly consists of 65 deputies directly elected for each of the five regions and has a (non-pareil) quota of 25% women.

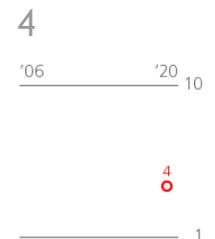
Opposition parties of two types exist. On the one hand, parties that have left the ruling UMP coalition, such as the National Democratic Party (Parti national démocratique, PND) in 2011 and, on the other hand, opposition coalitions such as the Union pour le salut national (USN), which consists of the PND, the Union for Democracy and Justice (Union djiboutienne pour la démocratie et la justice, UDJ), the Republican Alliance for Democracy (Alliance républicaine pour la démocratie, ARD) and the Movement for Democratic Renewal and Development (Mouvement pour le renouveau démocratique et le développement, MRD). Finally, there are parties that are not part of the opposition coalition, for instance, the Centre Démocrate Unifié (CDU), which holds one seat, and parties that are excluded from elections, such as the Rassemblement pour l'Action de Développement et la Démocratie (RADDE) and le Mouvement pour le Renouveau Démocratique et le Développement (MRD).

Despite this number of parties in a small country like Djibouti, the political sphere is under the hegemony of the president's RPP. The support bases and institutional capacities of opposition parties are limited and accorded little space by the government as described in previous sections. Increasing social unrest, as witnessed in neighboring Ethiopia that permanently changed the party landscape, is unlikely to occur in Djibouti.

Commitment to democratic institutions



Party system



Interest groups that mediate between segments of society and the existing political system remain largely unrepresented. They are further constrained by a lack of structure, weak technical, institutional capacity and severely limited financial means. Therefore, they play a very minimal role in the development of public policy or in holding the government accountable.

There are no public opinion surveys in Djibouti.

No public opinion surveys that measure the degree and sense of solidarity and trust among the citizenry exist. Clan alliances play a seemingly lesser role in politics, while social trust among the major ethnic groups is rooted in common lineage and traditional sociocultural links. 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 rural areas, social trust is high.

The Union Nationale des Femmes Djiboutiennes, created in 1977, promotes women's rights and partners with U.N. agencies and other donors to empower and protect women, including literacy campaigns and educational work in maternal rights and child health care.

No data is available on the extent to which the population is organized in cultural, environmental or social associations.

Lacking data for the period under review renders meaningful comparisons on the effect of social capital and cultural and ethnic patterns impossible.

Interest groups

2

'06 _____ '20 10

_____ 2
o 1

Approval of
democracy

n/a

'06 _____ '20 10

_____ n/a 1

Social capital

5

'06 _____ '20 10

_____ 5
o 1

II. Economic Transformation

6 | Level of Socioeconomic Development

The proportion of the population living in poverty was 44.6% (World Bank 2013) during the period under review. Djibouti has enjoyed rapid and sustained growth over the past 15 years with per capita GDP increasing by 3.1% on average per annum in 2001 to 2017. Despite the growth, however, an estimated 16% of the population lived below the international poverty line of \$1.90 per day in 2017. The most recent official national extreme poverty rate, calculated using a survey conducted in 2017, stood at 21.1% (World Bank, 2018). Growth and structural changes are extremely uneven across the country and poverty rates are highest in the pastoralist-inhabited border regions. Outside the capital, the level of socioeconomic development is very low. Djibouti ranked 172 out of 189 countries in the latest U.N. Human Development Report (2017). While the overall loss in HDI due to inequality was 35.8% in 2017, there is no data available for measuring gender equality with regard to reproductive health, empowerment and the labor market. According to the latest World Bank data from 2013, the distribution of family income (Gini Index) was 44.1.

Question
Score

Socioeconomic
barriers

2

'06 '20 10

2
1

Economic indicators		2015	2016	2017	2018
GDP	\$ M	1633.7	1764.3	1844.7	1966.0
GDP growth	%	9.7	8.7	4.1	6.0
Inflation (CPI)	%	-0.8	2.7	0.6	0.1
Unemployment	%	11.1	11.0	11.2	11.1
Foreign direct investment	% of GDP	7.6	9.1	8.9	13.5
Export growth	%	25.3	-8.1	5.5	6.7
Import growth	%	15.6	19.7	15.5	16.9
Current account balance	\$ M	-301.7	-170.0	-293.6	-
Public debt	% of GDP	39.9	45.7	47.9	48.0
External debt	\$ M	2603.6	2991.4	3355.8	3264.1
Total debt service	\$ M	182.1	188.0	351.2	665.3

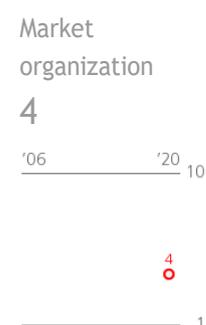
Economic indicators		2015	2016	2017	2018
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	29.5	32.8	32.4	31.5
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	2.4	1.6	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2019): 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

The World Bank's Doing Business 2019 report ranked Djibouti 99 out of 190 economies in the ease of doing business. This assessment, which constitutes quite a significant improvement as compared to rankings over 150 in the previous 10 years, gives an idea but not a full-scale picture of the level of market-based competition. Starting a business became less costly due to reduced licensing fees for investors. Djibouti created a National Investment Promotion Agency (NIPA) in 2001, which is mandated to enhance regulatory frameworks to accelerate private sector involvement. As part of the "one-stop shop" initiative, launched in March 2017, NIPA houses several agencies involved in the process of starting a business. Obtaining the necessary permits and licenses to starting a business decreased from 11 procedures in 2012 to five procedures currently. The time to start a business and complete all the procedures necessary to legally operate a company decreased remarkably from 44 days in 2007 to only 13 days in 2018 (Doing Business 2019). The cost of registering a business was 41.9 % of gross national income per capita in 2018, down from over 200%. The risk of doing business is lower than previously and investors' rights, including access to capital, are better protected in Djibouti compared to the average for sub-Saharan Africa.

Job creation and significant business development outside the capital city are seemingly nonexistent. Notable exceptions include transboundary livestock trade in the rural borderlands of the country. Employment in the informal sector was estimated at 20% and self-employment at 10% in 2016 of all employment, according to the Djibouti Department of Statistics and Demographic Studies as cited by the World Bank (2018). While no data on informal employment is available for the review period, the African Development Bank states that private unincorporated



enterprises account for 60% of economic activities, which suggests that the number of people employed in the informal sector is likely to be higher than official statistics suggest. Significantly, the large share of the informal sector considerably decreases the tax base.

Despite the government's encouragement of foreign investments in Djibouti, major parts of the economy, particularly the food and transportation sector, remain under the control of the president, his extended family and close confidants. For instance, the director general of the state-owned Electricité de Djibouti (EED) is a cousin of the president, Djama Ali Guelleh. Such family networks considerably increase the risk of corruption, and bribery is reportedly widespread, especially in open bidding for tenders.

The daughter of the president, Haibado Guelleh, takes a central role in handling the family business interests and acts as an economic adviser. As a Mandarin-speaker, she is also involved in the negotiations between Djibouti and Chinese institutions such as the EXIM Bank of China, which provided loans of several billion U.S. dollars to the government. A close network of extended family members oversees servicing contracts and local tenders.

Several sectors of the economy are under the monopoly of state-owned enterprises, including telecommunications, water, and electricity. In 2008, Djibouti adopted a law that prohibits all activities between economic operators that restrict competition, limit or control production and investment or result in the abuse of a dominant position. Excluded from the scope of this law are public enterprises and practices that have the effect of ensuring technical progress, without, however, compromising competition for a substantial part of the products in question. The Directorate of Internal Trade, Competition and Fraud Control is the agency responsible for implementing the government's policy on the regulation of competition. As part of the Common Market for Eastern and Southern Africa (COMESA), Djibouti participates in the implementation of the regional competition policy and adopted the general competition policy framework to address anti-competitive business practices and to exert merger control. The most important problem in the application of the competition policy in Djibouti is the weak enforcement of antitrust rules with respect to state-owned monopolies.

Competition policy

2

'06 '20 10

2

1

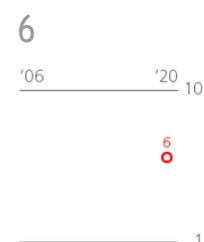
The port facilities of Djibouti comprise critical infrastructure for trade links between East Africa, the Middle East, Asia-Pacific Region, and Europe. According to an assessment performed by PricewaterhouseCoopers, approximately 80% of global merchandise trade goes through ports, while this percentage is probably even higher for a small coastal country such as Djibouti. Emperor Menelik II of Ethiopia and France as colonial master of the French Somaliland laid the foundation for today's close trade links between the two countries through the construction of the Djibouti-Addis Ababa train line at the beginning of the 20th century. Since the secession of Eritrea, Ethiopia has been landlocked. Other than the Red Sea harbor of Port Sudan, the deepwater Port of Djibouti has been its only access to the sea.

Djibouti follows a free trade regime with imports of goods estimated at \$935 million and exports at \$156 million in 2017, according to the World Trade Organization. This negative trade balance is due to high imports in capital goods and especially foodstuffs and petroleum, whereas livestock is the largest export commodity. The country is a member of the WTO (since 1995), GATT (since 1994) and COMESA. As a member of COMESA, common tariffs of 25% on finished products, 10% on intermediate products and no tariffs on raw materials or capital goods are applied.

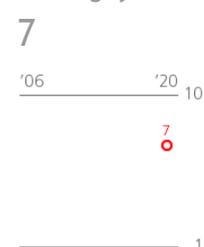
Djibouti also joined the Single African Sky Initiative as part of the African Union Program for Infrastructure Development in Africa (PIDA). Djibouti will host sections of Trans-Africa Highways (TAH) 5 and 6, linking Senegal on Africa's western coastline via Chad with the Horn of Africa. Regional integration through higher quality transboundary infrastructure links and the expansion of port facilities is a central objective of the Djiboutian government. Djibouti is also part of the African Continental Free Trade Area (AfCFTA), which was signed in March 2018 by 44 African states to promote and facilitate market liberalization across Africa. The Djibouti International Free Trade Zone (DIFTZ) was officially inaugurated in July 2018 and is expected to expand manufacturing and processing capacities and create jobs in Djibouti.

The banking sector in Djibouti consists of 12 banks, four of which are Islamic banks. However, corporate banking dominates the financial sector. The bank capital to assets ratio stood at 5.2 in 2017 and non-performing loans were 16.5% in 2017. The main supervising body of the banking sector is the central bank of Djibouti, which issues licenses to banks seeking to operate in the country. Foreign and local banks are subject to the same regulations. A French and Yemeni bank, the Banque pour le commerce et l'industrie – Mer Rouge (BCIMR), co-owned by the government Djibouti, was founded in 1954 and its headquarters are located in Djibouti. Outside of Djibouti, BCIMR operates in Ethiopia and the United Arab Emirates and also maintains also a branch in Hargeisa (Somaliland). The French Crédit Agricole sold the Banque Indo-Suez Red Sear of Djibouti (BIMR), which operated for nearly a century in Djibouti, to the Bank of Africa (BOA) group in 2010. The Commercial

Liberalization of foreign trade



Banking system



Bank of Ethiopia (CBE) opened a branch in Djibouti in 2017 but had less than 300 account holders at the end of 2018, according to bank information.

No exchange restrictions exist and the dollar-backed monetary system makes Djibouti's banking sector a stable and attractive marketplace for foreign capital. Regulatory frameworks are solid, following reforms of the financial system in the early 2000s. The World Bank has provided support to the central bank of Djibouti since 2016 in the digitalizing and modernizing the financial sector.

8 | Monetary and fiscal stability

The official currency of the country is the Djiboutian franc and a central bank was established in 1979 following independence. The Djibouti franc is pegged to the U.S. dollar and exchange rates are stable.

According to World Development Indicators, inflation stood at 0.6% in 2017, while in 2016 it was 2.7%. Djibouti has enjoyed stability in general price levels during the period under review, which is primarily due to normalization of the economic situation with Ethiopia and large infrastructure investments by foreign donors, especially China and the Gulf Cooperation Council. More recent data on the real effective exchange rate is not available for Djibouti. However, in 2016, it was 103.8, which marks an increase compared to 96.4 in 2016.

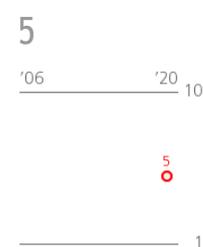
The banking sector in Djibouti has grown significantly in recent years and enjoyed independence from government interference during the period under review. The growth of Islamic and conventional banks in the country has been the driving force behind Djibouti's expanding banking sector. Recent evaluations of the sector conducted by a joint team from the IMF and the World Bank showed that the banking sector is generally solid. However, many changes still need to occur, including the implementation of efficient payment systems and improved credit guarantees.

While gross debt went down from 31.9% of GDP in 2016 to 29.0%, total external debt has tripled since 2006 from \$566.1 million to \$1,706.4 million in 2016 and reached 87.4% of GDP in 2018, according to the African Development Bank. The country is in severe debt distress. President Guelleh's government's maintaining power is contingent upon the mobilization of funds for election-related expenditures, as described above.

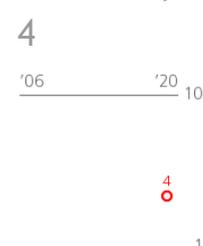
The total amount of debt owed to China, accumulated over the past decade, amounts to \$1.3 billion according to CARI (2018).

Djibouti is under pressure to raise revenue to service its outstanding loans, avoid debt default, and avert the sale of state-owned assets, such as the port facilities that constitute the backbone of its economy and business model. The negative current account balance of \$301.7 million in 2015 diminished to \$170.0 million in 2016. No

Monetary stability



Fiscal stability



data is available for 2017 and 2018. Djibouti is seeking to restructure the terms of repayment to China's EXIM Bank for a railway to Ethiopia. The government of Ethiopia already successfully negotiated an extension of the repayment conditions, which provides hope for Djibouti.

9 | Private Property

Property rights and accountability remain well below global standards. Compared to other countries, Djibouti does not have any laws specifically dealing with property rights. The constitution guarantees and protects the right of ownership for all persons without distinction. It ensures well-defined rights for private property and regulates the acquisition, benefits, use and sale of property. The law does not prohibit a citizens or foreigners from acquiring property. Foreign commercial entities can freely acquire ownership of real estate for commercial, industrial or residential purposes – everyone enjoys the same rights to land in Djibouti. In theory, this right may not be infringed upon except in the case of public necessity legally established and subject to prior payment of just compensation.

However, enforcement of property rights remains one of the biggest challenges facing Djibouti. The government does not have any measures in place to protect private property. When an ownership dispute lands in court, cases are prone to corruption, politically manipulated and may take a long time to resolve and thus remain unresolved due the statute of limitations. As an Islamic country ruled under Shariah law, women are at a disadvantage regarding inheritance and property ownership.

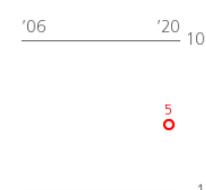
A six-year dispute over the Doraleh Container Terminal is pending with Dubai Ports World at the London Court of International Arbitration. No other cases of expropriation of foreign companies can be reported.

Joint ventures between foreign and local investors are not required for the establishment of a business in Djibouti. Expropriation does not take place without equitable compensation, according to Djibouti's Investment Code. Both foreign and domestic companies are granted the same rights and benefits. Although private companies are permitted and the government seeks to strengthen the private sector and reduce the state's dominant position in the economy, high levels of corruption still affect the cost of starting business. Enterprises likely to challenge the economic interests of the president can rarely sustain themselves in Djibouti.

Increasing activities by private Chinese companies, most of which are closely linked to the government in Beijing, are viewed with concern, particularly by the United States. A scenario of Chinese companies taking over major parts of Djibouti's port facilities, if the government fails to service its outstanding debt, would endanger the security interests of the United States, according to the U.S. government.

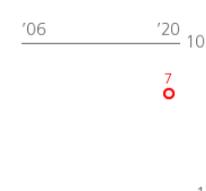
Property rights

5



Private enterprise

7



10 | Welfare Regime

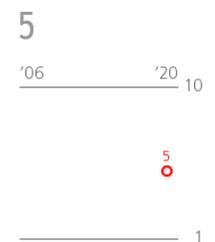
Public health institutions outside the capital are generally poorly equipped and provide low quality services. Public hospitals exist across the country; however, patients are often required to privately purchase medical supplies from local pharmacies before treatment can begin. Most private clinics with considerably better-trained personnel, up-to-date equipment and medical supplies are located in Djibouti city. While public health care services are generally provided by the government free of charge, given the low quality of medical services, it is not surprising that the small proportion of society with the financial means travels to the Gulf states or other countries for specialized treatments.

Public expenditure on health was 6.8% of GDP in 2014. Financing comes from the national budget as well as donors, including the World Bank and bilateral aid agreements. In 2016, the World Bank provided a Second Additional Financing to the Social Safety Net Project to broaden coverage geographically and increase the number of beneficiaries through an improved social registry. The project will end in June 2019.

The Ministry of Health carried out a countrywide polio immunization campaign in December 2018 with support from the WHO, UNICEF and other external donors. Progress can be reported for life expectancy at birth, which increased by more than four years between 2006 and 2016, to 62.5 years. Bilateral talks between the minister of health, Djama Elmi Okieh, and her Turkish counterpart took place in March 2017 regarding the provision of 10 ambulances to Djibouti and treatment of patients in Turkey, according to the Basic Law on Health Services no. 3359. In cooperation with IOM and financed by the European Union, the government of Djibouti also conducted an assessment of children living on the streets of its capital in 2017 with the aim to develop supporting measures.

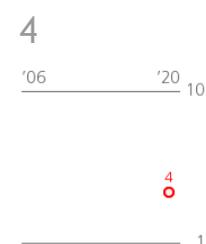
The influx of refugees from neighboring Yemen poses new challenges to the government. A new National Refugee Law was enacted in 2017 that allows refugees to access public education and health care services. Significantly, it also grants refugees the right to employment. Moreover, Djibouti's interior minister, Hassan Omar Mohamed Bourhan, visited Morocco in March 2018 to "draw inspiration from Morocco's experience in migration," according to official press releases. The minister also addressed the IOM Council in 2017 in Geneva and discussed Djibouti's efforts to deal with the increased inflow of migrants transiting through the country.

Social safety nets



The constitution states that all citizens, without distinction according to race, origin, sex or religion, are equal before the law. Moreover, non-Djiboutian citizens with valid work permits enjoy the same legal protections by law. Recruitment of officers for the Djiboutian Armed Forces is merit-based and a national recruitment test takes place. According to a 2018 USAID report, in Djibouti, 60.5% of women are illiterate. Furthermore, only 19% of women are employed as compared to 81% of men, increasing the number of Djiboutian women that suffer from the effects of poverty. While Kadra Mahamoud Haid and Haibado Guelleh, the wife and daughter of the president, exercise considerable influence in politics and business, the agency of women in public affairs and the economy is generally very limited. In 2018, Hasna Barkat Daoud replaced Moumina Houmed Hassan as minister for women and family affairs, making her the only female cabinet member. The proportion of women in the labor force remained relatively stable, ranging between 39.3% in 2007 and 41.9% in 2017 (World Bank 2018). No data on the adult literacy rate is available. The enrollment rate averaged 63.9% in primary, 44.1% in secondary and 5.0% in tertiary education between 2000 and 2017.

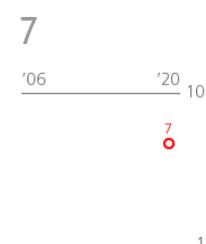
Equal opportunity



11 | Economic Performance

Djibouti registered steadily rising economic growth figures over the past decade. But GDP per capita growth rate has declined considerably since 2015 from 7.9% to merely 2.5% in 2017 (World Bank 2018). GDP reached \$1,844.7 million in 2017 while external debt rose between 2006 and 2016 from \$566.1 million to \$1,706.4 million according to the World Bank. Public debt was 29.0% of GDP in 2017, down from 59.5% in 2009. No data on tax revenue is available for the review period.

Output strength



Foreign direct investment was 23.0% of GDP in 2007 but decreased to 8.9% in 2017. However, with the creation of the DIFTZ and strengthened partnership with China in the fields of infrastructure and process, this number is expected to rise again. Industry accounts for less than 20% of GDP. The country's economic activities are centered on the service sector, transportation and port facilities, as well as rents generated from foreign military bases. Official unemployment is 5.8% (39% in reality), with a growing informal sector in the capital. Unemployment rates remain high. The IMF regularly points to the discrepancy between economic growth and job creation and the absence of rising income levels in Djibouti. Djibouti aims to create more than 200,000 jobs and triple per capita income by 2035.

12 | Sustainability

Djibouti's constitution does not provide for the protection of the environment and although there is broad acknowledgment within the government for the urgent need to address climate change in policy-making, these concerns remain subordinated to economic issues. Nonetheless, Djibouti completed an important milestone on July 1, 2009 by putting in place an environmental code via Law no. 51. Its unique marine and terrestrial biodiversity are under increasing man-made and climate-change related pressure, including prolonged droughts, frequent flash floods and deforestation for the production of charcoal. Water scarcity and an inadequate supply of potable water in urban and rural areas stem from a lack of integrated water resources management practices. Rising sea levels constitute a growing threat to Djibouti City, a port that is home to two-thirds of the population and the economic center of the country.

Environmental concerns receive growing attention, although it must be stated that they are still subordinated to the country's economic development ambitions. The government launched a National Adaptation Program of Action (NAPA) in 2006 that identified several priority areas for the protection, restoration and improvement of natural resources management. The Global Environment Facility (GEF) implemented a \$17-million program to reduce land and water degradation in Djibouti's Cheikhetti Wadi watershed and the development of an integrated model for the restoration of agropastoral ecosystem services. Significantly, Djibouti aims for a transformation to 100% green energy sources by 2020. Ethiopia's hydropower plants are already a central source of electricity for Djibouti. A transmission line inaugurated in 2011 provides the technical conditions for the import of up to 60 Mega Watt. While power consumption in Djibouti has been continuously rising, local supply through renewable energy facilities is behind schedule. In June 2017, funding could be secured from the Kuwait Development Fund for the Gale-Le-Koma geothermal project located in western Djibouti near Lake Assal, which constitutes an important step toward energy self-sufficiency.

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 source of local income for fishermen.

Environmental
policy

3

'06 '20 10

3

1

Achieving speedy progress in the educational sector is crucial to successful socioeconomic development and to decreasing unemployment rates in rural and urban areas. The gross school enrollment ratio in the primary education sector increased from 41.7% (2001 – 2007) to 63.9% (2015 – 2017). The gross enrollment ratio for secondary education registered at 47% in 2018.

Djibouti has also been able to expand literacy at all levels. However, discrepancies between rural and urban areas in educational quality and access to schools remain. Public expenditure on education was 8.3% in 2006 and 4.5% of GDP in 2010. Even though Djibouti has been able to increase educational efforts and more people are accessing higher education (U.N. Education Index at 0.309 in 2017 compared to 0.267 in 2007), it is among the least developed countries. A lack of data for the period under review including data on research and development expenditures renders impossible meaningful comparisons on the effects of shifting educational policies.

The University of Djibouti is the only university in the country. It was founded in 2006 and successfully established partnerships in teaching and research with more than 40 universities in Africa and beyond. The university also participates in the Erasmus Mundus Program and maintains collaborations with the private sector, especially in the fields of logistics, transportation and civil engineering. In March 2018, a Think Tank called Research & Consulting Group for Africa (RCG for Africa) was established in Djibouti.

Education policy /
R&D

3

'06 _____ '20 10

3

1

Governance

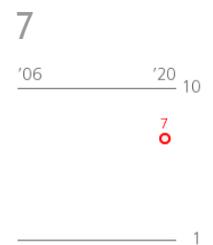
I. Level of Difficulty

As of 2017, Djibouti's population was estimated at approximately 957,000 of which almost half of those of working age is unemployed. Currently, poverty in Djibouti persists as a major problem with more than 23% of the population living in conditions described as extreme poverty. High consumption of Qat (or Khat), a narcotic leaf with stimulant effects, by large portions of the population defines productivity across most parts of the country. Qat cannot be grown in Djibouti and is imported from neighboring Ethiopia.

Structural constraints include also the arid climate and water scarcity, which limit Djibouti's food production capacity (less than 4% of the land area is arable) and makes livestock production vulnerable to climate-change induced effects on agricultural yields. The water in Lake Abbé and Lake Assal, the two main permanent surface water sources of the country, cannot be used for irrigation due to high degrees of salinity. Djibouti is regularly affected by prolonged droughts, most recently in 2017, when approximately 200,000 people depended on food relief. According to the global land-monitoring database, Land Matrix, public and private investors in Djibouti leased a total of 64,400 hectares of agricultural land in Ethiopia, Sudan and Malawi in 2008.

Djibouti is located in an active seismic zone where the Arabian, East African Rift, and Somali Plate meet. The risk of earthquakes is imminent. Outside the capital, the transportation infrastructure is limited and the few roads in poor condition. At the same time, the newly built Djibouti - Dire Dawa - Addis Ababa train line began operation in early 2018 and the road linking Djibouti and Addis Ababa via Semera (the capital of Ethiopia's Afar Regional State) is relatively well maintained. In the 1950s, Djibouti was among the 10 largest ports in terms of globally shipped traffic. Access to the Red Sea and the existing deep-sea ports continue to be at the heart of the country's economy, with major investment in the expansion and modernization of existing ports.

Structural
constraints



Djibouti remains an authoritarian regime that grants limited space to civic engagement. Civil society traditions are very weak. Since 1999, the government and large parts of the economy are under the tight control of the president and his associates. There are few possibilities for political participation. The constitution does not restrict political pluralism or the formation of civil society organizations. However, in practice, public activities are closely monitored and the state apparatus suppresses tendencies critical of the government. As a result, participation in public life is largely nonexistent. Freedom of association is guaranteed by the constitution, yet all groups are required to register with the Ministry of Interior so as to apply for official permits. While opposition groups held events and rallies in the run-up to the last presidential elections, it was reported that the required permits were occasionally not granted.

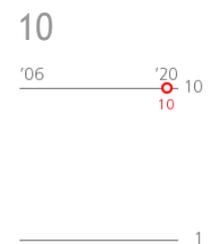
The Somali and Afar clans have strong internal structures. Solidarity among clan members outside of politics exists. Imams have considerable authority outside the political sphere. Despite the increasing intervention of the government in Muslim communities through surveillance of Friday prayers by the security apparatus and other measures, religious institutions can be considered Djibouti's main civil society actors.

USAID is recently launched the Civil Society Organization Strengthening Project (CSOSP) (2018–2020), aimed at increasing advocacy for gender equitable service delivery and protecting vulnerable populations through the improvement of governance structures in the education and health sectors. Moreover, the CSOSP aims to enable civil society organizations (CSO) to engage in constructive dialog with the government. In light of the limited room for opposition of criticism of the government's policies, the prospect of success in strengthening CSOs could be limited, since civic engagement requires willingness on both sides to engage in discussion.

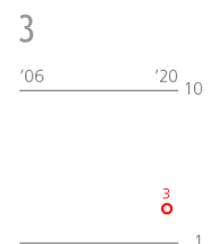
There are few violent incidents based on ethnic or religious differences. While both Afar and Somali are represented in the cabinet, politics and the economy are largely dominated by Issa-Somali, the clan of the president. The political wing of FRUD has been integrated into the political system, while the Djiboutian army neutralized its former armed wing. The risk of ethnically motivated insurgencies is largely contained. The divide between rich and poor increased considerably over the past decade and no “middle-class” exists that could mobilize factions of the population effectively.

By contrast, religious fundamentalism represents an increasing threat to Djibouti and the number of cleavages within the Muslim community are increasing. In 2014, al-Shabaab attacked a restaurant in Djibouti City, causing several casualties. There are reports of several averted terrorist attacks in the country during the review period.

Civil society traditions



Conflict intensity



Security forces arrested a suspect named Peter Cherif (also known as Abu Hamza), linked to the Charlie Hebdo attacks in Paris, on Djibouti soil in December 2018.

The rise of Daesh (IS group) across the Horn of Africa adds to the existing threat of terrorist attacks by al-Shabaab. The contribution of troops to the African Union Mission to Somalia (AMISON) and porous border with Somaliland in the south make Djibouti a likely target for attacks by Islamic terrorist groups operating along the coast. Several observers pointed out that the long-term authoritarian rule of President Ismael Omar Guelleh and the lack of lasting structural change and improvement in socioeconomic reality could provide potentially fertile ground and a growing support base for religious fundamentalism among the population.

II. Governance Performance

14 | Steering Capability

In June 2014, the government launched a long-term strategy for developing Djibouti into a regional hub for trade and commerce. Vision 2035 is based on sustainable development policies aimed at promoting controlled development through major economic programs, gradual sector diversification, and focused investments in infrastructure. One of its main priority areas is infrastructure development. The goal is to enhance Djibouti's position as a regional transport hub in the Horn of Africa, providing critical sea, air, rail and road linkages for Eastern Africa, including the landlocked economies of Ethiopia and South Sudan. This includes mainly the expansion of port capacities and transportation infrastructure linking Djibouti with its neighbors. The strategy also anticipates greater involvement by the private sector and a decreasing role for the state in the economy, aimed at creating employment opportunities and attracting foreign investors. With Vision 2035, the government has set the country's strategic priorities and actively implemented development objectives particularly focused on transportation and logistics. In Vision 2035, the government identified clear strategic priorities. However, the government falls short in prioritizing and organizing needed policy measures. A case in point is the development of human capital. While this is explicitly mentioned as a strategic long-term goal, democratic participation remains limited and reform efforts are thus far not visible.

Djibouti is linked to major fiber optic systems connecting East Africa with Europe, the Asia-Pacific Region, and the Middle East. Internet speed in the country averaged 981.05 Kilobits per second (kbps) between 2007 and 2017 with downward outliers of 313.38 KB per second in 2010, but remained relatively stable at around 2000 kbps (Tradingeconomics 2018). A conference titled "Digital Economy for Djibouti" took

Question
Score

Prioritization

5

'06 '20 10

5

1

place in November 2018, covering fields like digital literacy and skill development, digital financial services, digital platforms, and innovation and entrepreneurship. This event illustrated the importance assigned to developing disruptive technologies as a catalyst for new business models in line with the national strategy to diversify its economy.

The government effectively implements major aspects of the country's long-term strategy as defined in Vision 2035. The construction of the Djibouti-Addis Ababa railway and the creation of a free trade zone are encouraging developments proving that the government is successfully pursuing its economic development ambitions. The completion of the Horn of Africa Pipeline between the storage terminals in Damerjog, Djibouti and Awash, Ethiopia was initially projected for 2019. The 550-km pipeline project was cancelled in December 2017 and Ethiopia withdrew from the deal, due to financing bottlenecks and the transportation capacity of a new train line that facilitates the delivery of diesel, fuel, and gasoline.

At the time of this writing, no individuals or factions challenging the decision-making power of the president with regard to the implementation of Djibouti's development ambitions can be identified. President Guelleh himself oversees the development of the private sector. The activities of domestic entrepreneurs in particular are reportedly subject to his sole approval.

Means to implement of the country's development ambitions have been laid out in the five-year accelerated growth strategy for the promotion of employment, called SCAPE (2015–2019), which identifies four strategic priorities: economic growth, human capital development, regional sustainable development and good governance. SCAPE commits to reducing absolute poverty by more than one-third, decreasing unemployment and ensuring universal access to basic health, energy and clean water. It also aims to prepare the country for more inclusive growth and for climate change. Even though the government is committed to implementing the strategy as planned, according to the United Nation Development Program, it is not proceeding according to plan.

The government has been pragmatic and innovative in terms of promoting national interests using the country's geostrategic location in the horn of Africa. It not only accommodates leading economic giants like the United States and China, but also neighboring countries like Ethiopia and South Sudan. The government has also established firm economic relations with the Gulf states and other Arab countries.

France as the former colonial power used to be Djibouti's main foreign partner. However, this strategic partnership has gradually changed following the U.S.-led war on terrorism since 9/11. Camp Lemonnier, formerly used by the French Foreign Legion stationed in Djibouti, hosts the only permanent U.S. military base on the continent. Other foreign military bases include facilities rented by, inter alia, Japan, France, Italy and most recently China. This provides the government with a steady

Implementation

5

'06 _____ '20 10

5

1

Policy learning

5

'06 _____ '20 10

5

1

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 policy-making 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 democracy based on the rule of law.

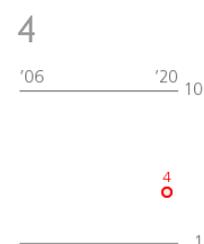
15 | Resource Efficiency

According to a government spokesman, the Council of Ministers approved the budget for the fiscal year 2018, which is up 5% to DJF 126 billion (\$712.55 million) compared with the 2017 budget. The 2018 budget focuses on sustainable poverty reduction and social development, consolidation of the health system, housing and improvement of the education system to best adapt it to the labor market. Djibouti recorded a government budget deficit equal to 15.50% of the country's Gross Domestic Product in 2017. The government budget in Djibouti averaged -5.98% of GDP from 2002 until 2017, reaching an all-time high of 1.30% of GDP in 2008 and a record low of -18.20% of GDP in 2016.

The alleged diversion of funds from the state budget to the president, mainly from rents paid to house military bases, claimed by several opposition figures, 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 the improvement of other public services.

Unemployment rates remain high and the existing educational system is not equipped to provide the knowledge base required by young people to meet the needs of a growing and digitalized economy. As a response, and in line with the objectives of Vision 2035, the government created a Center of Leadership and Entrepreneurship to increase human capital and prepare young graduates for jobs outside public administration. The Center was inaugurated in November 2018 by the president himself.

Efficient use of assets



Following the recent expansion of debt-financed public infrastructure, fiscal policy in Djibouti faces a difficult trade-off between supporting growth and restoring debt sustainability. Policy-making and strategic decisions with regard to investments and goal setting are concentrated in the hands of the president, whose objectives are clearly defined, namely positioning Djibouti as the central trade and transportation hub in East Africa, which in turns would secure constant streams of revenue. Economic development through regional integration, opening-up the economy and preserving the rule of the president and monopolistic position of individual business are not conflicting interests. However, Djibouti's reliance on foreign funding for its ambitious infrastructure projects threatens to increase dependency on China, which has provided an estimated total of \$14 billion in loans to the government between 2000 and 2017 (CARI, China Africa Bulletin 2017).

Although Djibouti improved its ranking by 55 ranks on the World Bank's Doing Business Report from 154th in 2018 to 99th in 2019, corruption remains a major problem. Corruption and patronage networks are a defining feature of Djibouti's political and economic landscape and must be seen as the sine qua non for the RPP to preserve power. Checks and balances between the branches of government do not exist. A lack of accountability and transparency with regard to the allocation of government funds is a central obstacle to ending corruption. The National Commission for Anti-Corruption (NCAC), the Court of Auditors, and the State General Inspection are the three bodies responsible for investigating corruption. Laws to combat and prosecute illicit money flows and misappropriation of funds exist but are, despite the mandate given to these institutions, not enforced effectively. The NCAC urged government officials to declare their personal assets in early 2018 to provide for a greater degree of transparency. However, at the time of this writing, information on the assets belonging to high-ranking officials was not available.

16 | Consensus-Building

The ruling UMP party and opposition political groups hold different positions regarding the democratization process of the country through free and fair elections. The president and his party claim that the country has undergone a democratic electoral process and building democratic institutions has been the daily task of the government. But opposition groups and activists strongly criticize the authoritarian government for its undemocratic way of ruling the country.

The major and uncontested actor in politics is the president and a small group of advisers, who control the majority of Djibouti's economy. Democratic reforms are not explicitly mentioned and intentions or ambitions to broaden political space and initiate multiparty dialog are not in view.

Officially, there is a consensus among political actors on the market economy as a long-term objective, as promoted by Vision 2035. The government tries to boost and

Policy
coordination

8

'06 _____ '20 10

8

1

Anti-corruption
policy

3

'06 _____ '20 10

3

1

Consensus on goals

6

'06 _____ '20 10

6

1

foster economic development. However, it states that it is the only actor who is able to do so. The strategy seems to be accepted by society. But there is not criticism whatsoever of the government's repressions. The existing monopolies and the limited space for domestic private sector development challenge the principles of the market economy.

In general, there is overall consensus to prioritize economic development over democratization.

Given the authoritarian nature of the ruling regime, the government itself could be regarded as the country's most significant anti-democratic actor as President Guelleh prevents any form of real political competition from developing. Potential reformers have no space to evolve within this system and the opposition is not united or capable of formulating concrete proposals for democratic reforms. Within the ruling UMP, the RPP is dominant. No serious reformist element can be identified at the time of this writing. Prime Minister Abdoukader Kamil Mohamed is a strong supporter of President Guelleh, seemingly granting no room for reforming factions within the coalition.

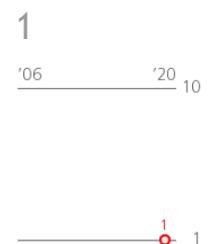
The government has however managed to neutralize fundamentalist political sentiments in the country and create relatively a stable political environment, as compared to its highly unstable neighbors – Eritrea, Somalia, Ethiopia and Yemen. The quality of Muslim-Christian relations is undoubtedly better in Djibouti.

Djibouti is located in a volatile region with countries, especially Somalia to the south, facing extreme instability. Domestically, cleavages exist at different levels. However, these conflicts are of low intensity and only sporadically violent. Recurring tensions are reported around the town of Obock, the former stronghold of the Afar resistance movement FRUD. Preferential treatment under the French colonial administration favored the pro-French Afar Democratic Regroupement (RDA) under Ali Aref. With Djibouti's independence in 1977 and the inauguration of Hassan Gouled Aptidon, support shifted to the Somali Issa, who continue to dominate politics to the present.

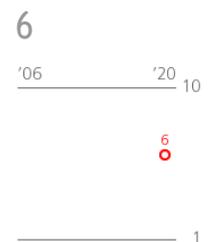
Although conflicts between the Afar and Somali naturally exist, cleavages in Djibouti do not manifest in ethnic, regional, or religious conflicts, but are largely between those in power and an opposition that challenges the political and economic dominance of the main governmental figures. This divide does not follow clearly defined ethnic lines, as the opposition parties that oppose the central role of Somali-Issa politicians and businessmen are not exclusively Afar-dominated, but include several Somali opposition groups as well.

The president has been successful in eliminating serious opposition to his rule through the creation of ubiquitous patronage networks, bribery, kickback payments and the allocation of government positions. The president's brother-in-law, Abdoukader Kamil Mohamed, was appointed prime minister in 2013. As an Afar,

Anti-democratic
actors



Cleavage /
conflict
management



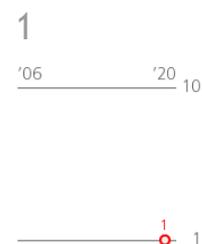
he reportedly played a central role as a mediator between FRUD and the ruling RPP in the formation of a joint list. The political leadership is able to depolarize cleavage-based conflicts due to the use of repressions, humiliation, harassment and intimidation and is therefore able to suppress the escalation of cleavage-based conflicts.

There are some civil society actors in Djibouti, including the Friends of Djibouti Association, which has been campaigning for democratic, accessible and fair election processes, as well as for respect for human rights, and the National Union of Djiboutian Women (Union Nationale des Femmes de Djiboutiennes, UNDF), which advocates within local communities to both empower and protect rights of women, and to fight poverty. However, the civil society sector in Djibouti is generally weak and underdeveloped. The Djibouti government seriously impedes civil society actors' rights to participate in or reform their government. The government restricts the freedoms of speech, assembly and association, and harshly suppresses criticism of national policies and authority.

The political leadership actively obstructs civic engagement and prevents the emergence of an independent civil society that contributes to the policy process. The government intimidates critical journalists and prevents independent media coverage. Although opposition parties are permitted, the few extra-parliamentary parties are excluded from political dialog. The Chamber of Commerce of Djibouti was founded in 1907 and represents the private sector. Other associations include the National Federation of Enterprises of Djibouti (la Fédération Nationale des PME-PMI de Djibouti), the Freight Association of Djibouti (l'Association des Transitaires de Djibouti, GIE), the National Employers' Confederation of Djibouti (la Confédération Nationale des Employeurs de Djibouti) and Union Nationale des Femmes Djiboutiennes. While it is noteworthy that these organizations use the COMESA Business Council (CBC) as a platform for agenda setting, civil society participation is suppressed in national politics.

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.

Civil society participation



Reconciliation

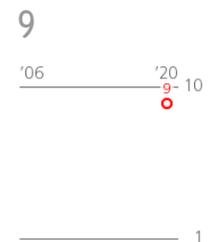


17 | International Cooperation

China has become a central strategic partner of Djibouti through the construction and funding of infrastructure projects in recent years. The government has been relatively effective in attracting international assistance through loans and grants. Among the main donors of official development assistance (ODA) to Djibouti between 2016 and 2017 were France (\$46.95 million) and Kuwait (\$37.33 million), totaling net ODA inflows of \$134.1 million in 2017, according to OECD-DAC. Since 2018, the World Bank supports projects to improve urban living conditions in Djibouti in line with its “Zero Slum” strategy with \$20 million. The International Development Association (IDA) funds a total of 11 projects in the country totaling \$150 million. Foreign debt increased from 49.9% in 2014 to 97.4% in 2016 and was estimated at 102.9% of GDP in 2018. Other external resources come to Djibouti through official and unofficial channels, allegedly including funds from the Gulf states and Saudi Arabia, which facilitate rent-seeking due to flows of capital that are often not transparent. These resources are used for the upkeep of factions within the state upon which the president’s power base (in the absence of opposition) is funded. Prominent examples of major infrastructure projects include the train line linking Djibouti and Ethiopia, as well as the construction and expansion of ports in Tadjourah, the Doraleh Multipurpose Port, the Port of Ghoubet and the Damerjog Livestock Port. Ali Yacoub, the minister of energy and water, discussed joint projects with Saudi Arabia’s King Abdullah, including the City for Atomic and Renewable Energy (KACARE) and knowledge transfer in the energy sector, especially in the field of water desalination renewable energy production, during a working visit in January 2017.

China and Djibouti established a strategic partnership and deepened bilateral relations during a meeting between the foreign minister of China, Wang Yi, and Djibouti’s Minister of Foreign Affairs and International Cooperation Mahamoud Ali Youssouf, during the eighth Ministerial Meeting of the China-Arab States Cooperation Forum (CASCF) in 2018. Djibouti comprises a major part of the Belt & Road Initiative. Russia, whose presence in the Horn of Africa predates the French colonial administration, allegedly maintains close economic and political ties with the Guelleh government.

Effective use of support



Djibouti remains below regional and world averages in the World Bank’s Doing Business reports and fell from 169 in 2015 to 171 (of 189 countries) in the 2016 ranking. There have been noteworthy improvements however, which include making it easier to start a business by simplifying registration formalities and eliminating the minimum capital requirement for limited liability companies. In addition, Djibouti adopted a new commercial code, which broadens the range of movable assets that may be used as collateral to obtain credit. Another positive step was the opening in March 2017 of a “one-stop-shop,” which houses all the agencies with which a new company must register.

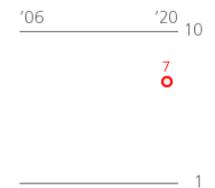
From a geo-economic and security perspective, Djibouti is a central partner to several foreign governments and international investors in the Horn of Africa. The crucial importance of the Bab-el-Mandeb strait to the global economy and the looming threat of terrorist organizations, such as al-Shabaab and Daesh that have established themselves in the region, explains the increasing interest of foreign actors in forging strategic alliances with Djibouti. The country has been able to present an image of itself as an anchor of stability and a credible and reliable partner. However, this image has been tarnished in the wake of the DP World case, in which Djibouti has been ordered by a London court to pay upwards of \$350 million to the Dubai-based port operator. Djibouti’s deepening ties to Beijing are also seen as a threat to other partners.

John Bolton, security adviser to U.S. President Donald Trump, raised concerns in late 2018 about the increased presence of Chinese troops, the construction of a pier at the first Chinese military base on the continent near the town of Obock and the potential takeover of government-owned port facilities, which are vital for supply to the U.S. forces stationed in Djibouti.

Djibouti belongs to a number of regional organizations, including the Inter-Governmental Authority on Development (IGAD) and the Common Market for Eastern and Southern Africa (COMESA), which groups 19 countries into a common market of more than 300 million people. Djibouti is eligible to benefit from the African Growth and Opportunity Act (AGOA) and is also a member of the World Trade Organization (WTO). In addition, Djibouti is among the 34 least developed African countries, which gives it the option to enter the European Union Generalized System of Preferences.

Credibility

7



Djibouti has successfully created collaborative relationships with most neighboring countries and countries outside of the region through trade links and initiatives to foster the process of regional integration steered by the African Union, IGAD and COMESA. The COMESA Business Council provides an important forum for Djibouti, which appointed Yacin Elmi Bouh as permanent representative to COMESA in January 2019. Mohammed Idriss Farah, Ambassador to Ethiopia, advocated at the November 2018 CBC meeting for a “Horn Perspective” as a joint response by Eastern African Nations in order to position themselves to withstand the rising influence of Arab countries in the region and in the Gulf of Aden. Prime Minister Abiy Ahmed of Ethiopia made his first official trip to Djibouti in April 2018 for bilateral meetings with President Guelleh. Ethiopia and Djibouti are linked through long-lasting trade relations and the two leaders discussed the hypothetical swapping of shares of their state-owned companies, such as Ethiopian Airlines and Djiboutian Ports. Previously, more than 95% of trade to and from Ethiopia transited through the Port of Djibouti. Roughly 15% of Djibouti’s income derives from its western neighbor. The peace accord between Ethiopia and Eritrea might lead to a diversification of trade links. A new port in Massawa and the expansion of the port in Berbera could challenge the existing monopoly of Djibouti as a central gateway to East Africa in the medium-term future. Improved relations between Asmara and Addis Ababa are likely to have positive spillover effects for the formerly relatively volatile region around Djibouti.

Djibouti contributes troops to AMISON and the government agreed to normalize relations with Eritrea in September 2018, which have been strained since 2008 due to border disputes. Djibouti hosts several foreign armies involved in the U.S.-led war against terrorist organizations operating across Somalia. These include mainly the Combined Joint Task Force-Horn of Africa (CJTF-HOA) of the United States Africa Command (USAFRICOM). In addition to anti-terrorism operations, Djibouti also supports peacekeeping operations and the counter-piracy missions of the European Union, ATALANTA. The government maintains close relations with the unofficial government of Somaliland. Given Djibouti’s close proximity to the Arabian Peninsula, the changing diplomatic relations of Saudi Arabia and several Gulf States with Qatar have affected the country. Siding with the Saudi-led coalition, Qatar withdrew its peacekeeping troops and abandoned its role as a mediator between Eritrea and Djibouti in June 2017.

Regional
cooperation

9

'06 _____ '20 10
9

1

Strategic Outlook

The strategic objectives of Djibouti's Vision 2035 comprise promising initiatives for transformation toward a market economy. Yet, the government has thus far failed to initiate any process of democratization and the political system remains authoritarian with little to no space for civic engagement. Future trajectories of development and transformation will be determined by the regime's willingness to open up political space and foster greater civic engagement. The absence of a free press, high levels of corruption and systematic repressions against individuals critical of the ruling RPP-led UMP coalition make it clear that Djibouti is still far away from democratic standards. Stability hinges on the government's ability to capitalize on the country's geo-economic position and convert rising investment inflows into lasting structural change.

The long-term authoritarian rule of President Guelleh, combined with low levels of socioeconomic development, and a population largely excluded from growth dividends increase the risk of growing support for (Islamic) fundamentalist groups. Government officials openly admit that there is a rising terrorist threat from al-Shabaab and Daesh but mainly see this in connection to the ongoing instability in neighboring Somalia. Increased investment in the provision of public goods (i.e., education, health care) outside the capital is therefore critical, as is the creation of urban employment opportunities for skilled and unskilled workers. Distrust of the state among the population needs to be lessened. The re-introduction of term limits for the president is a necessary precondition for initiating a process of democratization.

Djibouti is weakened by several other factors, which will determine its future trajectories for development and transformation. There is an urgent need to develop mitigation measures for climate-change induced impacts on Djibouti's fragile ecosystem and to integrate them into its medium- and long-term development strategies in order to protect pastoralist livelihoods in the rural areas and port infrastructures that are pivotal to the economy. Djibouti needs to harness its geothermal power potential to reduce its dependency on electricity imports from Ethiopia and achieve its set target of 100% renewable energy sources.

Improved relationships between Ethiopia and Eritrea and the expansion of port capacities in Berbera will potentially challenge Djibouti's monopoly as a major trade gateway for Ethiopia and Eastern Africa at large. While the country has still a significant lead in development (port facilities, transportation infrastructure), focused investments and the promotion of the newly established free trade zone area could help consolidate Djibouti's position. However, high foreign debt and rising dependence on China, its major financing partner, appear to pose significant risks. The structural deficit in the balance of trade can only be reduced through a more diversified economy. Transformation toward a more liberal and market-oriented economy is still slow and will be subject to the development of new legislation to liberalize all sectors of the economy.

The bilateral strategic partnership between China and Djibouti has grown recently with China's naval base and a Memorandum of Understanding on joint cooperation to advance the Belt & Road Initiative signed during the seventh Forum on China-Africa Cooperation in September 2018. The presence of 10,000 Chinese troops on Djibouti soil and Djibouti's growing economic dependence on China are viewed critically by the U.S. administration.

Preserving stability and peace is absolutely necessary for Djibouti to strengthen its position as a trade hub in a volatile region and remain the preferential partner for foreign governments with regards to strategic and security partnerships. While the government has thus far succeeded maintaining stability and peace through repressive authoritarian governance, this approach is likely to meet its limits. However, if long-term President Guelleh does not run for office in the next elections, an orderly transfer of power prior to the presidential elections is likely, according to sources close to the government, as happened under Hassan Gouled Aptidon in 1999.