

Djibouti

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Djibouti	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	US Dept of State Money Laundering assessment
<p>Major Investment Areas:</p> <p>Agriculture - products: fruits, vegetables; goats, sheep, camels, animal hides</p> <p>Industries: construction, agricultural processing</p> <p>Exports - commodities: reexports, hides and skins, coffee (in transit)</p> <p>Exports - partners: Somalia 80.1%, UAE 4.4%, Yemen 4.1% (2012)</p> <p>Imports - commodities: foods, beverages, transport equipment, chemicals, petroleum products</p> <p>Imports - partners: China 24.4%, Saudi Arabia 16.4%, India 10.6%, Indonesia 7.3% (2012)</p>	

Investment Restrictions:

Djibouti's laws encourage foreign investment. In principle, there is no screening of investment or other discriminatory mechanisms. In practice, however, navigating the bureaucracy can be complicated. Certain sectors - most notably public utilities - are state-owned and are not open to investors.

Djiboutian laws guarantee rights for foreign and domestic private entities to establish and own business enterprises. Legally established private-sector companies have the same access to markets, land ownership, credit, and other business facilities as public enterprises. Although restrictions on private enterprises are minimal, competitive equality in regard to public enterprises, namely public utilities, remains limited.

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Section 1 - Background

The French Territory of the Afars and the Issas became Djibouti in 1977. Hassan Gouled APTIDON installed an authoritarian one-party state and proceeded to serve as president until 1999. Unrest among the Afar minority during the 1990s led to a civil war that ended in 2001 with a peace accord between Afar rebels and the Somali Issa-dominated government. In 1999, Djibouti's first multiparty presidential elections resulted in the election of Ismail Omar GUELLEH as president; he was reelected to a second term in 2005 and extended his tenure in office via a constitutional amendment, which allowed him to begin a third term in 2011. Djibouti occupies a strategic geographic location at the intersection of the Red Sea and the Gulf of Aden and serves as an important shipping portal for goods entering and leaving the east African highlands and transshipments between Europe, the Middle East, and Asia. The government holds longstanding ties to France, which maintains a significant military presence in the country, and has strong ties with the United States. Djibouti hosts several thousand members of US armed services at US-run Camp Lemonnier.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Djibouti is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

Djibouti has not yet undertaken a Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards.

US Department of State Money Laundering assessment (INCSR)

Djibouti was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Djibouti is one of the most stable countries in the Horn of Africa. Djibouti's GDP continues to grow by over 6 percent a year due to a surge in foreign investment in the port, construction, and tourism sectors, primarily from the countries of the Gulf Cooperation Council and China. Djibouti aspires to be a regional financial hub, touting its U.S. dollar-pegged currency and lack of foreign exchange controls as key characteristics of the monetary system.

Djibouti hosts no offshore banks, although its banking laws explicitly permit offshore institutions. Hawala and other money/value transfer services are prevalent in the region, and informal markets for goods are sometimes used for counter-valuation.

Smuggled goods consist primarily of highly-taxed cigarettes and alcohol. A khat import quota instituted in 2014 has resulted in increased khat smuggling. Djibouti's cultural and historical trading ties with neighboring Somalia present a risk factor. Many Djibouti-based financial institutions have operations in Somalia, a jurisdiction which has no AML/CFT legislation or other controls. There are also allegations of Djibouti-based financial facilitation on behalf of the Somali terrorist group al-Shabaab.

There are currently two free zones administered by the Djibouti Ports and Free Zone Authority (DPFZA). The chief executive officer of DPFZA reports directly to the Office of the President. One free zone is located at the "old" port. The other, Djibouti Free Zone (DFZ), is located on 40 hectares and offers office space, warehouses, light industrial units, and hangars. Jebel Ali

Free Zone, based in Dubai, manages the commercial and operational aspects of the DFZ. The purpose of both free zones is to promote foreign investment in Djibouti with the goal of making Djibouti the gateway to regional and East African markets. There are plans to build two additional free zones in the coming years.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Are legal persons covered: criminally: YES civilly: NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

KYC covered entities: Banks, credit establishments, financial and investment intermediaries and advisors, money transfer agents, money changers, casinos, notaries, and attorneys

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 3 in 2015

Number of CTRs received and time frame: 0 in 2015

STR covered entities: Banks, credit establishments, financial and investment advisors and intermediaries, money transfer agents, money changers, casinos, notaries, and attorneys

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2015

Convictions: 0 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: NO

With other governments/jurisdictions: YES

Djibouti is not a member of a FATF-style regional body (FSRB).

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Djibouti recognizes its banking sector is vulnerable to money laundering and requires monitoring by the Central Bank's Fraud Investigation Unit (FIU), Djibouti's financial intelligence unit. Although the government enacted its AML law in 2002, enforcement of the law continues to be a challenge. The FIU is not operationally independent from the Central Bank and does not appear to be carrying out the core FIU functions of receiving, analyzing, and disseminating suspicious transaction reports (STRs).

Djibouti makes an effort to control all formal transaction points. Informal remittance and value-transfer systems are not monitored. Although Law no. 112/AN/11/6ème requires the reporting of large transactions, specifically, transactions involving an amount exceeding 1,000,000DJF (approximately \$5,600), the FIU tracks large currency transactions only if there is

an accompanying STR. Greater resources and independence would improve the oversight capabilities of the Central Bank and the FIU.

Severe resource limitations constrain the FIU's ability to carry out its investigative and supervisory functions, as well as its ability to collect and analyze basic financial intelligence. Because of Djibouti's free zones and the introduction of bank-free cash transfers via mobile phones, additional training and resources for the FIU continue to be a critical need. At the regional level, the FIU works in collaboration with FIUs from member states of the Intergovernmental Authority on Development.

The lack of coordination among different law enforcement authorities, especially security agencies, impedes investigations and makes staffing in-depth investigations difficult. Law enforcement expertise in financial investigations and targeting financial crimes is minimal. Djiboutian magistrates and judges also lack both experience and expertise in prosecuting and hearing cases involving financial crimes. The Ministry of Justice examines each predicate offense and seldom considers links to money laundering or terrorism financing unless currency is directly involved.

The Government of Djibouti should take steps to increase the capacity of its supervisory, enforcement and prosecutorial entities. Djibouti should apply its AML/CFT regime in all current and planned free zones, and to all professionals involved in financial matters. Law enforcement should not wait for a money laundering or terrorism financing referral from the FIU, but rather should investigate financial crimes at the street level and in the ports. The government should continue to focus on improving customs controls on cross-border currency movements, especially at land borders. The government also should enhance its record-keeping requirements and create regulatory and law enforcement benchmarks so as to measure progress in its AML/CFT regime. It should continue to pursue observer status and, ultimately, full membership in an appropriate FSRB.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Djibouti does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

EU White list of Equivalent Jurisdictions

Djibouti is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Djibouti is not considered to be an Offshore Financial Centre

Latest US State Dept Narcotics Report 2011 (introduction):

No report available

US State Dept Trafficking in Persons Report 2014 (introduction):

Djibouti is classified a Tier 2 (Watch List) country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Djibouti is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. Some of Djibouti's older street children reportedly act as pimps of younger children in the sex trade. Members of foreign militaries stationed in Djibouti contribute to the demand for women and girls in prostitution, including possible trafficking victims. Street children—including those from Djibouti, Ethiopia, and Somalia—are sometimes forced by their parents or other adult relatives to beg as an additional source of family income; children may also be recruited from foreign countries for begging in Djibouti. Children are vulnerable to forced labor as domestic servants and coerced to commit petty crimes, such as theft. Over 80,000 men, women, and children from Ethiopia, Somalia, and Eritrea are estimated to have transited through Djibouti as voluntary and undocumented economic migrants en route to Yemen and other locations in the Middle East. An unknown number of these migrants are subjected to conditions of forced labor and sex trafficking upon arrival in these destinations. During their time in Djibouti, which may last for extended periods, this large migrant population, including foreign street children, is vulnerable to various forms of exploitation, including human trafficking. Some Djiboutian and migrant women and girls fall victim to domestic servitude or sex trafficking in Djibouti City; the Ethiopia-Djibouti trucking corridor; or Obock, the preferred departure point for Yemen via the Red Sea or Gulf of Aden. Some migrants intending to be smuggled may be moved or detained against their will and endure beatings and abuse within Djibouti. Smuggling networks, including Djiboutians and Djiboutian residents, may charge exorbitantly high rents or kidnap and hold migrants, including children, for ransom—increasing their vulnerability to trafficking and debt bondage; reports indicate some migrant women were subjected to domestic servitude and forced prostitution in Djibouti to pay these ransoms. In addition, ransoms are, at times, paid by traffickers based in Yemen or Saudi Arabia, who reportedly intend to exploit migrants upon their arrival there.

The Government of Djibouti does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government has not shown evidence of increasing efforts to address human trafficking compared to the previous year; therefore, Djibouti is placed on Tier 2 Watch List for a third consecutive year. Djibouti was granted a waiver from an otherwise required downgrade to Tier 3 because its government has a written plan that, if implemented, would constitute making significant efforts to bring itself into compliance with the minimum standards for the elimination of trafficking, and it has committed to devoting sufficient resources to implement that plan.

During the year, officials, including the prime minister, acknowledged the existence of trafficking in Djibouti and demonstrated a renewed interest in combating the crime—most evident in the government’s completion of a national action plan in March 2014. The Ministry of Justice (MOJ) took steps to coordinate and focus its efforts on trafficking—and to attract donor support for anti-trafficking projects—by creating a senior taskforce that met regularly and included the Attorney General, the Inspector General of the Judiciary, and the MOJ’s Foreign Affairs Advisor. The government expanded its partnership with IOM, which included joint trainings of officials and the publication of awareness-raising materials in 2013. The government continued to provide basic healthcare to undocumented migrants, but generally failed to recognize their vulnerabilities to trafficking or identify and protect those migrants who were victims of human trafficking in Djibouti. The government did not collect statistics on trafficking victims and did not provide information on any victims identified in 2013. Although officials convicted one trafficker, he was released from jail when his appeal resulted in a suspended sentence—an inadequate deterrent to the commission of trafficking crimes. The government failed to investigate or initiate the prosecution of any forced labor or child prostitution crimes during the year.

US State Dept Terrorism Report 2015

Overview: Djibouti remained an active and supportive counterterrorism partner in 2015. Djibouti hosts Camp Lemonnier, which serves as headquarters to the U.S. Africa Command’s Combined Joint Task Force-Horn of Africa. Djibouti’s notable counterterrorism activities in 2015 included increased training through the Department of State’s Africa Contingency Operations Training and Assistance program and the deployment of a second battalion of soldiers to the African Union Mission in Somalia (AMISOM).

As a result of the November 2015 terrorist attacks in Paris and Bamako, Djibouti implemented enhanced security measures throughout Djibouti City. Separately, more than 30,000 people fled from Yemen to Djibouti from March to December as a result of the conflict in Yemen. This influx of people taxed government resources and revealed vulnerabilities in port and immigration security procedures. The United States provided Djibouti with significant capacity-building assistance through counterterrorism training and equipment from a variety of courses and programs sponsored by the Departments of State, Defense, and Justice. Djibouti publicly condemned Islamic State of Iraq and the Levant (ISIL) acts such as beheadings, as well as ISIL’s focus on recruiting vulnerable youth and its misuse of Islam to advance its goals.

Countering the Financing of Terrorism: Djibouti is not a member of a Financial Action Task Force-style regional body. The Central Bank of Djibouti houses a financial intelligence unit known as the Fraud Investigation Unit (FIU). Given its limited financial and human resources, the FIU has been unable to perform its core functions and instead focuses on banking supervision. The FIU made no referrals of cases to law enforcement involving suspected terrorism financing in 2015.

Djibouti’s Central Bank places the responsibility for staying updated on sanctions lists with the financial institutions themselves. Many of the financial institutions operating in Djibouti have software packages that include links to the UN sanctions lists and the lists of designated

terrorists or terrorist entities from the Department of the Treasury's Office of Foreign Assets Control and the EU. The Djiboutian Central Bank monitors compliance with these lists through routine supervision and audits of the financial institutions.

There are no international sanctions applicable against Djibouti.

Arab League

The Arab League (comprising 22 Arab member states), of which this country is a member, has approved imposing sanctions on Syria. These include: -

- * Cutting off transactions with the Syrian central bank
- * Halting funding by Arab governments for projects in Syria
- * A ban on senior Syrian officials travelling to other Arab countries
- * A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

The Arab League has boycotted Israel in a systematic effort to isolate Israel economically in support of the Palestinians, however, the implementation of the boycott has varied over time among member states.

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	30
World Governance Indicator – Control of Corruption	34

Corruption and Government Transparency - Report by US State Department

No U.S. firms have specifically noted corruption as an obstacle to direct investment in Djibouti, although corruption is seen as one of the typical hurdles to be overcome when doing business in the region. Officially, Djibouti has laws and regulations prohibiting corrupt practices, but consistent prosecution and punishment for corruption is rare.

There are two government entities responsible for investigating corruption and enforcing the regulations. The State General Inspection (SGI) is tasked with ensuring human and material resources in the public sector are properly utilized. The Chamber of Accounts and Fiscal Discipline (CAFD) has the authority to verify and audit all public establishments for transparency and accountability, and to implement necessary legal sanctions. While both institutions are mandated to produce annual corruption reports, these are rarely completed in a timely fashion.

Section 3 - Economy

Djibouti's economy is based on service activities connected with the country's strategic location as a deepwater port on the Red Sea. Three-fourths of Djibouti's inhabitants live in the capital city; the remainder are mostly nomadic herders. Scant rainfall limits crop production to small quantities of fruits and vegetables, and most food must be imported. Djibouti provides services as both a transit port for the region and an international transshipment and refueling center. Imports, exports, and re-exports - primarily of coffee from landlocked neighbor Ethiopia - represent 70% of port activity at Djibouti's container terminal. Djibouti has few natural resources and little industry. The nation is, therefore, heavily dependent on foreign assistance to help support its balance of payments and to finance development projects. An unemployment rate of nearly 60% continues to be a major problem. While inflation is not a concern, due to the fixed tie of the Djiboutian franc to the US dollar, the artificially high value of the Djiboutian franc adversely affects Djibouti's balance of payments. Djibouti holds foreign reserves amounting to less than six months of import coverage. Djibouti has experienced relatively minimal impact from the global economic downturn, but its reliance on diesel-generated electricity and imported food leave average consumers vulnerable to global price shocks. President GUELLEH in 2013 told international investors that Djibouti's development plan is to increase its prominence in financial and communication sectors.

Agriculture - products:

fruits, vegetables; goats, sheep, camels, animal hides

Industries:

construction, agricultural processing

Exports - commodities:

reexports, hides and skins, coffee (in transit)

Exports - partners:

Somalia 80.1%, UAE 4.4%, Yemen 4.1% (2012)

Imports - commodities:

foods, beverages, transport equipment, chemicals, petroleum products

Imports - partners:

China 24.4%, Saudi Arabia 16.4%, India 10.6%, Indonesia 7.3% (2012)

Executive Summary

Djibouti is a country with few resources and recognizes the crucial need for foreign investment to stimulate economic development. The country's assets include a strategic geographic location, Free Zones, an open trade regime, and a stable currency. Djibouti has identified a number of priority sectors for investment, including transport/logistics, financial services, energy, and tourism. Djibouti's investment climate has improved in recent years, most notably through adoption of a new commercial code in 2011. There are, however, a number of reforms still needed to create a "friendlier" business environment.

Foreign direct investment totaled 21% of Djibouti's GDP in 2012. In the nineties, Djibouti's economy was weakened by an influx of refugees, a persistent drought, a four-year civil war, and a substantial decrease of foreign aid. In recent years, intensive port activities, changes in tax and labor codes, and an influx of foreign direct investment have significantly improved Djibouti's economy. Real GDP growth has remained between 4% and 5% per year for the last five years, and inflation has dropped from 7% in 2009 to 4% in 2012. Growth is expected to remain above 5% for the next five years.

Djibouti has made strides in various areas measured in the World Bank's "Doing Business" reports, moving up 12 spots from its 2013 ranking. Notable improvements include making starting a business easier 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 can be used as collateral to obtain credit.

The business environment in Djibouti would benefit from significant reforms to its legal and regulatory framework. Other reforms needed include simplifying the tax code, especially for small businesses, and streamlining the institutional procedures for investment. Economic development is currently hindered by high electricity costs, unemployment, lack of skilled workforce, regional instability, and a need to diversify the economy.

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 African least developed countries with the option of entering the European Union Generalized System of Preferences.

1. Openness To, and Restrictions Upon, Foreign Investment

Djibouti's laws encourage foreign investment. There is no screening of investment or other discriminatory mechanisms. Navigating the bureaucracy, however, can be complicated. Certain sectors - most notably public utilities - are state-owned and are not open to investors.

Djibouti's National Investment Promotion Agency (NIPA), created in 2001, promotes private-sector investment, facilitates investment operations, and works to modernize the country's

regulatory framework. –The Ministry of Finance oversees NIPA. NIPA assists foreign and domestic investors by disseminating information and streamlining administrative procedures. Its ultimate goal is to serve as a one-stop shop for investors. NIPA identifies fishing, banking, insurance, tourism, housing, livestock, health, infrastructure, renewable energy and manufacturing as priority sectors for investment.

Djibouti will undergo a World Trade Organization (WTO) Trade Policy Review in October 2014. The United Nations Committee on Trade and Development conducted an Investment Policy Review in 2013. (http://unctad.org/en/PublicationsLibrary/diaepcb2013d1summary_en.pdf).

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	94 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	118 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	160 of 189	http://doingbusiness.org/rankings

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less. Djibouti's scorecard is available at <http://www.mcc.gov/documents/scorecards/score-fy14-english-dj-djibouti.pdf>. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>

2. Conversion and Transfer Policies

Djibouti has no foreign exchange restrictions - businesses are free to repatriate profits. There are no limitations on converting or transferring funds, or on the inflow and outflow of cash. The Djibouti franc, which has been pegged to the U.S. dollar since 1949, is stable. The fixed exchange rate is 177.71 Djibouti francs to the dollar.

3. Expropriation and Compensation

Foreign industries enjoy the same benefits as domestic industries under Djibouti's investment code. Djibouti's Investment Code stipulates that "no partial or total, temporary or permanent expropriation will take place without equitable compensation for the damages suffered." The Embassy is not aware of any recent act of expropriation or compensation related to foreign companies.

4. Dispute Settlement

Djibouti's legal system is based on French law, and consists of three courts: a Court of First Instance presided over by a single judge; a Court of Appeals, with three judges; and the Supreme Court. International lawyers practicing in Djibouti have reported effective application of maritime and other commercial laws, but there have been reports in the past from foreign companies operating in Djibouti that court deliberations were biased or delayed. Djibouti's rule-of-law is weak as it relates to business disputes involving non-Djiboutians. Foreigners may be pressured to quickly resolve disputes in favor of Djiboutians. Djibouti is a member of the International Center for the Settlement of Investment Disputes.

5. Performance Requirements and Investment Incentives

Performance requirements are not a pre-condition for establishing, maintaining, or expanding foreign direct investments. Incentives do, however, increase with the size of the investment and the number of jobs created. Tax benefits and incentives fall under two categories detailed in the investment code. Investments greater than US\$ 280,000 that create a number of permanent jobs may be exempted from license and registration fees, property taxes, taxes on industrial and commercial profits, and taxes on the profits of corporate entities. Imported raw materials used in manufacturing are exempted from the internal consumption tax. These exemptions apply for up to a maximum of ten years after production commences. Investment matters fall under the jurisdiction of the national investment board, which approves all investments.

Foreign investors are not required by law to have a local partner except in the insurance industry and only if the company is registered as a local company and not a branch of an existing foreign company. Djibouti offers significant incentives to private-sector individual and corporate investors when establishing a company within its Free Zone. Establishing a local company outside the Free Zone is significantly more time-consuming. The Djiboutian investment code guarantees investors the right to freely import all goods, equipment, products, or material necessary for their investments; display products and services; determine and run marketing policy and production; choose customers and suppliers; and set prices. Foreign investors are also free to determine their own hiring and firing policy as long as it remains within the structure of the labor code, which strongly favors the employee.

6. Right to Private Ownership and Establishment

Djiboutian laws guarantee rights for foreign and domestic private entities to establish and own business enterprises. Legally established private-sector companies have the same access to markets, land ownership, credit, and other business facilities as public enterprises. Although restrictions on private enterprises are minimal, competitive equality in regard to public enterprises, namely public utilities, remains limited.

7. Protection of Property Rights

Djibouti's legal system officially protects the acquisition and disposition of all property rights and safeguards intellectual property. However, intellectual property rights are rarely enforced. Trade involving counterfeit products occurs mostly in the informal market, which is not controlled or monitored by the government. The Djiboutian Office of Industrial and Commercial Property (ODPIC), created in April 2009, controls patent and trademark

registration for companies and industries. Intellectual property falls under the authority of the Ministry of Communication.

Djibouti ratified the World Intellectual Property Organization (WIPO) convention, the Paris Convention on the Protection of Industrial Rights, and the Bern Convention on the Protection of Literature and Art Works.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Emily Stoll StollEM@state.gov

The local lawyers list is found in the Doing Business section: <http://djibouti.usembassy.gov/doing-business-local.html>.

8. Transparency of the Regulatory System

With guidance from the International Monetary Fund, the Government of Djibouti is making progress toward improving the transparency of its regulatory system. The Chamber of Accounts and Fiscal Discipline (CAFD) has the authority to verify and audit all public establishments for transparency and accountability, and to implement necessary legal sanctions. The CAFD has reported on cases of lack of transparency and accountability in government agencies.

9. Efficient Capital Markets and Portfolio Investment

Two large banks - Bank of Africa (BOA) and Bank for Commerce and Industry – Mer Rouge (BCI-MR) dominate Djibouti's banking sector. While these two banks account for the majority share of deposits in-country, they face competition from nine other banks, all established in Djibouti between 2006 and 2011. Djibouti's nine new commercial banks are: the Malaysian International Commercial Bank; the Saba Islamic Bank of Yemen; the Bank of Deposits and Credits of Djibouti, a bank backed by Swiss capital; Salam African Bank, an Islamic bank with shareholders from East Africa; the Agricultural Bank of Yemen, Dahabshil Bank International, an Islamic bank owned by Dahabshill Money Transfer, Shura Bank from Egypt, and an Iraqi bank, WARKA Bank; Exim Bank from Tanzania. In March 2014, the Central Bank issued a license to a new bank, Djibouti Commercial Bank, whose shareholders are based in Dubai. Credit is allocated on market terms, and foreign companies do not face discrimination in obtaining it. Generally, however, only well-established businesses obtain bank credit, as the cost of credit is high.

Credit to the private sector represented 32% of GDP in 2012. The percentage of the population with access to banking services was 12% in 2012, and deposits in banks totaled 193 billion Djibouti Francs (US\$1.09 billion).

10. Competition from State-Owned Enterprises

State-owned enterprises control telecommunication, water, and electrical distribution in Djibouti. Major print, television, and radio outlets are also state-run. Other state-run services, such as municipal garbage collection and real estate, do not hold legal monopolies but are afforded material advantages by the government (i.e. government-backed loan guarantees for the real estate sector).

Senior management of state-owned enterprises report directly to line ministers, as well as an Administrative Council. State-owned enterprises are required by law to publish an annual report. The Chamber of Accounts and Fiscal Discipline is charged with auditing state-owned enterprises.

11. Corporate Social Responsibility

There is nascent but growing awareness among both companies and consumers in Djibouti of internationally accepted corporate social responsibility standards.

12. Political Violence

Djibouti offers a stable political environment when compared with neighbors Somalia, Eritrea, and Yemen. The country does not have a history of politically motivated damage to projects or installations. Disputes over the results of the 2013 legislative elections, and the subsequent imprisonment of charismatic religious figures associated with the political opposition, led to low-grade civil unrest that continues in certain neighborhoods of Djibouti City. Political opposition groups are expected to continue to mobilize in advance of the 2016 presidential election, creating the possibility of continued civil disturbance. An on-going border dispute with Eritrea, which led to fighting in 2008, remains a source of instability in northern Djibouti.

13. Corruption

No U.S. firms have specifically noted corruption as an obstacle to direct investment in Djibouti, although corruption is seen as one of the typical hurdles to be overcome when doing business in the region. Officially, Djibouti has laws and regulations prohibiting corrupt practices, but consistent prosecution and punishment for corruption is rare.

There are two government entities responsible for investigating corruption and enforcing the regulations. The State General Inspection (SGI) is tasked with ensuring human and material resources in the public sector are properly utilized. The Chamber of Accounts and Fiscal Discipline (CAFD) has the authority to verify and audit all public establishments for transparency and accountability, and to implement necessary legal sanctions. While both institutions are mandated to produce annual corruption reports, these are rarely completed in a timely fashion.

14. Bilateral Investment Agreements

Djibouti has several bilateral investment agreements with France, China, Ethiopia, Yemen, Egypt, Malaysia, Sudan, South Sudan, and India.

Other treaties to which Djibouti is a party include:

- Partnership Agreement between the Members of the African, Caribbean and Pacific Group of States (ACP)
- Agreement for the Promotion, Protection and Guarantee of Investment Among Member States of the Organization of Islamic Conference
- Articles of Agreement of the Islamic Corporation for the Insurance of Investment and Export Credit

- Unified Agreement for the Investment of Arab Capital in the Arab States
- Arab Authority for Agricultural Investment and Development

15. OPIC and Other Investment Insurance Programs

Djibouti is eligible for Overseas Private Investment Corporation (OPIC) programs. Djibouti is a member of the Multilateral Investment Guarantee Agency (MIGA), which guaranteed the construction of the Doraleh Container Terminal in 2009.

16. Labor

Djibouti has complicated labor laws that favor the employee, especially in the areas of disputes and termination.

Vocational and professional training facilities remain limited. Skilled Djiboutian workers - especially in highly demanded trades such as construction - are in short supply. Unskilled labor is widely available. The Government of Djibouti has launched an initiative to audit foreign workers in Djibouti. The goal of this initiative is to put more Djiboutians to work by replacing them in low-skill jobs currently held by foreign nationals. As a result of this initiative, obtaining a work permit for foreign workers has become more onerous. In December 2013, the cost for a work permit increased from 20,000 Djibouti francs (USD 112) to 200,000 Djibouti francs (USD 1,124). The National Agency for Employment, Training, and Professional Integration (ANEFIP) maintains a database of Djiboutian job-seekers and issues work permits to foreign workers.

The Government of Djibouti, Port of Djibouti, and Camp Lemonnier are the country's top employers. There are limited private sector employment opportunities. Minimum wage is USD 250 per month. By law, all employers are obligated to make social security payments on behalf of their employees, through the National Council for Social Security. Two large labor unions exist in Djibouti, but only the Djiboutian Workers Union (UDT) is recognized by international organizations.

Widespread use of the legal narcotic khat substantially impacts both employee performance and family incomes. Reports show that over half of the Djiboutian male population consumes khat. Khat chewing begins around noon and lasts well into the afternoon. Work productivity during that time period is significantly decreased.

17. Foreign Trade Zones/Free Ports

The Djibouti Free Zone (DFZ), located on 40 hectares, offers office space, warehouses, light industrial units, and hangars. Businesses located in the Free Zone do not pay corporate taxes and receive other benefits such as assistance obtaining work permits and visas. Currently, more than 160 companies, comprising 39 nationalities, operate out of the Free Zone. In December 2013, the DAM Commercial Free Zone opened in the Damerjog region, south of Djibouti City. There are plans to build two other free zones, the Khor Ambado Free Zone and Jabanas Free Zone, in the coming years.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)			2011 2012	\$1244.00 \$1359.00	Source: Rapport Annuel Sur la Situation Economique et Sociale, Ministere de l'Economie et des Finances, 2013
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
Total inbound stock of FDI as % host GDP	2012	21%			Source: Djibouti National Investment Promotion Agency

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

mixed legal system based primarily on the French civil code (as it existed in 1997), Islamic religious law (in matters of family law and successions), and customary law

International organization participation:

ACP, AfDB, AFESD, AMF, AU, CAEU (candidates), COMESA, FAO, G-77, IBRD, ICAO, ICRM, IDA, IDB, IFAD, IFC, IFRC, IGAD, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ITU, ITUC (NGOs), LAS, MIGA, MINURSO, NAM, OIC, OIF, OPCW, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

Djibouti has exchange controls governing capital transactions applying to financial credits.

Treaty and non-treaty withholding tax rates

Information unavailable

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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