Djibouti

2012

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Djibouti

- Although the country was affected in 2011 by three unfavourable events that hit its economic performance, an acceleration in growth is expected in 2012 and 2013, based on the recovery of the country's two main economic drivers: port activities and foreign direct investment (FDI).
- In 2011, in line with the International Monetary Fund's Extended Credit Facility programme in which the country is engaged, Djibouti has prioritised prudent macro-economic management and continued its structural reforms.
- Poverty remains a worrying problem in the country, where more than 70% of the population is poor and more than 50% of the active population is unemployed.

Overview

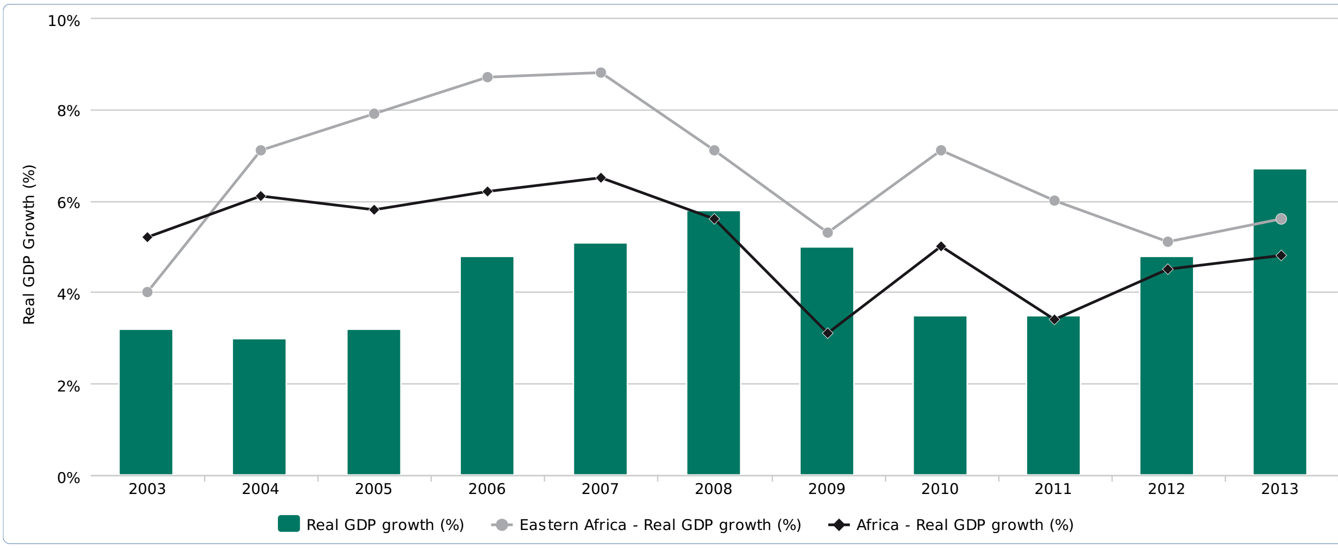
In 2011 Djibouti was hit by three unfavourable factors that weighed on its economic growth. The country continued to record a slow-down in growth caused by the effects of the financial crisis on its two main economic drivers: port activities and foreign direct investment (FDI). Its economy was also affected by a severe drought, and the presidential election led to a period of wait-and-see in the private sector. In 2012 and 2013 port activities and FDI should record growth linked to the implementation of investment delayed since the start of the financial crisis, the extension of the container terminal at Doraleh and the exploitation of the country's geothermal resources. In February 2012 the country also signed a historic tripartite co-operation agreement with Ethiopia and South Sudan. The agreement targets infrastructure construction for telecommunications, roads, railways and oil transport in the three countries, to link South Sudan via Ethiopia to Djibouti, which has access to the sea. This will bring new investment to Djibouti and an increase in business, especially port activities, and enable the country to decouple its economic performance from Ethiopian trade.

Despite the difficulties related to the three upsets suffered during the year, the authorities ensured that they respected their commitments under the International Monetary Fund's (IMF) Extended Credit Facility (ECF).

The authorities are continuing the country's development with the goal of setting up a regional hub for trade, logistical and financial services. To this end, the entry into service of an electrical power supply interconnection between Ethiopia and Djibouti constitutes a major development for the country, leading to improvement in the business environment because of a better availability of energy and a reduction in Djibouti's balance of trade deficit resulting from lower oil imports. The country's economy continues to be dominated by the tertiary sector through port activities and related logistics services, by banking and by telecommunications, a sector which is experiencing strong growth. However, improving living conditions and, especially, reducing poverty, remain major challenges for the country where 75% of the population is poor and 42% live in extreme poverty.

Young people are severely affected by the country's endemic unemployment. The authorities have set up initiatives aimed at encouraging youth enterprise, both to reduce unemployment and to stimulate the private sector, which is not sufficiently well developed to create enough new jobs. Furthermore, the state has historically been the main provider of employment and, though now belonging to the past, this role is still firmly fixed in the country's mentality. This explains the current disparity between the skills of young people and the needs of the labour market. The authorities are trying to address this through several projects aimed at identifying the main job-creating sectors to offer relevant training in line with job market needs, and instilling an entrepreneurial spirit into young people.

Figure 1: Real GDP growth (Eastern)



Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic Indicators

	2010	2011	2012	2013
Real GDP growth	3.5	3.5	4.8	6.7
Real GDP per capita growth	1.6	1.6	2.9	4.8
CPI inflation	4	5.1	2.1	2.1
Budget balance % GDP	-0.6	-0.5	2.1	2.9
Current account % GDP	-5.5	-6.9	-6.6	-8.5

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2006	2011
Agriculture, forestry, fishing & hunting	3.6	3.6
Agriculture, livestock, forestry and fisheries	-	-
of which agriculture	-	-
Mining and quarrying	0.2	0.2
of which oil	-	-
Manufacturing	2.6	2.5
Electricity, gas and water	5.8	5.3
Electricity, water and sewerage	-	-
Construction	8.2	14.3
Wholesale and retail trade, hotels and restaurants	19	18.5
of which hotels and restaurants	-	-
Transport, storage and communication	26.6	26.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	13.3	14.7
Financial intermediation, real estate services, business and other service activities	-	-
General government services	18.8	12.7
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Other community, social & personal service activities	-	-
Other services	1.9	1.6
Gross domestic product at basic prices / factor cost	100	100
Wholesale and retail trade, hotels and restaurants	-	-

Figures for 2010 are estimates; for 2011 and later are projections.

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The country's economic growth was set to remain stable in 2011 at around 3.5%, the rate recorded in 2010. During the year the country suffered three negative events that affected its momentum. First, it continued to suffer the consequences of the international financial crisis, evident in the continuing slowdown of its port activities and of the inflow of FDI. The upturn in FDI expected in 2011, postponed from 2009 and 2010 due to the financial crisis, did not take place. Second, the severe drought in the Horn of Africa in 2011, the worst in 60 years, hit the country by worsening already structural food insecurity. Third, the presidential elections in April 2011 led to a period of wait-and-see in the private sector that further reduced the performance of the economy. The economy's growth rate should improve in 2012 and 2013 through recovering port activities and the return of FDI, linked to the extension of the container terminal at Doraleh and the exploitation of the country's geothermal resources.

Growth in the economy is still dominated by the services sector with a contribution of almost 77% of gross domestic product (GDP) in 2011. Port activities are still the main driver of the tertiary sector, mainly focused on transit business with Ethiopia following the marginalisation of trans-shipment business in 2010. The volume of business with Ethiopia in 2011 remained at 2010 levels, which were already down sharply on the preceding years. Telecommunications and financial services are playing an increasingly important role within the tertiary sector, although they are not yet on a sufficient scale to compensate for the fall in port activities and its logistics services and the drop in FDI.

Secondary sector development, with around 19.5% of GDP, has continued to decline because of the constraints imposed by the availability and factor costs of production in the country. Alongside the two national companies producing electricity and water, the sector includes a number of companies concentrated in the agri-food sector, producing carbonated drinks and mineral water, together with building and public works companies. The sector saw, nevertheless, significant development during the year as the electricity network connection between Djibouti and Ethiopia became operational. It has enabled the country to reduce its energy constraints thanks to cheaper imports of hydroelectricity from Ethiopia. The cost of energy to poor households was reduced by 30% in January 2012. A general reduction in energy costs across the private sector is stimulating economic and social development.

The primary sector remains marginal and at only 3.5% contributes very little to GDP. Underdevelopment of the sector is a result of the dry climatic conditions, low availability and mobilisation of water resources, the failure to exploit the little arable land that the country has, the lack of development in fishery activities and poor irrigation management. Structural food insecurity was worsened in 2011 by the severe drought across the Horn of Africa that affected the entire country. The pastoral regions of the north-west near the Ethiopian border and the south-east near Somalia were the worst affected, along with urban areas. The nomadic populations of these areas, whose livestock provides their only source of income through the sale of animals and milk, were particularly badly hit. People living in urban areas faced food price rises.The total number of people affected has been estimated at 120 000, which represents a significant 15% of the population. To deal with this severe food crisis, the United Nations (UN) launched an appeal for 33 million US dollars (USD) to provide aid to these 120 000 very vulnerable people. Mobilisation of the international community generated USD 19 million. The country nevertheless maintained its long-term policy over the year of reducing its dependence on outside countries for food supplies, by drawing on farms in Ethiopia and Sudan. Supplies from these farms enabled the authorities to limit the impact of the drought on food prices in the country.

On the demand side, investment continues to support the country’s economic growth, amounting in 2011 to almost 24% of GDP, coming in practically equal measure from the public and the private sectors. This represents a big change, since in the 2000s private sector investment was significantly higher than that of the public sector. Djibouti’s balance of trade remains in structural deficit.

Future development of Djibouti requires the transformation of the country into a hub for trade, logistics and related services, and financial services. The authorities are working on the exploitation of the country’s geothermal energy in order to completely lift energy constraints. The country has significant opportunities to expand its port activities with the recently independent South Sudan a big potential new market. The country is also targeting trade with the landlocked countries in the Great Lakes Region.

The risks that could jeopardise the country’s development opportunities are related to competition from other ports in the region, notably Salalah in Oman and Aden in Yemen, to the continuing slowdown in FDI, mainly from Dubai, and to adverse fluctuations in Ethiopian trade.

Macroeconomic Policy

Fiscal Policy

The authorities' objective for 2011 was to respect the IMF's ECF programme, the fifth review of which was completed in February 2012. The country had to deal with the impact on its public finances of the three negative factors that weighed on the economy. The year 2011 ended with a deficit of 0.5% of GDP compared with a predicted budget surplus of 0.4%, although the under-performance was contained. While the upsets to the economy reduced tax revenues, the state succeeded in reducing its operating costs, particularly non-social costs and military expenditure, and in postponing certain investment spending. The authorities expect a balanced budget in 2012 and 2013.

Tax and non-tax revenue collection suffered from the election period, the installing of the new government and reorganisation of the tax administration. Following the introduction of Value Added Tax (VAT) in 2009, the authorities continue to broaden the tax base with the opening in 2011 of a local tax centre in Balbala and a second in Tadjourah at the beginning of 2012. As part of this decentralisation, similar centres are planned for each of the country's large regions. In addition, the VAT threshold for companies will be lowered in 2012 to a turnover of DJF 50 million (Djibouti francs) from DJF 80 million in 2011.

Current expenditure represents 50% of state expenditure, of which almost 30% is devoted to the wage bill. The authorities are trying to increase the proportion of public investment financed from tax revenues.

The government has maintained its policy of subsidising the price of staple foods and oil products, notably kerosene used by the poorest households. Imports of crude oil and derivatives represent almost 30% of the country's goods imports. To limit the impact of price increases on the world oil market, Djibouti uses a price stability mechanism based on variation in the duty paid on oil imports; this limits the impact of international price rises on pump prices in the country. Oil price rises in 2011 led to a shortfall in oil duty revenues for the state. The authorities also maintained the abolition of taxes, introduced during the food crisis of 2008, on five basic food products: rice, cooking oil, sugar, flour and powdered milk. The cost of this measure has been estimated at USD 5 million a year.

Table 3: Public Finances (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Total revenue and grants	34	34.9	35.2	39.8	38.2	40.7	43.3	43.7	41.4
Tax revenue	20.6	23.1	20.5	19.1	20.7	23.2	23.3	23.2	23.2
Oil revenue	-	-	-	-	-	-	-	-	-
Grants	6	3.9	5	12.4	6.6	6.1	8.5	9.1	7
Total expenditure and net lending (a)	36.3	37.4	37.7	38.6	42.9	41.3	43.8	41.5	38.5
Current expenditure	29.6	29.9	26.6	25.5	25.1	27.8	28.4	26.6	24.3
Excluding interest	29.3	29.4	26.2	25.2	24.7	27.4	27.9	26	23.8
Wages and salaries	15.5	14.6	13.8	10.8	13.3	14.6	14.3	13.6	12.5
Interest	0.3	0.4	0.4	0.3	0.4	0.4	0.5	0.6	0.6
Primary balance	-1.9	-2	-2.2	1.5	-4.3	-0.2	0.1	2.8	3.4
Overall balance	-2.3	-2.5	-2.6	1.2	-4.7	-0.6	-0.5	2.1	2.9

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The exchange rate regime of the currency board set up in 1949 has been a determining factor in the monetary stability of the country's economy. Since 1973, the national currency, the Djibouti franc has been linked to the United States dollar at a rate of USD 1 to DJF 177.721. The Central Bank of Djibouti (BCD) is obliged by the American Federal Reserve Bank (FED) to hold with it the equivalent in dollars of its currency in circulation. This regime offers Djibouti the opportunity to become a financial centre for the region, because the Djibouti franc is freely and fully convertible into any currency and capital movements are free. To allow the BCD to have an instrument of liquidity management, it has been working on the introduction of compulsory reserves since 2010. The rate has not yet been defined, however.

Inflation has experienced a small acceleration since the beginning of 2012, but is still under control, with an annualised rate of 5.1% for 2011 compared with 4.0% in 2010. Rising prices were fuelled by food products, the increase in which was, nevertheless, limited thanks to measures taken by the government to limit variations in the price rises of five staple food products. In addition, production from farms in Sudan and Ethiopia enabled the country to supply the domestic market with basic food products at controlled prices. The farms produced 500 tonnes of sunflower seed and 6 500 tonnes of wheat respectively. Of the sunflower seed 40% was converted into oil and 55% into livestock cake; 80% of the wheat was milled into flour and 20% into bran.

Economic Cooperation, Regional Integration & Trade

Port activity and related transport and logistics services form the heart of Djibouti's economy. Commercial agreements are being prepared with Kenya and Saudi Arabia; those concluded with Ethiopia should be renewed in 2012. Since gaining independence in July 2011, South Sudan represents a big potential new market for Djibouti. Tripartite discussions between Ethiopia, Djibouti and South Sudan concluded with the signing of an historic agreement on economic co-operation between the three countries in February 2012. The agreement covers the extension of Djibouti's telecommunications network to South Sudan, the construction of an oil pipeline, and freight and rail infrastructure linking South Sudan to Djibouti via Ethiopia. Djibouti is also seeking to widen its market by capturing trade in the Great Lakes region countries.

Between 2004 and 2009 Djibouti experienced a massif influx of FDI that boosted the country's growth during that period. The FDI came mainly from the Gulf States, especially Dubai. Djibouti's distinctive feature is the strong presence of donors from the Arab world (Dubai, Kuwait and Saudi Arabia). China and India have only a small presence in the country. The sectors that traditionally benefit are capital-intensive: transport, especially ports, property, and hotels, but also the banking sector. The influx of FDI has slowed down considerably as a result of the joint effects of the completion of the terminal and the financial crisis that led Dubai to postpone its investment.

The absence of a significant recovery in FDI kept the trade balance and the current account in deficit at the 2010 level. The respective balances are expected to deteriorate in 2012 and 2013 because of the expected return of significant FDI to the country, which will result in a rise in the import of capital goods.

Public development aid received by Djibouti is stable at around 5% of GDP. Donor co-ordination remains poor in the country. An initiative is gradually being developed, but is not currently operational.

Table 4: Current Account (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Trade balance	-32	-43.8	-50.1	-48.9	-36.7	-28.8	-33.3	-33.7	-34.3
Exports of goods (f.o.b.)	5.9	7.2	6.8	6.7	7.6	8.2	7.8	7.1	6.6
Imports of goods (f.o.b.)	38	51	57	55.6	44.4	37	41.1	40.8	40.9
Services	23.2	20.9	17.2	16.5	19.1	14.7	17.4	19.7	19
Factor income	8.1	11	10.5	9	8	8.5	7.5	5.9	5.4
Current transfers	4.1	-2.7	-3.3	0.3	0.3	0	1.5	1.6	1.4
Current account balance	3.4	-14.7	-25.7	-23.1	-9.4	-5.5	-6.9	-6.6	-8.5

Figures for 2010 are estimates; for 2011 and later are projections.

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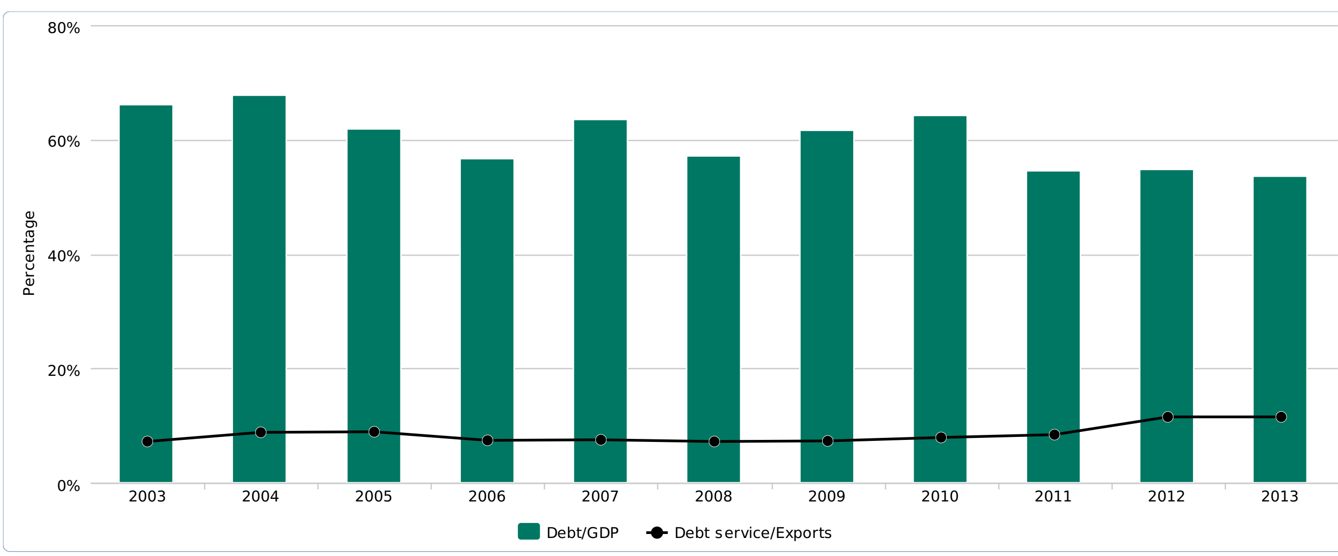
Debt Policy

The country remains heavily indebted, with the external public debt amounting to USD 681 million in 2011. While the country's debt ratio is gradually being reduced, in 2011 it represented 54.6% of GDP and is close to the country's debt sustainability ceiling of 60%. This crucial level constrains the authorities to use only concessional borrowing. The country is not eligible for the Heavily Indebted Poor Countries (HIPC) initiative that confers debt relief. Furthermore, the distribution of debt between donors limits the possibilities of debt relief outside the HIPC. Multilateral creditors hold 66% of the debt while the bilateral hold the remaining 34%; notably the Paris Club (12%), Kuwait and Saudi Arabia. In October 2008, the country nevertheless managed to restructure a proportion of its debt with the Paris Club creditors. On the basis of a clause of comparable treatment, a bilateral agreement has been signed with Saudi Arabia, and negotiations have begun with the United Arab Emirates (UAE) and Kuwait. External arrears were accumulated during the year by the state and certain public companies (*Electricité de Djibouti*, *[EDD]* and *Société Immobilière*) with multilateral and bilateral creditors, including the Paris Club, but the situation was normalised before the end of the year. To avoid any accumulation of external arrears, stronger monitoring of debt service payments was put in place in 2011.

The Djibouti authorities have for several years met their commitments not to subscribe to non-concessional debt. Taking into account the current level of debt and the significant investment needs, the government aims to follow a policy of reasonable debt, growth of internal resources, recourse to grants and concessional loans and continuing negotiations to ensure the viability of public finances. The country's strategy consists of further reducing non-priority public spending and concluding re-scheduling agreements with their bilateral creditors in order to devote effort to the regular payment of debt that cannot be re-scheduled.

Internal debt remains low; it was estimated at 14% of GDP in 2009, 9% of which is made up of public sector pay arrears and payments to suppliers. As part of the IMF programme, the authorities continue to work on reducing internal debt. Cross-debt agreements were finalised at the end of the year between the public companies: the EDD, Djibouti Telecom (DT) and the Djibouti national office of water and sewerage (ONEAD).

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



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Economic & Political Governance

Private Sector

The private sector is concentrated in service activities, especially those to do with the port and related services. The banking sector is expanding although the industrial sector is still embryonic. There are sectors whose potential is not fully exploited, such as fisheries, tourism, telecommunications and natural mineral resources, (salt and perlite).

In the context of the 183 countries studied for the 2012 World Bank *Doing Business* report, the business climate in Djibouti is conducive to trading across borders (ranked 37th) and payment of taxes (ranked 70th). Nevertheless, difficulties persist in registering property, enforcing contracts, getting credit, starting a business and investor protection. In these categories Djibouti performed poorly, with rankings no higher than 148th. While the high cost of production factors (energy, water and human resources) continue to hold back the private sector, significant progress was made during the year with the electrical power network connection between Ethiopia and Djibouti. This has led to big improvements in the availability of energy, the elimination of frequent blackouts and a reduction in the country's oil imports.

To improve the availability of drinking water in the country the authorities are working on the construction of a desalination plant. In 2011 they raised funds to complete the necessary feasibility studies into the exploitation of the country's geothermal resources. These actions will ultimately enable them to improve the business climate through better availability of production factors and a reduction in their cost.

The authorities are continuing their structural reforms. Commercial law has been rewritten and should soon be adopted by the national assembly. The final elements of corporate and bankruptcy laws were finalised at the end of 2010. Initiatives have been taken to improve labour market flexibility with the revision of employment law; changes involve the abolition of the minimum wage, compensated for by the introduction of a policy of collective agreements negotiated by industry sector, which is now in force. Customs law has been modernised to be consistent with the Common Market for Eastern and Southern Africa (COMESA) area and was adopted in June 2011. To attract investment, the authorities created the national investment promotion agency ANPI *(Agence nationale de promotion des investissements)* in 2001. It promotes business creation through a one-stop shop that streamlines the administrative processes. The country also has a free trade area that offers tax, administrative and logistical incentives for businesses that set up there.

Financial Sector

The sector has developed rapidly since 2006. Banking and insurance represent a growing proportion of GDP that reached 13% in 2011. The sector saw the arrival of new banks bringing the number of institutions to 11, compared with only two in 2006. These new banks have positioned themselves in niche markets, with the introduction of Islamic financial instruments and the opening of accounts for small savers. Even so, the sector remains very concentrated, with two main banks accounting for 85% of assets. The vitality of the sector stems from an accommodating and incentivising monetary policy based on free circulation of capital, an absence of exchange rate controls and the exchange rate regime. Analysis of the sector by the IMF estimates the systemic risk to be low. The banking sector is very liquid, with a low proportion of bad debts of the order of 6% in 2011. The arrival of new banks on the Djibouti market has led to a fall in interest rates with the increase in competition. They remain nevertheless relatively high at an average of 12% for low-risk credit, 15% for overdrafts and 10% for property loans.

The volume of credit provided to the economy demonstrates the domestic banking system's effort to finance the country's economic activity. Credit to the private sector is rising gradually each year, representing 84% of credit in 2011; the remainder was to the state (14.5%) and public companies (1.5%). Credit to the economy represented almost 20% of GDP in 2011. This is, however, mainly short-term and consumer credit. Medium and long-term credit remains marginal and related to equipment and housing. Maturities greater than five years are considered long-term and are relatively rare.

The banks are not facing problems of liquidity. They are limited by their capital adequacy ratio because of their low capital. The introduction of fund guarantee mechanisms by donors has enabled the banks to partly remove this constraint, and opened up access to credit for small and medium-sized enterprises (SMEs). The government wants to make this initiative permanent by setting up a national guarantee fund. In parallel, the micro-finance sector has grown during recent years, with credit amounting to DJF 700 million granted since 2008, and around DJF 140 million of savings mobilised in 2011.

Under the aegis of the IMF, reforms to strengthen banking supervision and regulation have been started. Legislation relating to Islamic finance and financial co-operatives was adopted by the national assembly at the beginning of 2011. A new banking law that includes the tripling of the minimum capital required (DJF 1 billion) to open a bank over a period of three years was also adopted in January 2011. The tightening of licensing conditions and penalties for the failure to report regularly on the financial state of banks are planned to regulate the sector's expansion. In May 2011 legislation was adopted by the national assembly relating to the fight against money laundering and the repression and financing of terrorism. To strengthen supervision a special unit was created within the central bank and its staff recruited in June 2011.

Public Sector Management, Institutions & Reform

Generally, the state retains a strong presence in the economy, being represented in 44 quasi-public organisations. A number of evaluations, such as the Mo Ibrahim Index and Transparency International (TI), highlight the country's governance issues. The country suffers generally from the poor effectiveness and low quality of its public services. TI's 2010 ranking, based on the Corruption Perceptions Index (CPI), put Djibouti in 91^{st} place out of 178 countries, with a score of 3.2 on a scale from 0 to 10, where 10 represents an absence of corruption. Despite the recent introduction of modern practices into administrative management, a genuine service culture does not exist. The strategy for state reform approved in 2002 has only been implemented to a limited extent. There are still delays in paying salaries, something that undermines staff productivity and service effectiveness.

As far as transparency in public affairs is concerned, the audits undertaken for several years continue but their conclusions remain confidential.

In 2011 the country re-activated the African Peer Review Mechanism (APRM) of which it is a member. The aim of the APRM is to encourage the adoption of better policies, standards and practices with a view to promoting political stability, sustained economic growth, sustainable development and faster integration of the economy on the basis of sharing experiences and improving best practice and learning. The analysis undertaken will enable the implementation of a national action plan. The reforms that the state has committed to as part of the IMF programme cover the tax system, financial sector development, banking supervision and improvement in the business climate.

Natural Resource Management & Environment

Djibouti is vulnerable to many natural disasters: droughts lasting several years, frequent severe flash-floods, recurrent earthquakes caused by the volcanic area along the Assal Rift, and fires fuelled by drought. This environmental context accentuates the population's vulnerability, with 33% living in zones considered high-risk. The current natural resource management strategy has four main themes: the fight against land degradation, conserving biodiversity, adapting to climate change, and capacity-building for risk prevention and disaster management. Following the severe drought that affected the country in 2011, the authorities are working to improve the national policy on risk management and disasters adopted in 2006 by establishing mechanisms to anticipate, evaluate post-disaster needs and strengthen the country's resilience with the aid of donors. A survey of post-disaster needs was completed in 2011 by the World Bank to speed up implementation of the risk management system.

Djibouti straddles three tectonic plates and has a large unexploited geothermal potential. In 2011, the government started to mobilise funds from donors to begin surveying. Djibouti also has unexploited mineral resources, such as the Assal salt lake, which has a potential estimated at 1.2 million tonnes a year, and a deposit of perlite estimated at 23 million tonnes. Research into prospecting for gold and oil is under way. The country signed its first off-shore oil and gas exploration agreement with Oyster Oil & Gas during September 2011.

Political Context

In a region plagued by conflicts, Djibouti has stood out for a decade for its stability. President Ismaël Omar Guelleh, in power since 1999, was re-elected on 8 April 2011 with a large majority for a third term. He was able to stand because of an amendment to the constitution in April 2010 which raised the number of terms a president can serve from two to three. At the same time an age limit of 75 years was introduced for presidential election candidates. The candidacy of the outgoing president was criticised by the opposition, giving rise to popular protests at the beginning of 2011 that were repressed by the authorities. The opposition remains fragmented. It frequently boycotts elections that it considers irregular and condemns political repression. The US non-governmental organisation (NGO) Democracy International, which planned to act as an international observer at the presidential elections, was expelled from the country by the authorities less than a month before election day. Access to information comes through a network of mainly state media, limiting the transparency of information. The media, especially the press, report news about state activity without taking a critical look at government actions or social realities.

At the regional level, Djibouti maintains good relations with Ethiopia. The country played a big role in Somalia by hosting the discussions that achieved the Djibouti agreements of August and December 2008, setting up the federal transitional government of Somalia. Djibouti did, however, experience a border conflict with Eritrea between 2008 and 2010 over Ras and the island of Doumeira. This conflict was resolved through the mediation of Qatar. The process of border demarcation between the two countries is under way. Because of its strategic geographic location in the Gulf of Aden, the country is host to a number of foreign military bases. In 2010 a Japanese base was added to the French and American military bases present in the country. Also present are German military contingents and the European Rapid Operational Force (Eurofor) force engaged in the fight against piracy.

Social Context & Human Development

Building Human Resources

Despite some progress being achieved, the population has limited access to basic social services, reflected in the low level of achievement of the Millennium Development Goals (MDGs). The second MDG, related to primary education for all, could be reached around 2015, followed by those related to reducing infant mortality (MDG 4) and the promotion of gender equality (MDG 3). However, the other MDGs have a very low likelihood of being achieved, particularly MDG 1, related to the reduction of extreme poverty and hunger; the probability of achieving this by 2015 is virtually zero.

Health indicators are relatively low; health cover is poor, with only two doctors per 10 000 habitants. Average life expectancy is limited; 56 years in 2010. The maternal mortality rate is high; in 2009 it was 300 deaths per 100 000 births. The under-five infant mortality rate was 93 per 100 000 births in 2006.

Progress has been made in education. The primary school attendance rate reached 74% in 2010 compared with 52.3% in 2002. The literacy rate was 79% in 2009 compared with 46.2% in 2002. The average rate of access to all schools at all levels is now 70%, but the quality of education remains inadequate. This is reflected in a low primary education completion rate, a high level of teacher absenteeism and excessive class sizes.

Efforts have been made by the authorities to improve access to health treatment, especially in the fight against HIV/AIDS and other communicable diseases, with most treatments being free. Seroprevalence (the number of individuals in a population who test positive for a specific disease based on blood serum specimens) was 2.5% in 2009 and the number of patients receiving treatment has risen, reaching 30.8% of persons needing treatment in 2011 compared with 6% in 2004, or 1 384 patients out of 4 314.

Living conditions remain precarious, with only 45% of households living in properties whose walls are constructed with permanent materials. Undernourishment affects 31% of the population and the proportion of children suffering from malnutrition is at the high level of 33%.

One of the particularities of Djibouti is its daily import from Ethiopia of khat, which is consumed by most of the population. Some households can devote up to 30% of their income to buying it. Khat is a plant whose leaves contain a psychotropic drug with euphoric and stimulating properties.

Poverty Reduction, Social Protection & Labour

Despite the sustained growth the country has experienced, and the resulting state spending in the social sectors, there has been little progress recorded in reducing poverty. Even without recent data, periodic specific evaluations testify to the endemic nature of poverty in the country. Data collected in 2002, subsequently confirmed in 2006, revealed that poverty affects 74.4% of the population, with 42.2% living in extreme poverty. A household survey planned for 2012 will enable the data to be brought up to date and interventions to better target vulnerable populations. Added to this precarious situation is the constant influx of foreign migrants, since Djibouti serves as a transit point in migrations towards the Middle East, among other places. In 2012 the UN High Commissioner for Refugees estimated that the country harbours 20 580 refugees, mostly originating from Somalia, and 1 800 asylum-seekers, who increase the pressure on social services.

The lack of results in the fight against poverty can be explained by the lack of results-targeted public finance management, thus limiting the effectiveness of public spending, particularly in the social sectors. Public spending is also disconnected from the strategic priorities identified in the national development strategy initiative (INDS). Efforts to improve management of the public finances are, however, under way and aim to introduce a medium-term budgetary framework for 2013. The authorities are also working towards the introduction of a monitoring and evaluation system to measure the progress towards the objectives that has been achieved.

The country still has a dual economy in which a modern sector, based on rent income from port activities and military bases, coexists with a large informal sector. Unemployment continues to affect 54% of the population. The sustained growth that the country experienced from 2006 has not enabled a significant reduction in unemployment. In addition, it is the capital-intensive sectors that have benefited from the influx of FDI, which has therefore created few jobs.

The social security system was remodelled and modernised in 2008. It is managed by the national social security office but only covers workers in the formal sector, who are estimated to amount to only 5.5% of the population.

Gender Equality

Since 27 March 2008, Djibouti has a ministry wholly dedicated to the improvement of the status and position of women in society. Differences between men and women remain, nevertheless, significant, in particular in terms of schooling and access to work. This situation is confirmed by the Gender-related Development Index (GDI), which stood at 0.514 in 2009 according to the latest data available. The GDI includes the same variables as the United Nations Development Programme Human Development Indicator (HDI), corrected for the degree of inequality that exists between men and women for each variable included in the calculation. The larger the disparities between the genders, the lower the GDI and the closer it approaches zero. Despite the development of micro-finance, the employment rate of women was 12% in 2010. In spite, also, of a judicial framework and a political will in favour of equal participation, as the law on representative quotas demonstrates, women are still under-represented in public administration, making up only 10% of the government and 14% of the parliament. Family law contains a provision for equal rights for men and women in access to property, although this is not yet established in practice. Despite the enactment of a law in 1995 prohibiting excision, or female genital mutilation, the practice is still widespread in the country; 93.1% of women in urban areas are victims and 95.5% in rural areas.

Thematic analysis: Promoting Youth Employment

Unemployment is endemic in the country and particularly affects the young. Despite a recent reduction, the most recent estimates show an unemployment rate of 54% of the active population in 2010, compared with 59% in 2002. The country does not currently have a formal strategy to deal with youth unemployment, but has put in place several initiatives aimed at improving the way the labour market works, promoting entrepreneurship among the young and providing training relevant to the labour market. The authorities have adopted revised employment law to encourage a more flexible labour market. In 2010 a national employment forum was held that brought together public organisations, companies and job seekers. It revealed the need to define a new employment policy better suited to the needs of the labour market. It should prioritise the reform of vocational training and services to support employment.

The main organisations involved are the national agency for employment, training and professional insertion ANEFIP, (*Agence nationale de l'emploi, de la formation et de l'insertion professionnelle*); the national investment promotion agency ANPI, (*Agence nationale pour la promotion des investissements)*; and the chamber of commerce. ANEFIP centralises offers of employment, registers job seekers and helps them in their search for work. For the civil service entrance exam, it compiles lists of suitable candidates based on its files. ANPI supports entrepreneurs with their business plans and raising finance and has also undertaken work to identify investment opportunities and prepares project sheets. The chamber of commerce follows this up with support to new companies. The two main initiatives set up to promote youth employment are the young graduate loan and the young promoters' loan. The young graduate loan scheme was set up in 2011 by the Djibouti social development agency ADDS (*Agence djiboutienne de développement social*) with funding of USD 40 million to support the business start-up projects of young graduates with at least the *baccalauréat* plus 2 years. The scheme consisted of one month's training in business management, provided jointly by the University of Djibouti, the ANPI and the ANEFIP. The initiative led to the provision of loans to ten projects. The young promoters' loan scheme was launched in 2011 and is aimed at those with projects linked to the primary sector (fisheries, agriculture and livestock), to support business start-ups and to improve poor development in the sector. The scheme consists of training in the entrepreneurial spirit, support for project development, help in producing a business plan and support during the start-up phase. A sum of USD 30 million will be available during the period 2012-13; 40 projects have been selected.

While it is true that the economy generates few new jobs, there is also an imbalance between the needs of the labour market and the skills of young people. Young graduates' skills remain concentrated in the main subjects taught at the University of Djibouti, which are languages (English, Arabic and French), economics and law. The difficulties encountered by graduates of some of these classic disciplines, such as literature and economic and social administration, who were destined for civil service careers, have led the University of Djibouti to realign its teaching towards professional training offered by the university technology institute, IUT (*Institut universitaire technologique*). Here technical subjects more appropriate to the needs of the local labour market are offered. For young people with little training, a variety of projects have been started through ADDS between 2010 and 2011 and have resulted in the training of 418 unemployed young people and adults with few qualifications, in the sectors identified as offering immediate employment: mechanics, electricity, hair-dressing, secretarial and information technology. A new training course in the maritime sector was recently added to widen the range and to draw on the sector's potential.

The authorities are also working on a breakdown of training needs by geographical area, showing skilled labour needs by sector, with a view to offering a range of specialised courses. The key specialisations identified are related to transport, logistics, the refrigerated distribution chain and industrial electricity. For those parts of the rural population with specific needs a new training centre is to be set up that will offer multi-disciplinary training, adapted to the local context, in the rural skills of agriculture, livestock, crafts and fisheries. The aim is to address several problems at once: unemployment, the rural exodus and the country's food insecurity.

The unemployment experienced by young people is explained by the problems that exist in demand as well as supply. On the supply side, the country's economy generates few jobs. In 2010, 37 837 waged jobs were recorded, 30% of which came from the public sector. Between 2009 and 2010 only 2 473 jobs were created. This low level is explained by the fact that the private sector is not yet sufficiently well developed to create enough jobs, particularly for new graduates. However, as well as the low level of jobs created each year, there is also a strong mismatch between labour market needs and young people's skills. Furthermore, employers are not prepared to take on young graduates who have no professional experience, demanding at least two to three years of previous experience.

On the demand side, inadequate skills compared with the needs of the labour market result in large part from the fact that the state has historically been the main provider of jobs in the country. So the courses offered, particularly by the university, have been aimed at civil service careers to the detriment of the private sector. While the state has frozen recruitment for several years, with the exception of the ministries of education and health, adjustments in terms of the courses offered and of attitudes do not happen overnight. The result is high expectations amongst the young, especially graduates, for whom the ideal job is in the civil service. Furthermore, they base their salary expectations on public sector rates, which have historically been relatively high, thanks to the country’s rent income. The number of work permits granted to foreign workers is testament to the difficulties that companies face in filling their vacant posts. In 2011 ANEFIP recorded 1 100 authorisations, which is almost 7% of existing jobs. Young job seekers accept the need for mobility to find work in Djibouti City, but are reluctant to leave the country for work. The absence of a Djibouti diaspora illustrates the long-term nature of this phenomenon, reinforced by the historic role of the state as the principal employer.