

Djibouti Country Brief

Djibouti is a small, resource-poor country of 23,200 square kilometers, strategically located in the Horn of Africa at the southern end of the Red Sea. Djibouti is poorly endowed with natural resources, lacking arable land, sufficient rainfall and underground water, and oil or natural gas resources. Djibouti has a population of 818,159 people, of which 58.1% live in the capital city, Djibouti-ville. The hinterland, an extension of the deserts of Ethiopia and Somalia, is sparsely occupied by a poor pastoral and largely nomadic population. Djibouti's population is young, with about 40 percent under age 15 and only 15 percent over age 40.

Djibouti has been an independent country since 1977. It experienced a civil war between 1991 and 1994 that had severe consequences for the economy – and has been politically stable since then. The most recent elections took place in April 2005 (presidential) and in February 2008 (legislative). In an unstable sub-region, Djibouti hosts foreign military bases, with contingents from France, Germany, and the US. Its ports constitute the main access to the sea for land-locked Ethiopia and its 75 million people.

Djibouti's economy is capitalizing on the country's strategic location. While the manufacturing sector is weak and agriculture almost non-existent, Djibouti has traditionally relied on rents –military bases, port revenues, and foreign aid. Over the last few years, the Government has actively reached out to foreign investors to further leverage the country's strategic location, with a view to creating a trading hub for the Horn of Africa. The port and airport were placed under management contracts, a new terminal has been built (in Doraleh), and a free zone was established. These efforts have paid off and resulted in accelerated economic growth.

Despite relatively high per capita income (US\$ 1,263), the incidence of poverty remains high (42 percent absolute and 75 percent relative). Poverty is exacerbated by the presence of a relatively large number of refugees from neighboring countries, who place further pressure on the country's already strained social services. Despite some progress in increasing school enrollment and reducing mortality, social outcomes remain comparatively low, and Djibouti is unlikely to meet most Millennium Development Goals (MDGs) – except possibly for universal primary school enrollment, gender equality, and child mortality. As a food-deficit country, totally dependent on imports to meet its food requirements, Djibouti is highly vulnerable to external shocks such as surging food and fuel prices, and to natural disasters such as floods and droughts.

Economic Developments and Challenges

To address its social and economic challenges, the Government launched in January 2007 the “Initiative Nationale pour le Développement Social (INDS)”, a new reform vehicle that replaces the Poverty Reduction Strategy. The INDS implementation will promote access to basic social services and improve the quality and effectiveness of delivery. It also aims to modernize the economic production process to alleviate the high unemployment rates. It emphasizes governance improvement as one of the main pillars of development and poverty reduction. As a first step, the government agreed on an interim action plan that includes milestones for 2007-2011 and the establishment of poverty-focused institutions

Djibouti's economy continues to perform well but growth has slowed somewhat down. Real GDP grew by estimated 5 percent in 2009 (compared to 5.8 percent in 2008), driven mainly by the expansion of maritime services. Inflation decreased considerably from 12 percent in 2008 to 2 percent in 2009 (year average). The slow-down in growth is mainly attributed to the cancellation and postponement of a few large foreign direct investment (FDI) projects in 2008. This resulted in a decline of FDI from 23.8 percent in GDP in 2008 to 18 percent in 2009. Exports of goods and services continued to grow. Inflation is expected to pick up in 2010 but is expected to remain at levels under 4 percent.

Djibouti is well positioned to ride out the adverse impacts of the ongoing global recession in 2010. The first round impact of the global crisis was limited because Djibouti's banking sector is fairly under-developed and

the country has little merchandise trade. The global recession delayed several FDI projects and reduced the volume of transportation service trade with Ethiopia, however, recent investments in the expansion of maritime services, tourism, alternative energy, and the Free Zone will continue to support growth.

The recent economic growth has not translated into increased employment. Unemployment is high at an estimated 40 to 50 percent of the labor force. Employment opportunities remain limited due to the absence of labor-intensive economic sectors (e.g., agriculture); the weak productivity of labor (resulting from low skill and education levels to match employment requirements); and the little potential for self-employment due to limited access to finance for micro and small enterprises. Recent investments in the port and free zones have generated few jobs to date – in large part due to structural issues (including infrastructure and shortage of skills).

Food prices remain high and continue to burden the poor. The food security situation has improved recently due to declining food prices internationally and higher rainfall within the country that has replenished water and pasture. However, food prices remain relatively high and parts of the poor population will continue to depend on food aid. The authorities are in active dialogue with development partners on food security related issues, including with the Bank on improving social assistance.

World Bank Assistance

The World Bank is providing assistance through IDA. All IDA projects in Djibouti are financed through grants. IDA is also providing institutional development resources in support of capacity-building, pension reform, economic policy monitoring, and aid management coordination.

The Bank had extended to Djibouti a total of about US\$184 million. The current portfolio (as of August 2010) comprises four projects with a net commitment value of US\$51 million and a focus on health, education, energy, and urban poverty reduction. Overall, the current portfolio is healthy and project implementation has been satisfactory. Recently-closed operations include: a US\$6 million grant from the catalytic fund for education for all, a US\$2 million avian flu grant, and a \$5 million food crisis response grant.

One project was approved in 2009: the Urban Poverty Reduction project. It aims to increase access to and use of local infrastructure and basic urban services, community development and micro-finance by targeted groups of the urban poor population of Djibouti-Ville and secondary urban centers. It includes infrastructure upgrading, community driven development and improvement of revenue generating activities. It is co-financed with four other donors, including the Government.

Djibouti is also benefiting from a US\$427 million guarantee by MIGA for the development, design, construction, management, operation and maintenance of the container terminal in Doraleh. By improving container facilities in Djibouti, the project aims to increase port traffic and open up new opportunities for investment and growth, including attracting other African countries to use the port as a gateway.

The World Bank's Board of Directors discussed the **2009-2012 Country Assistance Strategy (CAS)** in April 2009. The new CAS is articulated around three core objectives; i.e.: (i) supporting economic growth; (ii) supporting access to basic social services and human development; and (iii) supporting governance and public sector management.

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