

Business in Djibouti



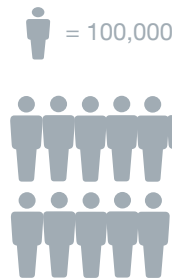
Covering an area of approximately 23,669 km², the Republic of Djibouti is located on the borders of Africa and Asia, at the southern end of the Red Sea with an outlet on the Gulf of Aden. It is located in the Horn of Africa and shares its land borders with Somalia to the south, Ethiopia to the south-west, and Eritrea to the north. The east of the country is occupied by the Red Sea.

In general, there is no requirement under the local Djibouti laws to neither have a local partner for incorporating a local entity nor permit to be obtained for foreign investment. But there are some limited activities with restrictions on foreign ownership (Maritime transport Auxiliaries, security services, and insurance). Moreover, the country offers a relatively independent legal regime only applicable in special economic areas called freezones.

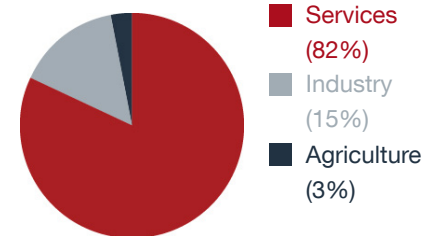


Population

1.1 million



GDP Breakdown by Sector



Currency

Djibouti Franc (DJF/DF)

Foreign Direct Investment

190 million (USD)

GDP Growth (2022)

3.1%

Business Climate

Djibouti has 372 km of coastline and a maritime area of approximately 7,200 km². Placed on one of the busiest maritime routes in the world, the Republic of Djibouti benefits from an undeniable geostrategic position at the crossroads of three rifts. In the sub-regional, the Republic of Djibouti is at the crossroads of the Arab world, Asia, and Africa, which gives it a leading strategic role. This liaison role between the African continent and the countries of the Arabian Peninsula is also reinforced by the country's membership of regional bodies such as the Arab League, IGAD, and COMESA.

The country is characterized by a semi-desert type climate with very high temperatures varying on average between 30°C in January and 45°C in July, with the exception of the mountainous and coastal regions. After the country's accession to independence in 1977, the Djiboutian economy initially had poor economic performance before experiencing a significant recovery, with growth of 5-7% per year since 2000 and a nominal GDP estimated at \$3.848 billion in 2022.

The economic performance of recent years is notably the result of the implementation of the Strategy for Accelerated Growth and Promotion of Employment 2015-2019 (SCAPE), the first five-year plan carried out within the framework of Vision Djibouti 2035. The SCAPE has enabled significant progress to be made, including the acceleration of economic growth, the reduction of poverty, the improvement of social indicators, and the construction of ultra-modern infrastructure such as the Djibouti- Addis Ababa railway, ports, and a Free Zone.

The country is poor in industrial activities (15% of GDP) and especially agricultural (3% of GDP). The service sector remains the main engine of growth for the Djiboutian economy, focusing mainly on the transport sector, particularly ports, trade, telecommunications, and financial activities.

International Trade

In general, there is no requirement under the local Djibouti laws to neither have a local partner for incorporating a local entity nor permit to be obtained for foreign investment.

Any foreign company which begins an activity in Djibouti must register a branch in Djibouti Companies Register in a delay of one month from the beginning of this activity. For operating in a Djibouti Free Zone, it is mandatory to create a Free Zone Company (FZE or FZCO) or Branch to be incorporated with DPFZA. Any company or branch operating in Djibouti is requested to pay at the beginning of each year, an annual business tax (patente) at a rate depending on its activity. This patente has to be renewed each year with Tax Administration.

Trade Agreements

Djibouti is signatory of many international conventions. Also, it is a member of the Common Market for Eastern and Southern Africa (COMESA - Common Market for Eastern and Southern Africa), as well as of the Intergovernmental Authority on Development (IGAD – Intergovernmental Authority on Development), etc. Djibouti is also a member of the International Monetary Fund (IMF) and the World Bank and the Organization of Islamic Cooperation. For thus, Djibouti is

located at the heart of a market of more than 350 million inhabitants comprising the COMESA countries and those of the Arabian Peninsula.

Free Trade Areas

There are currently several Free Zones in Djibouti, each of them under the authority of Djibouti Ports & Free Zone Authority DPFZA.

Foreign Direct Investment

Djibouti law does not, in principle, provide for any limitation on foreign investment. Article 1 of the Investment Code states that anyone, regardless of their nationality, is free to invest in or undertake an economic activity in Djibouti. However, certain regulated activities such as banking, insurance, mining, petroleum, medical and pharmaceutical, and liberal-independent professions are subject to the prior authorization of a specific license or administrative authorization from a competent administrative authority, which means these activities are, in practice, reserved for Djibouti nationals. Moreover, the local legislation offers many incentives tax regimes to invest in the country.

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Tax Regime

The main direct taxes applicable in Djibouti are:

Corporate Income Tax: Applies to all entities that conduct activities in Djibouti except the Free Zones. The general tax rate is 25% or 1% on the annual turnover. Exceptionally in 2022, FZ companies and Djibouti

Companies benefiting of exemptions from the Investment Code have to pay on the closing exercise of 2021:

- A tax contribution of 1% on the annual turnover
- A tax contribution of 10% of the net profit

Personal Income Tax: Applies to national individuals and foreign nationals who works in Djibouti for more than six months. Taxable income is made up of a general base, applicable to employment and benefits among others, with a progressive tax rate from 2% - 45% depending on the salary cap.

Payroll Tax: Employees are also subject to a payroll tax payable to the social security fund. This tax is constituting of two parts that involves a withhold on the wages of the employees and a contribution of the employer.

Annual Business Tax (Patente): Generally, the Patente is made up of a fix tax, plus a proportional tax of 20% of the (Fix Tax).

The main indirect taxes applicable in Djibouti are:

Value-Added Tax (VAT): VAT is payable at the rate of 10% by legal entities and individuals conducting an economic activity other than employee with a turnover of or more than FD 20,000,000 having for activities deliveries of goods, sales to be consumed on site with or without hotel services, building companies or companies with a turnover of or more than FD 10,000,000 having other activities such as services providers, non-commercial professions, hotel services without sales to be consumed on site etc. Bank and insurance services are exempted from VAT.

Internal Consumption Tax (TIC): On all goods imported or produced in the territory and intended for consumption there, except for the exemptions provided for by the Custom Laws. The tax is due according to the species of goods at the rates specified in a tariff nomenclature and applicable on the value of the goods.

The General Solidarity Tax (I.G.S.): On imports and products from persons who do not have an importer's license. The IGS is due at the rate of 5% on the value of the goods determined under the custom code, increased by customs duties, excise duties, taxes, fees, and other taxes due to the import.

Establishing a Business

Common Regime

According to the Commercial Code of Djibouti dated of August 1, 2012, it is mandatory to create a legal entity as a branch or a subsidiary and register into the Djibouti Companies Register held by the Office Djiboutien de la Propriété Industrielle et Commerciale (ODPIC) in the One-Stop-Shop Guichet Unique.

There are four common types of commercial companies with a share capital which are: Société à Responsabilité Limitée (SARL), Société anonyme (SA), and Société par Actions Simplifiée (SAS). The SARL must not have more than 100 partners unless it changes to another form of company within the year after reaching this number. The SA must have at least seven shareholders.

The SARL, SA, or SAS are companies in which the partners are liable for the company debts only up to their contributions and their rights are represented by shares. It may be constituted by one person (except the SA) or between two or more individuals or companies, without any obligation of nationality or place of residence.

Free Zone Regime

Legally constituted Djiboutian or foreign companies, including offshore companies, may operate in the Free Zone by creating a branch of the Parent Company in the Free Zone or by setting up a Free Zone Company called FZE or FZCO, subject to compliance with the provisions of the Free Zone Laws and the Free Zone Regulations.

Employment Affairs

All foreigners are required to get a visa to enter Djibouti. Foreign employees need Labour Permit and a residence permit card (Carte de séjour). In principle, Djibouti has a national preference policy for unskilled jobs; work permits and residence permits are granted to foreigners only if there is no competent Djiboutian employee to take the job. However, there is currently no list of jobs reserved for Djiboutian employees.

If the residence permit card bears the mention Investor, renewal is automatic. Twenty days before end of the visa, foreign employees have to fulfil an application for work permit to the Labour Ministry. The cost of a labour permit is FD 200,000 per year. The labour permit has to be required to the National Employment Agency (ANEFIP). In the Free Zone the Entities are required to employ at least 30% of Djiboutian nationals at the beginning of their activities and 70% within five years of activity.

- Maternity Leave: 26 weeks paid for maternity leave
- Minimum Wage: The minimum wage is currently fixed at \$200.
- Retirement: Depending on the work, the retirement age varies between 60 and 65 years old


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