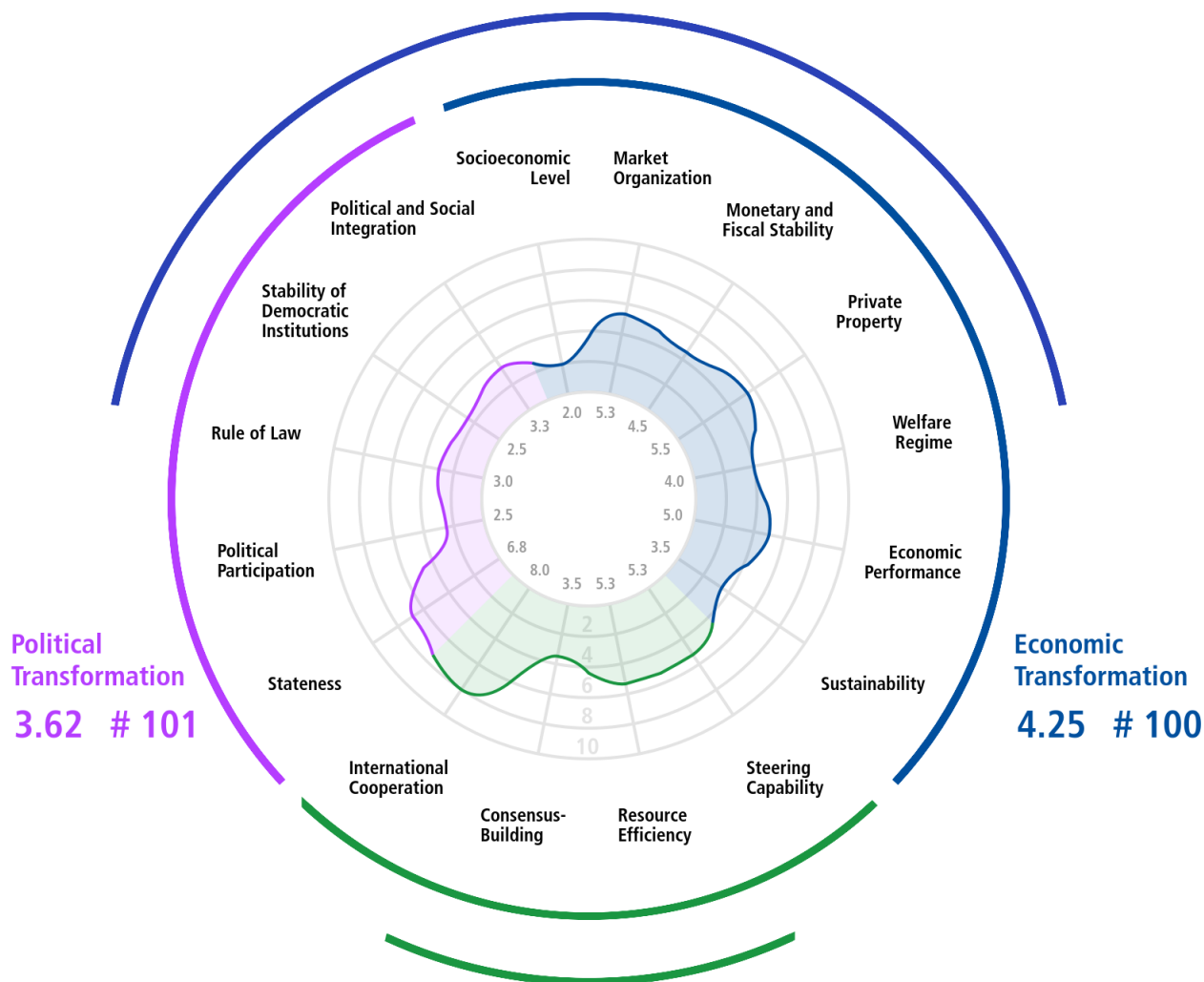


Djibouti

Status Index

3.93 # 106

on 1-10 scale out of 137



Political Transformation
3.62 # 101

Economic Transformation
4.25 # 100

Governance Index

5.17 # 47

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	1.1	HDI	0.509	GDP p.c., PPP \$	5893
Pop. growth ¹	% p.a.	1.4	HDI rank of 189	171	Gini Index	41.6
Life expectancy	years	62.3	UN Education Index	0.343	Poverty ³	43.8
Urban population	%	78.4	Gender inequality ²	-	Aid per capita \$	158.6

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Djibouti is a relatively stable state under the authoritarian rule of President Ismael Omar Guelleh (IOG), who has been in office since 1999. The dominant political coalition, Union pour la Majorité Présidentielle (UMP), is largely controlled by the Rassemblement Populaire pour le Progrès (RPP). President Guelleh secured his fifth term in the 2021 presidential election with little opposition, as the fragmented opposition lacks the capacity to challenge his rule democratically or influence policymaking. There are no significant reformist elements within either the ruling coalition or the RPP.

Throughout the review period, the government maintained its political agenda without substantial changes, limiting the space for opposition parties and curbing freedom of speech. In 2021, Djibouti successfully executed a COVID-19 vaccination campaign, resulting in relatively low fatality rates. However, the government's social support measures during the first three years of the pandemic primarily benefited the capital's population. Economic growth and structural changes remain highly uneven across the country, with persistently high unemployment rates and overall low levels of socioeconomic development.

The International Monetary Fund (IMF) anticipates economic recovery in Djibouti in 2023, linked to Ethiopia's rebound, with a corresponding decrease in inflation to align with international trends. However, foreign-funded investments in large-scale infrastructure projects, aimed at bolstering Djibouti's status as a commercial and logistics hub in the Horn of Africa, have led to increasing debt distress, posing significant risks. Efforts to strengthen the private sector and reduce the dominance of state-owned enterprises lack consistency, and corruption levels remain high. Food imports strain the budget, leaving Djibouti vulnerable to supply shortages and food price volatility, especially in drought-prone conditions. The country's debt sustainability was already questionable before the pandemic, which further exacerbated its debt-servicing capacity. Notably, allegations of a coup plot in February 2022 have raised concerns about internal stability, adding unpredictability to the prevailing rule of the UMP and President Guelleh.

Djibouti maintains strong relations with international partners. Regionally, Djibouti's economy faced challenges due to instability in Somalia, including Somaliland, and Ethiopia. The civil war and military operations along key transportation routes connecting Addis Ababa and Djibouti disrupted trade and logistics throughout 2021. The FRUD insurgency also poses an escalating threat to the government, with a significant attack occurring in October 2022 in the Tadjourah region, resulting in casualties and hostages. Additionally, the Afar-Issa conflict, originating in Ethiopia's Sitti Zone, has spilled into Djibouti, leading to repeated clashes between Somali and Afar ethnic groups in the capital, resulting in the destruction of property and businesses. Djibouti City hosts refugees from the instability in Yemen. Furthermore, the presence and activities of Islamist terrorist groups such as Harakat al-Shabaab al-Mujahideen (al-Shabaab), Daesh (Islamic State, IS), and Salafists in Somaliland and Puntland State of Somalia, both neighboring Djibouti, pose potential security threats to Djibouti's stability.

History and Characteristics of Transformation

Djibouti is situated at a crucial geopolitical crossroads, sharing borders with Eritrea in the north, Somalia's self-declared Republic of Somaliland in the southeast, and the Afar and Somali regional states of Ethiopia in the west and south. Located on the Gulf of Aden, where the Indian Ocean and the Red Sea converge, Djibouti holds significant strategic importance as a vital transshipment hub connecting Europe and the Middle East.

To challenge the British port of Aden's monopoly as a supply point for French ships in the region, France acquired the port of Obock on the Gulf of Tadjourah in 1862. Subsequently, in 1888, they developed the port of Djibouti in response to their expanding commercial interests and political engagements in the Horn of Africa. Djibouti's present territory was previously a patchwork of local and regional Issa-Somali and Afar sultanates. However, it transformed into a coherent political entity when France officially established the colony of French Somaliland (Côte Française des Somalis) in 1896, with Djibouti City as its administrative center. Notably, the commissioning of the Djibouti-Addis Ababa train line in 1917 marked a significant milestone that propelled the port of Djibouti into becoming a major commercial and transshipment center for neighboring Ethiopia.

French Somaliland transitioned into an overseas territory of France (territoire d'outre-mer) in 1946, with a territorial government established in 1956. It was later renamed Territoire Français des Afar et des Issa (TFAI). Despite the population expressing its desire for independence from France through referendums held in 1958 and 1967, TFAI ultimately achieved independence as the last colony on the African continent in 1977.

The road to independence was significantly influenced by the Ligue Populaire Africaine pour l'Indépendance (LPAI), which emerged from the merger of the Union Populaire Africaine, led by Hassan Gouled Aptidon, who would go on to become the founding president of Djibouti, and the Ligue pour l'Avenir et l'Ordre (LAO), predominantly Afar and led by Ahmed Dini. The LPAI's multiethnic composition was reflected in its first cabinet, with Ahmed Dini serving as prime minister and Abdullah Mohamed Kamil as Minister of Foreign Affairs.

In March 1979, the Rassemblement Populaire pour le Progrès (RPP) was formed, replacing the LPAI under the uncontested leadership of Gouled, who was re-elected president in 1981. By banning newly established Afar opposition parties like the Front Démocratique pour la Libération de Djibouti (FDLD) and the Parti Populaire Djiboutien (PPD), Gouled solidified a one-party state, consolidating the dominance of the Issa-majority RPP. However, interethnic tensions escalated across the country, leading to the formation of the Front pour la Restauration de l'Unité et de la Démocratie (FRUD) in early 1991. FRUD gained control over most of Djibouti's northern districts, prompting French mediation in early 1992. In response to the success of this Afar insurgent movement, Djibouti adopted a new constitution in September 1992, paving the way for a multiparty system. Following extended peace negotiations, RPP and FRUD formed a joint list for the 1997 legislative elections, securing all seats in the National Assembly. Ismael Omar Guelleh, who had been head of the cabinet in 1977, assumed the presidency in 1999. Guelleh subsequently sought re-election and successfully secured additional terms in 2005, 2011 and 2016, thanks to a constitutional amendment on presidential term limits allowing multiple terms in office.

Djibouti City and its port have played a pivotal role in the country's growth as a commercial and administrative center throughout the 20th century. This urban center now houses more than three-quarters of Djibouti's population. The country's strategic location at the Bab-el-Mandeb Strait, which controls access to the Red Sea, has been central to its formation and development. Djibouti's economic strategy focuses on infrastructure development, expanding ports and regional transportation links to capitalize on its strategic position. However, while Djibouti is separated from the conflict-ridden Yemen by the Bab-el-Mandeb, instability in Somalia to the south and tensions and territorial disputes with northern neighbor Eritrea have contributed to regional instability affecting the country.

In rural areas, which are characterized by water scarcity that impacts traditional pastoralist livelihoods, high levels of food insecurity pose a significant challenge to socioeconomic development. The country's emphasis on the service sector, coupled with rising foreign debt to finance infrastructure expansion, has made its economy increasingly fragile. Djibouti introduced its long-term development strategy, "Vision 2035," in 2014, built on five core pillars: peace and national unity, good governance, economic diversification, increased investment in human capital, and the promotion of regional integration to boost trade and commerce.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

President Ismaël Omar Guelleh (IOG) has been in power since 1999, ruling under the authoritarian Union for a Presidential Majority (Union pour la majorité présidentielle, UMP) coalition. The coalition is dominated by the People's Rally for Progress (Rassemblement populaire pour le Progrès, RPP), and the president has maintained his grip on power since assuming office more than 20 years ago.

Djibouti City (or Djibouti Ville) serves as the economic and political center, hosting over two-thirds of the population. Conversely, the remaining five regions of the country, which include Arta, Ali Sabieh, Dkihil, Tadjourah, and Obock, are sparsely populated compared to the capital. The opening of Tadjourah port in 2017 resulted in increased economic activities, leading to a gradual expansion in Djibouti City. Overall, Djibouti's five regions are characterized by semi-nomadic pastoralist production systems, with most of the country's territories being sparsely populated.

The government's rule in Djibouti remained largely uncontested during the review period, and the state held a monopoly on the use of force throughout the country without any noteworthy exceptions. The armed insurgency led by the Front for the Restoration of Unity and Democracy (Front pour la Restauration de l'Unité et de la Démocratie, FRUD) during the 1990s came to an end in 2001 with nearly all FRUD factions joining the UMP. However, the so-called FRUD-Armé decided to continue its armed struggle until today, sporadically carrying out attacks against government forces in the northern regions of the country. The FRUD insurgency aimed at challenging the Issa-dominated system under President Guelleh, but it has primarily affected the Afar-dominated northern regions of the country thus far. The deadliest attack in recent years occurred in October 2022 when armed FRUD insurgents attacked an army barrack in the Tadjourah region, resulting in seven deaths, four injuries and six hostages. Since 2015, the armed FRUD has increased its activities, with at least one attack per year. The faction of the FRUD armed insurgency that signed a peace agreement with the government in 1994 has since become a genuine political party called FRUD. The other faction that laid down arms in 2001 has become an opposition political party, the Republican Alliance for Development (ARD).

Question
Score

Monopoly on the
use of force

9



1

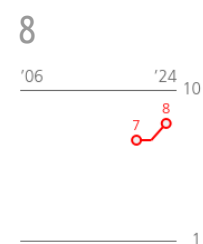
Djibouti is a small country on the Horn of Africa with a population of just under one million, according to U.N. estimates from 2020. The population mainly consists of Somali (60%), followed by Afar (35%) and Arab. The Afar traditionally inhabit the tri-border region of Ethiopia, Eritrea, and Djibouti and live on both sides of the Djiboutian border with Eritrea and Ethiopia. Similarly, the Somali-Issa, a subclan of the large Somali Dir clan, can be found not only in Djibouti but also in Somaliland and Ethiopia. The population of Djibouti City is mainly Issa, who also live predominantly in the southeastern part of the country. Despite clan affiliation determining economic and political opportunities, there exists a fundamental consensus among all groups in society regarding who qualifies as a Djiboutian citizen according to the constitution. The concept of the nation-state is not challenged, and no secessionist movements threaten the political or territorial integrity of the state. In May 2022, the Ministry of Interior announced the introduction of a central registrar that contains biometric data of each person residing in Djibouti, including national identification numbers.

Significantly, Djibouti has introduced very progressive legislation overall regarding refugee rights, facilitating the integration of refugees into the national labor force. For example, children born in the camps of Markazi, Ali Addeh and Holl-Holl receive birth certificates, and the 2017 refugee law grants refugees access to health care and education. Since the start of the global COVID-19 vaccine rollout, the IOM has been advocating for the inclusion of migrants, and Djibouti is one of the first countries in the region to initiate a campaign for them. The economic integration of refugees from Yemen is also evident in the establishment of small businesses, primarily restaurants and pensions, in Djibouti. The refugee law advanced the rights of individuals with refugee status and fostered the assimilation of a refugee population that overwhelmingly shares religious and cultural features with the general population.

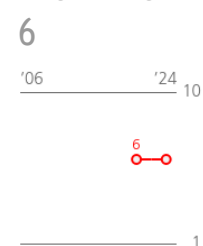
Djibouti's legal system combines Islamic law and civil law in matters related to family and civil courts. Citizens are free to choose which court to address for inheritance, divorce or marriage cases, regardless of their faith. Djibouti's public school system is secular, but the government introduced a new civic and moral education curriculum based on Islam, which is mandatory in public schools. There have been no significant developments in the numbers and influence of Islamic schools (madrassas) during the review period.

The Djiboutian constitution does not discriminate against religious beliefs, and while Islam is the official state religion, non-Muslim religious groups are allowed to practice their faith. However, non-Muslim groups, both domestic and foreign, are required to officially register with the Ministry of Interior. There are no laws in place that prosecute individuals for not observing traditional Islamic teachings and traditions. Although the non-Muslim population is a minority, accounting for about 6% of the population, religious tolerance is generally accepted, and no acts of violence or discrimination against them can be reported. It's worth noting that since

State identity



No interference of religious dogmas



government employees, including the president, officially pledge to respect not only the constitution but also implicit Islamic law (Shariah law), discrimination against non-Muslims in public administration is not uncommon. In this regard, isolated cases of intimidation against converts to Christianity are regularly reported.

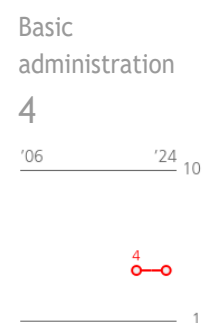
In 2014, a law was passed that granted the Ministry of Islamic Affairs, Culture and Charitable Assets direct authority over matters concerning Islam. Imams became civil service employees and are therefore compensated by the state. The Ministry oversees and regulates all sermons, and imams are forbidden from altering the wording in order to prevent “Islamic fundamentalism.” President Guelleh defended this measure, stating that mosques cannot be abandoned to extremists who utilize Friday prayers as a platform for glorifying violence. The government rigorously controls religion as a mobilizing (political) factor. No instances of disciplinary actions against imams were reported during the review period.

According to World Bank WDI 2022 estimates for the year 2020, 37.1% of the population has safely managed access to sanitation, and 61% have access to electricity. However, the expansion and improvement of basic infrastructure services in Djibouti is largely limited to urban areas. The majority of the population lives in the capital, Djibouti Ville, where access to public services is better compared to other urban and rural areas in the country. Nevertheless, there are still noticeable differences in the quality of services within the capital itself.

Due to increasing rural-urban migration, informal settlements and slums continue to grow on the outskirts of Djibouti Ville, exacerbating the already limited access to basic infrastructure in these areas. Rural areas outside the main urban centers, such as Djibouti City, Ali Sabieh, Dikhil, Tadjourah and Obock, have considerably lower access to basic infrastructure services, specifically in terms of electricity, water and general sanitation. The improvements in basic infrastructure services are primarily concentrated in the capital, with the provision of public goods like health care and higher education. Peripheral areas of the state are largely neglected in favor of visible development in the capital, where more than two-thirds of Djibouti’s population resides.

In 2016, the government established a ministry dedicated to decentralization. Its main tasks include monitoring the transfer of state competencies to local authorities, bringing public services closer to regional residents, and implementing local taxation to strengthen the regions. Additionally, the development plans for the five regions between 2015 to 2019 and 2021 to 2025 aim to enhance the administrative capacities of the regions, particularly through the deconcentration of essential public services.

No recent reliable data is available on the proportion of the population with access to improved sanitation facilities. The “Vision 2035” laid out an ambitious plan to transition from 100% fossil energy to 100% renewable sources by 2035. Djibouti has not yet achieved this objective, despite the significant potential of wind, solar, and



geothermal energy sources and major investments in these sectors in recent years. Djibouti has faced challenges in meeting its target of being the first country in Africa to be entirely reliant on green energy. Currently, the country's energy mix still relies increasingly on electricity imports from neighboring Ethiopia. However, with strong partnerships and the substantial increase in renewable energy within its electricity production, Djibouti is taking steps toward achieving its goal. The Goubet wind power plant, the country's first step toward its goal of 100% renewable energy, is expected to be fully operational in 2023.

The country's coastal regions are hit hard by weather extremes, including floods caused by unusual amounts of rain and periodic droughts that affect rural livelihood strategies and frequently damage infrastructure. For instance, in January 2023, unexpected heavy rainfall affected the operations of the Djibouti ports and road logistics in large parts of the country. Despite efforts undertaken by the government and U.N. agencies, the main refugee settlements in Holl-Holl and Ali Addeh suffer from inadequate basic services. However, solar systems have replaced diesel generators in these camps.

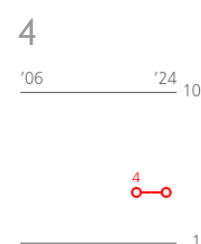
76% have access to a basic water source.

2 | Political Participation

Ismail Omar Guelleh won a fifth term in the presidential election held on April 9, 2021, with 97.3% of the votes in the first round. The country's lawmakers removed presidential term limits in 2010 and shortened the mandate by one year to five. The president was supported by the Union for the Presidential Majority (UMP), a coalition of five political parties that holds the majority in the National Assembly, thereby controlling the legislative power. However, the election was devoid of any real political stakes as the opposition had decided to boycott the polls – the result was a foregone conclusion. Furthermore, there had been speculation that power would be transferred to a close confidant of the president prior to the 2021 elections, which ultimately did not happen. Yet, the question of his succession remains unanswered, and none of the contenders stands out at the moment, with no heir designated.

The next regular polls for members of parliament, who serve a five-year term, are due at the end of February 2023. However, electoral reforms announced in 2014 are still overdue. As a result, most opposition parties boycotted the 2018 legislative elections, and it is likely that the 2023 polls will face a similar fate. Although the African Union's assessment of the past elections, including the presidential polls, was surprisingly positive, the detention of journalists, combined with the limited space granted to the opposition, indicates that political campaigning, and especially the elections themselves, are less free than the AU assessed. The government does everything to prevent the electoral participation of opposition parties and political personalities who are not under its control. While the conciliatory opposition accepts

Free and fair elections



the share of seats granted to it by the government and usually participates in the elections, the official results of the polls and the turnout rate are often fictitious and fabricated by the administration. For the past two decades, the “real” opposition has boycotted most elections, as they do not serve much purpose. The majority of Djiboutians have understood this for at least a decade and prefer not to vote, which explains the below-average participation.

The UMP – dominated by the president’s RPP – holds power over both the legislative and executive branches in the ruling coalition. Members of parliament are not democratically elected and therefore lack a clear popular mandate. The president effectively centralizes all decision-making in his own person, resulting in a lack of distinction between the different branches of government. IOG has been the uncontested leader of the RPP since former President Gouled Aptidon stepped down in 1999. A small group of advisers – primarily from the president’s family and close allies – continue to control key positions in government, public administration and the economy. For instance, Kadra Mahamoud Haid, the president’s wife, reportedly remains an influential adviser to the president, with far-reaching competencies on key strategic decisions. The president and his family also directly and indirectly control large-business conglomerates in the country and abroad (e.g., UAE, Ethiopia). Overall, the political landscape has remained largely unchanged, with no new domestic actors emerging during the review period.

While the Issa-Somali community dominates the political and economic scene in the country, the opposition is not exclusively Afar. Afar individuals have been appointed to central positions, such as the speaker of parliament, vice president of the ruling party RPP, president of the ruling coalition UMP, and chief of the president’s cabinet, as part of a strategy of “inclusion” by the UMP government to neutralize opposition. The UMP government has weakened and divided the opposition party landscape through a combination of slush payments and the personal prosecution of leading opposition politicians in the past. Parastatal companies, including those in telecommunications, construction, logistics and transportation, are controlled by the president’s confidants and extended family, who play an important role in this strategy. Betraying or defrauding the ruling elite can have severe consequences, as illustrated by the infamous case of Abdourahman Boreh. No freedom of information laws exist, and budgetary decisions are made in an opaque manner. Revenues generated from leasing military bases to foreign nations, including China and the United States, are only partially accounted for in the official state budget.

Effective power to govern

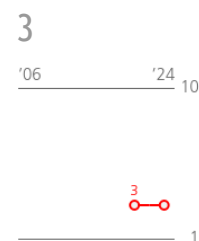
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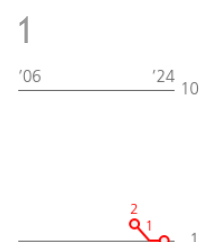
The political climate in Djibouti has raised concerns among international human rights organizations, as well as opposition groups within and outside the country. Although the constitution guarantees the right to assembly and association, permits are required for public gatherings, leading to frequent denials of protests and demonstrations. According to the Freedom in the World Report 2022, Djibouti's political rights score in 2021 (the latest available data) was only 5 out of 40, and its civil liberties score was 19 out of 60. These scores indicate a lack of significant progress in civil liberties and political rights in Djibouti, despite constitutional guarantees. Opposition groups have reported that the government tightly controls political activity in the country, and approximately one-third of the labor force is directly or indirectly affiliated with the government's security and intelligence forces. As a result, associations and assembly activities are subject to widespread surveillance, and opposition figures are frequently arrested and detained. Protests and demonstrations in Djibouti are often met with excessive force by the police. Moreover, the government targets individuals and groups expressing dissent online. In 2021 and 2022, several young people active on social media were arrested, along with two former ministers who voiced political ambitions and the former Director General of Police, who was falsely accused of agitating against the government. The government's extensive use of surveillance, detention and force against opposition groups and individuals has raised serious concerns about human rights in Djibouti. International human rights organizations strive to monitor the situation in the country, despite facing dangers and prosecution themselves. They call for reforms to safeguard civil liberties and political rights.

Association /
assembly rights



Despite the guarantee of freedom of expression in the constitution, the state of press freedom in Djibouti is concerning. According to the World Press Freedom Index, in both 2020 and 2021, Djibouti ranked 176th out of 180 countries, improving slightly to 164th in 2022. This poor state of affairs regarding press freedom started in 2013 when the country ranked 167th out of 180 countries, indicating an increasing degree of restrictions placed on press freedom. The media landscape is controlled by the state, with government-owned outlets such as La Nation, Al-Qarn, Djibouti Post and Agence Djiboutienne d'Information dominating print media. Similarly, the national broadcaster Radiodiffusion-Television de Djibouti (RTD) operates Radio Djibouti and Tele Djibouti 1 to 7. No privately owned independent media outlets exist in Djibouti. Online media is relatively freer than traditional media, as it is still out of reach of the government. For example, La Voix de Djibouti, which is linked to the Movement for Democratic Renewal and Development (MRD), broadcasts from Belgium in French. Additionally, several YouTube channels run by Djiboutians in the diaspora, such as Radio Boukao and Kartilehtv Medias, are widely followed within the country. However, the government attempts to restrict access to dissenting voices by blocking social media sites such as Facebook and Messenger, which have been in effect for the past three years. Only those who use a VPN on their phones can access these sites. Despite this, as of 2022, approximately 54.3% of the population

Freedom of
expression



regularly uses the internet, with more than 15% of the population having Facebook accounts, which became an important medium for the diaspora and opposition. Reporters and correspondents continue to face persecution from the government, including deportation and judicial harassment. The state has arrested journalists working for La Voix de Djibouti prior to and during the 2021 elections. Other journalists have reportedly gone into hiding after covering protests, such as Osman Yonis Bogoreh in 2020. According to Reporters Without Borders, no journalists were imprisoned at the end of the review period. While such arrests are usually temporary and journalists are rarely officially prosecuted, they create an atmosphere of intimidation, making journalism a dangerous profession. The president himself has discredited La Voix de Djibouti as being run by “opposition illiterates” and has denied that any journalists from the outlet have been arrested.

3 | Rule of Law

Djibouti’s government lacks a clear separation of powers, and there are no effective checks and balances in place. The legislative power is shared between the government and the National Assembly, while the executive power is solely vested in the government. The president holds a central role in the presidential system, representing the executive branch, which comprises various ministries. As the head of state and government, the president wields significant power, while the prime minister merely coordinates government actions. The National Assembly consists of 65 members who are directly elected through party-list proportional representation for a five-year term. The next polls will take place in February 2023. Despite the formal separation of powers in the constitution, the president’s power also extends to the judicial branch. Government appointments are often based on personal relationships and family ties, and ministers have limited decision-making power. Additionally, the president exercises firm control over the police, military and powerful security apparatus.

Djibouti’s legal system combines the French Code Napoleon, a written commercial code and traditional Islamic law. The judiciary consists of several courts, including a Court of First Instance, a Court of Appeals and a Supreme Court, as well as specialized courts such as criminal, administrative and civilian courts. The selection and appointment of judges and magistrates primarily rest with the president, who directly appoints Supreme Court magistrates, advised by the Superior Council of the Magistracy (CSM). Reports indicate that the independence of the judiciary is severely compromised, with both the legislative and executive branches exerting significant influence. Criminal networks in Djibouti are primarily made up of Djiboutian nationals, although some have ties to counterparts in Ethiopia and Yemen. These networks are involved in human trafficking and smuggling, as well as arms trafficking between Yemen and Türkiye, among other East African countries. Corruption is widespread, particularly at the highest levels of business and politics,

Separation of powers

3

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3

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Independent judiciary

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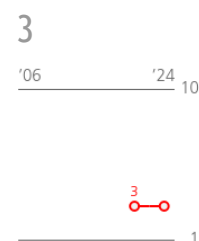
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and this extends to the administration of justice. Despite recent efforts to strengthen its anti-corruption framework, transparency and accountability in Djibouti are undermined by the government, as evidenced by the crackdown on anti-government demonstrations in recent years. The judiciary lacks independence and capacity, with common allegations of politically motivated prosecutions and frequent violations of due process. Prison conditions are severe, characterized by overcrowding, failure to separate violent and non-violent offenders (including detained migrants), and numerous reports of mistreatment in prisons.

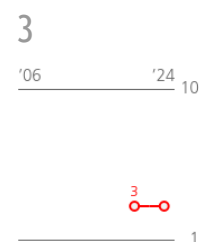
Corruption and mismanagement of funds continue to be major concerns and affect public trust in existing institutions and processes. The government does not release the state budget or reports from the Inspector General's office to the public. Public officials rarely face consequences for abusing their power, diverting funds or breaking the law. Although some officials who break the law are occasionally prosecuted, these cases are few and politically motivated slush payments are common. Corruption exists at all levels of public administration, including direct payments to government officials and law enforcement officers. While there are laws in place to combat corruption in the public sector, there are no regulations to address conflicts of interest, especially in government procurement and tender processes. The performance of government entities tasked with investigating corruption, such as the State General Inspection and Court of Auditors, varies. The National Anti-Corruption Commission was established in 2013, but its institutional capacity remains limited, with no visible improvement in sight. Although Djibouti has signed the United Nations Convention against Corruption, transparency and accountability are anything but top priorities for the government, and legal sanctions are not enforced consistently. To encourage whistleblowers to come forward, a program was launched in 2018 urging public officials to declare their assets. However, there is still no independent watchdog organization in the country, and the effectiveness of the National Anti-Corruption Commission remains unproven. Noteworthy are individual politically motivated cases of corruption prosecutions, including the high-profile case involving UAE-based DP World's Doraleh Container Terminal and Djiboutian businessman Abdourahman Boreh. Anti-corruption audits of public officials are often used to silence opponents critical of the president's rule.

In June 2022, the International Federation for Human Rights (FIDH) and the Ligue Djiboutienne des Droits Humains (LDDH) expressed concern about the Djiboutian government's disregard for the principles of democracy, human rights and the rule of law. There are no functioning institutions or mechanisms to effectively prosecute, punish and redress violations of citizens' rights. Reports indicate that conditions in state prisons, including the central prison in Gabode and temporary holding facilities, are substandard due to inadequate infrastructure and basic services. Prison reforms have not been implemented, and planning for training and rehabilitation programs is at an early stage with little progress visible so far. While particular ethnic or religious groups are not directly discriminated against, freedom of speech and assembly rights

Prosecution of office abuse



Civil rights



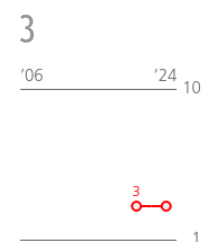
of activists and political parties are severely restricted. The government openly admits the monitoring of Friday prayers as a measure to counter religious extremism, but such actions directly contradict the constitutional freedom of religion.

4 | Stability of Democratic Institutions

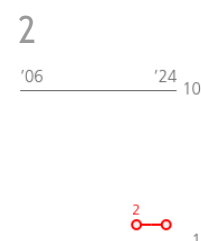
The electoral process for both the legislative and executive branches is defined by the amended Electoral Law (1992) and the constitution. This, coupled with the formal division of power between the executive, legislative and judiciary, satisfies the definition of a democratic system. However, various factors affect the performance of democratic institutions. The UMP coalition severely restricts the role of opposition parties in the political system and the electoral process itself. Political competition and participation are limited, and the legislative branch does not function as intended, instead mainly serving the interests of the president. Despite regular elections, the dominance of the UMP, led by the RPP, and the powerful position of the president render the function of democratic institutions largely ineffective. The president has exclusive authority over strategic policy decisions, including bilateral agreements involving foreign military bases in Djibouti. The fact that annual rent payments for these bases are not, or only partially, included in the official state budget is a prime example of this.

Djibouti has conducted regular elections since 1993; therefore, the president and parliament are considered to be democratically elected and constitutionally legitimized. Despite allegations of voter fraud and unfair election practices, all stakeholders recognize the legitimacy of the elected institutions. However, the legislative branch, specifically the National Assembly, is comparatively weak compared to the executive branch, in which the president holds significant power. As a result, elected lawmakers have a subordinate role in Djibouti's democratic institutions. While elections are held regularly, public trust in the institutions is limited. For instance, the 2021 presidential election was widely considered a "selection" process steered by the government, as the candidate contesting Ismael Omar Guelleh (IOG), Zakaria Ismael Farah, had no political affiliation and was generally unknown to the public. Nevertheless, upholding democratic norms and conducting regular elections is a central factor that boosts the government's credibility and trust as an international partner.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

The ruling coalition, the UMP, is dominated by the president's People's Rally for Progress (Rassemblement populaire pour le Progrès, RPP) and includes the Front for the Restoration of Unity and Democracy (Front pour la Restauration de l'Unité et de la Démocratie, FRUD); National Democratic Party (Parti national démocratique, PND); Social Democratic People's Party (Parti Populaire Social Démocrate, PPSD); and the Union of Reform Partisans (Union des Partisans de la Réforme, UPR). It is worth noting that since 2018, Djibouti has implemented a 25% gender quota for the National Assembly. While Djibouti has a large number of political parties compared to its population size, this can be misleading as the president's party, and by extension the ruling UMP coalition, dominates the political landscape without facing significant competition. The opposition is highly divided and can generally be categorized into three groups. First, there are opposition coalitions such as the Alliance for Democratic Alternation Movements (AMAD), which consists of three political parties (CDU, PDD and ARD). Additionally, there is the Union for Development and Justice (UDJ), which is the fourth legal opposition party but closely aligned with the UMP. Second, there are parties that are part of the ruling UMP coalition. And third, there are so-called illegal political movements such as the Rassemblement pour l'Action de Développement et la Démocratie (RADDE), Mouvement pour le Renouveau Démocratique (MRD), Movement for Development and Liberty (MODEL), and the armed FRUD. Although Djibouti technically operates under a multiparty system, the process for registering political parties lacks transparency. Additionally, certain parties like RADDE, MRD and MODEL are prohibited from participating in elections.

The government holds significant control over public affairs, and interest groups that could serve as mediators between existing political-economic structures and segments of society are structurally weak and under-represented. The few existing civil society organizations in the country suffer from weak technical capacities, a lack of institutional structures and financial constraints, all of which limit their impact and effectiveness. No direct collaboration exists between interest groups that would help make their voices heard.

The extent to which interest groups can operate freely depends on their primary area of focus. Organizations that deal with matters related to socioeconomic development encounter fewer obstacles compared to those that tackle politically sensitive subjects such as human rights. These groups frequently face difficulties during the registration process and may be subject to unexpected government audits. Reports of harassment and arrests of activists are widespread. A notable case occurred in 2019 with the arrest of Degmo Ali Abdi, who publicly accused senior government officials of corruption.

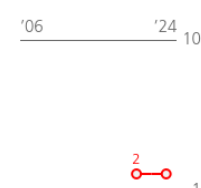
Party system

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Interest groups

2



There are no public opinion surveys in Djibouti. Political parties in Djibouti are not mass organizations, and the ruling coalition (UMP) is dominated by the president's Rassemblement populaire pour le Progrès (RPP). In simple terms, the RPP represents the interests of and is rooted in the Issa-Somali community. The FRUD faction that joined the government represents the minority Afar population. Neither the RPP nor the FRUD, nor the other parties forming part of the coalition, have a clear political ideology that would distinguish them or indicate clearly defined socially rooted policy strategies and political goals.

The level of social trust among the major ethnic groups is rooted in the ties that form through a common lineage and traditional sociocultural linkages. No data is available on the extent to which the population is involved in cultural, environmental or social organizations.

Approval of democracy

n/a

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n/a 1

Social capital

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II. Economic Transformation

6 | Level of Socioeconomic Development

Djibouti is currently experiencing rising levels of poverty among its rural and urban populations. According to the latest U.N. Human Development Report (2021), Djibouti ranked 171st out of 191 countries. The combination of an increasing number of refugees from neighboring Yemen and the outbreak of the COVID-19 pandemic has had a significant impact on overall socioeconomic development. Between March and June 2022, it was estimated that around 132,000 people (11% of the surveyed population of nearly 1.2 million) were acutely food insecure. Among them, 5,000 people were classified as “in emergency” (IPC Phase 4), and approximately 127,000 people were categorized as “in crisis” (IPC Phase 3). In addition, around 423,000 people (36% of the respondents) were “under stress” (IPC Phase 2). The areas of Ali Sabieh Rural, Ali Sabieh Ville and Arta Rural, as well as the three refugee camps (Markazi d'Obock, Ali Addeh and Holl-Holl d'Ali Sabieh), were identified as being in crisis (IPC Phase 3), with at least 20% to 40% of their populations facing acute food insecurity (IPC Phase 3 and 4).

No data are available for measuring gender equality with regard to reproductive health. Significantly, the National Institute of Statistics made past Household Consumption Surveys digitally accessible. However, no updated figures can be accessed at the end of the reporting period.

Question
Score

Socioeconomic
barriers

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Economic indicators		2019	2020	2021	2022
GDP	\$ M	3088.9	3181.1	3372.3	3515.1
GDP growth	%	5.5	1.2	4.8	3.0
Inflation (CPI)	%	3.3	1.8	1.2	5.2
Unemployment	%	26.3	28.0	28.0	27.9
Foreign direct investment	% of GDP	5.7	5.0	4.9	5.4
Export growth	%	9.2	-29.7	-	-
Import growth	%	10.1	-29.5	-	-
Current account balance	\$ M	564.0	366.4	-225.1	-
Public debt	% of GDP	41.8	42.2	40.8	40.4
External debt	\$ M	2552.6	2679.0	3191.1	-
Total debt service	\$ M	79.6	62.3	53.0	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	19.8	19.6	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.0	1.0	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Most of the population is engaged in informal labor, including a significant proportion of regular and irregular migrants.

The Djiboutian franc is backed by the U.S. dollar; there are no exchange restrictions in place. However, transactions between Djibouti and other countries in the region, including the UAE, are often done through the widely practiced Hawala System (i.e., an informal channel for transferring funds from one location to another through service providers). For instance, in the case of Ethiopia, a considerable proportion of bilateral payments for import and export-related costs (including international payments) are channeled through informal brokers to circumvent forex restrictions in Ethiopia using Djiboutian financial brokers.

Djibouti's economic performance has been mixed over the past five years. Growth accelerated through 2018, followed by a slowdown in 2019 and 2020, and a palpable rebound in 2021. The country has improved its regulatory efficiency by implementing online business registration and the Djibouti Port Community System, a new platform that offers services to businesses. Djibouti has also reduced entry barriers for investors, including licensing fees, resulting in an average start-up time of 14 days for completing all necessary procedures. The costs associated with registering a business have decreased, and Djibouti ranks above average in protecting investor rights and facilitating access to capital. However, large investments, whether foreign or joint ventures, often face government interference in their operations. Despite its efforts to become an attractive investment destination through online registration and IT-driven administrative systems, Djibouti still has a long way to go. Factors such as compliance risks, opaque business practices, high power costs and a disproportionate number of unskilled workers hamper investment success and overall economic development. Nevertheless, Djibouti signed a memorandum of understanding in December 2022 with U.S.-based Power to X developer CWP Global for a new 10GW renewable energy and green hydrogen project costing tens of billions of dollars. This project aims to provide clean energy to the country and green ammonia for export. Furthermore, Australian green hydrogen developer Fortescue Future Industries has signed a framework agreement with the Djibouti government to develop green hydrogen production facilities. In July 2022, AMEA Power announced the signing of a Joint Development Agreement and Implementation Agreement for a 30MW solar PV project in Djibouti. These examples demonstrate the growing trust of international investors in Djibouti's market environment.

Market
organization

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Djibouti is a member state of the International Center for Settlement of Investment Disputes (ICSID). An ongoing dispute between the government and Dubai-based DP World over the Doraleh Container Terminal has resulted in several court rulings in favor of DP World, which have been rejected by the government. For instance, the London Court of International Arbitration (LCIA) ruled in January 2020 that DP World had the rights to operate the terminal for 30 years. However, Djibouti nationalized the port infrastructure and all shares in 2018 following the introduction of a law that permits the government to unilaterally terminate or alter contracts. As a result, the LCIA awarded over \$200 million to DP World. Until the end of the review period, Djibouti has ignored all rulings in favor of the company.

The media sector is a case in point for lacking competition and government interference. Moreover, key sectors such as telecommunications, water, electricity and postal services are state monopolies without private players. Djibouti Télécom (telecommunications), Office National des Eaux et de l'Assainissement de Djibouti, ONEAD (water), Electricité de Djibouti, EDD (electricity), or Office des Postes et des Télécommunications, OPT (postal services) are the major parastatals. However, no conclusive overview of state-owned enterprises (SOEs) is publicly available. Although all SOEs are required to publish annual reports, reliable information on their performance and revenue figures is not publicly available.

The licensing process for new investments is not entirely transparent, and certain operations have been able to negotiate favorable tax statuses. Regulatory authorities exist, but policies and rulemaking are not always transparent, and unexplained punitive taxes have been reported. Corruption is a concern as senior government officials negotiate specific terms directly with investors.

Djibouti's ports serve as a crucial hub for trade in East Africa due to their strategic location and comparatively efficient transportation facilities. The country is a member of various international agreements, such as the Common Market for Eastern and Southern Africa (COMESA) and the World Trade Organization (WTO), and is also a party to several investment and trade agreements. The Djibouti International Free Trade Zone (DIFTZ), established in 2018, is expected to transform Djibouti into a manufacturing and processing center in East Africa. However, Djibouti currently has no preferential trade agreements in force, and its simple average tariff rate is 20.9%. Non-tariff barriers and state-controlled enterprises further hinder economic growth and development.

In May 2022, Djibouti's Ministry of Trade and Tourism, in collaboration with the Economic Commission for Africa (ECA), validated its national strategy for implementing the African Continental Free Trade Area (AfCFTA). As part of its efforts to achieve the AfCFTA, Djibouti is currently concluding negotiations on priority sectors including tourism, transport, communication, telecommunication and the financial sector. While Djibouti cooperates with various regional and international organizations, such as the East Africa Police Chiefs Cooperation Organization, INTERPOL, MENAFATF and the Horn of Africa Wildlife Enforcement Network, it has not yet ratified the Arms Trade Treaty.

Competition policy

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Liberalization of foreign trade

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Djibouti maintains strong relationships with Arab-speaking countries, France and French-speaking countries, Türkiye, Brazil, Senegal, the Netherlands, Morocco and other nations through bilateral and multilateral relationships that focus on capacity-building for law enforcement agencies. However, apart from Ethiopia, Djibouti has not entered into any formal agreements with other member states of the Intergovernmental Authority on Development concerning human trafficking and human smuggling.

Djibouti's banking sector consists of both domestic and international banks, with at least 13 banks operating in the country. The Banque pour le Commerce et l'Industrie - Mer Rouge (BCIMR), Bank of Africa (BoA), Salaam African Bank and CAC Bank account for the majority of deposits in the country. Bank of China began operations in Djibouti in 2019. Djibouti's central bank is responsible for issuing licenses to banks and serves as the primary supervisory body. According to the World Bank, the bank capital-to-assets ratio was 5.6 in 2021. The World Bank has provided technical assistance to Djibouti's financial sector to assist in its ongoing digitalization and modernization efforts. As a result, several banks now offer e-banking and mobile-banking services. Djibouti is home to the only non-operational Bitcoin ATM on the Horn of Africa, and various private companies are promoting the implementation of blockchain technologies.

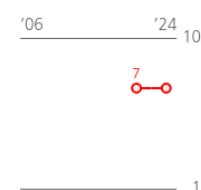
The Djiboutian franc is backed by the U.S. dollar, and there are no exchange restrictions, making Djibouti an attractive marketplace. Besides the UAE, Djibouti is an important financial hub for Ethiopian corporate customers who continue to face growing forex restrictions. Ethiopia's Commercial Bank (CEB) has a branch in Djibouti, but limited inter-bank connectivity in Ethiopia has impacted its operations, and the branch is not fully operational. Transactions and payments using the widely practiced hawala system (i.e., an informal channel for transferring funds from one location to another through service providers) dominate the financial sector. Since the ports of Djibouti are the major import and export gateways for landlocked Ethiopia, a considerable proportion of bilateral payments for port services and other import-related costs are channeled through informal brokers to circumvent forex restrictions in Ethiopia.

8 | Monetary and fiscal stability

The Djibouti franc (DJF) is pegged to the U.S. dollar and has been traded at a fixed exchange rate for decades. Besides the official currency, the euro, U.S. dollar, as well as the Ethiopian birr, are traded and widely available. Following independence, a central bank was established to oversee measures ensuring monetary stability. Djibouti has adequate foreign exchange reserves and a stable exchange rate regime, particularly for the major currencies used in the economy, namely the U.S. dollar and euro. Headline inflation rose to 2.5% at the end of 2021, and the year-on-year rate at

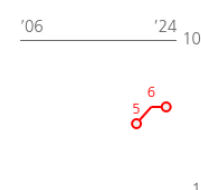
Banking system

7



Monetary stability

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the end of June 2022 was 11%, according to the World Bank. A central source of income is lease fees from foreign military bases and port activities. Djibouti's positive current account balance is heavily influenced by the trade balance. No conclusive figures are available on comprehensive export statistics for the review period. The major imports include food, petroleum products, household electrical appliances and transport equipment. Throughout 2022, tensions rose between Djibouti and Ethiopia over the trade in staple foods and especially khat. The export of khat to Djibouti amounts to approximately 80% of the total annual exports, followed by Somalia and Somaliland. China, the United Arab Emirates, European Union countries and Ethiopia are the primary sources of Djibouti's imports. Ethiopia supplies electricity and the majority of fresh foods, including vegetables, whereas both Ethiopia and Somaliland are the major suppliers of livestock for the local market and for export.

Djibouti is a net importer of fuel and food; more than 90% of domestic food needs are covered through imports. External debt servicing costs increased threefold in 2022 and reached \$184 million by the end of the year, according to the World Bank. A further increase is expected in 2023. The IMF already declared the country's debt as unsustainable in 2021/2022. The G-20's Debt Service Suspension Initiative (DSSI) expired at the end of 2021, and loan repayments for major debt-financed projects, such as the water pipeline to Ethiopia, commenced in 2022. Djibouti's external arrears increased to \$100 million in mid-2022 (+26.4%). Notably, the Djibouti railway linking Djibouti Ville with Addis Ababa increased external public debt and publicly guaranteed debt, while the return on investment and employment effects were lower than expected. The ability to provide debt service is largely determined by public revenues (mainly from port activities); additional expenditures during the pandemic for the health sector and subsidies to businesses affected debt servicing capacities during the review period. In July 2022, the government established a committee in charge of steering the planned (partial) privatization of Djibouti Telecom (40%). Djibouti received loans and disbursements under the Rapid Credit Facility (RFC) and relief on debt services under the IMF's Catastrophe Containment & Relief Trust (CCRT) in 2021 and 2022.

In December 2022, the IMF completed a 2022 Article IV Mission stating that large investments, especially in infrastructure, over the past decade have driven strong economic growth. However, the benefits have not been widely shared, and public debt has risen sharply. The economy has been weighed down by a series of external shocks, which have added to the already significant budget pressures as debt service has tripled. Urgent action is therefore needed to restore debt sustainability and promote inclusive growth, including creating fiscal space for additional social spending. Despite the high economic growth, few jobs have been created, and unemployment remains high due to investments primarily focused on capital projects. State-owned enterprise (SOE) borrowing has accounted for most borrowing, exacerbating vulnerabilities from a narrowing tax base. External public debt has increased significantly since 2013, with SOEs accounting for most borrowing, while

Fiscal stability

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government revenues have been declining due to widespread exemptions. Lease payments from foreign military bases have remained unchanged since 2016, with the exception of the newly established Chinese Naval Base. The civil war in Ethiopia since November 2020 has weighed heavily on Djibouti's economy, with renewed fighting in the first half of 2022 further reducing port traffic after an already weak 2020 and 2021. Higher commodity prices and the regional drought have also eroded households' purchasing power, and government revenue has been affected. Growth is expected to slow to 2.5%, and the trade balance is projected to worsen in 2023. However, the truce agreed upon in November 2022 in Ethiopia is likely to result in a recovery in trade, reversing recent declines in port activity, and helping attract new foreign investment. The IMF projects that economic growth in Djibouti will recover in 2023 with a rebound in Ethiopia, and inflation will fall in line with international trends.

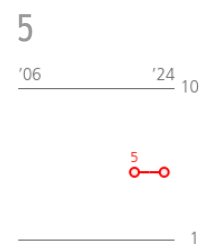
9 | Private Property

Although the constitution guarantees the protection of private property rights, legal and regulatory procedures are often complex and unevenly enforced, particularly when it comes to strategic properties such as land. Despite well-defined property rights, individuals may face challenges in navigating the complicated procedures and obtaining full protection of their rights.

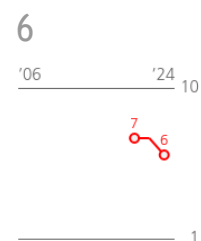
The constitution safeguards the right to private property. A 1991 law governs land ownership and registration of buildings and title deeds. Information on the quality of the land register is unavailable. All property in Djibouti is part of the public domain, whether assigned to public use or not. However, legal and regulatory procedures are often unevenly enforced and complex in themselves, especially in the case of strategic properties (i.e., land).

Djibouti has been attempting to attract foreign investments through its National Investment Promotion Agency (NIPA) by modernizing regulatory frameworks to facilitate inward investment and operations since the early 2000s. However, private sector activities still face challenges due to the dominant position of parastatals or business conglomerates affiliated with political elites. Although a joint venture between foreign and local investors is not mandatory, it is considered desirable and often the most effective way to establish and maintain a business in Djibouti. Corruption and invisible market entry barriers have also affected the ease of doing business in the country. Nevertheless, according to the current regulations, there is no expropriation of private investments without equitable compensation.

Property rights



Private enterprise

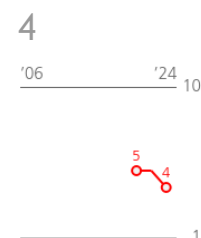


10 | Welfare Regime

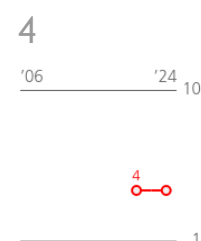
In response to the COVID-19 pandemic, the government of Djibouti launched several programs that aim to address three primary areas: strengthening the health care system and improving access to health care, safeguarding livelihoods, and supporting economic activities. However, the income gap, particularly in urban areas, remains high and is even more pronounced between urban and rural regions. The short-term socioeconomic impacts of the pandemic were largely buffered through grants provided by multilateral and bilateral donors that helped boost the national budget and implement mitigation measures.

Although the law stipulates that all citizens – regardless of their race, origin, sex or religion – are equal before it, gender equality in terms of opportunities still poses a challenge. Men continue to dominate the economy, and women are under-represented in senior government positions. The adult literacy rate for individuals aged 15 and above is estimated at over 60% for men and over 50% for women. School enrollment rates for children below 10 years of age are close to 95%, suggesting rising literacy rates in the years to come. In November 2021, noteworthy steps were taken toward a Plan of Action for the Djiboutian Declaration on Labor, Employment and Labor Migration, aimed at improving regular labor migration and the promotion of decent work opportunities.

Social safety nets



Equal opportunity



11 | Economic Performance

The COVID-19 pandemic has significantly impacted Djibouti’s economy, causing growth to slow down considerably in 2020 and 2021. The country’s port and logistics sectors were hit particularly hard due to decreasing global trade volumes. According to figures from the International Monetary Fund (IMF), Djibouti’s growth plunged from 7.5% of GDP in 2019 to 1% in 2020 before returning to pre-pandemic levels in 2021 and 2022, at 4.8% and 3.6%, respectively. Djibouti’s GDP growth rate is projected to be 5.3% in 2023, according to the World Bank. This rebound has been supported by a revitalized services sector, which accounts for about three-fourths of GDP, with port activities being particularly significant. Exports and investment remained key factors, with an estimated contribution of 14.6% and 4.8%, respectively. Djibouti is following an expansionary monetary policy to support economic recovery and avoid cash depletion. Credit to the economy grew 24.1% year-on-year through June 2021 but remains relatively low as a share of GDP.

Output strength



The national unemployment rate in Djibouti is estimated to be as high as 50% of the working-age population. Young people, in particular, are disproportionately affected by un- and underemployment. In contrast, the informal labor market plays a significant role, and the government has not successfully implemented noteworthy

employment market measures. Despite these challenges, the IMF considers Djibouti's strategy of investing in infrastructure to become a logistics and commercial hub an excellent opportunity for economic growth and development. However, the country faces a high risk of debt distress, with external public debt estimated at over \$2.5 billion and debt service expected to triple to almost 5% of GDP in 2022.

12 | Sustainability

Djibouti's rapid economic development has brought significant environmental challenges, exacerbated by the effects of climate change. Despite the harm caused to marine and terrestrial ecosystems, the government has prioritized economic development over environmental concerns. However, there is an increasing recognition of the importance of responsible business conduct and corporate social responsibility, which currently lack representation in government procurement decisions. One of the most pressing environmental challenges faced by Djibouti is the impact of climate change on vulnerable sectors such as water resources and agriculture. The country is experiencing increasingly severe droughts, floods and rising sea levels, leading to water erosion, reduced groundwater recharge, and damage to infrastructure and housing in coastal areas.

The establishment of the University of Djibouti marked a milestone for tertiary education in the country. The university quickly became a catalyst for knowledge transfer, providing teaching and research partnerships with over 40 universities and participating in the Erasmus Mundus Programme of the European Union. The Salaam Center, which has been operating in Djibouti since 2016, collaborates with international partners to provide various theoretical and practical training programs in business administration, human resources, publications and others. Additionally, in 2019, the International Organization for Migration (IOM), together with Terre des Hommes and the University of Djibouti, launched a digital training center called Espace Créatif aimed at promoting computer literacy and digital fabrication skills among young migrants. The Espace Créatif also manufactured personal protective equipment (PPE), including face shields, for Djiboutian health workers in response to the COVID-19 pandemic. This initiative highlights the potential of technology to not only advance knowledge and skills but also contribute to public health efforts.

The most recent data available on public expenditure on education and research in Djibouti is from 2010, which makes it difficult to assess the impact of the country's long-term development strategy, Vision 2035, on shifting educational policies. However, Djibouti has been making notable progress in space technology. In June 2021, Djibouti announced the initiation of its space program with the launch of two nanosatellites, Djibouti-1A and Djibouti-1B, joining other East African nations like Ethiopia and Kenya in the African space arena. The objective of these nanosatellites

Environmental
policy

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Education policy /
R&D

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is to equip the Djibouti Center for Studies and Research (CERD) with the necessary resources to monitor changes in water resources. CERD, a public scientific and technological institution specializing in high-level research across various fields, was established in 1979 under the Ministry of Higher Education and Research. The launch of these nanosatellites represents a significant stride toward a government-supported dedicated space program. Earth observation satellites play a vital role in addressing global environmental challenges and providing early warnings for natural and human-made disasters.

The U.N. Education Index score is 0.343.

Governance

I. Level of Difficulty

Djibouti's population has grown by 37% since 1999 – from 700,000 to approximately 1 million in 2021. Over two-thirds of the population reside in Djibouti City, the country's capital. However, despite the absence of manufacturing and processing industries, the number of individuals in the working-age group has increased, leading to restricted employment prospects.

Qat (or Khat), a narcotic leaf, plays a significant role in daily life for most of the population, with high addiction rates across all segments. Ethiopia is the primary source of Qat, as it cannot be cultivated in Djibouti's semi-arid environment. The proportion of available funds spent on Qat is considerable. Water scarcity and the arid climate are the primary structural constraints to domestic food production in Djibouti, with extensive livestock production being the primary form of rural subsistence as less than 4% of the land is arable. Extreme weather conditions also affect domestic food and livestock production capacities; the effects of climate change affect production yields.

Irrigation development is unfeasible due to the high degree of salinity in most surface water sources. Road infrastructure outside the main transportation corridors linking Djibouti's urban centers and neighboring Ethiopia is limited or in poor condition. The African Union's Program for Infrastructure Development in Africa (PIDA) is undertaking road construction projects to improve logistics and transportation time in the near future.

The Djibouti-Dire Dawa-Addis Ababa train line has faced technical difficulties and irregular travel schedules, not living up to expectations since its inception. The road linking Djibouti through Semera in the Afar Regional State and Addis Ababa remains a central bottleneck that is vulnerable to human and natural disruptions. The Djibouti-Diré Dawa road has been operational since 2019 and handles some of the traffic between Djibouti and Ethiopia. The Tadjourah-Balho-Mekelle road, inaugurated in 2021, aims to connect Djiboutian ports with northern Ethiopia.

However, the Tigray War that began in 2020 and also escalated into heavy fighting along the main transport routes to Djibouti has led to numerous disruptions in traffic on these different corridors. Clashes between ethnic groups, such as Afar and Issa-Somali, have resulted in multiple casualties on both sides along the border, leading to traffic disruptions in 2019, 2021 and 2022.

Structural
constraints

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Resource scarcity is another structural constraint. The country is largely arid and lacks fertile land for agriculture, which makes it difficult to develop a strong economic base. Additionally, Djibouti heavily depends on imports, rendering it vulnerable to external economic shocks. This curtails the government's capacity to provide basic services and invest in infrastructure, consequently limiting its ability to address social and economic challenges.

Another structural difficulty in Djibouti is its geographic isolation. The country is encircled by hostile neighbors and has limited access to the outside world. This obstacle makes it challenging for Djibouti to establish economic and diplomatic connections with other nations, potentially hampering its capacity to address regional challenges like security threats, terrorism and piracy.

Additionally, Djibouti is a multiethnic society with a history of conflict between its various ethnic groups. This can create political instability and make it challenging for the government to uphold social cohesion and establish consensus around policies.

Djibouti is a relatively young nation, having gained independence from France in 1977. Consequently, the development of civil society in Djibouti has been limited, and the concept of civil society is still relatively new to the country. Nonetheless, some traditions of civil society have emerged in recent years.

One example of civil society in Djibouti is the emergence of non-governmental organizations (NGOs) that focus on issues such as human rights, education and health care. These organizations are often funded by international donors and work to address social and economic challenges in Djibouti.

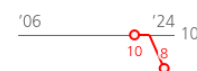
Another example of civil society in Djibouti is the emergence of youth movements and student associations. These groups have become more active in recent years, advocating for political and social change and organizing protests and demonstrations.

Despite these developments, civil society in Djibouti faces numerous challenges. The government has received criticism for constraining freedom of expression and imposing restrictions on the activities of NGOs and other civil society groups. Moreover, civil society in Djibouti frequently encounters limitations due to insufficient resources and infrastructure, hindering organizations from effectively accomplishing their objectives.

Djibouti had a strong trade union tradition in the 1980s and 1990s, but the government fiercely fought and destroyed it. Nowadays, civil society organizations, including associations and unions, avoid political issues that do not align with the government's interests to safeguard their existence. Despite these challenges, Djibouti's civil society sector has shown promising growth in recent years. The Ministry of Interior reports the existence of nearly 1,500 civil society organizations, but fewer than thirty of them are active and visible at the national level in areas such as education, health,

Civil society
traditions

8



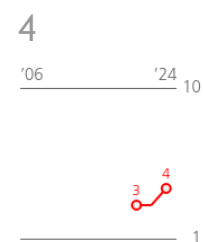
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women, children and the environment. The constitution guarantees freedom of association and allows for the formation of civil society organizations. However, practical challenges prevent public engagement and civic participation in Djibouti. State authorities closely monitor public activities, and permits are required from the Ministry of Interior for groups to operate. Those critical of the government face direct repercussions, making political participation difficult for non-affiliated groups.

In March 2021, Germany withdrew its only maritime surveillance plane from Djibouti, where it had been conducting counter-piracy missions as part of Operation ATALANTA, alongside its European allies, due to a decline in piracy threats. Government sources indicate that the increasing presence of the Islamic State (IS) or Daesh in the region and the looming instability in Somalia heighten the threat of terrorist attacks in Djibouti. High youth unemployment rates and socioeconomic imbalances create potential breeding grounds for radicalization, while the government acknowledges the risk of growing religious fundamentalism. Over the past two decades, the socioeconomic divide in Djibouti has grown considerably, with no existing middle class. According to government sources, the influence of religious fundamentalism and divisions within the Muslim community pose a serious security threat. In 2014, al-Shabaab successfully attacked a restaurant frequented by foreigners in Djibouti's city center, prompting the intelligence and security apparatus to dedicate significant resources to prevent future attacks. Reports of thwarted terrorist attacks in 2021 provide evidence of the success of these efforts. The National Police, National Gendarmerie, and National Service of Documentation and Security (SDS) collaboratively work together, with the SDS taking a leading role in anti-terrorism measures. Overall, Djibouti is considered to have a relatively low risk of domestic conflict based on ethnic or religious differences.

Since 2015, the armed FRUD has increased its activities, with at least one attack annually. The deadliest attack took place in October 2022, resulting in the deaths of seven individuals and the hostage-taking of six others. Following this incident, the armed FRUD received official designation as a terrorist organization. The absence of political dialogue between the government and the armed FRUD, coupled with the tense situation on the Horn of Africa, contributes to the ongoing persistence of this problem. Moreover, Djibouti has witnessed communal conflicts caused by tensions between Afars and Issa-Somali in Ethiopia, resulting in violent clashes and substantial material damage. While collaborative efforts by the state and civil society organizations have temporarily halted the violence, the risk of conflict remains as long as relations between Afars and Somalis in Ethiopia remain unsettled.

Conflict intensity



II. Governance Performance

14 | Steering Capability

Djibouti's "Vision 2035" represented a notable achievement for the country, as it marked the first-ever formulation of a long-term strategic development plan. The plan encompasses three main objectives: infrastructure investment, economic diversification aimed at manufacturing and processing, and economic reforms to encourage private sector participation. Implementation of the plan occurs through a series of five-year national development plans. The initial plan, "Strategy for Accelerated Growth and Employment Promotion," covers the period from 2015 to 2019, while the current plan, "Inclusion Connectivity and Institutions," spans the period from 2020 to 2024.

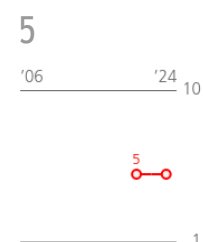
Despite Djibouti's status as a central port facility for East Africa, the country is facing unexpected competition, primarily due to major investments in Berbera Port in Somaliland and other locations along the Somali coast. The future port of Berbera, operated by Dubai-based DP World, may challenge Djibouti's monopoly on Ethiopian import and export flows. However, Djibouti still maintains a significant advantage thanks to its operational facilities. Djibouti has continued to invest in infrastructure, such as the Djibouti-Addis Ababa railway line, which could help maintain its position as a key player in the region. Additionally, Djibouti has made efforts to expand its economic partnerships, including signing a free trade agreement with China in 2020. These developments could contribute to Djibouti's ability to adapt and remain competitive in the face of evolving challenges from neighboring port locations.

Djibouti is implementing its ambitious "Vision 2035" plan to become Africa's trade and logistics hub, with a focus on developing various sectors such as fisheries, tourism, logistics, information and communication technologies, financial services, manufacturing and renewable energy resources. The construction of the Djibouti-Addis Ababa railway and major road projects have been successful, and a free trade zone has been established. To achieve its goal, Djibouti is heavily reliant on foreign-backed financing for large-scale development projects, particularly in the port and related logistics infrastructure. The country aims to position itself as the "Singapore of Africa" or the "next Dubai," offering a strategic location for global trade between Asia and Africa.

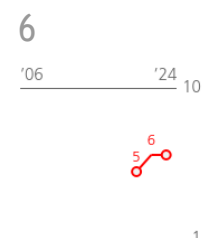
Despite several reforms to improve the investment climate, high levels of corruption remain a significant challenge for Djibouti. President Guilleh has been in power for over two decades, and there are concerns about a peaceful transition of power at some point. The president's decision-making powers with regard to the implementation of

Question
Score

Prioritization



Implementation



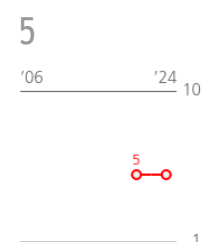
development and reform projects are not openly challenged. Within the executive branch, no factions or powerful individuals have sufficient influence and leverage to affect the president's strategic agenda. However, Djibouti's strategic location and investment-friendly policies continue to attract significant foreign investment. For instance, China has invested heavily in Djibouti's port and logistics infrastructure, which is crucial to its Belt and Road Initiative. Other countries, such as Japan and the United States, have also increased their investment in Djibouti's infrastructure, including energy projects.

Djibouti's foreign policy focuses on maintaining its strategic partnerships with global powers and leveraging its strategic location at the Red Sea. As the country continues to borrow from China and balance its relationships with Western partners, the future of its foreign policy remains uncertain. At the end of the review period, Djibouti maintained its unique position as a central partner for foreign military missions in the Horn of Africa and is home to several foreign military bases, including those leased by the United States, France, Italy, Japan and China. Despite its history with France as its former colonial power, Djibouti's strategic partnerships have shifted over the past two decades, with no clear pattern emerging. Notably, the Chinese military base in Djibouti, inaugurated in 2017, is the first of its kind on the African continent. The U.S. military at Camp Lemonnier reportedly outnumbered the presence of French troops in Djibouti, highlighting the country's growing importance as a strategic partner for global powers. The military agreement between Djibouti and France was revised in October 2022. While Djibouti has also maintained close ties with international organizations such as the World Bank and the European Union, concerns have been raised about its increasing debt levels, particularly as the country has increasingly borrowed from China.

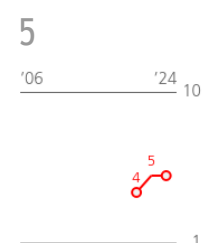
15 | Resource Efficiency

Djibouti's primary economic asset is its strategic geo-economic location on one of the busiest shipping and trading routes in the world. The country has limited natural resources, and its economic development is dependent on foreign investments. The country's annual revenue is largely generated from rent income and fees for port services, including the rent payments from various military bases, such as the U.S. forces and the Chinese military. Despite stable annual revenues, investments in health and education services and the country's basic infrastructure are lagging. The creation of a "Sovereign Wealth Fund" to finance domestic and regional projects, including infrastructure development and telecom services, was an unexpected development. The source of the initial investment has not been disclosed, but the government stated that recurring resources would be dedicated to raising the necessary endowment. The Sovereign Wealth Fund, along with other key ministries, was tasked with overseeing the planned privatization of Djibouti Telecoms.

Policy learning



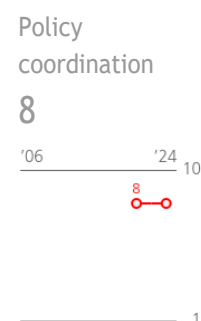
Efficient use of assets



Djibouti has significant geothermal potential that has been attracting attention from various countries. Despite previous failed attempts by French, Italian, American, Icelandic, Turkish and Japanese experts to drill the salt crusts between Lake Abbé and Lake Assal, Djibouti continues to bet on geothermal potential as a future source of energy. In addition to geothermal energy, Djibouti has also invested in solar energy. The Sovereign Wealth Fund reportedly took a 20% stake in the solar project developed by France's Engie in the Grand Bara desert. This photovoltaic farm will have a capacity of 30 MW, which will be increased to 100 MW once production estimates are confirmed. Furthermore, a new wind power project built by the Spanish company Siemens-Gamesa is expected to supply 60 MW to the national electricity network starting in 2022/2023.

The president plays a central role in making major strategic policy decisions and relies on a small group of advisers and confidants to help shape these policies. The executive branch has established clear goals for the country, with a particular focus on ensuring that Djibouti maintains its status as the primary transportation, trade and logistics hub in East Africa. This policy is designed to leverage Djibouti's strategic location at the intersection of several major shipping routes and to maximize the economic benefits of its port facilities and other infrastructure. For instance, the 2Africa subsea cable was landed in Djibouti in May 2022, which underlines Djibouti's strategic location in logistics. In addition to these efforts, the government has also launched a series of initiatives aimed at promoting sustainable development, improving access to education and health care, and creating new opportunities for entrepreneurship and job growth.

Corruption permeates throughout Djibouti, with the president, his family, certain government members, and high-ranking officials of the administration owning private companies and openly conducting business, often with misappropriated public funds. As a result, conflicts of interest are widespread, and no magistrate, judge or public institution is willing to expose or combat these corrupt practices. Consequently, this state of affairs has given rise to a lack of trust among investors and a sluggish economic growth rate. In this regard, the country finds itself in a rather complex situation when it comes to the issue of corruption. On one hand, it impedes foreign business operations, but on the other hand, networks of patronage have evolved into a relatively effective security mechanism for investors. Despite improvements in its ranking on previous World Bank Doing Business Reports, corruption remains a significant obstacle, as evidenced by its low score in Transparency International's Corruption Perception Index. The institutions established to address corruption within the public sector do not effectively fulfill their obligations, and laws are not adequately enforced to prosecute illicit money flows. Despite the implementation of an anti-money-laundering framework and the establishment of a financial intelligence unit in 2016, there is a lack of implementation when it comes to regulations aimed at curbing money-laundering



activity, and the authorities, including the central bank and the financial intelligence unit, lack the capacity and expertise necessary to effectively combat financial crimes. Furthermore, there is also a notable issue with controlling illicit financial transactions and the hawala system.

16 | Consensus-Building

The government has launched a long-term development strategy known as “Vision 2035.” While democratic reforms are considered a secondary objective, the primary focus is on economic factors to maintain Djibouti’s current economic momentum.

Political actors are in agreement about the economic goals outlined in the road map toward a market economy. These objectives are central to sustaining Djibouti’s economic growth.

The opposition is divided and lacks the ability to challenge the president’s rule through democratic means and influence policymaking. There are no serious reformist elements within the ruling coalition or the Republican People’s Party (RPP) at the end of the review period. Noteworthy – in February 2022, the chief of the police, Zakariye Sheikh Ibrahim, and Abdillahi Farah, a high-ranking military official, were placed under house arrest. Both were accused of being involved in plotting a coup against the president. Other high-ranking former government members, such as Bode Mohamed Bode, were reportedly under house arrest as part of general investigations into the alleged coup. In November 2021, air force lieutenant Fouad Youssouf Ali was convicted of attempting to incite a coup; he was reportedly sentenced to 10 years in prison. The president’s group of formal and informal advisers is mainly composed of business executives and former government officials. Noteworthy is the “generational shift” that has gradually occurred among these advisers, with more progressive and technology-savvy individuals taking up positions. Despite this, the focus of reform policies has been on improving the business environment and strengthening Djibouti’s ties with the global economy rather than democratizing the existing system. Furthermore, commentators warn of the looming danger posed by Al-Shabaab, and despite effective countermeasures thus far, Djibouti remains susceptible to the threat of religious extremism.

Djibouti is located in a volatile region, surrounded by conflict-ridden Somalia and Eritrea, and Ethiopia to the west. Despite this, the country is considered an anchor of stability due to the relative lack of interethnic conflict and the absence of separatist movements up until now. Compared to other African metropolises, the capital of Djibouti is also considered safe, and violent conflicts are rare. While conflicts over power and resources do exist, they rarely manifest in ethnic, religious or territorial disputes. It is worth noting that there is no clear ethnic divide between those in power and those excluded from key political and economic positions. However, the Issa-Somali group holds these positions overwhelmingly.

Consensus on goals

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Anti-democratic actors

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Cleavage / conflict management

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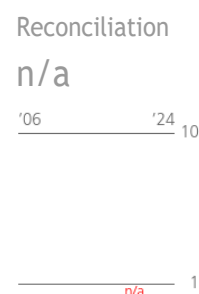
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The current political environment in Djibouti is characterized by a weak civil society, restricted media freedom, and a political opposition that is defamed and excluded from the public political debate. Despite these limitations, some interest associations exist, such as the Fédération Nationale des PME-PMI de Djibouti, Association des Transitaires de Djibouti (GIE), or Confédération Nationale des Employeurs de Djibouti (CNED), as well as the National Association of Women in Djibouti (Union Nationale des Femmes Djiboutiennes), which is directly government-controlled. In June 2021, there were also noteworthy positive developments related to human rights in Djibouti. The Djiboutian Commission Nationale des Droits de l’Homme (CNDH) signed several Memoranda of Understanding with the national police, the coastguard, and three local civil society organizations (CSOs) to strengthen cooperation in the field of human rights, particularly regarding migration. The CSOs involved in this cooperation are l’Union Nationale des Femmes Djiboutiennes, Caritas and L’Agence Nationale Des Personnes Handicapées. The CNDH will support these CSOs through information sharing and training on human rights and migration topics, and the CSOs will refer victims of human rights abuses to the CNDH for monitoring and protection. The CNDH plans to sign similar Memoranda of Understanding with 10 additional CSOs. This cooperation marks a positive step toward protecting human rights in Djibouti, particularly in the area of migration. The United States Agency for International Development (USAID) launched a \$10 million project to support civil society in the country with the aim of promoting good governance.

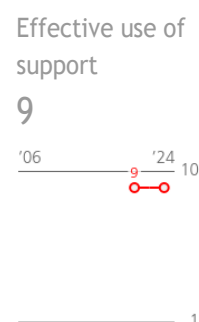


There have been no major historical injustices committed by the government. The past and now visible tensions between Afar groups and the Issa-dominated government cannot be considered as historical injustices but rather as historically rooted and ethnically shaped competition over resources. The Afar FRUD, which challenged the Issa-dominated rule of President Gouled during the 1990s, joined the government coalition led by IOG in 2003. It is noteworthy that the armed FRUD intensified their activities during the review period and actively challenged the rule of the government.



17 | International Cooperation

The government of Djibouti has successfully established close relationships with international partners, as well as political leaders in the region. Like other African nations, Djibouti entered into a strategic partnership with China a decade ago that includes security cooperation and large-scale infrastructure investments and financing. China is also a major financier of Djibouti’s debt-driven development model and maintains a significant commercial and military presence in the country. China’s engagement with Djibouti is multifaceted, including the construction of a rail line connecting Djibouti and Ethiopia, and China holds a majority of Djibouti’s external sovereign debt.

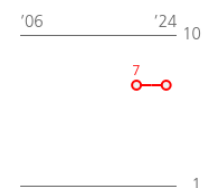


Of the resources mobilized for development in recent years, approximately 75% are loans and 25% are grants. The European Union, through the European Development Fund, the World Bank, and the African Development Bank, are the main multilateral donors in terms of grants to Djibouti, while China, France (including the UAE), and Japan are the main bilateral donors. The U.S. assistance and security cooperation with Djibouti comprises approximately \$16 million for 2023, of which \$6 million is for military aid. In October 2022, the European Union, AFD (Agence Française de Développement), and the Djiboutian Ministry of Economy, Finance, and Industry signed agreements worth €40 million to improve access to water and sanitation in Djibouti. The agreements include the third phase of the Program for the extension and rehabilitation of the Djibouti Sanitation Network (Perrad III), which will increase the sanitation network in five districts of the city of Djibouti, and a project to transport effluent from several districts of Balbala Sud to the new Balbala wastewater treatment plant, benefiting over 20,000 people. The Prospero project, financed by a €10 million grant from AFD and €5 million from EU funds, aims to improve the performance and operating conditions of the Onead water service.

President Ismael Omar Guelleh has maintained stable rule in Djibouti for more than two decades, contributing to the country's reputation as a reliable partner for foreign militaries and investors. Djibouti is strategically located on the northeast coast of the Horn of Africa and is in close proximity to the Bab-el-Mandeb shipping strait. This makes it a crucial player in global maritime transportation between the Gulf of Aden and the Red Sea. Djibouti's ports play a significant role in the global economy. Over the past 20 years, Djibouti has successfully positioned itself as a stable hub for international business and a strategic base for foreign militaries in the fight against Islamic fundamentalism in East Africa. However, recent court cases between Djibouti and DP World have damaged its reputation. Despite this setback, China continues to maintain its largest and only foreign military base in Djibouti, which has raised concerns among the United States and other partners about Beijing's growing influence in the region. Chinese President Xi Jinping and President Ismael Omar Guelleh met in Riyadh in December 2022 and agreed to deepen existing bilateral links and elevate the existing strategic partnership. It is noteworthy that the U.S. government officially considers Djibouti a "key partner on security, regional stability and humanitarian efforts across the region." Camp Lemonier is the central hub for counter-terrorism operations across Somalia and the Arabian Peninsula. The governments of Djibouti and the United States hold an annual U.S.-Djibouti Bi-National Forum.

Credibility

7



The so-called Horn of Africa Cooperation, comprised of Ethiopia, Eritrea and Somalia, never advanced beyond its initial stage, launched in 2018. This stagnation can be primarily attributed to the growing instability in Ethiopia, the country that first proposed this union. Djibouti, already a member of the Intergovernmental Authority on Development (IGAD), was excluded from this potential regional bloc. Nevertheless, Djibouti remains a critical trading and logistics partner for Ethiopia. Regional economic integration is essential for Djibouti's development model, which relies on its geo-economic location and existing infrastructure links.

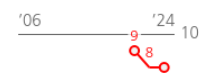
Djibouti has played a significant role in the reconstruction of the Somali state and has hosted several meetings for Somali reconciliation. Since its establishment in 1986, Djibouti has served as the headquarters of IGAD and has actively participated in maintaining peace and security in the Horn of Africa. Djibouti maintains good relations with all countries in the region, except for Eritrea. The 2008 border conflict over the peninsula of Ras Doumeira near the Bab al Mandeb Strait, which connects the Red Sea to the Gulf of Aden, remains unsolved. Despite both countries declaring an end to their dispute in 2018, little progress has been made toward normalizing their relationship.

In recent developments, in September 2022, Djibouti signed a memorandum of understanding (MoU) with South Sudan to enhance cooperation in the oil sector, providing South Sudan with three routes for oil exports, including Ethiopia through Djibouti. Furthermore, in August 2022, Ethiopia adopted a regional trade facilitation road map for the Horn of Africa, which includes Djibouti, Kenya and Somalia. However, tensions between Djibouti and Eritrea have escalated following a rebel attack on Djiboutian troops. The attack is suspected to be supported by Afar rebels backed by Eritrea, resulting in the deaths of seven soldiers in October 2022.

Djibouti's relations with its neighbors on the Horn of Africa are evolving amid shifting alignments in the broader region around the Red Sea, with Arab Gulf countries, Türkiye and China playing an increasingly significant role. Djibouti's relationship with the United Arab Emirates is strained over its dispute with UAE state-owned port operator DP World, which has been in a legal battle with Djibouti over its termination of the firm's 30-year contract to operate the Doraleh Container Terminal in 2018. Djibouti may view Somaliland as a competitor due to DP World's development of its deepwater port at Berbera.

Regional
cooperation

8



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Strategic Outlook

Djibouti, a strategically important nation in the Horn of Africa, is currently grappling with multiple challenges that could jeopardize its stability and prosperity. One significant issue is its mounting debt owed to China, which is placing significant financial pressure on the country. Additionally, internal power struggles have been exacerbated by tensions between the Somali and Afar ethnic groups, further complicating the situation.

The instability within Djibouti has implications not only for its own stability but also for regional and international security. The presence of foreign military bases, including those of the United States and China, adds a layer of complexity to the situation. While President Guelleh still maintains a firm grip on power, rumors of his potential successor and palace intrigues have increased in recent times, including reports of a failed coup attempt.

Interestingly, the conflicts within Djibouti's political landscape might inadvertently help President Guelleh consolidate his rule. In the event of interethnic violence, the ruling Issa-Somali clan may unite, potentially enhancing his legitimacy. Nevertheless, Djibouti's aspirations to become the "Singapore of Africa" or "next Dubai" are increasingly uncertain.

Djibouti's Vision 2035 strategic objectives aim to transform the country's economy into a market-oriented one. However, the government's lack of initiative toward democratization and its authoritarian political system limit civic engagement. The absence of a free press, widespread corruption and systematic repression against dissenters highlight the ongoing struggle to meet democratic standards. Addressing these issues is crucial, as they can lead to increased support for fundamentalist groups.

A central challenge to Djibouti's livelihoods and sustainable economic development is the growing environmental problems, particularly the impact of climate change. The country must develop mitigation measures as part of its medium- and long-term development strategies to protect pastoralist livelihoods and critical port infrastructure. Notably, Djibouti faces competition from Berbera's expanding port capacities and the construction and rehabilitation of ports in the Red Sea and along the Somali coast, which could challenge its status as the major trade gateway for Ethiopia and Eastern Africa. While Djibouti currently leads in development, it must consolidate this position with targeted investments in its free trade zone area. However, high foreign debt and dependence on China pose significant risks in this regard.

To preserve stability and peace, Djibouti must remain a trade hub in a volatile region and maintain its strategic and security partnerships. The government's repressive governance approach has been successful in maintaining stability so far, but its sustainability in the long run is questionable. An orderly transfer of power is possible and expected by many if President Guelleh does not run for office in the next elections, similar to what occurred in 1999 under Hassan Gouled Aptidon. Observers are keen to see who will succeed President Guelleh, with a growing consensus that a successor is likely to be chosen well before the 2026 presidential polls. While this could signal continuity, it remains to be seen how internal power struggles may impact stability in this small port nation.